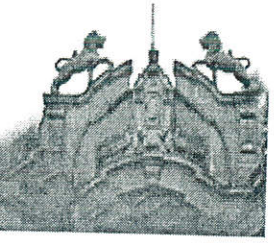
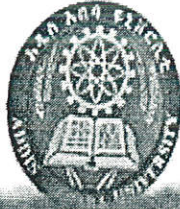


Addis Ababa

University

(Since 1950)



Addis Ababa University
School of Business and Public Administration
Department of Accounting and Finance

A thesis submitted to the School of Business and Public Administration of the Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance in the Department of Accounting and Finance

By: Mesfin Mala



Advisor: Laxmikantham (PhD)

June, 2011
Addis Ababa
Ethiopia

**Analyzing accounting and financial reporting practice of non-governmental,
not-for-profit organizations in Addis Ababa.**

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By: Mesfin Mala

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Advisor: Laxmikantham (PhD): _____

Statement of Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for a degree in any other university and that all sources of materials used for the thesis have been dully acknowledged.

Declared by:

Name: Mesfin Mala Kalko

Signature: 

Date: 22/06/2011

Abstract

The number of NGNFPOs in Ethiopia and their activities has multiplied in the past three to four decades but little information exists on how well these organizations report on their performance to their constituents and the general public. The purpose of this study is to examine and appraise existing accounting and financial reporting practices of NGNFPOs, with a view to highlight the compliances and deviations from the statutory stipulations and accounting standards in trend. It also seeks to understand accounting processes and financial reporting practices in NGNFPOs and the conditions that sustain or improve those processes and practices. Furthermore, this study provides an insight into the accounting and financial reporting practices of NGNFPOs so as to provide the extent to which NGNFPOs meet statutory stipulations, accounting standards, and other legal requirements. This involved the examination of over 69 annual reports (both audit reports and annual activity reports) of NGNFPOs and the administration of a survey instrument, documentary analysis and in-depth interview setting.

This study employed pragmatic worldviews of research design, which applies to mixed method research in that inquirers draw liberally from both quantitative and qualitative assumptions when they engage in their research to address research problem. Mixed methods approach, which is believed to mitigate the biases of quantitative and qualitative approaches, is one in which a researcher tends to base knowledge claims on pragmatic grounds employing strategies of inquiry that involve collecting both quantitative and qualitative data either concurrently, sequentially or transformatively to best understand research problems (Creswell, 2009).

The finding of this study shows that the majority of NGNFPOs ways of accounting and financial reporting practices examined are in compliance with that of accounting standards and other local legal requirements as per the existing rules and regulations with regard to basis of accounting used, treatment and depreciation of fixed assets and presentation and disclosure of financial reports.

Keywords: Non-governmental not-for-profit organizations, accounting, financial reporting, Addis Ababa

Acknowledgement

First and for most, my heart-felt gratitude and respect goes towards my thesis advisor Dr. Laxmikantham P. for his patience in repeatedly reading the draft manuscript of this study and for making constructive comments and suggestions from which I have immeasurably benefited in sharpening my understanding, predominantly, on the area I study. It is palpable fact that without his closer follow-up and continuous encouragement with valuable comments this thesis would not have been finalized in its present structure.

Second, I would like to extend grateful acknowledgement to my family members, especially my father, Mala Kalko, and my mother, Gunibare Shaga, for their imperative support and encouragement to pursue this degree.

Finally, I express my gratitude to the people and organisations that spent their lovely time to provide me with all the necessary data required to carry out the study. I am also indebted for many friends and to all those who helped me one way or another for the accomplishment of my study.

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List of abbreviations

| | |
|---------|--|
| AICPA | American Institute of Certified Public Accountants |
| ASB | Accounting Standards Board |
| ASC | Accounting Standard Commission |
| CFO | Chief Finance Officer |
| CRD | Christian Relief and Development Association |
| CSA | Charities and Societies Agency |
| DPPC | Disaster Prevention and Preparedness Commission |
| EBR | Ethiopian Birr |
| FASB | Financial Accounting Standards Board |
| FDRE | Federal Democratic Republic of Ethiopia |
| GAAP | Generally Accepted Accounting Principles |
| IAS | International Accounting Standards |
| IRD | Inland Revenue Department |
| MoJ | Ministry of Justice |
| NFP | Not-for-Profit Organizations |
| NGNFPOs | Non-Governmental, Not-For-Profit Organizations |
| NPO | Nonprofit Organization |
| SFAS | Statement of Financial Accounting Standards |
| SOP | Statement of Position |
| SORP | Statement of Recommended Practic |

Chapter One

1.1 Introduction

This study examines the existing accounting and financial reporting practices in non-governmental, not-for-profit organizations (NGNFPOs), an organizational form that has seen accelerated growth in the past decade particularly in developing countries. NGNFPOs¹ are self-governing and autonomous (as opposed to government affiliated) organizations that have the objective of improving economic and/or social conditions of target disadvantaged populations or members of society (Vakil, 1997). NGNFPOs have become an important player in social development and economic interventions throughout the world. This is evidenced by a major shift in development funding that is routed through NGNFPOs, which have often become preferred agents to governments. For example, in 1999 NGNFPOs in Africa handled \$3.5 billion in external aid compared to under \$1 billion in 1990 and were involved in 54 percent of all approved World Bank projects in 1998 (World Bank, 1998; 1999). In a 22-country review of the not-for-profit sector Salamon et al., (1999) report a 'global associational revolution' where these organizations emerge as a major force.

¹ The term "nongovernmental, not-for-profit organization" is relatively old and was first used in a United Nations Economic and Social Council resolution 288(X) of 27th February 1950 to refer to those organizations officially recognized with a consultative status in the United Nations but which had no affiliation to any government. In a sense it is a negative term as it explains an entity by what is it not rather than what it is.

NGNFPOs have also become major players in the field of international and national development. Since the mid-1970s, the NGNFPO sector in both developed and developing countries has experienced exponential growth. From 1990 to 2000, total development aid disbursed by international NGNFPOs increased ten-fold. In 1992, international NGNFPOs channeled over \$7.6 billion of aid to developing countries.

The term NGNFPO is a post-World War II expression which was initially coined by the United Nations (UN). When the UN Charter was adopted in 1945, it was stipulated in Article 71 that NGNFPOs could be accredited to the UN for consulting purposes. Thus, scholars first mainly applied the term NGNFPOs only when referring to those societal actors which are (because of UN criteria) international bodies and engage within the UN context. In recent decades, especially since the 1980s, the term NGNFPO has also become popular for societal actors of all sorts engaged outside the UN framework, internationally and nationally. Thus, an NGNFPO is a legally constituted organization created by natural and legal persons that operates independently from any government. In the cases in which NGNFPOs are funded totally or partially by governments, the NGNFPO maintains its non-governmental status by excluding government representatives from membership in the organization. The term is usually applied only to organizations that pursue some wider social aim that has political aspects, but that are not overtly political organizations such as political parties. Unlike the term "intergovernmental organization," the term NGNFPO has no generally agreed legal definition. In many jurisdictions, these types of organization are called "civil society organizations" or referred to by other names.

NGNFPOs have a long history of service in Ethiopia. Their involvement in the economic and social life of the country began in early 20th century. Their forceful involvement in the

development efforts of the country, however, started with the drought-induced famine of 1973-74. Initially their operations focused on relief that saved millions of lives. Since then they have become a permanent feature in the country's development process. The recurrence of 1984-85 droughts gave a further boost to the growth of NGNFPOs operations. As the NGNFPOs were increasingly pulled into the development front, their role and areas of intervention changed from time to time (Belshaw and Coyle, 2001). The growth of NGNFPOs activities in Ethiopia has been vigorous/ multiplied over the last three to four decades but little information exists on how well these organizations report on their performance to their constituents and the general public. It is, therefore, the Ministry of Justice (MoJ), Disaster Prevention and Preparedness Commission (DPPC), and Christian Relief and Development Association (CRDA) recognized the need of fully document for the contributions of the NGNFPOs community. Thus, this study examines and appraises existing accounting and financial reporting practices of NGNFPOs, with a view to high light the compliances and deviations from the statutory stipulations and accounting standards in trend.

This study also seeks to advance our understanding of accounting processes and financial reporting practices and conditions in which these processes and practices were conducted. It obtains this understanding by probing interactional accounting experiences of organizational actors and stakeholders. Much of the existing accounting and financial reporting research in NGNFPOs is mainstream positivist. However, the current study employed a pragmatic worldview, which is based on mixed method research approach to counter the problems of positivist approaches and to address the lacuna/gap of NGNFPOs accounting and financial reporting research.

1.2 Statement of the problem

Ethiopia is one of the least developing countries of Africa. The country continued to face a critical poverty situation for the majority of its population. The average per capita income of US \$100 per year placed the country as the 206th poorest in the world; the lowest listed in the world development report (World Bank, 2000). A poverty survey carried out in 1995 estimated that 31 percent of the population were receiving less than US \$1.00 per day (the international datum line of absolute income poverty) and that 72 percent were below the US \$2.00 per day level (Belshaw and Coyle, 2001).

As in many African countries, the governmental efforts in the area of socio-economic development are supplemented by the activities of many non-governmental, voluntary, and social organizations. For example, NGNFPOs have been assisting the people of Ethiopia with charitable, relief and development activities, especially since the major famine of 1983/85. The initial period was dominated by international NGNFPOs, but the number of Ethiopian-based organizations has been accelerating since the early 1990s (Belshaw and Coyle, 2001). Ethiopia is frequently affected by severe famine conditions leading to starvation of millions of people, health hazards, poverty and their concomitant evils. Hence, at the instance of the government, number of national and international, non-governmental, voluntary organizations have been established since forty years. They are meant to fill the gaps that exist in the governmental efforts to remedy the evils of socio economic imbalances and continuous famines. NGNFPOs are mobilizing the resources from various national and international voluntary agencies. These organizations are to work in a coordinated manner consistent with the requirements of the society. They are regulated and controlled by the Government agencies like charities and societies agency. There is a heavy

competition among the NGNFPOs in mobilizing financial resources, resulting in mutual bickering and mistrust. In this process, a few of the NGNFPOs are found lagging behind in developing required documents to ensure true and fair view of their financial dealings through the accounting and financial reporting procedures. Thus, in an era in which NGNFPOs and their activities are increasingly questioned, the way NGNFPOs account for their activities and how these reports are disclosed and subsequently interpreted by stakeholders is becoming increasingly important. Yet the legislative, judicial and administrative frameworks within which NGNFPOs and related entities operate are not well understood. According to Lyons (2006) Governments know little about the not-for-profit sector. While millions of dollars are transferred to the sector, accurate records may not be kept nor are there accurate data on the financial reports due to concessions or special privilege given by governments. The lack of transparency and accountability increases opportunities for fraud and abuse, and may attract charlatans who seek to attract NGNFPO status primarily to benefit from inadequate accounting and financial reporting practice that such status may provide. While it is expected that many NGNFPOs are well-managed and make a significant contribution to society, a lack of good governance and/or accountability could have devastating effects on the community. Official inquiries into the not-for-profit sector have questioned the lack of transparency and accountability created by a complex legal and regulatory regime. Critics of the existing regime have called for reforms including mandatory adequate accounting and financial reporting requirements and an independent regulator to enhance public accountability and organizational efficiency and performance.

With so much money at stake, the interest in a not-for-profit organization's adequate and fair presentation of financial information is not surprising. Individuals, foundations, and corporations (especially current and potential contributors) are interested in knowing how financially stable the organizations are and how they spend the monies that they receive. Future gifts or grants are

often based, at least in part, on the organization's ability to convince donors that it is using its resources wisely to accomplish stated goals. Financial statements are vital to this objective because they report both the resources generated and the spending decisions that have been made.

Recently, the charities and societies agency have discarded a few NGNFPOs from the field for lack of complete documentation and all NGNFPOs are required to be re-registered. Hence, this study aims at analyzing accounting and financial reporting practices followed by a study of compliances and departures from the guidelines and the generally accepted accounting principles.

1.3 Objectives of the study

The overall purpose of this study is to examine accounting and financial reporting practices of NGNFPOs operating in Addis Ababa with a view to high light the compliances and deviations from the statutory stipulations and accounting standards in trend. Thus, this study addresses the present accounting and financial reporting practices of NGNFPOs against the standards given by the Financial Accounting Standards Board (FASB) and the local legal requirements as per the existing rules and regulations, and then identifies the deviations and departures.

1.4 Research questions

To undertake this study, the researcher will use the following research questions:

1. Does the accounting and financial reporting practices adopted by NGNFPOs in Addis Ababa are in accordance with the accounting and financial reporting practices required by Financial Accounting Standards Board (FASB) and other legal or regulatory agencies?
2. What basis of accounting is followed by the NGNFPOs undertaking their activities in Addis Ababa to maintain financial accounting records and prepare financial reports?

3. Do the NGNFPOs, as per the guidelines and agreements, submit their annual report (which includes both audit report and annual activity report) to the charities and society agency as required by the law? What information the reports should contain? Do you believe that is there any uniformity in accounting policies adopted by the NGNFPOs in Addis Ababa?
4. What kinds of mechanism are employed /designed over accounting of assets, especially cash, to adequately safeguard it from fraud and misuse in NGNFPOs?
5. What are the suitable measures of performance and governance or key performance indicators of NGNFPOs?
6. How fixed assets purchased or donated be treated in NGNFPOs? What methods of accounting for depreciation of fixed assets are used in NGNFPOs?
7. What are the bases of presenting titles of funds in the financial statements? Should a standard terminology be used for different types of funds? What motivations does your organization have to establish funds?
8. Is there any instances under which NGNFPOs choose not to disclose information? How do NGNFPOs decide on the types of information to disclose?
9. What types of audit opinion (i.e., unqualified/clean, qualified, adverse or disclaimer of opinion) is issued in your organization and what is the reason for its issuance.

1.5 Hypothesis

The entire study of the accounting and reporting practices of the NGNFPOs in Addis Ababa is based upon the following hypothesis borne out by the researcher:

- i. There are deviations and departures of the accounting and reporting practices of NGNFPOs with the guidelines, standards, and regulations prescribed by the government, Financial Accounting Standards Board (FASB), and regulatory agencies respectively.

1.6 Significance of the study

NGNFPOs play a significant role in socio-economic development process of Ethiopian economy (Belshaw and Coyle, 2001). The significance of the study is to advance our understanding of accounting processes and financial reporting practices of NGNFPOs and conditions in which these processes and practices are conducted. The findings of this study advance some understanding to the relevant authorities, fund providers (donors), stakeholders, the organizations themselves, and the general public at large. In addition, this particular study further adds to the literature through making contribution to better understand the state of accounting and financial reporting of NGNFPOs in Addis Ababa.

1.7 Scope of the study

The primary focus of the study is on the accounting and financial reporting practices of NGNFPOs operating in Addis Ababa. The scope of the present study is, therefore, confined to the examination of the process of recording financial transactions and the procedure, pattern and methods of reporting of the financial activities of the NGNFPOs operating in Addis Ababa. As such, the present study is focused on the compliance, and deviations of the accounting and financial reporting practices of the NGNFPOs with the prescribed guidelines and accounting

standards. It also includes the analyses of annual published financial statements. Therefore, it is to be noted that the entire study is confined to the accounting and financial reporting practices of NGNFPOs in Addis Ababa with particular emphasize on the compliance with, and the departures from the relevant guidelines and the generally accepted accounting principles. The study is limited to the NGNFPOs located in Addis Ababa. Addis Ababa is chosen as a population sample area because it is acknowledged that most NGNFPOs activities are concentrated in it.

1.8 Limitations of the study

The following are limitation to which the inquiry is subjected:

- ➡ Since every NGNFPO is engrossed (engaged) with multiple programs, it is not possible to establish the relationship between the nature of programs and accounting and reporting practices.

1.9 Organization/Structure of the research report

The study is organized as follows: Chapter two presents the theoretical and empirical review of related literature on accounting and financial reporting practice of NGNFPOs. Chapter three presents the research methodology, based on pragmatistic worldviews, which applies to the mixed approaches. Chapter four presents the analysis and discussion of the broad findings using statistical package for social science (SPSS). The last chapter presents conclusions and recommendations.

Chapter Two: Literature Review

The purpose of this chapter is to review the theoretical and empirical literature in the area of accounting and financial reporting practice of NGNFPOs. This review of the literature establishes the underlying sets of ideas for the current study and highlights the apparent strengths and weaknesses of the previous studies, which, in turn, help in clearly identifying the gap in the literature and formulating the research questions for the study.

The review has three sections. The first section discusses the theories on accounting and financial reporting practice of NGNFPOs. Then, the following section reviews the empirical literature related to the accounting and financial reporting practice of NGNFPOs. Finally, conclusions on the literature review and knowledge gaps are presented.

The literature has not been consistent in the use of the term 'NGNFPOs'. Not-for-profit organizations (NFPOs), charities, and voluntary organizations (VOs) all possess some related attributes and have at time been used interchangeably.

One of the issues when researching the NGNFPOs sector is the profusion of nomenclature employed to represent the sector. These include: not-for-profit, incorporated societies, public benefit entities, donee organizations and charities.

NFP can be defined as any organization that is:

. . . not carried on for the profit or gain of any member and has rules that do not allow money, property or any other benefits to be distributed to any of its members (IRD, 2005). NGNFPOs are a smaller subset in the NFP sector.

Secondly, the United Nations defines NFP organizations as those meeting five criteria:

- (1) has an organizational structure;
- (2) NFP;

(3) Institutionally separate from government;

(4) Self-governing; and

(5) Non-compulsory (United Nations, 2003).

International Accounting Standards (IAS) doesn't have specific guidelines for NGNFPOs. Regarding applicability of Accounting Standards to NGNFPOs, the Accounting Standards Board (ASB) has given an opinion in September 1995. "The Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial, or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members." It is clear from the above that the Accounting Standards are applicable to NGNFPOs who's some, or more, of the activities are commercial or business in nature. However, it is very difficult to determine what the exact meaning of commercial is or business activities with reference to NGNFPOs. NGNFPOs are not meant for earning profit out of their activities. It is almost 40 years since many of our present NGNFPOs first began working in Ethiopia.

2.1. Who are NGNFPOs?

NGNFPOs are:

- (a) Voluntary organizations established voluntarily with the commitment to help disadvantaged or marginalized sectors of society;
- (b) Not self-serving organizations established not to gain profit or any sort of income but instead to support and help less fortunate communities and members of society with little or no income;
- (c) Non-governmental organizations established in such a way that any support they appeal for or secure is undertaken independently (independent from Government).

2.1.1. NGNFPOs in Ethiopia

According to the charities and societies proclamation no. 621/2009, proclamation to provide for the registration and regulation of charities and societies, NGNFPOs in Ethiopia shall include:

- (1) Ethiopian Charities or Ethiopian Societies: shall mean those charities or societies that are formed under the laws of Ethiopia, all of whose members are Ethiopians, generate income from Ethiopia and wholly controlled by Ethiopians. However, they may be deemed as Ethiopian Charities or Ethiopian Societies if they use more than ten percent of their funds which is received from foreign sources (FDRE, 2009).
- (2) Ethiopian Resident Charities or Ethiopian Resident Societies: shall mean those charities or societies that are formed under the laws of Ethiopia and which consist of members who reside in Ethiopia and who receive more than 10% of their funds from foreign sources (FDRE, 2009).
- (3) Foreign Charities: shall mean those charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by foreign nationals or receive funds from foreign sources (FDRE, 2009).
- (4) Consortium: shall mean an association or grouping of institutions, businesses, or financial organizations, usually set up for a common purpose that would be beyond the capabilities of a single member of the group (FDRE, 2009).
- (5) Adoption Agencies: shall mean an organization that is licensed in the state or states where it transacts its business, which is to assist in placing children needing parents with adoptive parents that are looking for children. Agencies exist in a wide variety of organizational forms, including non-profit, not-for-profit, for-profit, and governmental agency. Although the legal impact of the organizational or business structure of an adoption agency may be

different, the services that they are licensed to provide are generally very similar (FDRE, 2009) (FDRE, 2009).

2.1.2. How to establish an NGNFPO in Ethiopia

Both foreign and local NGNFPOs can be established in Ethiopia. However, knowing the requirements for establishment is necessary in order to be registered with the Government of Ethiopia and operate legally. It is also helpful to understand what type of organizations are defined as NGNFPOs and what do they do? This will help one to see if the intended organization to be established falls within the defined category and if so how to go about establishing the 'NGNFPO' within the country (CRDA, 2001).

2.1.3. Types of NGNFPOs

NGNFPOs operating in Ethiopia could be categorized into two main categories:

- 1) Indigenous NGNFPOs: These are NGNFPOs established in the country by either Ethiopians or non-Ethiopians.
- 2) International NGNFPOs: These are NGNFPOs, which have their head offices abroad and obtain support from those offices. Again from within these NGNFPOs another category could be established:
 - a) Secular NGNFPOs
 - b) Religious NGNFPOs

Sectoral classification of NGNFPOs is also possible, i.e. NGNFPOs focusing on various sectors such as water, health, children, integrated rural/urban development, etc (CRDA, 2001).

2.1.4. Establishment of NGNFPOs in Ethiopia

Both foreign and local NGNFPOs can be established in Ethiopia by registering with the Ethiopian Government. However, the requirements for registration of each differ slightly.

2.1.4.1.Registration guideline for foreign (international) NGNFPOs

Any foreign NGNFO, which intends to carry out activities, shall produce its written application to the NGNFO Registration Office at the charities and societies agency. The Office will provide four copies of an application form to be filled by the applicant (applying organization).

The applicant ought to (should) fill out carefully all the questions and in addition, is expected to produce:

- a. An authenticated (validated) certificate that shows the applicant is registered in its country of origin as a non-profit making organization.
- b. An authenticated memorandum of association (constitution or article of association of statues or by-laws) of the applicant organization by which its contemporary activities are governed. This authenticated memorandum of association shall be produce to the Office together with three copies of an Amharic version of the memorandum.
- c. An authenticated letter of authorization for the country representative.
- d. An authenticated board's decision to operate in Ethiopia.
- e. A project proposal, in three copies, showing the intended project to be performed.
- f. Documents showing the applicant's (applicant NGNFPOs') work experience and performances in other countries (if any).
- g. Awards and letter of good performances from recognized organization(s) (if any).
- h. Letter of confirmation from its financiers (donors) explaining that they would finance the applicant if registered.
- i. In case the applicant NGNFPO has made an agreement with any government body, it has to produce activity and financial report of a previous year in three copies.

- j. An agreement document, if the applicant has previously entered any such agreement with the government.

Notice: Whenever the need arises, the NGNFPO Registration Office has the right to request the applicant further information necessary to effect registration (CRDA, 2001).

2.1.4.2.Registration guideline for local (indigenous) NGNFPOs

Any local NGNFPO, which intends to carry out activities, shall produce its written application to the NGNFPO Registration Office at the charities and societies agency.

If established in Ethiopia and is led by Ethiopians and operates in more than one Region of the country or its donor (s) supports programs found in more than one Region, the following will be required by the applicant NGNFPO:

- a. Three copies of the applicant NGNFPOs' memorandum of association and by-laws signed by the founders of the NGNFPO.
- b. One copies each of the Curriculum Vitiate (CV) of each founding member.
- c. Along with each CV, one copy of the latest evidence of educational level, letter of confirmation from the Kebele upon being an inhabitant of that particular Kebele and two photographs should be attached.
- d. Three copies of a project proposal the applicant NGNFPO intends to carry out upon registration.
- e. Letter of confirmation from the financer (donor) of the applicant NGNFPO of continued support upon registration.
- f. If the applicant NGNFPO is already operational it should,
 - ✓ Present an agreement letter with the relevant government body; and
 - ✓ Three copies of the last annual and audit report together with current operational report.

Notice

- Whenever the need arises, the NGNFPO Registration Office has the right to request the applicant for further information necessary to effect registration.
- As there are samples of Memorandum of Association in the Office, applying NGNFPOs could refer to these (CRDA, 2001).

2.2. Theories on accounting and financial reporting for NGNFPOs

2.2.1. Theories of accounting for NGNFPOs

2.2.1.1. Accounting for revenues, gains, and support

Not-for-profit organizations have traditionally distinguished revenues, gains, and support. Revenues represent increases in unrestricted net assets arising from bilateral exchange transactions in which the other party to the transaction is presumed to receive direct tangible benefit commensurate with the resources provided. Examples are membership dues, program service fees, sales of supplies and services, and investment income. Gains, such as realized gains on investment transactions and gains on sale or disposal of equipment, are increases in net assets that relate to peripheral or incidental transactions of the entity and often are beyond the control of management. Support is an increase in net assets arising from contributions of resources or nonexchange transactions and includes only amounts for which the donor derives no tangible benefits from the recipient agency. Membership dues may be part revenue and part contribution if the value received by the member is less than the dues payment. A government grant is usually considered support unless it is essentially a purchase of services, in which case the recipient is considered a vendor and the grant is classified as revenue. Often organizations present one section in the statement of activities for revenues, gains, and support, in which case these distinctions are less important. Revenues, gains, and support generally should be recognized on the accrual basis and reported at gross amounts to be in conformity with GAAP, although some NPOs (e.g., colleges and universities) report certain revenues net of certain deductions. Revenue

that is restricted by an agreement, such as fees or dues dedicated for a specific purpose, is reported in unrestricted net assets because it does not arise from a restricted gift by a donor (Wilson et al, 2007).

2.2.1.2. Accounting for contributions

A contribution is an unconditional transfer of cash or other asset to the entity (or a settlement or cancellation of its liabilities) in a voluntary, nonreciprocal transfer by another entity acting other than as an owner. SFAS No. 116 provides guidance on contributions when the reporting entity is a donor or donee; however, it does not apply when the entity is acting as an agent, trustee, or intermediary or to tax exemptions, incentives, or abatements (FASB, SFAS No. 116, par.4.).

Donors may restrict the period in which the gift can be used or its purpose, or make the contribution without restrictions. In general, SFAS No. 116 requires that both unrestricted and restricted gifts be recognized as support and at fair value at the time of the gift. Restricted support increases either temporarily or permanently restricted net assets, depending on whether the restriction is temporary or permanent. In the absence of donor-imposed restrictions, unrestricted net assets are increased. If the provisions of a temporarily restricted contribution are met in the period of the gift, the revenue and expenses may be reported in the unrestricted category. The discerning reader will recognize that documenting the donor's intentions in writing at the time of the contribution is critical for proper accounting and reporting (Wilson et al, 2007).

2.2.1.3. Accounting for donated materials and services

One of the basic characteristics that distinguishes not-for-profit from commercial organizations is their reliance on noncash contributions or gifts in kind. Sheltered workshops for persons with disabilities often depend heavily on donations of clothing and furniture, thrift shops receive their inventory from donations, and health agencies may obtain contributions of drugs from pharmaceutical firms. Office space may be furnished rent free; and television, radio, and

periodicals may publicize fund drives, special events, or the general work of NPOs at no charge. SFAS No. 116 requires that all unconditional gifts, including material amounts of donated materials, be reported as both a contribution, measured at fair value on the date of the gift, and an expense or a noncash asset.

An objective, clearly measurable basis for fair value can be established by proceeds from resale by the organization, price lists, market quotations, or appraisals (SFAS No. 116, par. 19.). Donated materials used or consumed in rendering services should be reported as part of the cost of the services rendered. The services of unpaid workers may well make the difference between an effective organization and one that fails to achieve its objectives. Voluntary health and welfare organizations typically rely on the efforts of volunteer workers to supplement the efforts of paid employees. SFAS No. 116 requires recognition of contributed services at their fair values if the services received (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation (e.g., accountants). Although SFAS No. 116 does not provide an example of the first criterion, a logical example would be recognition of support for donated architectural, legal, or carpentry services related to construction of a building addition. In this example, a capital asset account rather than a program or support expense would be debited. In general, nonfinancial assets are assets other than cash and assets readily convertible into cash, such as consumable supplies and capital assets. The second criterion is quite restrictive and results in many donated services not being recognized (Wilson et al, 2007).

2.2.1.4. Accounting for donated land, building, and equipment

If a donor makes a contribution of real estate or equipment to an NPO without any restrictions on its use, the contribution may be reported as unrestricted or temporarily restricted, depending on the policy of the organization. This policy should be clearly stated in the notes to the financial

statements. The donor may stipulate that the gift is temporarily or permanently restricted. In any case, the donation should be recorded at the fair value at the date it is made. If an NPO receives the use of a building for a reduced rate, the difference between the rent paid and the fair market rental value should be reported as a contribution. If the organization receives donations that it intends to sell rather than use, then these contributions should be reported as increases in unrestricted net assets (Wilson et al, 2007).

2.2.1.5. Accounting for special events

Special events are fund-raising activities in which something of tangible value is offered to donor participants or designees for a payment that includes a contribution adequate to yield revenue for the sponsoring agency over and above direct expenses. Dinners, dances, golf outings, bazaars, card parties, fashion shows, and sales of candy, cookies, cakes, or greeting card are typically “special events.” The special events category of support is reserved for those events sponsored by the voluntary organization sponsors an event for the voluntary agency’s benefit, the amount given to the agency should be reported as contributions.

Special events may give rise to incidental revenue, such as advertising programs; incidental revenue is properly recorded in the special events category of support. NPOs have traditionally netted direct costs of special events (such as the cost of dinner, rental of ballroom, or cost of prizes) against the gross proceeds of the special event. FASB Statement No. 117, par.138, requires that all special event revenue and direct costs, except those of a peripheral or incidental nature, be reported at their gross amounts. If desired, NPOs can provide more detailed reporting of support categories, either on the face of the statement of activities or in the notes to the financial statements.

Expenses of promoting and conducting special events, such as expenses of printing tickets and posters, mailings, fees and expenses of public relations and fund-raising consultants, and salaries of employees of the voluntary agency attributable to planning, promoting, and conducting special events are treated as fund-raising expenses and are not charged against special events support (Wilson et al, 2007).

2.2.1.6. Accounting for expenses

Generally accepted accounting principles require that all expenses of NPOs be measured on the accrual basis and be reported as decreases in unrestricted net assets on the statement of activities. SFAS No. 93 requires depreciation of capital net assets, including contributed capital assets, used in the operation of the organization (FASB, 1987).

- i. Functional expenses:** NPOs have long been required to report some degree of functional expenses, that is, segregation of expenses incurred for operating the programs from expenses incurred for supporting the programs (e.g., fund-raising management and general expenses). Depreciation expense should be allocated to programs as well as to support function expenses.
- ii. Allocation of costs with a fund-raising appeal:** Not-for-profit organizations often conduct an activity that combines a program purpose and a fund-raising purpose. An example is a door-to-door campaign to educate the public on its mission and solicit contributions. In the past, the cost of this joint activity often was reported entirely as functional support expenses, such as Advocacy Costs, with no allocation to the functional support expense of “fund-raising.”

AICPA Statement of Position 98-2 revises SOP 87-2 on joint costs and makes it more difficult to allocate “educating the public” or “advocacy” costs to program expenses, SOP 98-2 provides the following:

1. The total cost of activities that include a fund-raising appeal should be reported as fund-raising costs unless a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.
2. The joint costs of a bona fide program or management and general function should be allocated between those cost objectives and fund-raising using an equitable allocation base.
3. Criteria of purpose, audience, and content must be met in order to conclude that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds. The purpose criterion is met if the activity accomplishes a program or management purpose of the organization other than "educating the public." The audience criterion is met if the audience was selected primarily for its need for the program or ability to advance the goal of the organization rather than the likelihood that it will contribute financially to the cause. The content criterion is met if the activity includes a call to action on the part of the targeted audience to advance the mission of the organization.
4. Certain information must be disclosed if joint costs are allocated (AICPA, 2005).

iii. **Other support expenses:** Management and general expenses include the cost of publicity and public relations activities designed to keep the organization's name before prospective contributors. Costs of informational materials that contain only general information regarding the health or welfare program and the costs of informational materials distributed to potential contributors, but not as a part of a fund drive, are considered management and general expenses. The costs of budgeting, accounting, and similar activities are examples of expenses properly classifiable as management and general expenses.

2.2.2. Theories of financial reporting for NGNFPOs

It is well established that the general purposes of financial reporting is to provide information that is useful to a variety of users, who have an interest in assessing the performance of an enterprise and its management, and making financial decisions.

FASB Statement No. 117 requires NPOs to present financial statements showing an aggressive view of the entity (FASB, SFAS No. 117). This approach effectively moved not-for-profit financial reporting away from the disaggregated, traditional method of fund-based reporting and toward the commercial for-profit model of financial reporting. Not all users welcomed this change, but more than a decade later preparers and users alike appear to accept this integrated not-for-profit financial reporting model (Wilson et al, 2007).

FASB Statement No. 117 established minimum standards for general purpose external financial statement for NPOs by requiring a statement of financial position, statement of activities, and statements of cash flows, along with notes to financial statements. Although the information specified by SFAS No. 117 is to be presented for the entity as a whole, the statement permits additional display of disaggregated information, such as fund-based information that may be useful for management of the entity and accountability to donors and others. Comparative statements are encouraged, but not required. Statements required are (1) statement of Financial Position, (2) statement of Activities, and (3) statement of Cash Flows. Certain note disclosures are also required and others are recommended. A great deal of flexibility is permitted in statement preparation, as long as certain requirements are met (Copley and Engstrom, 2007).

I. Statement of financial position: This statement, also known as a balance sheet, shows total assets, total liabilities, and the difference, net assets, for the organization as a whole. Net assets for the NPOs are categorized into three classes required by SFAS No. 117: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets arise from contributions for which either no donor restrictions exist or the restrictions have expired, revenues for services provided, and most investment income. Unrestricted net assets can be further segregated into board-designated and residual available for operations. Board-designated net assets are those unrestricted net assets appropriated or set aside by the governing board rather than an external donor and are sometimes subtitled "investments" and "net equity in capital." Temporarily restricted net assets result from contributions on which the donor imposes restrictions as to purpose (how the asset may be used) or time (when the asset may be used). When the restrictions are met, these net assets are "released from restrictions" and reported as increases in unrestricted net assets. Permanently restricted net assets are assets for which the donor stipulates that the assets be held in perpetuity but allows the organization to spend any income earned by investing those assets. These gifts are also called endowments and are nonexpendable. Endowments may take the form of pure endowments, term endowments, or quasi-endowments. Term endowments are classified as temporarily restricted net assets because as the term expires, the assets can be used at the discretion of the NPO. Quasi-endowments or "funds functioning as endowments" are those in which the board designates that funds be set aside; however, since the board can reverse that decision, this form of endowment is classified as an unrestricted net asset. Permanently restricted net assets may also be in the form of artwork, land or other assets that must be used for a certain purpose and may not be sold. Information on temporarily and permanently restricted net assets can be reported on the face of the statement of financial position or in the notes to the financial statements. SFAS No. 117 recommends that NPOs list assets and liabilities in order of liquidity similar to the manner in which business enterprises list them. The nature of assets and any restrictions should be disclosed. In general, restrictions apply to net assets, not to specific assets. However, if cash or other assets received are designated for long-term purposes or have donor-imposed restrictions that

limit their use, they should be segregated on the financial statement or disclosed in the notes (Wilson et al., 2007).

II. Statement of activities: The statement of activities is an operating statement that presents, in aggregate fashion, all changes in unrestricted net assets, temporarily restricted net assets, permanently restricted net assets, and total net assets for the reporting period. These changes take the form of revenues, gains, support, expenses, and losses. Reclassifications are made for (1) satisfaction of program or purpose restrictions, (2) satisfaction of equipment acquisition restrictions, sometimes measured by depreciation expense, and (3) satisfaction of time restrictions, either actual donor or implied restrictions. NPOs have considerable flexibility in presenting financial information as long as it is useful and understandable to the reader. SFAS No. 117 does not preclude the NPO from using additional classifications, such as operating and nonoperating, expendable and nonexpendable, earned and unearned, and recurring and nonrecurring. Although some NPOs may use the cash basis as a simple method of internal accounting, external financial statements must be prepared on the accrual accounting basis to be in conformity with GAAP. In general, revenues and expenses should be reported at their gross amounts. Exceptions include activities peripheral to the entity's central operations and investment revenue, which may be reported net of related expenses, if properly disclosed. Although revenues are categorized into three classes, all expenses are reported as reductions of unrestricted net assets. In addition, expenses must be reported by their functional classification (e.g., program or supporting) either in this statement or in the notes to the financial statements. Gains and losses on investments and other assets are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted (Wilson et al., 2007).

III. Statement of cash flows: SFAS No. 117 requires a statement of cash flows by amending SFAS No. 95 to extend its coverage to not-for-profit organizations (FASB, 1987). Cash

flows are reported in three categories: operating, investing, and financing. The direct or indirect method may be used. If the direct method is used, a reconciliation showing the change in total net assets from the statement of activities to net cash used for operating activities must be prepared. Donor-imposed restrictions are not separately reported in the cash flows statement; however, the statement does have some unique aspects. Unrestricted gifts are included with the operating activities, whereas the receipt of temporarily and permanently restricted net assets given for long-term purposes are included in the financing activities section, as is the related income. The financing activities section also includes the issuance and repayment of long-term debt. Noncash gifts and in-kind contributions are disclosed as noncash investing and financing activities in a separate section (Wilson et al., 2007).

IV. Notes to the financial statements: As with financial statements for all entities, the notes are an integral part of the financial statements of NPOs. Disclosures include principles applicable to for-profit entities unless there is a specific exemption for not-for-profit organizations.

Examples of required disclosures are those relating to financial instruments; commitments; contingencies; extraordinary items; prior-period adjustments; changes in accounting principles; employee benefits; and credit risks. In addition, the nature and amounts of unrestricted, temporarily restricted, and permanently restricted net assets must be disclosed if not displayed on the face of the financial statements. Notes are encouraged to report the detail of reclassifications, investments, promises to give, and breakdown of expenses by function and natural classifications. Policy statements regarding whether restricted gifts received and expended in the same period are reported first as temporarily restricted must also be disclosed (Copley and Engstrom, 2007).

2.3. Empirical studies on accounting and financial reporting practice in the NGNFPOs

NGNFPOs literature spans many fields, although each field has looked at NGNFPOs from within its own theoretical and technical confines and little interdisciplinary disclosure exists. There is substantial literature devoted to NGNFPOs. Although this literature generally does not attempt to directly address the implications of accounting and financial reporting practices within organizations.

NGNFPOs have become important institutions in world affairs but accounting and financial reporting research has not developed significant interest in their operations. Much of the existing accounting and financial reporting research in NGNFPO entities, such as charities, is mainstream positivist (Assad and Goddard, 2004). Mainstream positivist research does not provide empirical answers to questions such as, why and how particular practices get adopted and choices to report or not to report certain information, in particular form. In this study, the review of empirical literature on accounting and financial reporting practice of NGNFPOs is cited based on the coherence of the ideas.

Empirical research in NGNFPOs can be classified into three major themes: user needs evaluation, annual reports and compliance and accounting practices and financial reporting and use of management techniques. Initial efforts at assessing user needs concentrated on the views of corporate donors and grant making trusts (Bird and Morgan-Jones, 1981). Gray (1984) suggested that much research in NGNFPOs particularly charity accounting was myopic, lacking in knowledge of user needs and failing to recognize that in charities, financial reporting played a subsidiary role in the overall oversight function. Holder (1987) explored financial reporting practices in NGNFPOs and how accounting practitioners, industry representatives, and users of financial information perceived those practices. Holder reports that NGNFPOs employed diverse accounting and reporting practices, which ranged from single financial report sets in simple

structure organizations, to variants of financial reports in complex organizations. Seville (1987) also assessed usefulness of financial reporting in NGNFPOs and endorsed the applicability of general accounting standards to the not-for-profit sector. Hyndman (1990) reported that although users perceived information types of a financial nature as important, these were relatively less important than non-financial information types that were seldom disclosed. He argued for a shift in emphasis to non-financial information types to make disclosure more user-relevant. Hyndman (1991) concluded that information providers also recognized contributors as the most important users of NGNFPO reports.

Annual reports and compliance research concentrates upon the adoption of the Statement of Recommended Practice 2 (SORP2). Gambling et al, (1990) found that although SORP2 is meant to have taken into consideration all charity sector constituents' interests, the majority of operatives in the charity sector (preparers of accounting reports and trustees) were unaware of existence of SORP2. An analysis of responses to the exposure draft that preceded SORP2 seemed to support the conviction that 'SORP2 reflected the opinions of the accounting profession about charity accounting, rather than those of charities themselves' (Gambling et al., 1990). Hines and Jones (1992) found that SORP2 had not made a significant impact on accounting practices of charities although Williams and Palmer (1998) found that the majority of charities were at least in compliance with the SORP.

A number of researchers have studied accounting practices and use of management techniques in NGNFPOs including Bird and Morgan-Jones (1981), Hines and Jones (1992), Bird (1985), Holder (1987) and Trigg and Nabangi (1995). They found a diversity of accounting practices due to the variety in NGNFPO establishments and their operations. Although NGNFPOOs are established with aims and objectives that are not necessarily financial in nature, they nonetheless require financial resources to achieve them. Globally, the fund available to NGNFPOs is

increasing and a major challenge of accountability, therefore, is to ensure transparency in the use of the funds and that these funds are going towards the intended purposes. Ensuring this requires a proper system of accounting and financial reporting in NGNFPOs. But what form should this proper system of accounting and financial reporting take? This question only began to be asked from about 1982 and has not been properly answered till today. Prior to 1982 there was no specific standard governing financial reporting by NGNFPOs. Bird and Morgan-Jones (1981) highlighted this in their research pointing out that this result in inconsistency in accounting treatment and financial reporting practice in the sector. The argument is that a lack of consistency in financial statements makes it difficult for users to understand the information provided (Connolly and Hyndman, 2000). The effect of the lack of a reporting framework is to undermine confidence in the sector. This limits the ability for fund-raising and the scope of what could be achieved by NGNFPOs. With regard to this, Assad and Goddard (2010) also pointed out that there is very little prior research into accounting and financial reporting in NGNFPOs and much of this is normative, relating to standards, rather than empirical or theoretical. In recent years a good deal of attention has been made to the applicability of business practices to NGNFPOs. Some researchers such as Bradley et al., (2003) advocate the adoption of such practices to improve efficiency. However, others such as Simsa (2003) and Myers and Sacks (2003) recognize the complexity of NGNFPOs in terms of their different strategies, internal ideologies and management styles. These complexities are likely to confound a simple transference of business practices. Westerdahl (2001) undertook one of the few empirical interpretive studies in NGNFPO accounting. He concluded that accounting is intimately bound with organizational identity. Moreover accounting in NGNFPOs is a central force in establishing legitimacy within and beyond the organization. Edwards and Hulme (1995) noted that the need to account transparently was an essential NGNFPO practice in relation to enhancing legitimacy. They also noted the possibility of donor requirements distorting accountability and a tendency

for “accountancy” rather than “accountability”. Other research has noted the strengthening of accountability resulting from donor demands, without considering the dysfunctional effects of such demands (Bebbington and Riddle, 1995). Thus, there is clearly a need for more empirical research in accounting and financial reporting practices of NGNFPOs area to enhance understanding and ultimately to improve practices.

The need to improve the financial reporting of charity organizations had motivated Bird and Morgan-Jones (1981) to conduct a survey of charity accounts in the UK. They analyzed 85 charity accounts from a list of 1973’s 100 largest fund raising charities, ranked by legacy and gift income, and identified a number of weaknesses in the accounts of charities including: the format of accounts; the treatment of legacies; the treatment and disclosure of expenses; the use of fund accounting; and the treatment of fixed assets. Subsequent to the publication of Bird and Morgan-Jones’ research, the Accounting Standard Commission (ASC) set up a working party in 1982 to consider the issues raised by them. Its role is to consider financial reporting by charity organizations and in particular, determine ways of enhancing the usefulness of their financial reports and the possibility of reducing the diverse practices of financial accounting and reporting adopted by them. As a result, a discussion paper ‘accounting for charities’ was published in 1984. The proposed Standards of Recommended Practices (SORP) on ‘accounting for charity’ was then issued in 1985 (Ashford, 1991). The first Statement of Recommended Practice (SORP) concerning accounting by charities was published in 1995 (Charity Commission, 1995). According to the subsequent SORP 2000 and its 2005 revision, a charity’s annual report and financial statements aim to discharge the trustees’ duty of public accountability and stewardship, and depict the charity’s structure, activities and achievements. Despite a move towards formal reporting standards, recent literature relating to charity reporting seems to suggest that external reporting by charities is characterized by diverse accounting practices and a lack of

standardization, resulting in difficulties in user understanding of financial statements (Connolly and Hyndman, 2003).

Other studies had taken similar initiatives in investigating in more detail about accounting and financial reporting practices of NGNFPOs. For example, Ashford (1991) concentrated on accounting policies and particularly the content of the income and expenditure account. He reviewed 56 NGNFPOs accounts ending between December 1987 and December 1988, and found a range of practices similar to that found by Bird and Morgan-Jones (1981) and Bird (1986). Due to the diversity of approaches, these studies suggested that either NGNFPOs have a widespread disregard for the recommendations of SORP2 or more likely, that SORP2 allows different interpretations. In an Australian study, Kilcullen et al., (2007) found that presentation of income and expenses is a major issue faced by the NGNFPOs which is attributed to their lack of adequate guidance. Dellaportas et al., (2008) argued that under the current arrangements, donors have difficulty in knowing the allocation of their donations on an intended purpose. One attribute to such scenario is because there are no accounting standards regulating the NGNFPOs.

Studies on financial reporting in NGNFPOs were examined in various country setting. These include Netherlands (Bekkers, 2002), USA (Harper and Harper, 1988), UK (Alvey, 1995), New Zealand (Cordery and Baskerville-Morley, 2005) and Dellaportas et al. (2008) among others. In general, these studies show that there is a growing phenomenon in financial reporting and the law regulating the NGNFPOs although the level of practices varies among countries.

Previous studies have shown that there is a critical need to reform financial reporting practices of the NGNFPOs in developed countries (Falk, 1992; Miller, 1997; Connolly and Hyndman, 2000). Arguably, such need should also apply to developing countries such as Ethiopia. This is because clear and transparent accounting and financial reports would provide potential donors with a

clearer view of the objectives of the NGNFPOs and enhance its credibility in the eyes of the public. Of consequence, would increase the likelihood of the public donating higher amounts of money to them. However, study on accounting and financial reporting of the NGNFPOs in Ethiopia is under-researched. Thus, this study examines current accounting and financial reporting practices of NGNFPOs operating in Addis Ababa with a view to high light the compliances and deviations from the statutory stipulations and accounting standards in trend.

2.4. Conclusion and knowledge gaps

The review of the literature reveals the existence of many gaps of knowledge in review of the accounting and financial reporting practices of NGNFPOs. A closer look at the review of accounting and reporting practice shows that, there are a number of nomenclatures employed to represent the sector (such as, charities, not-for-profit, NGNFP, voluntary organizations).

In developed and developing countries there has been a relatively small number of accounting and reporting practice studies carried out in Australia, Hong Kong, Malaysia, New Zealand, and Tanzania.

To the knowledge of the researcher, in Africa there are only one studies conducted on accounting and reporting practice of NGNFPOs in Tanzania. Such a limited work in analysis of accounting and financial reporting practice in developing countries may be because of the difficulty in data collection and estimation, lack of expertise, and other institutional obstacles.

Evaluation of accounting and financial reporting studies in both developed and developing countries reveals that most of these studies used either quantitative or qualitative research approach, not a combination of both approaches as their principal way of gathering information. For example, Assad and Goddard, (2010) employed grounded theory approach as the only strategy of inquiry for examining accounting practices in Tanzanian NGOs. They found that differences in the accounting functions in the NGOs were explained by the influence of dominant

stakeholders, the credibility of the organization and its managers and the varied ways through which the organizations negotiated and accounted for funding. Hooper et al. (2008), to analyze financial reporting by New Zealand charities and Noraini et al. (2009), to examine financial reporting practice of Malaysian charities, in NFP sector, used interview as the principal way of collecting data, which led to biased responses because of researcher's presence, and they found that there is a varying degree of reporting practices among them. Miller (1997) applied mail survey as their principal way of gathering information, which led to a relatively low response rate and non-response bias to analyze charity accounting practices in Hong Kong. However, this study employed a combination of both research approaches (survey as a quantitative and documentary analysis and in-depth interview as a qualitative) in recognizing that biases inherent in any single method could neutralize or cancel the biases of other methods.

These gaps lead to the main research question of the thesis.

Thus, in the absence of specific accounting and financial reporting standards and diverse interpretation of certain terms under the laws of the land, it has become a very difficult task to follow a standardized procedure in generation and presentation of accounting and financial reporting information of NGNFPOs. This study tries to demonstrate accounting and financial reporting practice of NGNFPOs operating in Addis Ababa and provide a suggestion for constituting suitable accounting and financial reporting practices for NGNFPOs in Addis Ababa. This particular study further adds to the literature through making contribution to better understand accounting and financial reporting of NGNFPOs in Addis Ababa.

Chapter Three: Research methodology

The purpose of this chapter is to present the research questions and hypotheses, the underlying principles of research methodology and the choice of the appropriate research method for the thesis. The chapter is arranged as follows. Section 3.1 presents the hypotheses and research questions for the thesis. This is followed by the philosophy of quantitative (section 3.2), qualitative (section 3.3), and mixed methods (along with discussion of the choice of the appropriate method for the current research) (section 3.4) approaches. Then, the quantitative (section 3.5.) and qualitative (section 3.6) aspects of the research method adopted in this study would be shown. Finally, the linkage between research questions and hypotheses, and items in the specific method of inquiry are presented in section 3.7, followed by data analysis techniques (section 3.8.)

3.1. Hypotheses and research questions

As presented in chapter 1, the broad objectives of the thesis are:

- a) to examine accounting and financial reporting practices of NGNFPOs operating in Addis Ababa with a view to high light the compliances and deviations from the statutory stipulations and accounting standards in trend.

To achieve these broad objectives, a series of research questions and sub-questions are developed in this chapter. Some of these research questions are stated in the form of hypotheses while others take the form of “what”, “how”, “is” and “do” question type expression. In this context, the study focuses on testing one hypotheses and on answering one primary (PQ) and eight secondary (SQ) research questions in order to address the main research question of the thesis.

3.1.1. Primary research questions and hypothesis

The primary research question is:

PQ. Does the accounting and financial reporting practices adopted by NGNFPOs in Addis Ababa are in accordance with the accounting and financial reporting practices

required by Financial Accounting Standards Board (FASB) and other legal or regulatory agencies?

The objectives of accounting and financial reporting for NGNFPOs emphasize decision usefulness over financial accountability needs, presumably reflecting the fact that the financial operations of NGNFPOs are generally not subject to as detailed legal restrictions and those of governments. Thus, the objectives of accounting and financial reporting for NGNFP entities stress the need for the public to understand and evaluate the accounting and financial reporting activities and management of those organizations. Since each of us is significantly affected, it is important that we be aware of the accounting and financial reporting aspects of NGNFPOs. In order to make informed decisions as citizens, taxpayers, creditors, and donors, we should make the effort to learn the accounting and financial reporting standards developed by authoritative bodies. Thus, the hypothesis is:

H. There are deviations and departures of the accounting and reporting practices of NGNFPOs with the guidelines, standards, and regulations prescribed by the government, Financial Accounting Standards Board (FASB), and regulatory agencies respectively.

3.1.2. Secondary research questions

In order to address the research problem comprehensively and adequately and to build upon the existing evidence on accounting and financial reporting practices, this research seeks to confirm a number of propositions that have been tested in previous research on both developed and developing countries on accounting and financial reporting practices of NGNFPOs and some that have not been tested previously. This research also attempts to address questions, which would make the study comprehensive in the sense of assessing aspects of the research problem. In this context, the following presents the secondary research questions (SQ).

In addition to the above, the research seeks to answer the following research questions:

SQ1. *What basis of accounting is followed by the NGNFPOs undertaking their activities in Addis Ababa to maintain financial accounting records and prepare financial reports?*

SQ2. *Do the NGNFPOs, as per the guidelines and agreements, submit their annual report (which includes both audit report and annual activity report) to the charities and societies agency as required by the law? What information the reports should contain? Do you believe that is there any uniformity in accounting policies adopted by the NGNFPOs in Addis Ababa?*

SQ3. *What kinds of mechanism are employed /designed over accounting of assets, especially cash, to adequately safeguard it from fraud and misuse in your organization?*

SQ4. *What are the suitable measures of performance and governance or key performance indicators of your organization?*

SQ5. *How fixed assets purchased or donated be treated in your organization? What methods of accounting for depreciation of fixed assets are used in your organization?*

SQ6. *What are the bases of presenting titles of funds in the financial statements? Should a standard terminology be used for different types of funds? What motivations does your organization have to establish funds?*

SQ7. *Is there any instances under which organizations choose not to disclose information? How do your organizations decide on the types of information to disclose?*

SQ8. *What types of audit opinion (i.e., unqualified/clean, qualified, adverse, or disclaimer of opinion) is issued in your organization and what is the reason for its issuance?*

The above discussion has shown the hypotheses and research questions developed based on the broad objectives of the thesis. The research problem along with the philosophy of research methodology would guide the choice of the appropriate research method. Depending on the nature of the research problem and the research perspective, a research method could be based on the philosophy of quantitative or qualitative or a combination of these two approaches.

3.2. Quantitative research approach

Quantitative research is one in which the investigator primarily uses positivist claims for developing knowledge (Creswell, 2003). Merriam (1998) also noted that quantitative research design is based on the philosophy of positivism, logic and empiricism.

Quantitative research employs a review of the existing literature to deductively develop theories and hypotheses to be tested, i.e., in this approach, the research problem is translated to specific research questions and hypotheses. A quantitative research approach employs strategies of inquiry such as surveys and experimental design (Creswell, 2009).

Well designed and implemented quantitative research has the advantage of being able to make generalizations, for a broader population, based on findings from the sample. To enhance the generalization of findings, quantitative research methods follow, at least theoretically, standardized procedures in sample selection, instrument design, implementation and analysis.

This standardization in turn increases the replicability of procedures and the reliability of findings and also can mitigate the impact of interviewer (if administered through direct interviews) and interviewee biases.

Notwithstanding the above advantage, quantitative research design has limitations. Quantitative research appears to lack flexibility in design which may be crucial when additional information revealed through data collection needs further exploration for knowledge.

3.3. Qualitative research approach

Qualitative research approach is one in which the investigator often makes knowledge claims based primarily on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern (Creswell, 2003). In contrast to quantitative research design,

qualitative approach is employed strategies of inquiry such as ethnography, grounded theory, case studies, phenomenological research and narrative research (Creswell, 2009).

It also uses data collection methods/types including observations, interviews, documentary and audiovisual materials studies and the findings are conveyed subjectively through descriptions using words.

Qualitative research design has its own advantages and disadvantages. The first advantage of a qualitative research design is that it is flexible and emergent without being constrained by standardized procedures (Liamputtong and Ezzy, 2005). This feature of qualitative research enables the investigator to explore and understand phenomena entirely in their natural environment and discover emerging theories.

Notwithstanding the above advantage, qualitative research design has its own disadvantages. The findings of qualitative research cannot be statistically generalized for a broader population of interest for it is based on a small and unrepresentative number of investigated cases.

3.4. Mixed methods approach

As the above discussion shows, both quantitative and qualitative methods have limitations. The merits of a quantitative research design may be limitations for a qualitative design and vice versa. In this regard, Sarantakos (2005) noted that qualitative research is what quantitative research is not, and is not meant to be. Similarly, quantitative research is what qualitative research is not, and is not meant to be. The limitations of these research approaches could be mitigated by adopting a combined/mixed strategy. In connection to this, Creswell (2003) noted that through a mixed methods approach, biases and weaknesses inherent in any single method could neutralize or cancel those of other methods. Greene et al. (1989) also emphasized that all methods have inherent biases and limitations, so use of only one method to assess a given phenomenon will inevitably yield biased and limited results. Greene et al. (1989) continued to

argue that when two or more methods that have offsetting biases are used to assess a given phenomenon, and the results of these methods converge to corroborate one another, then the validity of inquiry findings is enhanced.

Mixed methods approach, which is believed to mitigate the biases of quantitative and qualitative approaches, is one in which a researcher tends to base knowledge claims on pragmatic worldviews employing strategies of inquiry that involve collecting both quantitative and qualitative data concurrently, sequentially or transformatively to best understand research problems (Creswell, 2009). The concept of mixing different methods probably originated in 1959, when Campbell and Fiske used multiple methods to study validity of psychological traits. They encouraged other to employ their "multi method matrix" to examine multiple approaches to data collection in a study. This prompted others to mix methods, and soon approaches associated with field methods such as observations and interviews (qualitative data) were combined with traditional surveys (quantitative data) (Sieber, 1973). Recognizing that all methods have limitations, researchers felt that biases inherent in any single method could neutralize or cancel the biases of other methods. Triangulating data sources-a means for seeking convergence across qualitative and quantitative methods -were born (Jick, 1979). From the original concept of triangulation emerged additional reasons for mixing different types of data. For example, the results from one method can help develop the other method (Green, Caracelli, and Graham, 1989). Alternatively, one method can be nested within another method to provide insight into different levels or units of analysis (Tashakkori and Teddlie, 1998). Or the methods can serve a larger, transformative purpose to change and advocate for marginalized groups, such as women, ethnic/racial minorities, members of gay and lesbian communities people with disabilities, and those who are poor (Mertens, 2003).

Adopting a mixed methods approach has a number of benefits. According to Greene et al. (1989) the first benefit is triangulation pertaining to a situation where researchers seek convergence, corroboration, correspondence of results from quantitative and qualitative methods to increase validity of constructs and inquiry results. Secondly, by mixing methods complementarily, researchers seek elaboration, enhancement, illustration, clarification of the results from one method with the results from the other method. Thirdly, by mixing methods with developmental intent, researchers seek to use the results from one method to help develop or inform the other method. Fourthly, mixing methods with initiation intent seeks the discovery of paradox and contradiction, new interpretations, the recasting of questions or results from one method with questions and results from the other method. Finally, to increase the scope of inquiry mixed method with expansion intent seeks to extend the breadth and range of inquiry by using different methods for different inquiry components.

There are three general procedures for the implementation of mixed methods strategies of inquiry/ procedures for the integration of both qualitative and quantitative approaches/. Specifically, the integration may be sequential mixed methods procedures, are those in which the researcher seeks to elaborate on or expend on the findings of one method with another method. This may involve beginning with a qualitative interview for exploratory purposes and following up with a quantitative, survey method with a large sample so that the researcher can generalize results to a population. Alternatively, the study may begin with a quantitative method in which a theory or concept is tested, followed by a qualitative methods involving detailed exploration with a few cases or individuals; concurrent mixed methods procedures, are those in which the researcher converges or merges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem. In this design, the investigator collects both forms of data at the same time and then integrates the information in the interpretation of the

overall results; transformative mixed methods procedures, are those in which the researcher uses a theoretical lens¹ as an overarching perspective within a design that contains both quantitative and qualitative data. This lens provides a framework for topics of interest, methods for collecting data, and outcomes or changes anticipated by the study (Creswell, 2009).

In general, the choice among the three research approaches is guided mainly by the research problem apart from the underlying philosophy of each research method (McKerchar, 2008). Examination of previous studies on analysis of accounting and financial reporting practice of NGOs in Tanzania in terms of research method, as reviewed in the preceding chapter, revealed that these studies had employed qualitative research approach, specifically grounded theory of strategy of inquiry.

To get the benefits of a mixed methods approach, as presented earlier, and to mitigate the bias in adopting only either quantitative or qualitative approach, the current study combines both quantitative and qualitative research approaches. Thus, the next sections discuss consecutively the quantitative and qualitative aspects of the research method.



¹ Theoretical lens are perspective in qualitative research, which provides an overall orienting lens for the study of questions of gender, class, and race (or other issues of marginalized groups) (Creswell, 2009).

1.5. Quantitative aspect of research method

The quantitative aspect of the research method intends to obtain data necessary to analyze the accounting and financial reporting practice of NGNFPOs in Addis Ababa. Specifically, the current study employed a survey research method of strategies of inquiry administrated through questionnaires.

1.5.1. Survey with structured questionnaires

To gather data relevant for the analysis of accounting and financial reporting practices of NGNFPOs, the current study used a survey method with structured questionnaires, which were administered through face-to-face interviews with a sample of NGNFPOs in Addis Ababa. Survey research provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. It includes cross-sectional and longitudinal studies using questionnaires or structured interviews for data collection, with the intent of generalizing from a sample to a population (Babbie, 1990). The researcher chooses survey as the preferred type of data collection procedure for study because it is used to generalize from a sample to a population (Babbie, 1990). The survey the study employed is cross-sectional, is type of survey in which data is collected at one point in time from a sample selected to represent a larger population.

3.5.1.1. Sample design

Sample and instrument designs and mode of collecting data are crucial to generate representative statistical data about a population under study. In the case of sample design, how well a sample represents a population depends on the sample frame, the sample size and the specific procedures of selecting potential respondents. In respect of sample frame, in a study with the intent of statistically generalizing about a population, the sample frame from which potential respondents are to be chosen ought to be representative of the population (i.e., the sample frame should be

comprehensive enough). Accordingly, in designing a sample, basing the sample selection on a comprehensive list of potential respondents who have an equal chance of selection is vital to increasing the representativeness of the sample (Wollela Y. A., 2009).

In this study, surveys with structured questionnaire were conducted. This were conducted with a sample of NGNFPOs finance managers or accountants. Obviously, the sample frame ought to be the list of NGNFPOs (both international and indigenous) by charities and societies agency in Addis Ababa. That is, the sample needed to be chosen from the list of NGNFPOs by charities and societies agency in Addis Ababa. Accordingly, to select potential respondents, the list of NGNFPOs in Addis Ababa along with their certificate number, type of the organization, and organization's full address which includes region, sub-city, woreda, kebele, and house number was obtained from charities and societies agency.

The other consideration in sample design is the sample size. The choice of a sample size has a bearing on the reliability of a study. However, this does not mean that large sample size always leads to high level of accuracy. Sarantakos (2005) noted that large samples do not always guarantee a high degree of precision, validity and success in general. Rather it is to indicate that sample size is one of the factors that contribute to the credibility of a survey estimate. For the choice of the desired sample size, Fowler (1984) noted that although there is no a single right way for the determination of sample size, there are three approaches to deciding on sample size that are inadequate. According to Fowler (1984), firstly, specifying the fraction of the population to be included in the sample is never the right way to decide on the sample size. This is because the population from which a sample of a particular size is drawn has virtually no impact on how well that sample is likely to describe the population. A sample of 150 people will describe a population of 15,000 or 15 million with virtually the same degree of accuracy, assuming all other aspects of the sample design and sampling procedures are the same (Fowler, 1984). Secondly, saying that a particular sample is the usual or typical approach to studying a population is also

virtually always the wrong answer. Although it is good to see the sample size used by other competent researchers, the sample size ought to be decided on a case-by-case basis, considering the different goals to be achieved by a particular study (Fowler, 1984). Thirdly, it is rare that calculating a desired confidence interval for one variable for an entire population is the best way to decide on the sample size. Fowler (1984) argued that in some theoretical sense there is nothing wrong with this third approach; however, in practice this approach has little help to most researchers. Apart from the problem of basing sample size decision on the need for precision of a single estimate and the difficulty of determining the level of specific precisions in advance, the estimation of the level of accuracy fails to take into account errors arising from sources other than sampling.

The above discussions show the need for considering different factors in deciding on the desired sample size. These factors include the availability of time and resources, homogeneity of the target population, the accuracy required and the aim of the research (Sarantakos, 2005). However, if the third approach is employed, Fowler (1984) indicated that for a population, the level of precision increases steadily up to sample sizes of 150 to 200. After that point there is much more modest gain to increasing sample size. In this light and considering the available resources, this study selected 120 NGNFPOs in Addis Ababa. In aggregate terms, the sample of 120 NGNFPOs constitutes 8.22 percent of the total number of 1,460 NGNFPOs operating in Addis Ababa. Out of 1,460 active and operational NGNFPOs, 1,206 are indigenous and the rest of 254 are international by their sponsorship.

In respect of the specific procedures in selecting potential respondents, to enhance the analysis of accounting and financial reporting practices and to enable all population groups to be represented in the final sample, an NGNFPOs registered by charities and societies agency in Addis Ababa was stratified into sponsorship and type categories. Hence, a sample of 120 NGNFPOs have been taken on stratified random sample basis, a process of dividing a population into segments (strata)

and sampling each stratum independently of the others, represented by 96 indigenous and 24 international NGNFPOs constituting 7.96 percent and 9.45 percent of the respective total number of NGNFPOs.

On the merits of stratified sampling, Fowler (1984) noted that some degree of stratification is relatively simple to accomplish and it usually is a desirable feature of a sample design.

3.5.1.2. The survey instruments

In designing survey instruments caution needs to be exercised in preparing instructions and wording of questions to avoid ambiguity and enable the collection of the relevant data for the research. The survey instruments consisted of both open ended and close ended questions. They were designed to collect both qualitative and quantitative data on accounting and financial reporting practice of NGNFPOs in Addis Ababa. Covering letters both from the researcher and Department of Accounting and Finance of the Addis Ababa University were included with both survey instruments. The survey instrument was prepared in the English language. Copies of the English versions of the survey instrument along with the covering letter of the researcher and covering letter from Department of Accounting and Finance of the Addis Ababa University (see Appendix I) are presented for each respondent.

The survey instrument consists of four parts. Part I was intended to gather background information about respondents and the organizations. Part II consisted of questions relating to general accounting issues. Part III consisted of questions relating to general financial reporting issues. Part IV of questions relating to general auditing issues.

Finally, the survey instruments asked respondents if they were willing to be contacted later to clarify any of their responses. The instrument also provided space to record respondents' names and contact addresses if they wished to be contacted.

In general, while the discussion thus far has shown the quantitative component of the research design, the following section presents the qualitative aspect.

1.6. Qualitative aspect of research method

As discussed earlier in this chapter, a qualitative method uses strategies of inquiry including ethnography, grounded theory, phenomenology, case studies and narrative research. In parallel, qualitative data collection methods could be observations, interviews, documentary studies, and studies of audiovisual materials. In this study, to gather the qualitative data needed for addressing some of the research questions presented previously in this chapter, interviews and document studies were employed. The quantitative and qualitative methods were combined partly at the stage of data collection. That is, concurrent mixed methods.

1.6.1. Documentary analysis

Documentary analyses were conducted using documents which may take a variety of forms such as public documents (e.g., newspapers, minutes of meetings, official reports), or private documents (e.g., personal journals and diaries, letters, e-mails) (Creswell, 2009).

Document study, especially basic document analysis, may employ schemes including descriptive analysis, categorical analysis, exploratory analysis and comparative analysis. Sarantakos (2005) described each of these schemes as follows. Descriptive analysis pertains to the process of summarizing data, identifying main trends and presenting descriptions. Categorical analysis is the process of identifying and defining diversity based on categories constructed before the commencement of the study. Exploratory analysis involves identifying data, comparing them, weighing their relevance and significance and searching for peculiarities, characteristic attributes and trends in the context that mark the identity of the message conveyed through the document

and comparative analysis compares issues across times, countries and cultures. The review of annual reports (which includes both audit report and annual activity report) of the selected NGNFPOs in Addis Ababa for five years (2006 and 2010) period and charities and societies proclamation no. 621/2009 of Ethiopia has been conducted.

Documentary analysis has its own strengths and weaknesses. The advantages of documentary analysis include: it enables a researcher to obtain the language and words of participants; as written evidence, it saves a researcher the time and expense of transcribing; and it can be accessed at a time convenient to researcher-an unobtrusive source of information. The disadvantages of documentary analysis include: the documents may not be authentic or accurate; and may be protected information unavailable to public or private access (Creswell, 2009).

This study employed descriptive and exploratory analysis approaches of documentary study. That is, in addition to the data obtained through the other methods discussed so far, through the analysis of the various documents relevant for the study, trends and peculiarities of the accounting and financial reporting practices and related disclosures would be described.

1.6.2. In-depth interviews with chief finance officer/or accountant

In-depth interviews were also conducted with chief finance officer (or equivalent) or senior accountant/accountant or director where a CFO was unidentified using a semi-structured questionnaire to elicit/obtain insights into the observed accounting and financial reporting practices and disclosure practices of NGNFPOs and their perception of the role of disclosure and reasons for the respective disclosure policies implemented by NGNFPOs. Thus, respondents will likely be senior and experienced professionals with some background in accounting and financial reporting practice and therefore likely to have a reasonable understanding of the issues raised in the interview. The major benefits of these interviews are: (1) Less intrusive to those being interviewed as the semi-structured interview encourages two-way communication. (2) Those

being interviewed can ask questions of the interviewer. In this way it can also function as an extension tool. (3) Confirms what is already known but also provides the opportunity for learning. (4) When individuals are interviewed they may more easily discuss sensitive issues. (5) A semi-structured interview is flexible, allowing new questions to be brought up during the interview as a result of what the interviewee says. In addition, the interviewer in a semi-structured interview generally has a framework of themes to be explored.

In contrast, interviews also have a number of limitations: (1) it provides indirect information filtered through the views of interviews. (2) Researcher's presence may bias responses. The adoption of the in-depth interview, in this study, was to gather information that was not available from annual reports and make inferences about accounting and financial reporting practice of NGNFPOs based on responses of a sample of respondents.

To conclude, to address the research problem comprehensively, this study employed a mixed methods approach. In this mixed methods design, the relationship between issues investigated, specific research questions and items in the surveys, interviews and other sources of data are presented below.

3.7. Relationship between research questions/ hypotheses and the research design

This chapter has presented the various research questions/hypotheses and the methods appropriate to address them. Table 3.1 sets out how each research question/hypothesis is addressed by the appropriate item in the survey (structured questionnaires) and in-depth interviews with chief finance officer.

Table 3.1 Relationship between research questions/ hypotheses and the research design

| Research question/hypotheses | Name of variables/issues investigated | Items in the surveys, documentary studies and in-depth interviews. |
|--|--|--|
| Does the accounting and financial reporting practices adopted by NGNFPOs in Addis Ababa are in accordance with the accounting and financial reporting practices required by Financial Accounting Standards Board (FASB) and other legal or regulatory agencies? | Compliance and deviation with standards and principles | Survey question 13, 14,15,16,17,18,19,20,21,22,23, 24 and 25. Survey interview question 1 and 3. |
| What basis of accounting is followed by the NGNPOs undertaking their activities in Addis Ababa to maintain financial accounting records and prepare financial reports? | Basis of accounting | Survey question 15. |
| Do the NGNFPOs, as per the guidelines and agreements, submit their annual report (which includes both audit report and annual activity report) to the charities and societies agency as required by the law? What information the reports contain? Do you believe that is there any uniformity in accounting policies adopted by the NGNFPOs in Addis Ababa? | Compliance with rules and regulations | Survey interview question 2. Documentary studies including annual reports. |
| What kinds of mechanism are employed /designed over accounting of assets, especially cash, to | Internal control over cash | Survey question 16. |

| | | |
|--|--|--|
| adequately safeguard it from fraud and misuse in NGNFPOs? | receipts and disbursements | |
| What are the suitable measures of performance and governance or key performance indicators of NGNFPOs? | Performance measurement | Survey question 23, 24 and 26. |
| How fixed assets purchased or donated be treated in NGNFPOs? What methods of accounting for depreciation of fixed assets are used in NGNFPOs? | Treatment and depreciation of fixed assets | Survey question 13 and 14 |
| What are the bases of presenting titles of funds in the financial statements? Should a standard terminology be used for different types of funds? What motivations does your organization have to establish funds? | Fund accounting system | Survey interview question 4. |
| Is there any instances under which NGNFPOs choose not to disclose information? How do NGNFPOs decide on the types of information to disclose? | Disclosure policies | Survey question 25. Survey interview question 6 and 7. |
| What types of audit opinion (i.e., unqualified/clean, qualified, adverse, or disclaimer of opinion) is issued in your organization and what is the reason for its issuance? | Types of audit opinions issued | Survey question 27, 28 and 29. |

3.8. Data analysis techniques

The results obtained under different methods are tabulated, interpreted and analyzed jointly using SPSS statistical package to address each research question. Descriptive statistics such as percentages, frequency and mean under the SPSS package were used to analyze existing accounting and financial reporting practices of NGNFPOs in Addis Ababa.

Chapter Four: Results and Analysis

The preceding chapter has presented the research questions and the rationale for undertaking the research using a mixed methods approach (surveys, in-depth interviews, and document analysis).

This chapter presents the results and analysis of the findings of the different methods used.

The results obtained under different methods are analyzed jointly using SPSS package in this chapter to address each research question. Descriptive statistics such as percentages, frequency and mean under the SPSS package were used to analyze existing accounting and financial reporting practices of NGNFPOs in Addis Ababa. This chapter is organized as follows. Section one presents the outcomes of surveys, documentary analysis conducted on the sampled NGNFPOs annual reports and in-depth interviews jointly. Conclusions are presented in section two.

4.1. Results of survey, documentary analysis and interviews with accountants/finance managers.

4.1.1. Response rate

The survey instrument was distributed to 120 NGNFPOs in Addis Ababa with instructions to complete the survey and return it to the principal researcher. Of the 120 questionnaires distributed or issued, 69 useable surveys were returned representing a response rate of 57.5 percent. This response rate (57.5 percent) compared favourably with that of other studies that have examined similar documents.

4.1.2. Principal activities and number of employees

Respondents were asked to indicate their scope of activities by specifying their principal activity (see Table 4.1). The majority of NGNFP entities operated in the community or welfare services (49.3%) and health (20.3%) sectors.

Figure 4.1: Principal activities of NGNFPOs

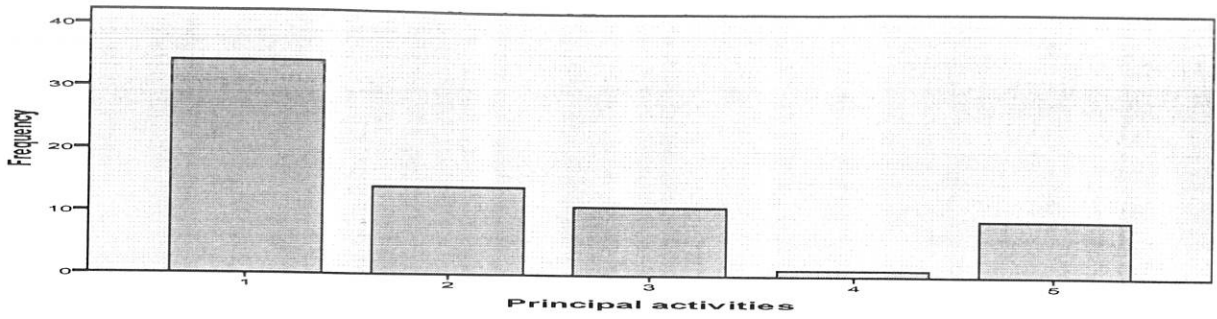


Table 4.1: Principal activities

| Please indicate the principal nature of your organizations activities by ticking one of the following boxes. | Frequency | Percent |
|--|-----------|---------|
| Community or welfare services | 34 | 49.3% |
| Health (including medical research) | 14 | 20.3% |
| Education | 11 | 15.9% |
| Environmental (protection and conservation) | 1 | 1.5% |
| Other not-for-profit activities | 9 | 13% |

In regard to the respondents' characteristics, the data in Table 4.2 reveals that nearly all of the respondents (89.86%) have below 50 employees with a significant number (10.14%) having over 50 employees. These figures also extrapolate into the number of volunteers providing assistance to NGNFPOs, with the majority (82%) also having below 50 volunteers.

Table 4.2: Number of employees

| How many employees did your organization have at December 31, 2009? | | |
|--|------------------|----------------|
| | Frequency | Percent |
| less than 5 | 0 | 0% |
| 5 – less than 20 | 19 | 27.54% |
| 20 – less than 50 | 43 | 62.32% |
| 50 – less than 100 | 7 | 10.14% |
| 100 – less than 1,000 | 0 | 0% |
| 1,000 or more | 0 | 0% |
| Would you estimate the total number of volunteers currently providing assistance to your organization? _____ | | |

Thus, the majority of NGNFPOs examined in this study provide community, welfare or health services, employ below 50 employees, and rely on a similar number of volunteers to assist with their activities.

4.1.3. Submission of annual reports and complying with time schedule

The publicly available reports of 69 NGNFPOs were obtained from the office of charities and societies agency and the NGNFPOs finance department. All NGNFPOs in Addis Ababa submit to the charities and societies agency an annual statement of accounts (which includes both audit reports and annual activity report) prepared in accordance with generally accepted accounting standards. These indicate that they are in compliance with the required rules and regulations. However, the interview results with one of the CSA staff show that although NGNFPOs are required by law to submit to the charities and societies agency a set of annual reports which include both audit reports and annual activities report within a certain stipulated period, some of

the NGNFPOs did not submit the annual report on time. Thus, they are not complying with the time schedule and therefore, they are irregular.

4.1.4. Manner of keeping accounting records

Regarding the manner of keeping accounting records and frequency of depositing receipts into bank account, majority of NGNFPOs survey respondents indicated that their systems were either fully or partially computerized and cash collected each day are sorted out and deposited in the organization bank account next day. At the end of each day, a cash collection report is prepared and postings are made to the respective accounts. The rest revealed that either their accounting systems were manual or their external accountants kept their accounting records.

4.1.5. General education level of the person keeping accounting records

Survey respondents were asked on the general education level of the person keeping accounting records. The results showed that about 21 percent had Diploma while 67 percent had a Bachelor Degree. As a whole, nearly 79 percent of respondents indicated that the education level of the person keeping accounting records was Degree or above. With regard to large purchase of goods, the survey result reveals that almost all respondents agree with the collection of three Performa invoice to acquire the necessary items on competitive price basis. Upon the collection of goods, they compare authorized purchase requisition with goods receiving notes to ensure that goods received meet specification, checking for damages, and in order to minimize or prevent opportunities for fraud, loss, and waste in handling goods.

4.1.6. Types of financial statements/reports and additional disclosures

With regard to the presentation of the statements of accounts, some interview respondents pointed out that small entity's (i.e., entities whose annual flow of funds does not exceed EBR 50,000) are required to present the statement of accounts which shows only receipt and payment

account and statement of assets and liabilities. According to respondents, these entities are not necessarily required to present notes to the accounts. In addition, an examination of the annual reports reveals that NGNFPOs often provide comprehensive reports combined with additional information such as a Directors' report and a statement of program/activity/objectives. However, the type, extent, and presentation of financial reports vary between organizations.

In regard to the types of reports produced by NGNFPOs, Figure 4.2 summarizes the nature of these reports, revealing that the majority of NGNFPOs examined – 71.01 percent – provide a comprehensive annual financial report. Of the remaining organizations, 15.94 percent provide a financial report only. Concise/summary financial reports were not a favoured reporting format, with only four (5.8 percent) of the 69 NGNFPOs studied reporting in this manner.

Figure 4.2: Types of financial reports

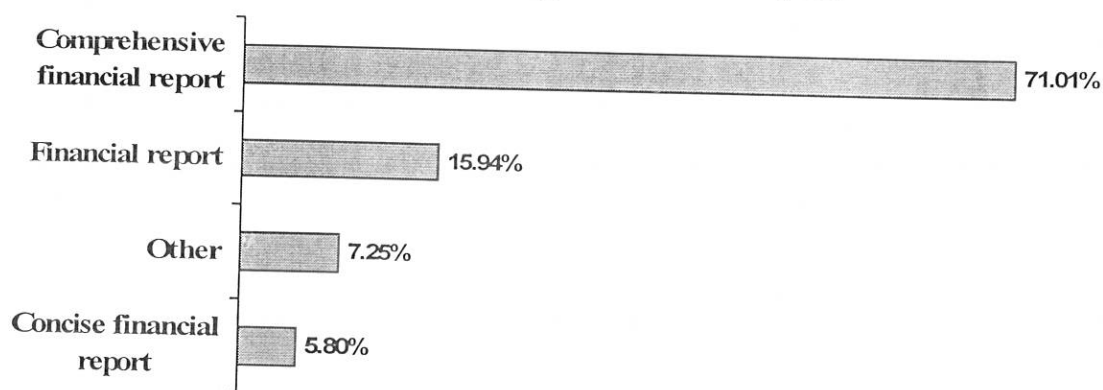
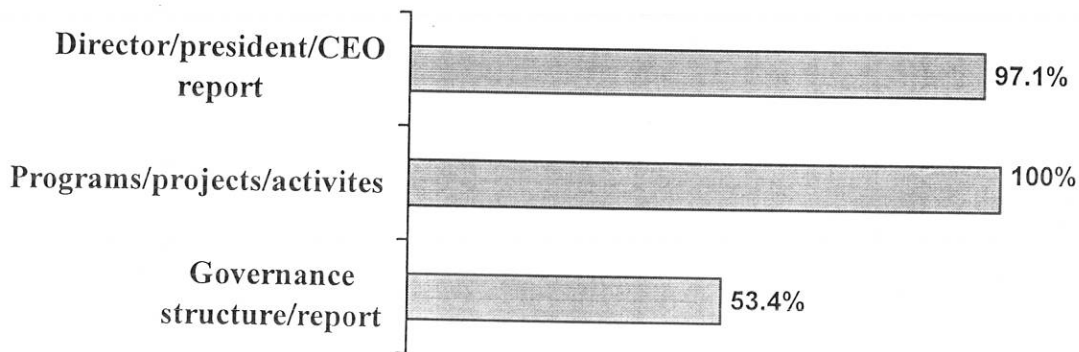


Figure 4.3 displays the nature and extent of additional disclosures. In spite of the range of reporting formats adopted (Figure 4.2), a report by the director/president/chief executive officer is almost always included. Disclosures on the programs/projects/activities undertaken are also common, with all of the NGNFPOs providing this information. An analysis of annual reports and interview with some officials of NGNFPOs reveals all officers of an NGNFPOs prepare and transmit to the charities and societies agency an annual activity report on the major activities and other relevant information regarding the entity within three months from the end of that financial

year or within such period as the agency may for any special reason require. The respondents also pointed out that every such annual activity report shall have attached to it the annual statement of accounts. Less common are disclosures pertaining to organizational governance, which is the set of processes, customs, policies, laws, and institutions affecting the way an entity is directed, administered or controlled.

As Figure 4.3 reveals, little more than half of the surveyed NGNFPOs disclose their governance structures and/or reported on this matter. The additional, or non-financial disclosures displayed in Figure 4.3, receive disproportionate emphasis in the annual reports compared to financial data except activity report.

Figure 4.3: Additional information



The extent of disclosures is further analyzed in Table 4.3 with an examination of the type of financial statements provided by NGNFPOs. All of the NGNFPOs in Addis Ababa provide financial statements, although more than half of these constituted 'comprehensive' rather than full financial statements. Like for-profit entities, NGNFPOs do always provide all of the traditional financial statements; namely, income statement, balance sheet, and cash flow statement. In order of frequency (see Table 4.3), the most commonly disclosed statements were an income statement (100 percent of NGNFPOs surveyed), balance sheet (100 percent) and cash flow statement (26 percent).

Table 4.3: Financial statements presentations

| | Frequency | Percent |
|--|-----------|---------|
| Financial statements | | |
| Provided | 69 | 100% |
| Not provided | 0 | 0% |
| Please indicate the extent of presentations /disclosures of the types of financial statements/reports produced by your organization | | |
| Full financial statements only | 11 | 15.94% |
| Summary/concise financial statements | 4 | 5.80% |
| Comprehensive annual financial statements/ reports | 49 | 71.01% |
| Others (please specify) | 5 | 7.25% |
| Please indicate type of statements issued in your organization | | |
| Income statement*/statements of activities | 69 | 100% |
| Balance sheet/ statement of financial position | 69 | 100% |
| Cash flow statement | 18 | 26% |
| Statement of functional expenses | 0 | 0% |
| Others (please specify) | 0 | 0% |

* Different titles has been used in different NGNFPOs such as income and expenditure statement, revenue and expenditure statement, receipts and expenditure statement, receipts and payments statement, receipts and disbursements statement.

In terms of formatting of the financial statements, almost all of the (67 out of 69) NGNFPOs follow report form (vertical formats of balance sheet and income statements). An analysis of the formats and contents of the income statement reveals that (i) there is similarity with regard to the formats of the income statements among the NGNFPOs under study; (ii) out of the 69 sample units only 5 have used the terms like ‘surplus or deficit’ and the rest described them as excess of income over expenditure and vice versa. All of the 69 NGNFPOs are found preparing income

statements and balance sheets. Thus, both statements to a large extent conform to the generally accepted accounting principles of the FASB prescriptions. They also meet the requirements of the local regulatory agencies. However, some of the NGNFPOs do not prepare cash flow statement.

4.1.7. Notes to the accounts

Notes are an integral part of the financial statements. They should be used to present material disclosures required by GAAP that are not otherwise presented on the face of the financial statements or in supplemental schedules.

The frequency of disclosures tends to increase at the more detailed levels of financial information, with more than 60 percent of organizations disclosing notes to the accounts, information on accounting policies, or compliance with prescribed accounting standards. This data is summarized in Table 4.4. With reference to accounting policy, the frequency of disclosures regarding revenue recognition, asset revaluation and depreciation methods were also all above 60 percent.

Table 4.4: Notes to the accounts

| Please indicate whether notes to the following matters are provided or not provided in the report of your organization. | Provided | | Not provided | |
|---|-----------|---------|--------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Reference to accounting policies | 54 | 78.26% | 15 | 21.74% |
| Reference to compliance with prescribed accounting standards | 48 | 69.57% | 21 | 30.43% |
| Reference to revenue recognition | 57 | 82.61% | 12 | 17.39% |
| Reference to asset revaluation | 45 | 65.22% | 24 | 34.78% |
| Reference to depreciation methods | 57 | 82.6% | 12 | 17.4% |

4.1.8. Classification within income statements/statements of activities

In regard to the presentation of financial reports, Table 4.5 provides details on classification within the income statements of the surveyed NGNFPOs. NGNFPOs generally favour classification by function (that is, grouped by the nature of the item, such as ‘administrative’ and ‘operational’) rather than program (that is, grouped according to the NGNFPOs principal activities) (see Table 4.5), as well as a general move away from ‘traditional’ formatting of this statement. The respondents to the survey indicated that information about expenses by function is necessary to an understanding of an organization's service efforts and that a set of financial statements should include that information. Requiring that information also is a step toward providing information that may be useful in associating an organization's expenses with its accomplishments. In addition, according to Article 88 sub-article 1 of the charities and societies proclamation No. 621/2009 of Ethiopia, any charities or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities. Thus, the practice employed in NGNFPOs is in compliance with the regulations and standards, which states that information

about an organization's expenses by function may be meaningfully communicated either in a statement of activities or in notes to financial statements (Statement of Financial Accounting Standards No. 117).

Table 4.5 also indicates a relatively high tendency to 'net-off' revenues and expenses, with 59.42 percent of the NGNFPOs surveyed adopting this practice. The practice of netting-off revenue with expenses diminishes the ability to measure and evaluate efficiency and performance.

Table 4.5: Classification within income statements/ Statement of activities

| Please indicate the practice used in your organization regarding the classification within income statement/statement of activities | Yes | | No | |
|---|-----------|---------|-----------|---------|
| | Frequency | Percent | Frequency | Percent |
| Classification by program (grouping activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives) | 40 | 58% | 29 | 42% |
| Classification by function (grouping of expenditures on the basis of the principal purposes for which they are made) | 69 | 100% | 0 | 0% |
| Traditional classification — per IAS1 | 20 | 29% | 49 | 71% |
| Detailed revenue and expense items provided | 28 | 40.58% | 41 | 59.42% |
| Detailed revenue and expense items netted off | 41 | 59.42% | 28 | 40.58% |

4.1.9. Audit report rendered and type of opinion issued

The audit function is designed to ensure that NGNFP entities comply with statutory and regulatory requirements, fulfill the unique requirements of particular grant programs and fairly present their financial statements. Similarly, the role of an audit committee, which is a committee of the governing board whose function is to help select the auditor, monitor the governing board in understanding the results of the audit, and participate with both management

and the independent auditor in resolving internal control or other deficiencies identified during the audit, is to oversee the organization's reporting, control and audit processes. However, in sampled NGNFPOs in Addis Ababa there is no audit committee. With regard to the type of audit opinion rendered, the findings in this study indicate that all (100 percent) of the annual reports include an audit opinion (see Table 4.6). However, nearly one in three of these audit opinions was qualified. By far the most common cause of audit qualification (16 of the 21 audit qualifications or 76 percent) was an inability of the entities to establish effective control over cash collection. However, this is not unexpected for an industry that relies heavily on cash donations from the public. Of the five remaining audit qualifications, three related to the non-depreciation of fixed assets.

Regarding annual examination of NGNFPOs accounts, the findings shows that all annual reports of the NGNFPOs are audited. A breakdown of the audit reports show that 41 (59.4 percent) of the NGNFPOs had their reports audited by external auditors. The annual reports of the remaining 28 NGNFPOs (40.6 percent) were audited by their internal auditors. As the survey results shows no sampled NGNFPOs account has been audited by auditors designated/elected by the charities and societies agency.

Table 4.6: Audit report rendered and type of opinion issued

| Audit report rendered by auditor | Yes | | No | |
|--|------------------|---------|----------------|---------|
| | Frequency | Percent | Frequency | Percent |
| Financial Statement Audit, examines accounting and financial transactions to determine if commitments, authorizations, receipts and payments and also determines if there is adequate control over cash and other assets and that adequate process controls exist over the acquisition and use of resources (Johannes and Engida). | 69 | 100% | 0 | 0% |
| Operational audit, examines the use of resources with a view to determine whether resources are being used in the most effective and efficient manner (Johannes and Engida). | 38 | 55% | 31 | 45% |
| Compliance audit, carried out to determine if entities are complying with applicable laws, regulations, and policies (Johannes and Engida). | 50 | 72.46% | 19 | 27.54% |
| Information system audit, examines the internal control environment of automated information processing systems and how people use these systems (Johannes and Engida) | 0 | 0% | 0 | 0% |
| Investigative audit, takes place when there is unusual or suspicious activity on the part of an individual, department or branch (Johannes and Engida). | 0 | 0% | 0 | 0% |
| Others (please specify) | 0 | 0% | 0 | 0% |
| Type of opinion rendered | Frequency | | Percent | |
| Unqualified opinion | 48 | | 69.57% | |
| Qualified opinion | 21 | | 30.43% | |

| | | |
|-------------------------|---|----|
| Adverse opinion | 0 | 0% |
| Disclaimer of opinion | 0 | 0% |
| Others (please specify) | 0 | 0% |

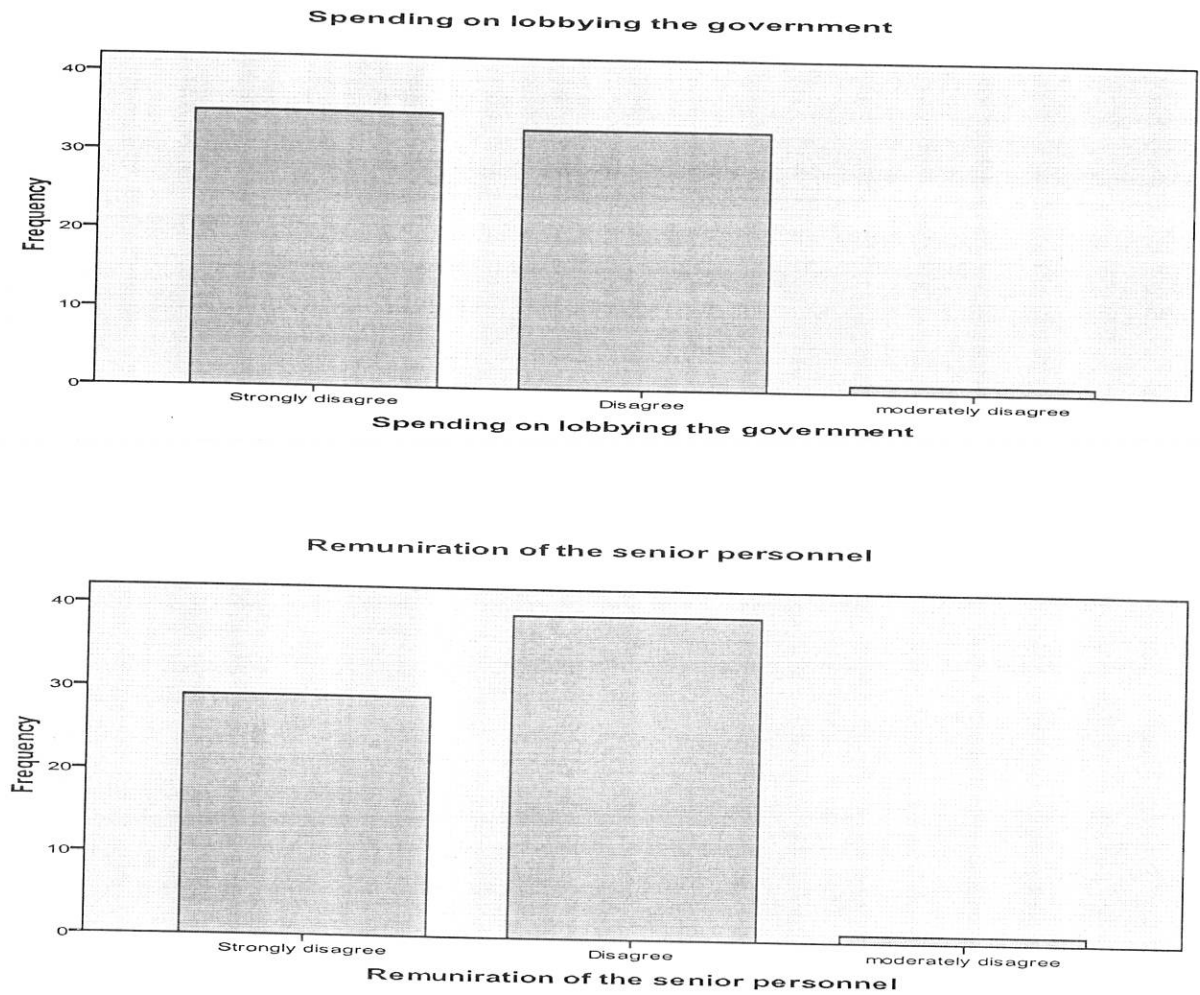
4.1.10. Opinions on financial reporting and disclosure

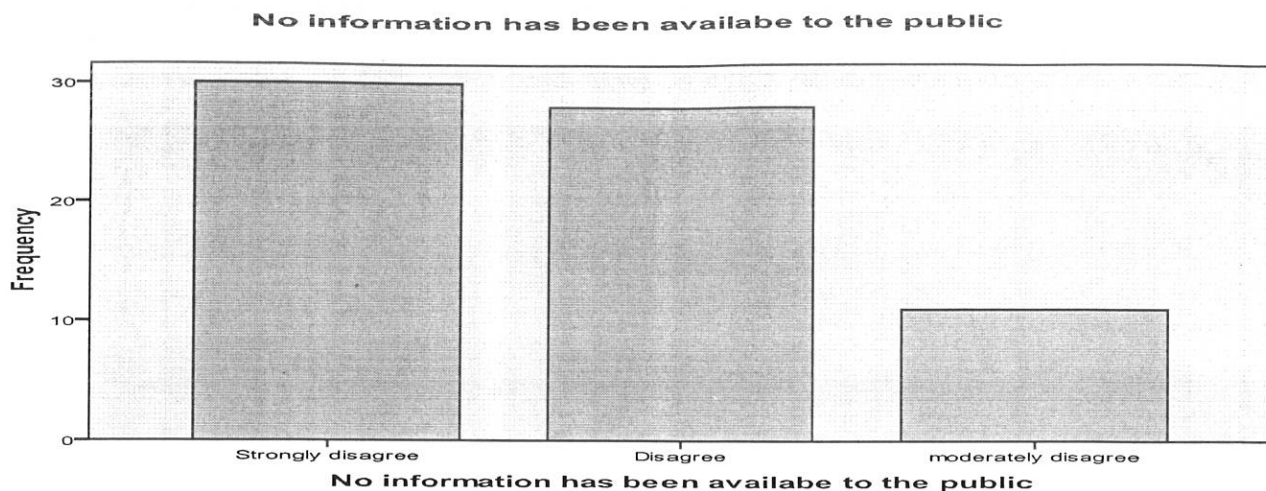
The purpose of this section is to elicit/obtain the respondents' views and opinions on the financial reporting requirements and disclosures to the public. The first question sought the respondents' views on the nature and extent of financial disclosures to the public by NGNFPOs (see Table 4.7 in appendix III). Responses to the survey questionnaires provided descriptive information about the nature of the NGNFPO sector and the opinions on issues relating financial reporting. The respondents indicated rather strongly that the public is entitled to receive information on the financial performance of their respective organization, with nearly all of the respondents (84.1%) disagreeing with the notion that public should not receive any information at all. In regard to the type of information that should be disseminated to the public, respondents were consistent in their responses and favoured the variety of disclosures listed in Table 4.7. Two areas the respondents were less convinced about disclosing information on were 'spending on lobbying on the government' and 'remuneration of senior personnel'. The extent to which these responses are a function of self-interest is unknown.

The examination of annual financial statements including auditor's notes of some selected NGNFPOs reveals that the details of accounting period, basis of accounting used, and the details of administrative expenses are shown clearly, which adheres to the disclosure principle which states that financial statements, be complete in the sense of including all information necessary to the users of the statements.

Figure 4.4 shows summary results on spending on lobbying of the government, remuneration of senior personnel, and no information has been available to the public from table 4.7 - disclosure to the public (see appendix III)

Figure 4.4 Summary results





4.1.1. Advantages and disadvantages of increased financial disclosures

The next question sought the views of respondents on the advantages or disadvantages of increased financial disclosures to the public. Overwhelmingly the respondents indicated that increased disclosure of the types listed in Table 4.8 were advantageous. Most notably, increasing awareness of the NGNFPOs cause(s) or objectives of existence is seen as the greatest advantage of increased financial disclosures. While all of the criteria listed in Table 4.8 were seen as distinct advantages, 'attracting quality staff' and 'improving the efficiency and effectiveness of operating commercial activities', were the least advantageous.

Table 4.8: Advantages and disadvantages of increased financial disclosures

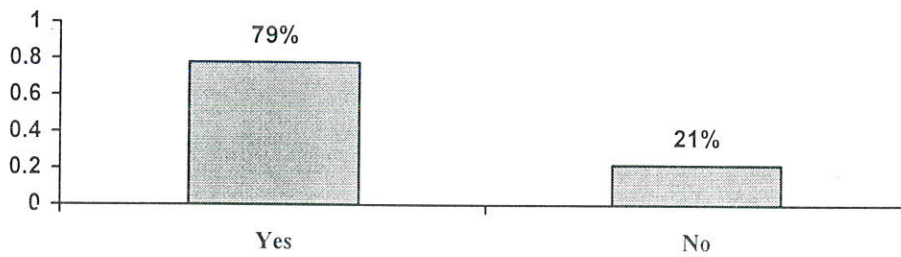
| Consider the implications of increased financial disclosures and indicate the extent to which the following are an advantage or disadvantage of such disclosures. | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | Mean Score |
|---|---------------------------|---|-----------------------|-----|-----------------------|------|-----------------------|------|---------------------------|------|---------------------------|------|-----------------------|------|------------|
| | Fr eq ue nc y | % | Fre qu en cy | % | Fre qu en cy | % | Fre qu en cy | % | Fr eq ue nc y | % | Fr eq ue nc y | % | Fre qu en cy | % | |
| Enhancing public image and perception of your organization | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 11.6 | 1 | 20.4 | 2 | 20.9 | 27 | 39.1 | 5.96 |
| Maintaining of NGOs status | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 18.8 | 1 | 20.4 | 1 | 27.5 | 23 | 33.3 | 5.75 |
| Increasing awareness of your organization's cause(s) or objectives of existence | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 21.5 | 2 | 34.8 | 30 | 43.5 | 6.22 |
| Increasing scrutiny/analysis of your organization's financial performance | 0 | 0 | 0 | 0 | 8 | 11.6 | 13 | 18.8 | 1 | 18.3 | 2 | 20.9 | 15 | 21.7 | 5.30 |
| Attracting government funds or support | 0 | 0 | 0 | 0 | 0 | 0 | 18 | 26.1 | 1 | 20.4 | 2 | 37.7 | 11 | 15.9 | 5.43 |
| Attracting funds/donations from the public | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 26.1 | 51 | 73.9 | 6.74 |
| Attracting quality staff | 0 | 0 | 0 | 0 | 0 | 0 | 29 | 42 | 1 | 17.4 | 1 | 24.6 | 11 | 15.9 | 5.14 |
| Operating commercial activities more effectively and efficiently | 0 | 0 | 3 | 4.3 | 5 | 7.2 | 22 | 31.9 | 1 | 17.4 | 1 | 26.1 | 9 | 13.3 | 4.93 |

Note: 1= Significant disadvantage; 2= Disadvantage; 3= somewhat disadvantage; 4= Neither disadvantage nor advantage; 5= Somewhat advantage; 6= Advantage; 7 = Significant advantage

4.1.12. Considerations for a dedicated accounting standard for NGNFPOs

The majorities of respondents in this study believe that NGNFPOs have sufficient peculiarities to warrant a specific and dedicated accounting standard (see Figure 4.5). Furthermore, financial reports prepared by NGNFP entities under the guidance of sector neutral accounting standards are unlikely to meet the needs of users (Kilcullen et al., 2007). Interestingly, the respondents strongly agreed that all of the criteria listed in Table 4.9 should be considered by standard setters in developing an accounting standard dedicated to NGNFPOs. These include policies on accounting, asset valuation methods, depreciation methods, compliance with other accounting standards, external audit requirements, and tailored classification and format of financial reports.

Figure 4.5: A specific and dedicated accounting standard



NGNFPOs in Addis Ababa are significantly different from profit making entities and therefore require a specific and dedicated accounting standard. Do you agree?



Table 4.9: Considerations for a dedicated accounting standard for NGNFPOs

| Indicate how important is it for the following matters to be included in an accounting standard dedicated to NGNFPOs. | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | Mean Score |
|---|---------------------------|---|-----------------------|-----|---------------------------|-----|---------------------------|------|-----------------------|------|---------------------------|------|-----------------------|------|------------|
| | Fr eq ue nc y | % | Fre qu en cy | % | Fr eq ue nc y | % | Fr eq ue nc y | % | Fre qu en cy | % | Fr eq ue nc y | % | Fre qu en cy | % | |
| Selecting and disclosing revenue recognition methods | 0 | 0 | 0 | 0 | 2 | 2.9 | 5 | 7.2 | 5 | 7.2 | 3 | 43.5 | 27 | 39.1 | 6.09 |
| Selecting and disclosing accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 4.3 | 17 | 24.6 | 2 | 31.9 | 27 | 39.1 | 6.06 |
| Complying with other accounting standards | 0 | 0 | 4 | 5.8 | 0 | 0 | 7 | 10.1 | 16 | 23.2 | 2 | 31.9 | 20 | 29 | 5.62 |
| Disclosure of an organization's policy on external audit requirements | 0 | 0 | 1 | 1.4 | 0 | 0 | 1 | 17.4 | 14 | 20.3 | 2 | 30.4 | 21 | 30.4 | 5.7 |
| Selecting and disclosing asset valuation methods | 0 | 0 | 0 | 0 | 0 | 0 | 9 | 13.0 | 15 | 21.7 | 2 | 29.0 | 25 | 36.2 | 5.88 |
| Tailored classification and format of financial reports | 0 | 0 | 3 | 4.3 | 3 | 4.3 | 9 | 13.0 | 14 | 20.3 | 2 | 31.9 | 18 | 26.1 | 5.49 |
| Selecting and disclosing depreciation methods | 0 | 0 | 2 | 2.9 | 3 | 4.3 | 1 | 20.4 | 11 | 15.9 | 1 | 27.9 | 20 | 29 | 5.48 |

Note: 1 = Significantly Unimportant; 2= Not Important; 3= Slightly Not Important; 4= Neither important nor unimportant; 5=Less Important; 6= Important; 7 = Very important

4.1.13. Accounting for internal control over cash receipts and disbursements

Internal control is the plan of organization and the methods a business uses to safeguard assets, provide accurate and reliable information, promote and improve operational efficiency, and encourage adherence to prescribed managerial policies (Romney and Steinbart, 2003).

4.1.13.1. Accounting for internal control over cash receipt

Controls over cash receipts appear to support the objective of providing accurate accounting information. Table 4.10 shows the status of NGNFPOs internal control over cash receipt. One of the best ways to ascertain whether receipts have been recorded correctly is through issuing proper receipts for contributions from donors and other cash collections. All of the respondents in this study indicated issuance of pre-numbered receipt for all cash collection.

A basic principle of good internal control demands no single employee be given too much responsibility. An employee should not be in a position to perpetrate and conceal fraud or unintentional errors. This involves assigning different individuals for the following functions (1) authorization (approving transactions and decisions); (2) Recording (preparing source documents, maintaining journals, ledgers, or other files; preparing reconciliations; and preparing performance reports); and (3) Custody (handling cash, maintaining an inventory storeroom, receiving incoming customer checks, writing checks on the organization bank account) (Romney, 2003). However, as the survey results shows, 24 percent violated the basic principle of segregation of duties by having the same person handle the receipts and involve in approving transactions. In addition, the person who maintains the records should have no involvement in physically handling cash receipts and deposits. A person with access to both could easily misappropriate the receipts and change the accounting records, making this difficult to trace. As the survey result reveals, 20 percent of the respondents violated this by having a person who handles cash receipt and deposit also having access to accounting records. The survey results

indicated that all sampled NGNFPOs do not have audit committee. The objective of complying with the desires of the donors appears well controlled. A characteristic of NGNFPOs is that donors will earmark certain donations for a specified use rather than general purposes. This requires the organization to list and report these restricted grants and donations separately. In this study, all respondents maintain and separately report receipts for designated purposes.

Table 4.10: Accounting for internal control over cash receipt/collections

| Internal control questions over cash receipts | Yes | NO |
|---|------------|-----------|
| Do different persons prepare, sign/authorize, and have access to cash? | 76% | 24% |
| Do only cashier authorized to receive cash? | 80 | 20 |
| Are all bank accounts registered in the name of the organization? | 100 | 0 |
| Do all cash collected are deposited in the bank on the same date of collection? | 100 | 0 |
| Do all cash safeguarded in a safe, lock box? | 100 | 0 |
| Does audit committee compare copies of collection reports/receipt vouchers with deposit slip? | 0 | 100 |
| Do pre-numbered receipt is issued for all cash receipt? | 100 | 0 |
| Do persons who have access to accounting records also have access to cash? | 80 | 20 |

4.1.13.2. Accounting for internal control over cash disbursements

The accuracy of the recorded disbursements is greatly enhanced if the record shows to which account the disbursement should be charged and whether an authorized individual approves the expenditure prior to purchase. A purchase order system accomplishes this by requiring advance approval on all non-routine purchases. The survey result reveals that almost all respondents (99 percent) collect Performa invoices for large purchases/non-routine purchases. Furthermore, 84 percent of the respondents present the items purchased for the approval of its quality and

standard by qualified person. However, some NGNFPOs do not segregated the responsibility for purchasing, receiving, and approving payments for different individuals

NGNFPOs should disburse funds only for valid, organization-related activities. Accordingly, the organization would pay bills only when it had evidence of organization-related business, and it would require greater approval for higher expenditures. The results of this study also indicate that 50 percent of the respondents provide written documentation to support each check authorization slip. However, all 100 percent of the respondents stamp “Paid” on supporting documents immediately after check issued. Some (34 percent) of the respondents do not have a system of surprise petty cash count.

If the NGNFPO needs disbursements that are not part of the approved budget, then the appropriate authority should approve them. The NGNFPO body, the board, or the donor approves it. However, the finance manual of all NGNFPOs will not address this. In general, control over cash disbursement is relatively strong as compared to the rest control procedures. Nevertheless, the controls for the objectives of safeguarding the cash of the organization were somewhat weak in small NGNFPOs. Table 4.11 shows the status of each control over cash disbursements in detail.

Table 4.11: Accounting of internal control over cash disbursements/payments

| Internal control questions over cash disbursements | Yes | NO |
|--|------------|-----------|
| Do purchase orders matched against goods receiving notice/invoice? | 50% | 50% |
| Do several quotes obtained for large purchases? | 99% | 1% |
| Are items purchased are approved by appropriate authority/qualified persons? | 84% | 16% |

| | | |
|--|------|------|
| Are invoices checked for accuracy before payment? | 100% | 0% |
| Do payments only made with original invoice? | 84% | 16% |
| Do check authorization slip prepared to support disbursement? | 16% | 84% |
| Are all major payments made in check? | 98 | 2 |
| Are different individuals responsible for purchasing, receiving, and approving payments? | 77% | 23% |
| Do signatories check supporting documents before signing? | 50 | 50 |
| Does the organization have at least two signatures for all accounts? | 100 | 0 |
| Are supporting documents marked “paid” stamp immediately after the check is issued? | 100% | 0% |
| Do surprise petty cash count performed in your organization? | 66% | 34% |
| Do journal voucher prepared for all payments? | 100 | 0 |
| Do blank check signed when circumstances force? | 0% | 100% |

4.1.14. Opinions on suitable measures of performance and governance of NGNFPOs

The purpose of this section is to elicit/obtain respondents’ views and opinions on suitable performance measures and governance requirements for NGNFPOs in Addis Ababa. The more NGNFPOs act like businesses, the more they struggle to find a bottom line – a non-profit equivalent of profit. If the framework in which NGNFPOs operate does not adequately provide a basis for measuring performance, whether that be financial, social impact or some other measure, there is little chance of carefully ensuring the protection of valuable assets in which NGNFPOs

are entrusted for the benefit of those in need. The respondents in this survey supported 'programme accountability' (88.4%) ahead of fiscal accountability (78.24%) and profit (73.9%) as a measure of performance suitable for NGNFPOs. Respondents were least convinced with 'cash surplus or deficit' or 'excess of revenue over expenditures or vice versa in most NGNFPOs' as a suitable measure of performance for NGNFPOs. While all of the criteria listed in Table 4.12, except for the afore-mentioned 'cash accounting principles approach', were seen as suitable measures of a NGNFPOs performance, reliance on 'financial reports prepared in accordance with accounting standards used in the private sector' attracted an indifferent response. This is consistent with the response provided in Table 4.9, where the majority of respondents indicated that the peculiarities of NGNFPOs are sufficient to require a specific and dedicated accounting standard.

Table 4.12: Suitable measures of a NGNFPOs performance

| Indicate the extent to which you think the following are a suitable measure of a NGNFPOs performance | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | Mean Score |
|--|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|------------|
| | Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % | Frequency | % | |
| Programme accountability (providing assurance that the NGNFPO is effective in achieving results intended). | 1 | 14 | 2 | 29 | 3 | 43 | 2 | 29 | 10 | 15 | 30 | 45 | 21 | 34 | 5.78 |
| Financial accountability (spending on agreed activities or whether the entity has raised and spent financial resources in accordance with budget plans and in compliance with pertinent laws and regulations). | 0 | 0 | 2 | 29 | 3 | 43 | 10 | 15 | 21 | 30 | 18 | 26 | 15 | 21 | 5.38 |
| Profit/loss (revenue minus expenses) calculated on accrual accounting principles. | 3 | 43 | 5 | 72 | 6 | 87 | 4 | 58 | 14 | 20 | 17 | 24 | 20 | 29 | 5.20 |
| Financial reports prepared in accordance with an accounting standard designed and adopted to NGNFPOs. | 4 | 58 | 3 | 43 | 6 | 87 | 12 | 17 | 6 | 8 | 18 | 26 | 20 | 29 | 5.13 |
| Spending accountability (measures of spending efficiency e.g. spending as a percentage of revenue). | 4 | 58 | 7 | 10 | 6 | 87 | 10 | 14 | 21 | 29 | 10 | 14 | 11 | 15 | 4.61 |

| | | | | | | | | | | | | | | | |
|--|----|---|---|---|----|---|----|---|----|---|----|---|---|---|------|
| financial reports prepared in accordance with accounting standards used in the private sector. | 6 | 8 | 6 | 8 | 9 | 1 | 13 | 1 | 16 | 2 | 12 | 1 | 7 | 1 | 4.32 |
| | | . | | . | | 3 | | 8 | | 3 | | 7 | | 0 | |
| | | 7 | | 7 | | . | | . | | . | | . | | . | |
| | | | | | | 0 | | 8 | | 2 | | 4 | | 1 | |
| cash surplus/deficit (cash in minus cash based on cash accounting principles. | 12 | 1 | 6 | 8 | 15 | 2 | 10 | 1 | 12 | 1 | 12 | 1 | 2 | 2 | 3.70 |
| | | 7 | | . | | 1 | | 4 | | 7 | | 7 | | . | |
| | | . | | 7 | | . | | . | | . | | . | | 9 | |
| | | 4 | | | | 7 | | 5 | | 4 | | 4 | | | |

Note: 1= strongly disagree; 2 = Disagree; 3 = moderately disagree; 4 = Neutral; 5 = moderately agree; 6 = Agree; 7 = strongly agree

With regard to the governance of NGNFPOs, one strategy for improving the accountability of NGNFPOs is to establish a body responsible for the supervision and monitoring of NGNFPOs. The majority of the respondents in this study expressed the need for an independent regulator, with 81.16 percent of respondents (see Figure 4.6) favouring the establishment of an independent administrative body or regulator (charities and societies agency in the case of Ethiopia) to oversee the operations of NGNFPOs. Interestingly, some respondents do not see a need for such an entity (see Figure 4.6) and also do not agree with the stronger governance or control functions listed in Figure 4.7. These include ‘enforcing compliance with relevant laws and regulations’ and ‘determining an organization’s NGNFPOs status.’ The respondents favoured softer roles such as ‘advice’, ‘training’ and ‘advocacy/support’ on behalf of NGNFPOs’. Whether the NGNFPOs sector should expect a sympathetic/concerned regulator is questionable; the demands from an increasing regulatory environment suggest that a regulator should give priority to protecting public investment.

Figure 4.6: Independent regulator

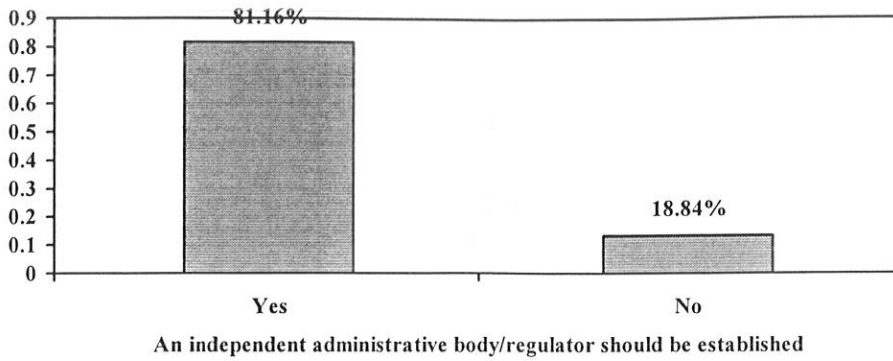
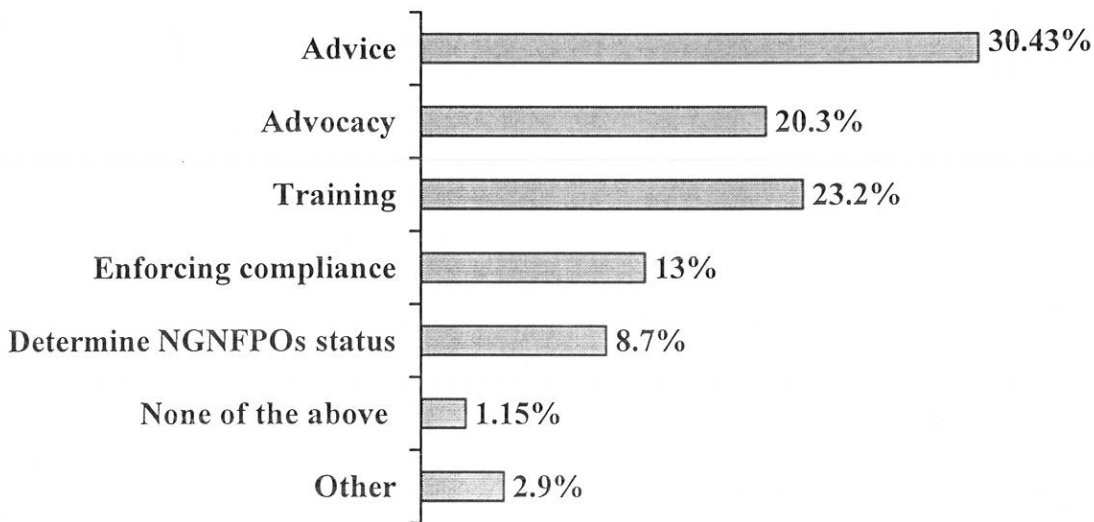


Figure 4.7: Roles of an independent regulator



4.1.15. Fund accounting system

Non-profit organizations that receive resources subject to donor restrictions generally account for restricted resources separately from unrestricted resources, ordinarily by using fund accounting (Hay, 1989). Fund accounting is an accounting system organized on the basis of funds, each of which is considered a separate accounting entity. Accounting for the operations of each fund is accomplished with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate (Wilson et al, 2007). Fund accounting is commonly used in not-for-profit and is a system of separating assets, liabilities,

equities, revenues and expenditures into several different entities (Wacht, 1991). These funds “are like a collection of cookie jars” (Herzlinger and Sherman, 1980) where monies for different activities are stored separately and you can only eat i.e., use the appropriate cookie, for a specific purpose. Such separation could be the result of a donor imposing restrictions on the funds that they contributed.

Herzlinger and Sherman (1980) support the use of fund accounting in NGNFPOs on the grounds that:

. . . the fund accounting statements provide three essential pieces of information on resources: their purpose, the legal limits on their use attached by the donors, and the revocable decisions made by the board on their use. They believe that fund accounting is a vehicle through which the trustees (which is an organization by virtue of which specific property is constituted solely for a charitable purpose to be administered by persons, the trustees, in accordance with the instructions given by the instrument constituting the charitable trust) of a NGNFPOs can fulfill their legal obligation as to the use of the contributed funds according to the restrictions imposed by donors. Unlike business accounting, any unspent restricted funds may have to be returned to the donor or be maintained in the restricted fund for re-use for the original purpose (Herzlinger and Sherman, 1980).

According to the interviews outcomes of this study, there is still a lack of consistency in the titles used for different types of funds. The two finance managers interviewed concur that NGNFPOs use many different titles of funds to account for funds for different purposes. The most common titles used are designated fund, general (unrestricted) fund, specific (restricted) fund and endowment fund. One interviewee describes this type of fund accounting as “jam-jar accounting” to reserve funds for a different purpose which is similar to the view of Herzlinger and Sherman (1980). The Chief Financial Officer (CFO) of one NGNFPOs cites an example that titles of funds may have different definitions in different NGNFPOs. One NGNFPO uses

designated funds which mean that the funds are restricted by the donors, whereas in another NGNFPO designated funds are funds that are not restricted by the donors, but are set aside by the entity for a particular purpose. In some other NGNFPOs, designated funds are funds that are set aside by action of the governing board. This lack of consistency in terminology leads to confusion for the different users of the financial reports. However, there is a consensus amongst majority of interviewees that restricted funds should refer to those funds that the donors have put specific restrictions on their use. Two interviewees express the view that the accounting for restricted funds will enable donors to see that their money has been applied as donated. To summarize with regard to the titles used to depict funds, this study found that NGNFPOs in Addis Ababa use many different titles to depict funds, indicating a need for standardized terminology to account for the different titles of funds to enhance comparability and consistency. This terminology needs to be clearly understood by the users of the financial reports.

The reasons for establishing funds suggested by the interviewees are quite diverse. The CFO of one NGNFPO said that “some NGNFPOs may have a motivation to try to confuse the readers of the accounts” by transferring money into specific funds and beyond public scrutiny so as to strengthen appeals to potential donors on the grounds of urgent need. For example, sometimes money is transferred from general fund to specific fund to make the NGNFPO appear short of funds. He acknowledges that this practice is not good, but it is nevertheless what some NGNFPOs do.

It should be appreciated that fund accounting is a particular type of accounting that is different from commercial practice which could make it harder for the user, who is unfamiliar with NGNFPOs accounting, to understand. The lack of specific terminology in Addis Ababa means that the use of fund accounting in NGNFPO financial reporting becomes an entity's choice. The titles of funds presented in the financial statements, therefore, largely depend on the professional

judgment of the preparers. This gives rise to the proliferation of different terms to describe similar types of funds, which in turn causes confusion to the users of the financial accounts. In general, different funds intended to achieve different objectives.

Some respondents suggested that the problem of the complexity of fund accounting is not resolved “by simplification but by better education of users about the meaning and purpose of the components of a fund accounting statement and by greater accessibility to these statements.” However, if the financial statements of NGNFPOs are too complex to comprehend, the interest of the stakeholders in the NGNFPO reports would be discouraged. As indicated in Table 4.7, making financial reporting too complicated to understand minimize the motivation of the information users to look at the NGNFPO accounts for decision making purposes. Thus, this study proposed that NGNFPOs in Addis Ababa have to separate funds into unrestricted fund (funds established to account for assets or resources that may be utilized at the discretion of the governing board), restricted fund (funds established to account for assets the use of which is limited by the requirements of donors or grantors), and endowment fund (a fund established to account for a gift whose principals must be maintained inviolate but whose income may be expended).

The majority of the interviewees responded favourably to the suggestion of standard terminology to account for the different titles of funds. The reasons supporting their views are: (1) identifying clearly the purpose of the funds; (2) directing managers to apply funds as specified by donors; (3) assisting managers to make decisions on project funding by seeing if they have enough funds for a specific purpose; and (4) improving comparison among NGNFPOs.

Thus, this finding supports Bird and Morgan-Jones (1981), who identify many different titles of funds used by charities: general fund, accumulated fund, capital fund, special fund, trust fund,

restricted fund, defined purpose fund, earmarked fund, and endowment fund. Bird and Morgan-Jones (1981) also recommend a standard terminology for those different types of funds, and they generally categorize funds into unrestricted and restricted. They further classify restricted funds into: (1) endowment funds; (2) building and equipment funds; and (3) restricted revenue funds.

In the UK, the recommendations by Bird and Morgan-Jones (1981) have been acted on by the publication of UK SORP 2005 Appendix 1, Paragraph 27 (Charity Commission, 2005) which defines a “fund” as: A pool of resources, held and maintained separately from other pools because of the circumstances in which the resources were originally received or the way in which they have subsequently been treated. At the broadest level a fund will be one of two kinds: a restricted fund or an unrestricted fund. SORP 2005 (Charity Commission, 2005) further categorizes funds into unrestricted funds and restricted funds/special trusts. Unrestricted funds are funds that are expendable at full discretion of the trustees, whereas restricted funds are funds that are subject to limitation imposed by the donors (Charity Commission, 2005). Finally, the researcher suggests NGNFPOs in Addis Ababa to separate/classify funds into unrestricted, restricted, and endowment in their financial reports.

4.1.16. Treatment and depreciation of fixed assets purchased by/donated to NGNFPOs

4.1.16.1. Treatment of fixed assets purchased/donated

Table 4.13: Treatment of fixed assets purchased by or donated to NGNFPOs

| Please indicate the ways through which fixed assets purchased or donated be treated in your organization | Frequency | Percent |
|--|-----------|---------|
| Capitalized and depreciated in accordance with generally accepted accounting principle | 57 | 82.6% |
| Immediately depreciated fully (100%) | 9 | 13.0% |
| Capitalized but not depreciated | 3 | 4.4% |

| | | |
|--|---|----|
| Write-off to revenue account | 0 | 0% |
| Others (please specify) | 0 | 0% |
| Should fixed assets donated be treated in the same way as those fixed assets purchased? If your answer is no, what are the justifications for treating donated fixed assets different from that of purchased fixed assets? Do fixed assets revalued annually and be subject to an impairment test by comparing their net book value and their net realizable value? If so, how impairment losses can be treated and recorded in accounting records of your organization and at what basis? | | |

Note: Asset impairment refers to a significant, unexpected decline in the service utility of a capital asset (Wilson et al, 2007).

Fixed assets are tangible assets that have future economic benefits controlled by an organization. The balance sheet of a not-for-profit should reflect all assets that are under the control and responsibility of an entity (Bird and Morgan-Jones, 1981). In its Statement No. 93, The FASB also asserts all tangible assets (except “collections”) should be recognized as assets at cost, or fair value if donated. The FASB will consider the recognition of “collections” as assets as a part of its project on accounting for contributions (Hay, 1989).

This study indicates that majority of the respondents (82.6 percent) agree that fixed assets should be treated in compliance with financial reporting standards. This means that fixed assets purchased by/donated to NGNFPOs should be capitalized and depreciated over the asset’s useful life. One finance manager further suggests that fixed assets should be revalued annually and be subject to an impairment test by comparing their net book value and their net realizable value. Impairment loss should be charged to the income account in compliance with the International Accounting Standard. However, many of the interviewees do comment that some NGNFPOs, particularly the small NGNFPOs, are not capitalizing their fixed assets. These NGNFPOs are more focused on receipts and payments: where the money comes from and what they spend it on. The CFO of one NGNFPO condemns/criticizes as unacceptable practice what is, in effect,

immediate 100 percent depreciation. Bird and Morgan-Jones (1981) also confirm that many small charities only use receipts and payments accounts. This practice contravenes the generally accepted accounting principles, which states that all property, plant and equipment be measured at cost or, if donated, measured at fair value.

In relation to fixed assets donated, there is a consensus amongst the interviewees that the fixed assets donated should be treated in the same way as those fixed assets purchased. One interviewee believes that whether fixed assets are purchased or donated, they “comprise an integral part of the financial position” of an entity. Another interviewee further stresses that the assets donated should be separately labeled to differentiate them from those fixed assets purchased by the entity’s themselves. The donors may put such restrictions on the donated fixed assets that they cannot be sold. Generally, no reasons have been identified to justify that the fixed assets donated should be treated differently from the fixed assets purchased.

4.1.16.2. Methods of accounting for depreciation of fixed assets purchased/donated

Table 4.14: Methods of accounting for depreciation of fixed assets purchased or donated to NGNFPOs

| Should fixed assets purchased be depreciated? If your answer is yes, please indicate the methods of accounting for depreciation of fixed assets used in your organization. | Frequency | Percent |
|--|-----------|---------|
| Straight-line method (Stipulated rate of depreciation for NGNFPOs) | 57 | 82.6% |
| Units of production method | 0 | 0% |
| Double declining balance method | 0 | 0% |
| Sum of the years digit method | 0 | 0% |
| Others (please specify) | 12 | 17.4% |

Would you provide the justification for the use of specific methods of accounting for depreciation? If your answer for above question is no, would you provide the possible reasons why your organization do not depreciate their fixed assets?

Buildings, equipment, and other long-lived assets used in the operations of a nonprofit organization, or used by its endowment funds for the generation of net income, should be depreciated. However, some NGNFPOs operating in Addis Ababa do not depreciate their fixed assets. According to the survey results, there are several possible reasons why NGNFPOs do not depreciate their fixed assets: (1) if capital assets are purchased by using the donee contributions, there is no cost to the NGNFPOs. Therefore, there is no need to cover the cost from revenues and no depreciation charge is needed. This argument assumes that the fixed assets will either not be replaced or when they are, there will be a fresh set of willing donors. (2) NGNFPOs may feel that depreciation is not consistent with fund accounting, which reflects a receipts and payments situation since depreciation is an expense not a payment. (3) NGNFPOs may feel that fixed assets are provided by past generations for current capital needs, so future needs should be provided by future generations. There is therefore no need for the current users to provide for depreciation. (4) the assets were being maintained at their “current condition” and so they were not depreciated; and (5) NGNFPO was confident that capital grants would be available to replace the assets. One accountant of NGNFPO pointed out that, since our organization motive is other than making profit, computing depreciation expense, which helps to determine net income correctly, is not necessarily important. But, he acknowledged it should be.

Nine of the 69 NGNFPOs prefer to immediately expense fixed assets purchased at once in the year of acquisition because it would reduce their reported surplus and the level of fixed assets held. This would portray an appealing image of a lack of funds. It may be argued, however, that

an impoverished image may also be achieved by capitalizing their fixed assets and then depreciating them to reduce income. Hence, it is neither shown in the balance sheet nor mentioned anywhere about the nature of the assets. This accounting policy is made known by the auditors in their notes. This is not consistent with the generally accepted accounting principles.

In response to the proposition from some NGNFPOs that fixed assets kept in good condition need not be depreciated, most of the interviewees felt that such a proposition was not justified by the principle of allocating the cost of the assets over their useful life. One interviewee added that accounting for depreciation follows the matching principle that the cost of purchasing a fixed asset spreads over the period in which it is expected to generate revenue. It assumes that under normal circumstances, assets are worn out at the end of their useful life except buildings which might appreciate over time; whereas in some cases, fixed assets become impaired or even obsolete due to technological advancement. Another interviewee suggests that where the fixed assets are being maintained at their current condition, an NGNFPO should estimate their useful life longer rather than choose not to depreciate them.

One senior accountant points out that some NGNFPOs may get confused between depreciation and cash flows. Depreciation is an accounting treatment of consuming an asset, whereas replacement of an asset depends on the availability of cash flows. Therefore, the argument from some NGNFPOs that capital donations would be available to replace the assets was not accepted. One interviewed also pointed out that expecting a capital donation involves uncertainty and that is a fairly aggressive financial strategy. Other interviewees added that the realization of an uncertain capital donation is a windfall gain rather than a long-term financial strategy.

To conclude, the researcher suggests that fixed assets either acquired by purchase or gift/donation should be capitalized and depreciated appropriately over their useful life in accordance with GAAP. The current practice of not capitalizing and depreciating fixed assets in

some NGNFPOs is considered unacceptable. This has been acted on in the United States where the American Institute of Certified Public Accountants (AICPA, 2006) in their NFP Organizations, have prescribed that the “contributions of property and equipment should be recognized at fair value.”

It is interesting to note/remind the UK experience that before a prescribed method of accounting for fixed assets was required, 22 percent of charities expensed their fixed assets and 40 percent did not depreciate their fixed assets (Bird and Morgan-Jones, 1981). Since, the enactment of the SORPs (Charity Commission, 2005) there has been an almost 100 percent compliance on capitalizing and depreciating (Connolly and Hyndman, 2000). Hopefully almost similar findings take place in Addis Ababa. This means, 82.6 percent of the NGNFPOs are in compliance with capitalizing and depreciating fixed assets.

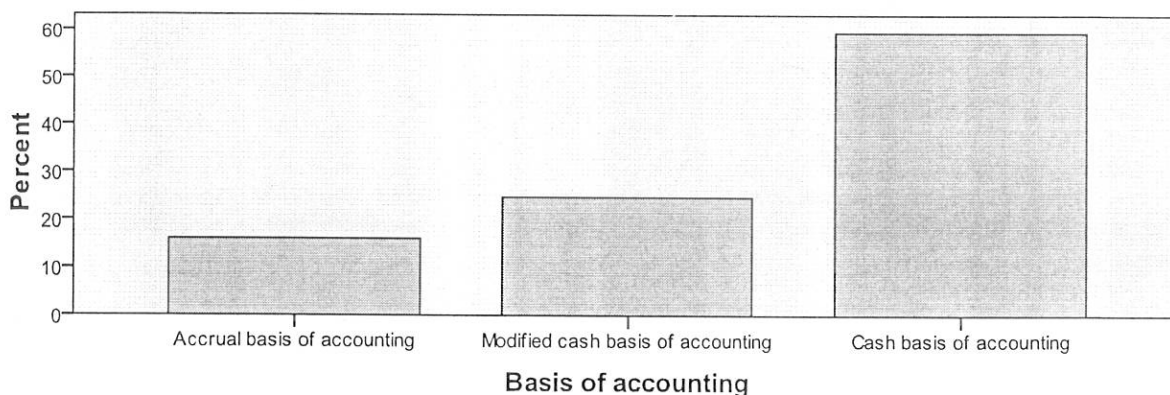
4.1.17. Basis of accounting used in NGNFPOs in Addis Ababa

Table 4.15: Basis of accounting used

| Please indicate the basis of accounting used by your organization to maintain accounts and to prepare financial statements. | Frequency | Percent |
|--|-----------|---------|
| Accrual basis of accounting, are basis of accounting under which revenues are recorded when earned and expenditures/expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of cash or the payment of cash may take place, in whole or in part, in another accounting period (Wilson et al, 2007). | 11 | 15.94% |
| Cash basis of accounting, are basis of accounting under which revenues are recorded when received in cash and expenditures/expenses are recorded when cash is disbursed | 41 | 59.42% |

| | | |
|---|----|--------|
| (Wilson et al, 2007). | | |
| Modified cash basis of accounting, sometimes the same as modified accrual basis, sometimes a plan under which revenues are recognized on the cash basis but expenditures/expenses are recognized on the accrual basis (Wilson et al, 2007). | 17 | 24.64% |
| Modified accrual basis of accounting, are basis of accounting under which revenues are recognized in the period in which they become available and measurable, and expenditures/expenses are recognized at the time a liability is incurred pursuant to appropriation authority (Wilson et al, 2007). | 0 | 0% |
| Others (please specify) | 0 | 0% |
| What are the justifications for its use and can it add any value to your organization and users of the financial statements? | | |

Figure 4.8: Basis of accounting used



This study indicate that there are diverse/varied opinions amongst those respondents of sampled NGNFPOs as to whether the financial accounts of NGNFPOs should be prepared on a cash basis/modified cash basis/ modified accrual basis/or accrual basis of accounting. A survey result of 69 NGNFPOs revealed that 59.42 percent of respondents agree to the use of a cash basis of

accounting in preparing financial reports of NGNFPOs followed by 24.64 percent of respondents agree to the use of modified cash basis of accounting.

The remaining respondents (15.94 percent) used accrual basis of accounting for the reason that only an accrual basis can reflect a true and fair view of the NGNFPOs financial results and position. Most of the interviewees who support the use of accrual basis of accounting recognize the difficulty in enforcing payment of donations that are promised by the donors. One interviewee emphasizes that they are just promises and donors consider that there is no contractual obligation for them to pay. These promises are uncertain and unreliable. Thus, there is no guarantee that donations promised would be received in the future. When the NGNFPOs are certain that these promises are reliable and measurable, these promised donations should be accounted for on an accrual basis. For example, in some cases where money has been spent on a particular project anticipating that income of donations will be effectively coming, such income should be accounted for on an accrual basis.

One respondent considered that whether the accounts of NGNFPOs should be prepared on an accrual basis depends on the size of an entity. For a large NGNFPO, accounts should be prepared on an accrual basis, whereas for a small NGNFPO, accounts should not necessarily be prepared on an accrual basis. He continues by giving examples to illustrate the inappropriateness of adopting an accrual basis in preparing NGNFPO accounts in some circumstances. For example, if a special donation is received by an NGNFPO close to the end of the financial year as a result of an appeal to meet the target for the year, that income is not going to be spent until the following financial year, so in principle, that income should be accounted for as deferred income on an accrual basis. The CFO, however, comments that using accrual accounting in such a situation does not add any value to the organization or the users of the financial statements. A modified accrual basis might be appropriate to account for income received during the reporting

period. The CFO further suggests that there may be a number of financial reporting standards to prescribe a separate treatment for NGNFPOs under certain circumstances.

One respondent of a sampled NGNFPOs comments that if an entity adopts a modified accrual basis in preparing its accounts, notes to accounts should be disclosed to inform the users of the revenues that have not been accounted for in the period reporting either as deferred or accrued income. Thus, cost and time expended on producing these reporting packages were cited as possible hindrances to the use of modified accrual basis of accounting. One of the Finance Manger interviewed suggests that a materiality test should be used to determine whether to use a cash basis or an accrual basis in preparing NGNFPOs accounts. (Note: materiality is an entity's judgment as to the level at which the quantitative or qualitative effects of using basis of accounting will have a significant impact on user's evaluation).

As per survey results, no NGNFPOs in Addis Ababa are using the modified accrual basis of accounting. To suggest the use of modified accrual basis of accounting, for example, donations should only be recognized as revenue when they are received or strongly committed, e.g. direct debit or automatic payment. This means a modified accrual basis may be appropriate for the treatment of donations. However, there may be a problem gaining acceptance of this practice among the NGNFPOs, resulting in even more inconsistency and incomparability.

4.1.18. Treatment of revenues and overheads (fund-raising expenses) from special fund-raising events

Table 4.16: Treatment of revenues from special fund-raising events

| Please indicate how revenues from special fund-raising events are reported in your organization (Mark ✓) | Frequency | Percent |
|--|-----------|---------|
| At gross amount | 48 | 69.6% |
| At net of direct costs of holding the event | 12 | 17.4% |
| As a separate line items deducted from the special event revenues | 4 | 5.80% |
| In the same section of the statement of operations as are other | 1 | 1.4% |

| | | |
|--|---|-------|
| programs or supporting services and allocated, if necessary, among those various functions. | | |
| Others (please specify) | 4 | 5.80% |
| Would you indicate how overheads (fund-raising expenses) should be allocated to fund-raising projects, especially with regard to specific fund raising events and what is an appropriate benchmark? Does it create a problem in financial reporting? | | |

Most respondents (69.6%) said that revenues from special events are reported at gross amount because reporting of gross amounts of revenues and expenses is essential to provide information about the amounts and kinds of inflows and outflows of resources during a period.

In addition, that information is helpful to users of financial statements in understanding and assessing an organization's ongoing major or central operations and activities.

A few respondents (17.4%) said that organizations may report net amounts for their special events if they result from peripheral or incidental transactions. However, so-called special events often are ongoing and major activities; if so, organizations should report the gross revenues and expenses of those activities. The remaining respondents stated that revenues from special events are reported in a separate line items deducted from the special events revenue (5.80%) followed by those respondents which support the practice of reporting in the same section of the statement of the operations as other program or supporting services (1.4%) and others (5.80%).

With regard to the treatment of fund-raising expenses, views from those interviewed ranged from not allocating to fully allocating the overhead of administration costs to fund-raising projects. One interviewee (1.4%) believed that, since administrative costs are incurred regardless of fund-raising activities, there is no need for allocating administration costs to fund-raising projects as they are the costs of running the NGNFPO as a whole.

Four interviewees (5.8%) suggest that allocating the administration costs to fund-raising projects would be appropriate to inform the contributors of the “fair cost of a fund-raising activity.” This practice of cost allocation follows the matching principle. Two interviewees argue that allocating overheads is problematic in financial reporting. It depends on which method of overhead allocation an NGNFPO chooses to adopt and the method chosen is usually “unverifiable.”

Thus, some NGNFPOs allocate a significant portion of administration costs to fund-raising projects, whereas other NGNFPOs allocate part or none of the administration costs to fund-raising projects. As some respondents suggested that, one of the motivations of allocating administration costs to fund-raising projects is trying to appeal to the donors for a lack of funds. But, this study admitted that to improve comparability among NGNFPOs, it is better to provide some guidance to NGNFPOs as how to allocate the administration costs to fund-raising activities and ideally a consensus needs to be made on the appropriate percentage coverage that would be seen as a good benchmark for NGNFPOs to achieve. This will ensure contributors know what portion of their donation goes to the beneficiary.

To conclude the whole findings and discussions, this chapter has presented the results and analysis of different methods adopted in the research jointly. Specifically, the results of the quantitative and qualitative methods of inquiry, namely surveys with accountants and finance managers, document analysis, and in-depth interviews presented.

Data obtained through these methods were employed to analyze/examine the accounting and financial reporting practices of NGNFPOs in Addis Ababa with a view to high light the compliances and deviations from the statutory stipulations and accounting standards in trend. The results of the different data collection methods revealed varied findings.

Chapter Five: Conclusion and Recommendations

5.1. Conclusion

The purpose of this last chapter is to review the whole thesis and highlight future research directions. This study has allowed the researcher to draw several conclusions, which should contribute to a better understanding of the state of the accounting and financial reporting practices of NGNFPOs in Addis Ababa.

The analysis of the results from this study has revealed a number of significant conclusions and implications for improving the accounting and financial reporting practice of NGNFPOs in Addis Ababa. The survey instrument was distributed to 120 NGNFPOs in Addis Ababa with instructions to complete the survey and return it to the principal researcher. Of the 120 questionnaires distributed or issued, 69 useable surveys were returned representing a response rate of 57.5 percent. This response rate (57.5 percent) compared favourably with that of other studies that have examined similar documents.

With regard to submission of annual reports, all NGNFPOs in Addis Ababa submit to the charities and societies agency an annual statement of accounts (which includes both audit reports and annual activity report) prepared in accordance with generally accepted accounting standards. These indicate that they are in compliance with the required rules and regulations. However, the interview results with one of the charities and societies agency employee show that although NGNFPOs are required by law to submit to the charities and societies agency a set of annual reports which include both audit reports and annual activities report within a certain stipulated period, some of the NGNFPOs did not submit the annual report on time. Thus, they are not complying with the time schedule and therefore, they are irregular.

Regarding types of audit opinions rendered, the findings in this study indicate that all (100 percent) of the annual reports include an audit opinion (see Table 4.6). However, nearly one in three of these audit opinions was qualified (see Table 4.6). By far the most common cause of audit qualification was an inability of the entities to establish effective control over cash collection (see Table 4.10) and non-depreciation of fixed assets. Since audit function is to ensure whether NGNFP entities comply with statutory and regulatory requirements, fulfill the unique requirements of particular grant programs and fairly present their financial statements, this high qualification shows that most of NGNFPOs are not fulfilling the statutory and regulatory requirements.

With regard to the presentation of financial statements, all of the 69 NGNFPOs are found preparing income statements and balance sheets. However, some of the NGNFPOs do not prepare cash flow statement (see Table 4.3). Both income statement and balance sheet to a large extent conform to the GAAP of the FASB prescriptions. They also meet the requirements of regulatory agencies in Ethiopia. In terms of formatting of the financial statements, almost all of the (67 out of 69) NGNFPOs follow report form (vertical formats of balance sheet and income statements). An analysis of the formats and contents of the income and expenditure reveals that (i) there is similarity with regard to the formats of the income and expenditure statements among the NGNFPOs under study; (ii) out of the 69 sample units only 5 have used the terms like 'surplus or deficit' and the rest described them as excess of income over expenditure and vice versa. Thus, the results shows majority of NGNFOP are in agreement with GAAP.

In regard to financial disclosures, nearly all respondents agreed that the public is entitled to receive some information also indicating that increased financial disclosures would produce advantages for the NGNFPO sector (see Table 4.7 in appendix III). Interestingly the respondents

favoured the development of an accounting standard dedicated to the NGNFPOs in Addis Ababa (see Table 4.9).

With regard to the suitable measures of performance and governance of NGNFPOs, the views and opinions of the respondents in this survey supported 'programme accountability', providing assurance that NGNFPO is effective in achieving results intended (88.4%) ahead of fiscal accountability, spending on agreed objectives (78.24%) and profit (73.9%) as a measure of performance suitable for NGNFPOs (see table 4.12). The majority of respondents also expressed the need for an independent regulator, with 81.16% of respondents favouring the establishment of an independent administrative body or regulator to oversee NGNFPOs operation (see Figure 4.6). Some respondents (18.84%) appear to favour softer roles for the regulator such as advice and training which have less capacity for external oversight and intervention in an NGNFPO sector (see Figure 4.7). Thus, majority of NGNFPOs are in agreement with rules and regulations.

Regarding the basis of accounting used in NGNFPOs in keeping accounting records and preparing financial statements, a survey result of 69 NGNFPOs revealed that 59.42 percent of respondents agree to the use of a cash basis of accounting in preparing financial reports of NGNFPOs followed by 24.64 percent of respondents agree to the use of modified cash basis of accounting. The remaining respondents (15.94 percent) used accrual basis of accounting for the reason that only an accrual basis can reflect a true and fair view of the NGNFPO's financial results and position (see Table 4.15). Thus, the financial transactions in any entity are either recorded on cash basis or on modified cash basis or on accrual basis of accounting. Thus, majority of NGNFPOs in Addis Ababa are not complying with GAAP, which requires the use of accrual basis of accounting.

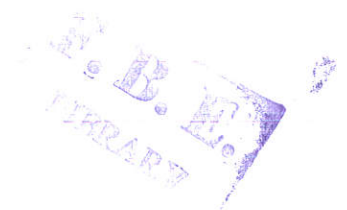
With regard to treatment and depreciation of fixed assets purchased by/donated to NGNFPOs, the survey results reveals that 82.60 percent of the NGNFPOs are in compliance with the financial reporting standards that fixed assets purchased should be capitalized and depreciated over the asset's useful life (see Table 4.13). However, some NGNFPOs (4.4 percent) do not depreciate their fixed assets for the reason that if capital assets are purchased by using the donee contributions, there is no cost to the NGNFPOs and NGNFPO was confident that capital grants would be available to replace the assets. The remaining 13 percent (nine of the 69) NGNFPOs prefer to immediately expense fixed assets purchased at once because it would reduce their reported surplus and the level of fixed assets held. This would portray an appealing image of a lack of funds (see Table 4.13). Hence, it is neither shown in the balance sheet nor mentioned anywhere about the nature of the assets. This is not consistent with the generally accepted accounting principles and local rules and regulations.

Regarding internal control over cash receipts and payments, the survey result reveals that more than 50% of NGNFPOs in Addis Ababa have adequate control mechanisms over cash receipt and disbursements. However, some NGNFPOs violated the principles of segregation of duties. That means, one person have access both to handle cash receipt and accounting records and in some NGNFPOs the same person handle cash receipts and involve in approving transactions (see Table 4.10). Thus, the following statement is a truism/obvious statement which warrant prominence when considering internal control in the NGNFPOS: "One major conclusion the researcher reached was that the annual reports and accounts, upon which so many of the recent reforms concentrate, can only be as good as the administrative systems that underpin them.

Regarding fund accounting system, non-profit organizations that receive resources subject to donor restrictions generally account for restricted resources separately from unrestricted resources, ordinarily by using fund accounting (Hay, 1989). Herzlinger and Sherman (1980)

support the use of fund accounting in NGNFPOs on the grounds that the fund accounting statements provide three essential pieces of information on resources: their purpose, the legal limits on their use attached by the donors, and the revocable decisions made by the board on their use. According to the interviews outcomes of this study, there is still a lack of consistency in the titles used for different types of funds and titles of funds may have different definitions in different NGNFPOs. That means, NGNFPOs use many different titles of funds to account for funds for different purposes and the same funds may have different definitions in different NGNFPOs. For example, one NGNFPO uses designated funds which mean that the funds are restricted by the donors, whereas in another NGNFPO designated funds are funds that are not restricted by the donors, but are set aside by the entity for a particular purpose. This indicates that some NGNFPOs are not complying with GAAP and this lack of consistency in terminology may lead to confusion for the different users of the financial reports.

With regard to the treatment of revenues from special fund-raising events, the majority of respondents (69.6%) said that revenues from special events are reported at gross amount because reporting of gross amounts of revenues and expenses is essential to provide information about the amounts and kinds of inflows and outflows of resources during a period (see Table 4.16). These procedures are in agreement with GAAP procedures. In addition, that information is helpful to users of financial statements in understanding and assessing an organization's ongoing major or central operations and activities. (Note: special fund-raising events are fund-raising activities in which something of tangible value is offered to donor participants or designees for a payment that includes a contribution adequate to yield revenue for the sponsoring agency over and above direct expenses. Dinners, dances, bazaars, card parties, fashion shows, and sales of candy, cookies, cakes, or greeting card are typically "special events.")



With regard to the treatment of overheads (fund-raising expenses), views from those interviewed ranged from not allocating to fully allocating the overhead of administration costs to fund-raising projects. Some interviewee believed that, since administrative costs are incurred regardless of fund-raising activities, there is no need for allocating administration costs to fund-raising projects as they are the costs of running the NGNFPO as a whole. In contrast, some interviewees suggest that allocating the administration costs to fund-raising projects would be appropriate to inform the contributors of the “fair cost of a fund-raising activity.” This practice of cost allocation follows the matching principle, which is required by GAAP. Thus, some NGNFPOs allocate a significant portion of administration costs to fund-raising projects, whereas other NGNFPOs allocate part or none of the administration costs to fund-raising projects. These indicate that some of NGNFPO are in compliance with standards. As some respondents suggested that, one of the motivations of allocating administration costs to fund-raising projects is trying to appeal to the donors for a lack of funds.

5.2. Recommendations

On the basis of the findings and the conclusions drawn from the study, this study allowed the researcher to draw several recommendations, which contribute to a better understanding of the accounting and financial reporting practices of NGNFPOs in Addis Ababa. Specifically the researcher recommended that:

- 1) The NGNFPOs, as per the guidelines and agreements, have to submit audit reports and annual activities report to the charities and societies agencies. The reports should contain the purposes, activities undertaken, and others whom it serves. Further, the report should also contain information about the sources of its funds and the pattern of utilization of the resources. It is clear that there are many rules, regulations, and guidelines in the form of agreements, statements and conditions to govern the activities of the NGNFPOs.

- 2) It is observed by the researcher that more than 59.42% of the NGNFPOs in Addis Ababa are keeping their accounting records/financial transactions on cash basis of accounting. This basis of accounting fails to record the assets, depreciation, year-end adjustments of expenses, revenues and other items of assets and liabilities. Consequently, the financial statements fail to reflect the true and fair view of the NGNFPOs financial results and position for emphasizing the efficient and effective utilization of the resources that contributed by public. Hence, it is suggested that all the NGNFPOs irrespective of their size are to follow the accrual basis of accounting for the reason that accrual basis of accounting can reflect a true and fair view of the NGNFPOs financial results and position.
- 3) To ensure transparency and accountability, the NGNFPOs are to disclose their activities to government, public, donors and to the beneficiaries. These are no doubt good for the survival of the organizations.
- 4) It observed in the previous chapter that some NGNFPOs (17.4%) are not capitalizing and depreciating their fixed assets for a variety of reasons. Hence, it is recommended that all fixed assets acquired by/donated to NGNFPOs be capitalized in the balance sheet and allocated periodically to the revenue and expenditure statement as an expenditure in accordance with generally accepted accounting principle (FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations). Even if capitalization and depreciation of assets of the nature described is not considered appropriate, procedures should be established to catalog and control the assets, and the existence of the assets and procedures employed to discharge stewardship over the assets should be disclosed in notes to the financial statements.
- 5) Some standardization of overhead of administration costs to fund-raising project allocation method should be established to apply to all revenues and costs.

- 6) At present the regulations, 2009; prescribe that the NGNFPOs are to maintain necessary books of accounts as are required by government agencies (FDRE, 2009). This prescription is vague and there is a leeway for the NGNFPOs to escape from the responsibility of maintaining systematic record of accounts. Hence, the above proposed proclamation should mention: (a) the statutory books to be maintained; (ii) auxiliary records that assist in the protection and continuation of the properties of the entity; (iii) the registers, minute books and other records necessary for evidencing the systematic and democratic functioning of the NGNFPO. In general, as an obligation to the agreement, the NGNFPOs have to maintain financial accounting records of assets, liabilities, income and expenditure in accordance with the standard accounting practices. The charities and societies agency has the authority to verify and review the financial management aspects of the NGNFPOs.
- 7) Funds should be identified as either restricted funds, a fund established to account for assets the use of which is limited by the requirements of donors or grantors; unrestricted funds, funds established to account for assets or resources that may be utilized at the discretion of the governing board; or endowment fund, fund established to account for a gift whose principal must be maintained inviolate but whose income may be expended.
- 8) Regarding internal controls one major recommendation the researcher suggest was that the annual reports and accounts, upon which so many of the recent reforms concentrate, can only be as good as the administrative systems that underpin them. Thus, good mechanism of internal control system should be applied in all NGNFPOs.
- 9) The number of NGNFPOs operating in Ethiopia is growing year to year; yet there are no locally developed Accounting Process and Financial Reporting Standards that guide them how to treat their accounts and report their financial position to their constituents and the general public, i.e., still they are sticking to US GAAP and International Accounting

Standards. Therefore, the researcher recommends the concerned body to set the standards, which best-suit NGNFPOs in Ethiopia.

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Appendix – I

አዲስ አበባ ዩኒቨርሲቲ
ቢዛናና ኢኮኖሚክስ ፋኩልቲ
አካውንቲንግና ፋይናንስ ት/ክ/ፍ/ል



Addis Ababa University
Faculty of Business & Economics
Department of Accounting & Finance

Date: April 07, 2011

To: _____
Addis Ababa

Dear Sirs,

Our postgraduate (MSc in Accounting and finance) student, *Mesfin Mala*, is undertaking his MSc thesis entitled, "*Analyzing accounting and financial reporting practice of Non-Governmental Organizations in Addis Ababa.*" He is taking this opportunity of this study in partial fulfillment for MSc degree in Accounting and Finance.

We believe that the result of this thesis would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used for academic purposes only. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation

With Best Regards,



Tekalign Nega
Chairman, Department of Accounting & Finance
School of Business and Public Administration
Addis Ababa University



Addis Ababa University
School of Business and Public Administration
Department of Accounting and Finance

Survey instrument on: Analyzing accounting and financial reporting practice of non-governmental, not-for-profit organizations in Addis Ababa

Dear Respondents,

This thesis has been conducted for the partial fulfillment of the requirements for the Master's of Science Degree in Accounting and Finance at Addis Ababa University. The main objective of the thesis is analyzing accounting and financial reporting practice of NGNFPOs in Addis Ababa, Ethiopia. The research carried out on your voluntary responses. The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of accounting and financial reporting practice of NGNFPOs in Addis Ababa. It forms a major part of the research and the information you provide will enable me critically analyze accounting and financial reporting practices of NGNFPOs in Addis Ababa. Your cooperation to respond is very important to the study because it represents hundreds of other NGNFPOs who are not included in the sample. I kindly request you to answer every question. Thus, your insight and information are very valuable for making information decisions about the analysis of accounting and financial reporting practice of NGNFPOs in Addis Ababa. The questionnaire seeks basic information and you can tick the option that you choose or write your comments/opinion on the blank space provided. Spaces are provided for each questionnaire at the end of the each questionnaire for you to add further comments or explanations. Besides, completing the questionnaire, I would like to invite you to take part in an interview session later. Please feel free to reply. The information you provide will be kept strictly confidential.

Thank you in advance for taking the time to complete and submit these questionnaires.

Researcher's Name: Mesfin Mala

Position: Master Student of Accounting and Finance at Addis Ababa University

Telephone: +251(9)-13-46-45-73

E-mail: lovemesi.mala2001@gmail.com or mesfinmala@yahoo.com

7) How many employees did your organization have at 31 December 2009?

- A. less than 5 1
- B. 5 – less than 20 2
- C. 20 – less than 50 3
- D. 50 – less than 100 4
- E. 100 – less than 1,000 5
- F. 1,000 or more 6

Would you estimate the total number of volunteers currently providing assistance to your organization? _____

Part II: Questions related to accounting issues

8) What date did your last accounting year end?

(Day/Month/Year)...../...../...../

9) How do you keep your accounting records?

- A. In a manual system 1
- B. In a fully computerized system 2
- C. In a partially computerized system 3
- D. External accountant keeps my accounting records 4
- E. Other (please specify) 5

10) How often do you deposit cash collections/receipts into a bank account?

- A. Each day 1
- B. Within 5 days 2
- C. Within 10 days 3
- D. Other time (please specify) 4

11) How many Performa invoices are do your organizations collect for a large purchase of goods?

- A. Not collected 1
- B. Only one invoice 2
- C. Two invoices 3
- D. Three invoices 4
- E. Other number (please specify) 5

12) Please indicate the problems faced by the preparers of the financial statements in your organization.

- A. Lack of skilled accounting staff 1
- B. High staff turnover 2
- C. Lack of facilities 3
- D. Lack of awareness/exposure 4
- E. Others (please specify) 5

Would you suggest few mechanisms to overcome or at least to minimize the above problems?

13) Please indicate the ways through which fixed assets purchased or donated be treated in your organization.

- A. Capitalized and depreciated in accordance with generally accepted accounting principle 1
- B. Immediately depreciated fully (100%) 2
- C. Capitalized but not depreciated 3
- D. Write-off to revenue account 4
- E. Others (please specify) 5

Should fixed assets donated be treated in the same way as those fixed assets purchased? If your answer is no, what are the justifications for treating donated fixed assets different from that of purchased fixed assets? Do fixed assets revalued annually and be subject to an impairment test by comparing their net book value and their net realizable value? If so, how impairment losses can be treated and recorded in accounting records of NGNFPOs and at what basis? (Note: Asset impairment refers to a significant, unexpected decline in the service utility of a capital asset).

14) Should fixed assets purchased be depreciated? If your answer is yes, please indicate the methods of accounting for depreciation of fixed assets used in your organization.

- A. Straight-line method/ stipulated rate of depreciation/ 1
- B. Units of production method 2
- C. Double declining balance method 3
- D. Sum of the years digit method 4
- E. Others (please specify) 5

Would you provide the justification for the use of specific methods of accounting for depreciation? If your answer for above question is no, would you provide the possible reasons why your organization do not depreciate their fixed assets?

15) Please indicate the basis of accounting used by your organization to maintain accounts and to prepare financial statements.

- A. Accrual basis of accounting 1
- B. Cash basis of accounting 2
- C. Modified cash basis of accounting 3
- D. Modified accrual basis of accounting 4
- E. Others (please specify) 5

What are the justifications for its use and can it add any value to your organization and users of the financial statements?

16) Accounting for internal control over cash receipt and disbursements

| Internal control question over cash receipts | Yes | NO |
|---|-----|----|
| Do different persons prepare, sign, and have access to cash? | | |
| Do only cashier authorized to receive cash? | | |
| Are all bank accounts registered in the name of the organization? | | |
| Do all cash collected are deposited on the same date of collection? | | |
| Do all cash safeguarded in a safe, lock box? | | |
| Does audit committee compare copies of collection reports/receipt vouchers with deposit slip? | | |
| Do pre-numbered receipt is issued for all cash receipt? | | |
| Do persons who have access to accounting records also have access to cash? | | |

| Internal control question over cash disbursements | Yes | NO |
|--|------------|-----------|
| Do purchase orders matched against invoice? | | |
| Do several quotes obtained for large purchases? | | |
| Are items purchased are approved by qualified persons? | | |
| Are invoices checked for accuracy before payment? | | |
| Do payments only made with original invoice? | | |
| Do check authorization slip prepared to support disbursement? | | |
| Are all major payments made in check? | | |
| Are different individuals responsible for purchasing, receiving, and approving payments? | | |
| Do signatories check supporting documents before signing? | | |
| Does the organization have at least two signatures for all accounts? | | |
| Are supporting documents marked "paid" stamp immediately after the check is issued? | | |
| Do surprise petty cash count performed? | | |

| | | |
|---|--|--|
| Do voucher prepared for all payments? | | |
| Do blank check signed when circumstances force? | | |

17) Considerations for a dedicated accounting standard

| Indicate how important is it for the following matters to be included in an accounting standard dedicated to NGNFPOs (Mark √). | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|---|---|---|---|---|---|---|
| Selecting and disclosing revenue recognition methods | | | | | | | |
| Selecting and disclosing accounting policies | | | | | | | |
| Complying with other accounting standards | | | | | | | |
| Disclosure of an organisation's policy on external audit requirements | | | | | | | |
| Selecting and disclosing asset valuation methods | | | | | | | |
| Tailored classification and format of financial reports | | | | | | | |
| Selecting and disclosing depreciation methods | | | | | | | |
| Other (please specify) | | | | | | | |

Note: 1 = Significantly Unimportant; 2= Not Important; 3= Slightly Not Important; 4= Neither important nor unimportant; 5=Less Important; 6= Important; 7 = Very important

Part III: Questions related to financial reporting issues

18) Please indicate the practice used in your organization regarding the classification within income statements/ statement of activities (Mark \surd)

- | | | |
|---|------------------------------|-----------------------------|
| A. Classification by program | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| B. Classification by function | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| C. Traditional classification — per IAS1 | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| D. Detailed revenue and expense items provided | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| E. Detailed revenue and expense item netted off | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |

19) Please indicate the extent of presentations /disclosures of the types of financial statements/reports produced your organization.

- | | |
|--|----------------------------|
| A. Full financial statements only | <input type="checkbox"/> 1 |
| B. Summary or concise financial statements/reports | <input type="checkbox"/> 2 |
| C. Comprehensive annual financial statements/reports | <input type="checkbox"/> 3 |
| D. Others (please specify) | <input type="checkbox"/> 4 |

Would you indicate the nature and extent of any additional information disclosure required/present in your organization?

20) Please indicate the type of financial statements issued in your organization (Mark ✓)

- | | | |
|---|------------------------------|-----------------------------|
| A. Income statement/statements of activities | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| B. Balance sheet/ statement of financial position | <input type="checkbox"/> Yes | <input type="checkbox"/> NO |
| C. Cash flow statement | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| D. Statement of functional expenses | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| E. Others (please specify) | <input type="checkbox"/> Yes | <input type="checkbox"/> No |

21) Please indicate how revenues from special fund-raising events are reported in your organization.

- | | |
|---|----------------------------|
| A. At gross amount | <input type="checkbox"/> 1 |
| B. At net of direct costs of holding the event | <input type="checkbox"/> 2 |
| C. As a separate line items deducted from the special event revenues | <input type="checkbox"/> 3 |
| D. In the same section of the statement of operations as are other programs or supporting services and allocated, if necessary, among those various functions | <input type="checkbox"/> 4 |
| E. Others (please specify) | <input type="checkbox"/> 5 |

Would you indicate how overheads (fund-raising expenses) should be allocated to fund-raising projects, especially with regard to specific fund raising events and what is an appropriate benchmark? Does it create a problem in financial reporting?

22) What format did your organizations follow in the preparation of the financial statements

(both income statement and balance sheet)?

- | | |
|---------------------------|----------------------------|
| A. Report form | <input type="checkbox"/> 1 |
| B. Account form | <input type="checkbox"/> 2 |
| C. Other (please specify) | <input type="checkbox"/> 3 |

23) Disclosures to the public

| Indicate the extent to which you agree or disagree with the following types of financial information being made available to the public about your organization | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|---|---|---|---|---|---|---|
| Income from government sources | | | | | | | |
| Total spending on objectives | | | | | | | |
| Income from non-commercial fundraising activities (e.g. donations) | | | | | | | |
| Fully audited financial reports | | | | | | | |
| Income from commercial activities | | | | | | | |
| Spending on objectives as a percentage of income | | | | | | | |
| Cost or expenses associated with raising funds | | | | | | | |
| Making financial reports as complicated to understand might minimize the motivation of the information users to look at the NGNFPOs accounts for decision-making purposes. | | | | | | | |
| Summary financial information | | | | | | | |
| Spending on lobbying the government | | | | | | | |
| Remuneration of senior personnel | | | | | | | |
| No information has been available to the public | | | | | | | |

Note: 1= strongly disagree; 2 = Disagree; 3 = moderately disagree; 4 = Neutral; 5 = moderately agree; 6 = Agree; 7 = strongly agree

24) Advantages and disadvantages of increased financial disclosures

| Consider the implications of increased financial disclosures and indicate the extent to which the following are an advantage or disadvantage of such disclosures (Mark √) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| Enhancing public image and perception of your organisation | | | | | | | |
| Maintaining of NGNFPOs status | | | | | | | |
| Increasing awareness of your organization's cause(s) or objectives of existence | | | | | | | |
| Increasing scrutiny of your organisation's of financial performance | | | | | | | |
| Attracting government funds or support | | | | | | | |
| Attracting funds/donations from the public | | | | | | | |
| Attracting quality staff | | | | | | | |
| Operating commercial activities more effectively and efficiently | | | | | | | |

Note: 1= Significant disadvantage; 2= Disadvantage; 3= somewhat disadvantage; 4= Neither disadvantage nor advantage; 5= Somewhat advantage; 6= Advantage; 7 = Significant advantage

25) Notes to the accounts

| Please indicate whether notes to the accounts for the following matters are provided or not provided | Provided | Not provided |
|--|----------|--------------|
| Reference to accounting policies | | |
| Reference to compliance with prescribed accounting standards | | |
| Reference to revenue recognition | | |
| Reference to asset revaluation | | |
| Reference to depreciation methods | | |

26) Suitable measures of a NGNFPOs performance

| Indicate the extent to which you think the following are a suitable measure of a NGNFPO's performance | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
|--|---|---|---|---|---|---|---|--|
| Programme accountability (providing assurance that the NGNFPO is effective in achieving results intended). | | | | | | | | |
| Fiscal accountability (spending on agreed objectives). | | | | | | | | |
| Net profit/loss (revenue minus expenses) based on accrual accounting principles. | | | | | | | | |
| Financial reports prepared in accordance with an accounting standard designed and dedicated to non-governmental, not-for-profit organisations. | | | | | | | | |
| Process accountability (measures of spending efficiency e.g. spending as a percentage of income). | | | | | | | | |
| Financial reports prepared in accordance with accounting standards used in the private sector. | | | | | | | | |
| Net cash surplus/deficit (cash in minus cash out) based on cash accounting principles. | | | | | | | | |
| Other (please specify) | | | | | | | | |

Note: 1= strongly disagree; 2 = Disagree; 3 = moderately disagree; 4 = Neutral; 5 = moderately agree; 6 = Agree; 7 = strongly agree

Part IV: Questions related to auditing issues

27) Do all the annual reports of your organizations is audited? If your answer is yes, please

indicate the types of audit report rendered for your organization

- A. Financial statement audit 1
- B. Operational audit 2
- C. Compliance audit 3
- D. Information system audit 4
- E. Investigative audit 5
- F. Others (please specify) 6

28) Please indicate who performs audit of financial statements of your organization.

- A. Certified external auditor 1
- B. Internal auditor 2
- C. An auditor designed by the charities and societies agency 3
- D. Others (please specify) 4

29) Please indicate the types of audit opinion rendered for your organization

- A. Unqualified opinion 1
- B. Qualified opinion 2
- C. Adverse opinion 3
- D. Disclaimer of opinion 4

Would you provide possible reasons for qualification/adverse/ disclaimer of opinion for your report? Would you provide annual reports (both audit report and annual activity report) of your organization for the past five years (2006-2010)?

Use the space below to provide additional comments on how I might improve my job/task.

Thank you for your time and cooperation.

You have provided very useful data for my study. If you are willing to be contacted for a post-survey data verification, please give me your name, telephone number and email address.

Name: _____

Tel: _____

E-mail address: _____

Appendix II

Typical questions used in face-to-face interviews

- 1) Do your organizations maintain financial accounting records of assets, liabilities, income and expenditure in accordance with the standard accounting practices? If so, who has the authority to verify and review the financial management aspects of your organization? Does your organization maintain cashbook/receipt books, journal, ledger, employees' attendance registers, and payroll registers? What are the motives/purposes behind preparing annual financial statements?
- 2) Do your organization, as per the guidelines and agreements, submit annual report and audit reports to the charities and societies agency as required by the law? What information the reports contain? Do you believe that is there any uniformity in accounting policies adopted by the NGNFPOs in Addis Ababa?
- 3) Does your organization maintain a petty cash book system on imprest system for recording small payments? If so, what is the maximum limit for payments from petty cash book and who approves the payment?
- 4) Should a standard terminology be used for different types of funds? If your answer is no, this lack of consistency in terminologies can create confusion for different users of the financial reports? What is the basis for presenting titles of funds in the financial statements? Do you believe that titles of funds may have different definitions in different NGNFPOs? Do you agree with categorization of funds generally into unrestricted and restricted? What motivations do your organizations have to establish funds?

- 5) Do the organizations provide an opportunity to get necessary training and meeting to exchange ideas and resolve common problems if appropriate, with accounting staff of similar organizations?
- 6) As NGNFPOs, what is your perception of the role of disclosure (reporting)? Why do you disclose information? Can you describe your organization's policy regarding disclosure? How was this policy determined, e.g., by precedents, historical norms/practices? Who decides on what and how to disclose information? Is there an implicit awareness that organizations should provide mainly success stories and achievements?
- 7) Is there any instance when organizations choose not to disclose information? If your answer is yes, could you identify some of these instances and why organizations would choose not to report such information? How do you decide on the types of information to disclose?

Appendix III

Table 4.7: Disclosures to the public

| Indicate the extent to which you agree with the following types of financial information being made available to the public about your organization | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | Mean Score |
|---|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|------------|
| | Frequency | Percent | Frequency | Percent | Frequency | Percent | Frequency | Percent | Frequency | Percent | Frequency | Percent | Frequency | Percent | |
| Income from government sources | 16 | 23.2 | 20 | 29 | 18 | 26.1 | 15 | 21.7 | 0 | 0 | 0 | 0 | 0 | 0 | 2.46 |
| Total spending on objectives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 5.8 | 19 | 27.5 | 46 | 66.7 | 6.61 |
| Income from non-commercial fundraising activities (e.g. donations) | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 5.8 | 15 | 21.7 | 26 | 37.7 | 24 | 34.8 | 6.01 |
| Fully audited financial reports | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 21.7 | 54 | 78.3 | 6.78 |
| Income from commercial activities | 6 | 8.7 | 20 | 29 | 23 | 33.3 | 20 | 29 | 0 | 0 | 0 | 0 | 0 | 0 | 2.83 |
| Spending on objectives as a percentage of income | 0 | 0 | 1 | 1.4 | 9 | 13 | 21 | 30.4 | 3 | 4.4 | 6 | 8.7 | 0 | 0 | 4.48 |
| Cost or expenses associated with raising funds | 0 | 0 | 0 | 0 | 3 | 4.3 | 15 | 21.7 | 3 | 4.4 | 16 | 23.2 | 0 | 0 | 4.93 |

| | | | | | | | | | | | | | | | | |
|---|----|------|----|------|----|------|---|---|---|---|-----|----|------|----|------|--------|
| Making financial reports as complicated to understand might minimize the motivation of the information users to look at the NGOs accounts for decision making purposes. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 41 | 59.4 | 28 | 40.6 | 6.4058 |
| Summary financial information | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 4.3 | 29 | 42 | 37 | 53.6 | 6.49 |
| Spending on lobbying, which means communicating directly with a public official in either the executive or legislative branch of the government for the purpose of influencing legislation, of the government | 35 | 50.7 | 33 | 47.8 | 1 | 1.4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.50 |
| Remuneration of senior personnel | 29 | 42 | 39 | 56.5 | 1 | 1.4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.59 |
| No information has been available to the public | 30 | 43.5 | 28 | 40.6 | 11 | 15.9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.72 |

Note: 1= strongly disagree; 2 = Disagree; 3 = moderately disagree; 4 = Neutral; 5 = moderately agree; 6 = Agree; 7 = strongly agree