



**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**SCHOOL OF COMMERCE**  
**PROJECT MANAGEMENT GRADUATE PROGRAM**

**An Assessment of Management of Finance in a project executed in a  
consortium basis: the Case of Health Poverty Action (Lead), MCMDO and  
EPaRDA**

**By: Azmeraw Nigusie Tsega**

A Project Work Submitted to Addis Ababa University College of Business and  
Economics School of Commerce in Partial Fulfillment of the Requirements for  
the Degree of Master of Arts in Project Management

June 2018

Addis Ababa, Ethiopia

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**Advisor: Wubshet B. (PhD)**

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**Approved by:**

Advisor	Signature	Date
_____	_____	_____
Internal Examiner	Signature	Date
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External Examiner	Signature	Date
_____	_____	_____

## **DECLARATION**

I, Azmeraw Nigusie, declare that this work entitled “Assessment of Management of Finance in a project executed in a consortium basis “The Case of Health Poverty Action, MCMDO and EPaRDA”, is the outcome of my own effort and study that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the research advisor. This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the degree of Masters of Art in Project Management (MA).

**By:** Azmeraw Nigusie

Signature \_\_\_\_\_

Date\_\_\_\_\_

**Advisor:** Dr. Wubshet B.

Signature \_\_\_\_\_

Date\_\_\_\_\_

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## **ACRONYMS/ABBREVIATIONS**

<b>AC</b>	Actual Cost
<b>CEO</b>	Chief Executive Officer
<b>EPaRDA</b>	Enhancing Pastoralist Research and Development Alternatives
<b>EV M</b>	Earned Value Management
<b>HPA</b>	Health Poverty Action
<b>LCC</b>	Life Cycle Costing
<b>MCMDO</b>	Mothers and Children Multisectoral Development Organization
<b>NGOs</b>	Non-Governmental Organizations
<b>PV</b>	Planned Value
<b>SV</b>	Schedule Variance
<b>WBS</b>	Work BreakDown Structure

## **ABSTRACT**

*The general objective of the research is to assess the Management of Finance on a project executed in consortium basis by considering Health Poverty Action as a lead, MCMDO and EPaRDA. To achieve its objective, the researcher employed descriptive research approach with survey type and both primary and secondary data were used. The data were collected using questionnaires and supplemented with document review. In this study the researcher employed purposive and judgmental sampling techniques. The analyzed data were presented using tables, mean and percentage; in addition, the researcher presents the finding of the research using a descriptive narrative.*

*As per the findings in this study the researcher concludes; for those consortiums which is led by HPA, the project finance management have been implemented by using the financial management cycle i.e. planning, budgeting, then executing (Managing and controlling) and measuring (reporting and auditing) where each cycle is led by HPA., The management of finance for projects implemented by consortium arrangement which is led by HPA is impacted by the presence of the risk assessment during the initiation as well as during execution, the presence of rule and regulation by the implementing partners , the presence of the work plan along with the financial resource, conflict and delay during agreement signing with the local government for the implementation, lack of stockholders participation during planning and execution of the intended project and not applying the requirement for value for money during the budgeting and execution., The financial planning procedures employed by HPA for projects implemented in consortium arrangement includes; Planning project activities with the required resources, Prepare the budgets as per market value as well as previous budgeting of similar projects; considering the existing structure of the organization and the financial controlling mechanisms employed .The controlling and reporting process throughout the project life of those projects implemented in consortium arrangements includes; the presence of standardized financial recording system, the presence of adequate archiving system for those financial documents during execution as well as after the end date of the project as per the donor requirements, the presence of segregation of duties by the implementing partners during the execution of the project activities, and the presence of standard reporting procedure.*

*The researcher recommends the organization to conduct risk assessment related to finance, to do participative financial planning, state and communicate clearly the expectations of the project to the concerned staff, aware project team to internalize nature and category of costs, and do current market survey, practice the development of contingency budget, prepare budget against actual expenditures report ,do value for money analysis (earned value management) and letting stakeholders to know how budget is utilized , to have a system to allocate costs across both project activities and the anticipated time.*

**Key word:** *Management of Finance, Project, Budget utilization, consortium, implementing partners*

# CHAPTER ONE

## INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY

Financial management entails planning, organizing, controlling and monitoring the financial resources of an organization to achieve objectives. It is an important part of programme management and must not be seen as a separate activity left to finance staff (Mango, 2013)

Financial Management is a vital activity in any organization and an ideal practice for controlling the financial activities of an organization such as procurement of funds, utilization of funds, accounting, payments, risk assessment and every other thing related to money. In other terms, Financial Management is the application of general principles of management to the financial possessions of an enterprise. Proper management of an organization's finance provides quality fuel and regular service to ensure efficient functioning. If finances are not properly dealt with, an organization will face barriers that may have severe effect on its growth and development.

Financial management is crucial for the success of any organization, be it private, government or non-government. Successful enterprises watch their finances very closely and therefore take the right decisions at the right time, ultimately leading to success (Khushi, 2017).

The financial planning activity, one component of financial management, involves assessing the business environment; confirming the business vision and objectives; identifying the types of resources needed to achieve these objectives; quantifying the amount of resource (labor, equipment, materials); calculating the total cost of each type of resource; summarizing the costs to create a budget; and identify any risks and issues with the budget set (Koteen, 1997)

Organizations operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools.

Good practice in financial management help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders; help organizations to be more accountable to

donors and other stakeholders; gain the respect and confidence of funding agencies, partners and beneficiaries; give the implementing organizations the advantage in competition for increasingly scarce resources; and help NGOs prepare themselves for long-term financial sustainability.

To achieve effective financial management there has to be a sound organizational plan. A plan in this context means having set objectives and agreed, developed and evaluated the policies, strategies, tactics and actions to achieve these objectives.

Sound financial management involves long-term strategic planning and short-term operations planning. There is no one model of a financial management system that suits all organizations, but there are some basics that must be in place to achieve good practice in financial management. The guiding principles for financial management systems are Consistency, Accountability, Transparency, Integrity, Financial Stewards and Accounting Standards (Cass Centre for Charity Effectiveness, 2008)

Project financial management is a process which brings together planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, disbursement and the physical performance of the project with the aim of managing project resources properly and achieving the project's development objectives. ( THE WORLD BANK, 1999)

Sound financial management is a critical ingredient of project success. Timely and relevant financial information provides a basis for better decisions, thus speeding the physical progress of the project and the availability of funds, and reducing delays and bottlenecks.

## **1.2. BACKGROUND OF THE ORGANIZATION**

Health Poverty Action (HPA), formerly known as Health Unlimited (HU), was founded in August 1984 by a group of British aid workers. They set out to meet gaps in the provision of medical aid to people affected by prolonged and complex conflicts. HPA started its first project in southern Afghanistan in the same year. The core services and activities include:

- working with local partners - from community organisations to provincial health departments - to build capacity from the grassroots upwards;

- training primary health care workers to provide culturally sensitive health services and trainers to ensure that the programmes established by projects are fully integrated into national systems and can be maintained into the future;
- Establishing functioning systems to support community health care workers by building the capacity of administrators and managers; and
- Providing financial and technical assistance to support basic primary health care infrastructure including village health posts, district clinics and improvements to water and sanitation.

HPA also has a direct presence in 13 countries and the management of each country, including Ethiopia, is headed up by a Country Director and who reports to the Head of Programmes, Africa in London.

HPA has been working in Ethiopia since 2002 and established a country office in 2005. HPA works with Mothers and Children Multisectoral Development Organization (MCMDO) and Enhancing Pastoralist Research and Development Alternatives (EPaRDA). (<http://www.healthpovertyaction.org/about-us/staff-and-trustees/trustees/>, n.d.)

As HPA is the lead member in such a consortium projects it is legally, financially, administratively and programmatically responsible for all aspects of the award. Specifically HPA submits the cash requests, coordinate and prepares the reports, and if need be, handles the requests to amend the terms of the award. Furthermore, should the project require the application of indirect costs, the lead member should contact the Funding Agency (Donor).

### **1.3. STATEMENT OF THE PROBLEM**

A successful Project is the one that has completed within the specified time, cost and with the desired deliverables. Some of the factors that lead to successful projects are smart people, smart planning, open communication, careful risk management and strong project closure.

Effective and efficient Project Financial management is one component for project success and it involves close attention to project and organization objectives.

In practice, financial management is about taking action to look after the financial health of an organization, and not leaving things to chance. These involve managing scarce resources, managing risk,

managing strategically and managing by objectives (plan. do and review to be takes place on a continuous basis.)

Health poverty action discharge its responsibility through designing projects in a consortium way that is working with other NGOs from initiation of project to completion. Though the consortium agreement is made to do the project as per the stated terms and conditions, it is usual to observe unutilized project fund in one partner, over utilized project fund in another as well as a frequent request of project period extension. The efficiency, compliance and effectiveness of project finance utilization has to be ensured through external parties like Auditors and evaluators, but this is not easily done in the health Poverty Action projects carried out in a consortium agreement.

#### **1.4. RESEARCH QUESTIONS**

The research is intended to address and recommend for the following questions.

- How is project finance managed in a consortium projects lead by HPA?
- What are the factors those have impact on effectiveness in managing project Finance by HPA?
- What are the financial planning procedures in place for managing finance in a consortium projects lead by HPA?
- What are the financial controlling mechanisms in place for managing finance in a consortium projects lead by HPA?

#### **1.5. OBJECTIVE OF THE STUDY**

The general objective of the research is to assess the Management of Finance on a project executed in consortium bases by considering Health Poverty Action as a lead.

The specific objectives of the research are;

- To assess how project finance is managed in a consortium projects lead by HPA.
- To assess factors which have impact on the effectiveness of managing Finance on a consortium projects lead by HPA.

- To assess the financial planning procedures primed for managing finance in a consortium projects lead by HPA.
- To assess the financial controlling mechanisms designed for managing finance in a consortium projects lead by HPA.

## **1.6. SIGNIFICANT OF THE STUDY**

This research project is expected to help Health Poverty Action, MCMDO and EPaRDA to improve the effectiveness of project financial management and other organizations executing projects in a consortium basis can also use the research finding to effectively manage finance endowed for projects. Finance staff, budget holders, project managers and other who have a direct contact with project finance can use the findings of the research as an input for future project budget proposal development and management. The research findings can contribute for effective financial management knowledge of NGOs executing projects in a consortium basis as the finding can be used as a reference for further study.

## **1.7. SCOPE/DELIMITATION OF THE STUDY**

The scope of the study is limited only to Health Poverty Action, MCMDO and EPaRDA found at Addis Ababa due to time and financial constraints. Health Poverty Action, MCMDO and EPaRDA are implementing health and holistic development projects both on a consortium basis and /or owns self. But this research concentrates only on the management of finance for projects executed in a consortium basis.

## **1.8. LIMITATION**

The research would have aimed to go through effectiveness of financial management from more than two organizations organized as consortium but due to schedule constraints the data will be collected from one consortium organization composing three legally independent entities only. Due to schedule constraints the study mainly concentrated attitudinal type of questionnaires that may lead to a biased result.

## 1.9. Operational Definitions

This section presents the definition of the key terms used in the study. The terms are defined within the context of the research paper.

Project financial management is a process which brings together planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, disbursement and the physical performance of the project with the aim of managing project resources properly and achieving the project's development objectives.

While project cost management is used in most project management books, articles and websites, Project Financial Management (Grant management) is used in Non-Government Organization like Health Poverty Action.

Project Management in this context is the process of developing proposal in response to calls that relate with the goal of the organization, getting approval of the project after a continuous back and forth communication with funding agency (donor), executing the approved project as per the terms and condition of the agreement and reporting the results as well as getting project evaluated.

Donors (funding agency) are organizations that provide grants, scholarships, or other forms of support to programs, projects, and individuals in a specific area. They may be non-profit organizations, private foundations, or government offices.

Implementing Organizations are those organizations executing projects/program in response to intervene problems observed in Health, Education, Agriculture, capacity building and holistic development.

## 1.10. ORGANIZATION OF THE RESEARCH

This study will have five chapters. Whereas introductory part with background of the study, statement of the problem, research questions and objectives, significance, scope and limitations of the study are in chapter one, Review of the relevant literature about project financial management is explained in chapter two. Details of the research methodology such as research location, design, sampling techniques, data collection and method of data analysis is explained in chapter three. Chapter four contains the detail parts of the analysis and finally chapter five presents the conclusion and recommendation.

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

This chapter presents the related literatures on the study of managing finance in a consortium project so as to have an insight in to the research topic and briefly expose the readers to some of the major areas of the subject matter under consideration. The chapter is presented under the following sections.

#### **2.1 THEORETICAL LITERATURE REVIEW**

##### **2.1.1 Overview**

Financial management entails planning, organizing, controlling and monitoring the financial resources of an organization to achieve objectives. It is an important part of programme management and must not be seen as a separate activity left to finance staff (Mango).

Good practice in financial management helps managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders; help organizations to be more accountable to donors and other stakeholders; gain the respect and confidence of funding agencies, partners and beneficiaries; give the implementing organizations the advantage in competition for increasingly scarce resources; and help organizations prepare themselves for long-term financial sustainability.

In practice, financial management is about taking action to look after the financial health of an organization that is not leaving things to chance and involve

- Managing scarce resources- Make sure that donated funds and resources are used properly to achieve the organization's mission and objectives.
- Managing risk -Risks must be identified and actively managed in an organized way.
- Managing strategically-Financial management is part of management as a whole. This means managers must look at how the whole organization is financed in the medium and long term, not just focusing on projects and programmes.
- Managing by objectives-Financial management involves close attention to project and organization objectives. The financial management process – Plan, Do, Review – takes place on a continuous basis. Plan -when an organisation starts up, it sets its objectives, planned activities and then prepares a financial plan for the costs involved in undertaking the activities and where to obtain funds.

Do-Having obtained the funds; the programme activities is implemented to achieve the goals set out in the planning stage. Review- The actual situation is compared with the original plans. Managers can then decide if the organisation is on target to achieve its objectives within agreed time scales and budget. The learning from the review stage is then taken forward to the next planning phase, and so on.

Financial control, the heart of financial management, occurs when systems and procedures are established to make sure that the financial resources of an organisation are being properly handled.

A series of good practice financial management principles can be used as a standard in developing proper financial management systems and these principles provide a high-level guide for trustees and senior managers to help them make sure that their organisation is using funds effectively and that staff are working appropriately.

The financial management principles include

- Consistency- the financial policies and systems of an organization must be consistent over time. This promotes efficient operations and transparency, especially in financial reporting. This does not mean that systems may not be refined to cope with a changing organisation. Inconsistent approaches to financial management could be a sign that the financial situation is being manipulated.
- Accountability-the organisation must explain how it has used its resources and what it has achieved as a result to all stakeholders, including beneficiaries. All stakeholders have the right to know how funds and authority have been used. Organizations have an operational, moral and legal duty to explain their decisions and actions, and submit their financial reports to scrutiny. Accountability is the moral or legal duty, placed on an individual, group or organisation to explain how funds, equipment or authority given by a third party has been used.
- Transparency-the organisation must be open about its work, making information about its activities and plans available to relevant stakeholders. This includes preparing accurate, complete and timely financial reports and making them accessible to stakeholders, including beneficiaries. If an organisation is not transparent, then it may give the impression of having something to hide.
- Viability-to be financially viable, an organization's expenditure must be kept in balance with incoming funds, both at the operational and the strategic levels. Viability is a measure of the

organization's financial continuity and security. The trustees and managers should prepare a financing strategy to show how the organization will meet all of its financial obligations and deliver its strategic plan.

- Integrity-on a personal level, individuals in the organization must operate with honesty and propriety. Managers and Board members have to lead by example in following policy and procedures and declare any personal interests that might conflict with their official duties. The integrity of financial records and reports is dependent on accuracy and completeness of financial records.
- Stewardship-an organisation must take good care of the financial resources it is entrusted with and make sure that they are used for the purpose intended – this is known as financial stewardship. The governing body (eg the Board of Trustees) has overall responsibility for this. In practice, managers achieve good financial stewardship through careful strategic planning, assessing financial risks and setting up appropriate systems and controls.
- Accounting Standards-the system for keeping financial records and documentation must observe internationally accepted accounting standards and principles. Any accountant from anywhere around the world should be able to understand the organization's system for keeping financial records.

There is no model finance system which suits all Organizations. But there are some basic building blocks which must be in place to achieve good practice in financial management. The basic building blocks are:

- Accounting Records-every organisation must keep an accurate record of financial transactions that take place to show how funds have been used. Accounting records also provide valuable information about how the organisation is being managed and whether it is achieving its objectives.
- Financial Planning-linked to the organization's strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds.
- Financial Monitoring-provided that the organisation has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a very simple matter to produce financial reports which allow the managers to assess the progress of the organisation.

- Internal Controls- a system of controls, checks and balances collectively referred to as internal controls are put in place to safeguard an organization's assets and manage internal risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protects staff involved in financial tasks. All of the building blocks must be in place continuously.

There are many tools, not necessarily financial, which managers can use to help achieve good practice in financial management and control. The tools under each of the four functions of financial management are;

- Planning-planning involves looking ahead to prepare and managers will consider several possible alternatives and make a number of choices or decisions. Tools: Strategic plan, business plan, activity plan, budgets, work plans, cash flow forecast, feasibility study...etc.
- Organizing-the resources of the organisation staff and volunteers, vehicles, property, money have to be coordinated to ensure implementation of the overall plan. It needs to be clear what activities and responsibilities are to be undertaken, when and by whom. Tools: Constitution, organisation charts, flow job descriptions, Chart of Accounts, Finance Manual, budgets...etc.
- Controlling-a system of controls, checks and balances are essential to ensure proper application of procedures and resources during programme implementation. Tools: Budgets, delegated authority, procurement procedure, reconciliation, internal and external audit, fixed assets register, vehicle policy, insurance...etc.
- Monitoring-this involves producing regular and timely information for managers and stakeholders for monitoring purposes. Monitoring involves comparing actual performance with plans to evaluate the effectiveness of plans, identify weaknesses early on and take corrective action if required. Tools: Evaluation reports, budget monitoring reports, cash flow reports, financial statements, project reports, donor reports, audit reports, evaluation reports...etc...

Project financial management is a process which brings together planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, disbursement and the physical performance of the project with the aim of managing project resources properly and achieving the project's development objectives.( THE WORLD BANK, 1999)

Sound financial management is a critical ingredient of project success. Timely and relevant financial information provides a basis for better decisions, thus speeding the physical progress of the project and the availability of funds, and reducing delays and bottlenecks.

Sound project financial management provides:

- Essential information needed by those who manage, implement and supervise projects, including government oversight agencies and NGOs;
- The comfort needed by the borrower country, lenders and donor community that funds have been used efficiently and for the purposes intended; and
- A deterrent to fraud and corruption, since it provides internal controls and the ability to quickly identify unusual occurrences and deviations.

When project implementation begins, the project implementing entity must have appropriate accounting and internal control systems in place that: (i) reliably record and report the financial transactions of the project (and where appropriate, the entity), including those transactions involving the use of Donor funds; and (ii) provide sufficient financial information for managing and monitoring project activities.

Donors require the submission of annual audited financial statements of the project acceptable to the Donor. In such cases, both project and entity financial statements Audit report may be submitted depending on the requirement of Donors.

Donors inform the project implementing entity of the requirements expected. For each project, Donors ensure that adequate financial management systems are in place by assessing the adequacy of the accounting and auditing practices and internal control arrangements.

The key financial management issues likely to arise at each stage of the project cycle, both for new projects and for projects already under implementation are planning (cost estimating and budgeting),controlling, reporting and auditing. Some books classify as planning, budgeting and controlling considering that controlling includes accounting, internal control, reporting and finally get audited financial statements.

This section deals with the review of related literature gathered from different secondary sources such as published articles, books, manuals and related websites. In this regard, efforts were exerted to include as

much significantly related literatures as possible by reviewing available documents that clearly exhibits points, targeting at the attainment of the research objectives.

### **2.1.2. FINANCIAL PLANNING**

Financial planning is both a strategic and operational process linked to the achievement of objectives. It involves building both longer term funding strategies and shorter-term budgets and forecasts(Mango, 2013)

The financial planning activity involves assessing the business environment; confirming the business vision and objectives; identifying the types of resources needed to achieve these objectives; quantifying the amount of resource (labor, equipment, materials); calculating the total cost of each type of resource; summarizing the costs to create a budget; and identify any risks and issues with the budget set (Koteen, 1997)

Financial planning does not start with budgets and numbers rather with good underlying plans. It is impossible to start a financial forecast without a clear idea about what activities are to be done and how. “If you don’t know where you are going then you are sure to end up somewhere else” Mark Twain

First transparency will enhance credibility in the community and in the eyes of the funding bodies. Secondly, the effectiveness of a financial plan depends on a strong organizational plan. On the one hand, it is crucial to have a long-term strategy and, on the other hand, to develop skills able to manage the budgeting of short-term operations.

Review all the information available and gather statistical data, research, and critically assess strategies already implemented by governmental agencies and other members of civil society in order to build a robust rationale for projects. Consider compiling lists of agencies and donors who share the interests and draft proposals to secure funding for the implementation of specific initiatives. For instance, be aware of annual calls for papers, the existence of national and international networks and should become a member of, and also select organizations to start collaborations.

The success of a long-term financial strategy depends upon the abilities to get connected and networked in order to establish several long-term partnerships that will support basic need of secure funding throughout the years.

The strategic planning document has several component parts starting with an outline of long term goals – either or both a Vision and Mission and going into greater and greater detail about how the mission is to be achieved.

As the level of detail increases, the timeframe becomes shorter and participation of staffmembers in the planning process should increase.

Strategies (also known as Specific Objectives) set out how the organisation will achieve each of its core objectives. They outline the actions which will be taken for each objective.

Activity Plans -the strategy may be sub-divided into several, more specific and detailed plans for each activity, function or project. Activity plans have a shorter time focus (about one year) than strategies and objectives and are subject to regular review as progress is made.

Activity plans are the basis for budgets so must be very ‘SMART ‘– specific, measurable, achievable, realistic and time-bound.

Once plans are set, the organisation draws up its budgets and cash flow forecast to help implement the plans. During the year financial reports are produced to compare the budget with actual performance. This review stage is very important to the financial planning process since it will highlight areas where the plans did not happen as expected. This learning process will help to identify revisions which need to be made to the plans. And so the cycle continues... Plan, Do, Review (Mango, 2013)

There are project management concepts that serve a base for project cost development and subsequent management (Addis Ababa University School of Commerce, 2015) These includes;

- A. Needs identification** - Project planning cannot be initiated unless there is a clear understanding of what the project is expected to accomplish, along with its overall scope. An accurate definition of project scope and needs, as a planning stage, sets the stage for identifying resources and approximate costs for successful project completion. One important principle in the needs identification stage is an unambiguous, clear definition of the problem or need so that the best possible solutions to the problem or the best possible approaches to meet the need can be found. When the needs of the project are clearly understood and defined it becomes possible to determine all project activities necessary to accomplish the desired results, a sound basis is provided for monitoring and tracking project performance to ensure that the real needs identified for the project

are being met, the project organization can be alerted that the project as conceptualized may not meet the needs of the interested parties, and may have to be modified or canceled and the project organization is enabled to assess the importance of each need in terms of value delivered to the project as a whole, as well as the relative cost of each need.

**B. Conceptual development** - The purpose of conceptual development is to pare down the complexity of the project to a more basic level. To develop an accurate project concept, the project management team collects key pieces of data and information. The critical steps in this process include:

- **Statement of goals**-the project team establishes that a need or problem exists that requires a solution, as well as how the project intends to address the need or solve the problem.
- **Gather information**-When gathering relevant pieces of data for the project, the search must be thorough and complete, and the project team must explore all available sources of information.
- **Constraints** - The project team should anticipate the potential limitations in terms of time, budget, or customer demand that could adversely impact project development.
- **Alternative solutions**- The problem or need that the project is attempting to address typically has many alternative solution approaches. The search for alternative approaches requires that the nature of the problem is clearly understood.
- **Project objectives** - Conceptual development concludes with a clear statement of the final objectives for the project in terms of value that will be delivered, approximate cost that will be incurred, required resources, and expected completion time.

All of the steps in the conceptual development process function together as components of a system that ultimately affects the project cost. If each of the steps is properly executed, then the achievement of project objectives, in particular, the cost objective, will logically follow. A well-defined problem statement will provide the project team with a thorough understanding of the problem to be addressed—which, in turn, will pave the way for project value optimization, cost reduction, and eventual project success.

**C. The statement of work** - The statement of work (SOW) is a detailed narrative of the work required to complete a project, clearly delineates the objectives and requirements of the project,

and identifies key activities in broad terms. A statement of work moves from the general to the specific beginning with why the project is needed, then identifying component tasks before moving to a more detailed discussion of each task objective and the approach necessary to accomplish it. This will enable the project manager or potential contractor to estimate probable project cost, levels of expertise needed, and resources required to complete the requirements.

**D. Project scope definition and work breakdown structure** - Two of the most important aspects of project planning that serve as a base for project cost determination are project scope definition, which sets the stage for developing a comprehensive project plan, and the development of the work breakdown structure (WBS). A full and complete definition of the project scope leads to the next most important step in project planning: the development of the work breakdown structure (WBS). In this phase, the overall project is broken into manageable and well-defined work packages (WP). The creation of a WBS ensures that no element of work is overlooked or duplicated, and that the relationships among work packages are clearly identified and understood. The WBS is the basis on which project schedules and cost estimates are developed, and also provides the framework for assigning management and task responsibilities. Well-defined project scope and an accurate WBS are the twin pillars for ensuring project success. The two, in tandem, constitute the basis for effective project cost management.

The WBS links together the project scope, the schedule, and the cost elements, and forms the basis for the entire project information structure. It provides the framework that captures the project's work information flows, as well as the mechanism for tracking the project's schedule and progress. It also provides the basis for summarizing and reporting the project's cost data.

In essence, the WBS creates a common framework that presents the entire project as a series of logically interrelated elements; facilitates project planning; provides the basis for estimating and determining project costs (budgets); provides the mechanism for tracking project performance, cost, and schedule; provides the basis for determining the resources needed to accomplish project objectives; provides the mechanism for generating project schedule and status reports ;triggers the development of the project network and control systems; and facilitates the assignment of responsibilities for each work element of the project

The WBS shows that the total value of the work at one level is an aggregation of all the work completed one level below, which enables project work and cost performance to be monitored.

The WBS should also reflect all of the project requisites, as well as functional requirements, and should incorporate both recurring and nonrecurring costs.

Thus once organizations have developed objectives and then activities to accomplish the objectives, the next issues are the identification of resources required for those activities.

Resource planning involves determining what physical resources (people, equipment, materials) and what quantities of each should be used to perform project activities. (Project Management Institute, 1996)

It must be closely coordinated with cost estimating.

**Inputs to Resource Planning include:**

- **Work breakdown structure-** identifies the project elements that will need resources and thus is the primary input to resource planning.
- **Historical information-** is regarding what types of resources were required for similar work on previous projects should be used if available.
- **Scope statement.** The scope statement contains the project justification and the project objectives, both of which should be considered explicitly during resource planning.
- **Resource pool descriptions.** Knowledge of what resources (people, equipment, material) are potentially available is necessary for resource planning.
- **Organizational policies.** The policies of the performing organization regarding staffing and the rental or purchase of supplies and equipment must be considered during resource planning.

The Tools and Techniques for Resource Planning are:

- **Expert judgment** that will often be required to assess the inputs to this process.
- **Alternatives identification that** involves considering several different options on how to assign resources such as varying the number of resources as well as the kind of resources to use.

The resource requirement, the output of the resource planning process, is a description of what types of resources are required and in what quantities for each element of the work breakdown structure.

Once resources are listed for project activities, the resources have to be expressed in monetary terms through cost estimating. Cost estimating involves developing an approximation (estimate) of the costs of the resources needed to complete project activities. (Project Management Institute, 1996)

The project cost knowledge area includes processes involved in estimating, budgeting, and controlling costs. A broader view of project cost is often referred to as life-cycle costing. Life cycle costing (LCC) is the process of attaching costs to individual lifecycle stages of the project.

Proper project cost management requires identifying the nature of all costs that are likely to be encountered during the course of a project. Cost is a resource sacrificed or foregone to achieve a specific objective or something given up in exchange. The following are the main cost headings that the project manager need to be familiar with and that may inform a novice about the nature of project costs.

**Fixed and variable costs:** Fixed costs continue to be incurred irrespective of the level of activity on the project. These include management and administrative salaries, rent, rates, heating, insurance and so on. Fixed costs tend to form the major part of a project's indirect (or overhead) costs. Variable costs are those that are incurred at a rate that depends on the level of work activity. These are usually direct costs, but may have a small indirect content

**Direct and indirect costs:** Direct costs are the costs directly attributable to the job or project task and include the labor, materials and equipment charges directly related to carrying out that task. Indirect costs (or overheads) include the facilities, services and personnel costs that exist in an organization irrespective of the project. They include such costs as operations, office accommodation, personnel, training, accounts and marketing. The recovery of indirect costs is spread over a company's projects and it is a debate about how much should be attributable to any one project.

**Contingencies and reserve:** Large and complex projects are renowned for running over budget and the main reason for this is the failure to make allowance at the outset for unforeseen additional costs that are inevitable as a result of the highly unpredictable nature of projects. These may be due to: poor scope definition; design errors; poor activity planning; poor resource estimation; production mistakes; untried methods; changes in the environment. The purpose of the contingency is to cover these undefined additional costs.

Among the key features that define project success is managing costs to achieve efficiencies, and creating and enhancing value.

Cost estimating involves developing an assessment of the likely quantitative result—how much will it cost the performing organization to provide the product or service involved.

Cost estimating includes identifying and considering various costing alternatives.

**The inputs for cost estimating are;**

**Work breakdown structure.** Used to organize the cost estimates and to ensure that all identified work has been estimated.

**Resource requirements.** Description of what types of resources and in what quantities are required for each element of the work breakdown structure.

**Resource rates.** The individual or group preparing the estimates must know the unit rates (e.g., staff cost per hour, bulk material cost per cubic yard) for each resource in order to calculate project costs.

**Activity duration estimates.** Activity duration estimates will affect cost estimates on any project where the project budget includes an allowance for the cost of financing (i.e., interest charges).

**Historical information.** Information on the cost of many categories of resources can be available from project files, commercial cost estimating databases and project team knowledge.

**Chart of accounts.** A chart of accounts describes the coding structure used by the performing organization to report financial information in its general ledger.

**The Tools and Techniques for Cost Estimating include**

**Analogous estimating,** also called top-down estimating, means using the actual cost of a previous, similar project as the basis for estimating the cost of the current project.

**Parametric modeling.** Parametric modeling involves using project characteristics (parameters) in a mathematical model to predict project costs.

**Bottom-up estimating.** This involves estimating the cost of individual work items, then summarizing or rolling-up the individual estimates to get a project total.

**Computerized tools.** Computerized tools such as project management software and spreadsheets are widely used to assist with cost estimating.

**The Outputs from Cost Estimating are:**

**Cost estimates** are quantitative assessments of the likely costs of the resources required to complete project activities.

**Supporting detail.** Supporting detail for the cost estimates should include a description of the scope of work estimated often provided by a reference to the WBS, Documentation of the basis for the estimate, i.e., how it was developed, Documentation of any assumptions made and an indication of the range of possible results.

**Cost management plan.** The cost management plan describes how cost variances will be managed.

### **2.1.3. BUDGETING**

A budget describes an amount of money that an organisation plans to raise and spend for a set purpose over a given period of time (Mango, 2013).

A budget has several different functions and is important at every stage of a project as presented below:

- Planning - a budget is necessary for planning a new project, so that managers can build up an accurate idea of the project's cost.
- Fundraising- the budget is a critical part of any negotiation with donors as it sets out in detail what the organization will do with a grant and what results will be achieved.
- Project implementation- an accurate budget is needed to control the project. The most important tool for on-going monitoring is comparing the actual costs against the budgeted costs.
- Monitoring and evaluation-the budget is used as a tool for evaluating the success of the project, when it is finished. It helps to answer the question: 'Did the project achieve what it set out to achieve?'

#### **Who needs Budgets?**

“A budget tells your money where to go; otherwise you wonder where it went.”J. Edgar Hoover

Budgets are used by different people for different purposes that are the Board of Trustees needs the overall budget because it has to formally approve it and monitor its progress, chief Executives need budgets to keep an eye on progress of the whole organisation and the funding situation, Project managers need budgets to oversee the implementation of their project activities, fundraisers need budgets to accompany funding applications , Finance staff needs budgets to make sure there are enough funds in the bank to cover anticipated expenditure ,Donors need budgets so they can see how an organisation intends to spend its grants and Community partners need budgets so they can see how an organization plans to spend and raise funds for their community projects.

The cash flow forecast (or cash budget) helps managers identify those times when cash levels become critical. It predicts the flow of cash in and out of the organisation throughout the year by breaking down the master (or overall) budget into smaller time periods, usually one month.

### **Budgeting Techniques**

There are two main ways to build a budget – incremental and zero-base.

Incremental budgeting bases any year's budget on the previous year's actual, or sometimes budgeted, figures with an allowance for inflation and known changes in activity levels.

Zero-based budgeting start with a clean sheet – a zero base. Zero-base budgeting (or ZBB) ignores previous experience and starts with next year's targets and activities.

### **The Budgeting Process**

The process of preparing a meaningful and useful budget is best undertaken as an organized and structured group exercise. The budget process involves asking a number of questions like what are the objectives of the project, what activities will be involved in achieving these objectives, what resources will be needed to perform these activities, what will these resources cost, where will the funds come from and is the result realistic.

### **The best practices in Budgeting are**

- **Clarity** - Clarity and accuracy are important and to ensure it keep notes on budgeting assumptions and how calculations have been made.
- **Timetable**-Though the time taken to prepare would vary depending on the size of the organisation and the approach adopted, preparing a budgeting timetable and commences the process early is important.
- **Budget Headings**- the budget line items appear in the books of account and on management reports. If the budget items and accounting records are not consistent then it is difficult to produce monitoring reports once the project implementation stage is reached.
- **Contingencies**-It is better to calculate and include a contingency amount for relevant items in the budget rather than adding a 'bottom line' percentage for so-called 'contingencies' on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of calculating a budget. A project contingency budget is created to offset project uncertainties and the funds varies with the level of uncertainty—the higher the degree of uncertainty associated with the project, the greater the amount of contingency allotted and vice versa.

- **Forgotten costs**-There is a tendency to under-estimate the true costs of running a project for fear of not getting the project funded.

### **The Challenge of Core Costs**

While preparing a budget it is important to have a clearly stated policy on how organisation will cover its core costs. To fund core costs use unrestricted funds (i.e. money given to the organisation for general purposes) to cover all or part of core costs; or charge core costs out to projects using a pre-arranged apportioning ratio.

### **The Challenge of Multiple Donor Programmes**

Financial planning problems arise when a programme or project has more than one donor because Donors have different budget formats and layouts. It is not always clear who is paying for what activity or item. Thus some solutions are a carefully designed and detailed Chart of Accounts to cope with different donor budget formats, use of the budget worksheet approach to cost all projects, taking care that all costs must be justifiable ,and preparing a ‘funding grid’. A funding grid, an internal planning tool, is a special table which provides an overview of which donor fund is paying for what part of a budget and should be updated regularly as new information becomes available. It is also useful for re-negotiating funding agreements and identifying fundraising needs.

### **Issues in Project Budgeting**

Briefly budgeting in a project context is the process of aggregating the estimated costs of individual activities or work packages to establish an authorized cost baseline. Cost estimates can be aggregated by work packages in accordance with the WBS. The work package cost estimates are then aggregated for the higher component levels of the WBS (work breakdown structure) and ultimately for the entire project (Project cost management Module, Addis Ababa University School of Commerce July 2015.)

Because each project is unique, the budgeting process for project organizations is considerably more complex than for traditional organizations.

The budgeting process gets even more complicated for multiyear projects, because plans, schedules, resources, and costs are set early in the project life cycle and may change in future years.

Generally in preparing a project budget, the project manager needs to ensure that each expenditure is identified and tied to a specific project activity and its associated milestone. The mechanism through which the project manager can accomplish this is the Work Breakdown Structure (WBS), which has a unique account number that can be charged as and when work is completed for each element. The WBS is a required input for the cost budgeting process because it defines the work items.

### **Developing a Project Budget**

Essentially, the project budget is a plan that incorporates the allocation of resources to various work packages and departments, along with a schedule to ensure that the company is in a position to achieve project goals. Developing a project budget involves estimation of costs, subsequent analyses, frequent revisions, and, to a certain extent, intuition. Meaningful budgets are developed through frequent interaction among concerned parties, and require data input from a variety of sources. Developing a project cost budget is essential to create **a cost baseline**, which is a **time-phased budget** that project managers use to measure and monitor cost performance.

**Activity-Based Costing** is a contemporary costing system that is frequently used for project budgeting. The basis of activity-based costing is that projects consume activities, and activities consume resources. The four steps of Activity-based costing are the identification of activities that make use of resources, and assigns costs to them; the identification of cost drivers (elements that cause, or “drive,” an activity’s costs) associated with the work package; calculate the cost rate per unit of the cost driver; and multiply the cost driver rate per unit by the total number of cost driver units consumed to assign costs to a project that utilizes a cost driver.

**Time-phased Budgets** -To achieve effective cost control, time phasing of project work is absolutely critical. Time-phased budgets allocate costs across both project activities and the anticipated time in which the budget is to be expended. *In essence, time-phased budgets consolidate the project budget and the project schedule.* A time-phased budget enables the project team to compare the schedule baseline with the budget baseline, which facilitates the identification of milestones for both schedule performance and project expenditures.

Developing a project budget is a complicated, time-consuming process that requires a number of issues to be addressed simultaneously. To do it correctly, maintain the focus on three important points:

The project team not only has to determine which categories of costs are relevant and appropriate for the project, but also has to identify the principle cost driver (labor, material, etc.) for each project activity, so that a reasonable expense can be charged against that activity. The project team has to decide on the amount of contingency funds to hold in reserve.

If the project falls behind schedule, the project team has to make a decision regarding accelerating (crashing) project activities, which can have serious implications for the project budget. Project acceleration, or “crashing,” involves shortening activity duration times by adding resources and incurring additional direct costs, both of which have a direct and significant impact on the project budget.

Before making a decision to crash project activities, project managers need to make a careful examination of the project budget so as to determine, which activities are the most likely candidates to be crashed, the additional costs related to the decision to crash these activities and the impact on the overall budget, including a comparison to the time gained from the decision to crash activities.

In summary, the important points regarding decision-making in project crashing are at least one of the activities to be crashed must be on the critical path, the activity to be crashed first is the one that has lowest marginal cost of crashing compared to the other activities on the critical path, when crashing occur multiple times the activities to be crashed are chosen from each of the critical paths that have the lowest marginal cost of crashing,

The budget baseline must work in relation to the project schedule and this necessitates the creation of a time-phased budget that recognizes the sequencing of project activities and allows the project team to identify their budget, including assessing its status on an ongoing basis. When properly managed, the budget, working together with the schedule, offers the project team the opportunity to apply maximum control over the project.

#### **2.1.4. CONTROLLING OF FINANCIAL RESOURCES**

Control comprises those elements of an organisation that, taken together, support people in the achievement of the organization’s objectives. Controls are effective to the extent that they provide reasonable assurance that the organisation will achieve its business objectives reliably. (KPMG , 1999)

Internal control is a systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to conduct its business in an orderly and efficient manner; safeguard its

assets and resources; deter and detect errors, fraud, and theft; ensure accuracy and completeness of its accounting data; produce reliable and timely financial and management information; and ensure adherence to its policies and plans(<http://www.businessdictionary.com/definition/internal-control.html>.)

Internal control is the process, effected by an entity's Board of Trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) Reliability of financial reporting, (b) Effectiveness and efficiency of operations, and (C) Compliance with applicable laws and regulations (<http://audit.mercer.edu/internal-control/>)

An internal control system encompasses the policies, processes, tasks, behaviors and other aspects of a company that, taken together facilitate its *effective* and *efficient operation* by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives ; help ensure the *quality of internal and external reporting* that requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation; and help ensure compliance with *applicable laws and regulations*, and also internal policies with respect to the conduct of business.

A company's system of internal control commonly comprises Control environment, Identification and evaluation of risks and control objectives, Control activities, Information and communication processes, and Processes for monitoring the effectiveness of the system of internal control.

Delivering common components of internal control is, in itself, not enough and thus the nature and context of control must also be understood.

The important concepts in understanding the nature and context of control are Control should be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment, the costs of control must be balanced against the benefits, including the risks it is designed to manage ,the system of control must include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken, Control can help minimize the occurrence of errors and breakdowns but cannot provide absolute assurance that they will not occur and the system of control should be embedded in the operations of the company and form part of its culture.

(The KPMG Review, Internal Control:A Practical Guide c KPMG October 1999)

## **Overview of the Project Evaluation and Control System**

A project evaluation and control system measures project progress and performance against a project plan to ensure that the project is completed on time, within budget, and to the satisfaction of the customer. A good project evaluation and control system should also provide project managers with advance warning of potential problems before it is too late to correct them (Project cost management Module, Addis Ababa University School of Commerce July 2015.)

Cost control is viewed as the process of monitoring the status of the project to update the project budget and managing changes to the cost baseline. It involves taking the cost baseline and performance data about what has actually been done in order to determine the work accomplished against the amount spent. It involves Influencing the factors that create changes to authorized cost baselines, Ensuring change requests are acted in a timely manner, Managing the actual changes, Monitoring cost to find out the variances, Monitoring work performance versus funds expended, Preventing unapproved changes in cost or resources, Informing appropriate stakeholders of approved changes and their costs, Bringing expected cost overruns within accepted limits, and Ensuring the cost expenditures do not exceed the authorized funding.

Monitoring the expenditure of funds without regard to the value of work being accomplished for such expenditures has little value to the project other than to allow the project team to stay within the authorized funding. The key to effective cost control is the management of approved cost performance baseline and the changes to that baseline.

### **Project Cost Control Process**

To correctly and accurately measure and evaluate project performance setting a baseline plan, measuring progress and performance, comparing actual performance against plan, and taking corrective action must be in place.

Establishing a project baseline plan— the project baseline plan provides the essential features for measuring performance. It begins with an accurate work breakdown structure (WBS), which establishes all the work packages and tasks associated with the project, assigns the personnel responsible for them, and creates a hierarchical representation of the project from the highest level down. To create the project baseline plan, the project team lays out each of the discrete tasks from the WBS onto a project network diagram, and time-phases all work, resources, and budgets.

Measuring and monitoring progress and performance - accurate mechanisms for project measurement are essential prerequisites of effective control systems. The first step in creating them is to establish a control system that measures the ongoing status of various project activities in real time, and provides project managers with relevant information as quickly as possible. The second step is to determine what should be measured. There are both quantitative and qualitative measures for monitoring project progress, and integrating quantitative measures like time and cost into the control system is relatively easy. On the other hand, qualitative measures like customer satisfaction with product functionality and technical specification can be determined only through on-site inspection or actual use.

Comparing actual performance against plan—Given that actual project performance is rarely in accordance with the original baseline plan, the next step is to compare the two to measure deviations. This analysis—sometimes referred to as “gap” analysis—is essential for determining current project status. As a rule, the smaller the deviation between the baseline plan and actual performance, the easier it is to take corrective action.

Taking remedial action—in cases where the deviations between the plan and actual performance are large and obvious, some form of corrective action is necessary to bring the project back on track. In situations where conditions or project scope have changed, the original baseline plan may have to be revised.

Finally, it is important to note that this monitoring and control process is not a one-time fix, but is a continuous cycle of goal setting, measuring, correcting, improving, and remeasuring.

Cost control is concerned with (a) influencing the factors which create changes to the cost baseline to ensure that changes are beneficial, (b) determining that the cost baseline has changed, and (c) managing the actual changes when and as they occur.

Cost control includes monitoring cost performance to detect variances from plan; ensuring that all appropriate changes are recorded accurately in the cost baseline; preventing incorrect, inappropriate, or unauthorized changes from being included in the cost baseline; informing appropriate stakeholders of authorized changes; and cost control includes searching out the “whys” of both positive and negative variances. It must be thoroughly integrated with the other control processes (scope change control, schedule control, quality control, and others).

Inappropriate responses to cost variances can cause quality or schedule problems or produce an unacceptable level of risk later in the project.

Inputs to Cost Control include:

- The cost baseline which is a time-phased budget that will be used to measure and monitor cost performance on the project.
- Performance reports. Performance reports provide information on cost performance such as which budgets have been met and which have not.
- Change requests. Change requests may occur in many forms—oral or written, direct or indirect, externally or internally initiated, and legally mandated or optional.
- Cost management plan. The cost management plan describes how cost variances will be managed.

Tools and Techniques for Cost Control include:

- Cost change control system. A cost change control system defines the procedures by which the cost baseline may be changed. It includes the paperwork, tracking systems, and approval levels necessary for authorizing changes. The cost change control system should be integrated with the overall change control system.
- Performance measurements. Performance measurement techniques help to assess the magnitude of any variations which do occur. Earned value analysis is especially useful for cost control. An important part of cost control is to determine what is causing the variance and to decide if the variance requires corrective action.
- Additional planning. Few projects run exactly according to plan. Prospective changes may require new or revised cost estimates or analysis of alternative approaches.
- Computerized tools. Computerized tools such as project management software and spreadsheets are often used to track planned costs vs. actual costs, and to forecast the effects of cost changes.

Outputs from Cost Control include:

- Revised cost estimates. Revised cost estimates are modifications to the cost information used to manage the project.
- Budget updates. Budget updates are a special category of revised cost estimates. Budget updates are changes to an approved cost baseline in response to scope changes.

- Corrective action. Corrective action is anything done to bring expected future project performance into line with the project plan.
- Estimate at completion. An estimate at completion (EAC) is a forecast of total project costs based on project performance.
- Lessons learned. The causes of variances, the reasoning behind the corrective action chosen, and other types of lessons learned from cost control should be documented so that they become part of the historical database for both this project and other projects of the performing organization.

### Integrating Cost and Time in Monitoring Project Performance: the S-Curve

Gantt charts, control charts, and milestones are tools that are often used to monitor project performance. However, these tools track progress only in the dimension of time. The other important dimension of project performance, cost, is virtually ignored. One of the mechanisms that monitor both dimensions is time–cost analysis. In this method, the project’s progress is monitored as a function of the cumulative costs and plotted against time for both budgeted and actual amounts.

To monitor the status of a project using an S-curve, the cumulative project budget expenditures to date are compared with the actual spending patterns at the end of each time period of interest. Any significant deviations between actual and planned budget expenditures constitute a potential problem area that must be investigated.

S-curves help project managers understand the correlation between project duration and budget expenditures and give them a good sense of where the highest levels of budget spending are likely to occur. Using S-curves to monitor the status of a project involves the following: At the end of each time period of interest, the cumulative project budget expenditures to date are compared with the actual spending patterns. Any significant deviations between actual and planned budget expenditures would constitute a potential problem area that must be investigated.

The biggest advantage of S-curve analysis is that it is simple to use and data can be created and presented without much difficulty. Furthermore, the S-curve provides the most current information on the project status as budget expenditures can be constantly revised and the new value plotted on the graph. The S-curve is a more proactive control mechanism, as information can be represented immediately and updated continuously.

Despite the above advantages, S-curves have a number of significant shortcomings that must be taken into account when project teams contemplate their use. For example, while S-curves can identify deviations between actual and budgeted expenditures (both positive and negative variances), the cause of these deviations cannot easily be determined. S-curve cannot answer “is it an indication that the project is behind schedule, or that the project team has come up with more efficient methods of completing the tasks? “

In the final analysis, simply evaluating a project’s status vis- a-vis its performance on time versus budget expenditures can easily lead to erroneous conclusions about project performance and this led to the adoption of the more popular analytical approach of earned value management.

### Earned Value Management

The earned value management (EVM) is a mechanism that can determine how much work was accomplished for the money spent. The earned value system uses the data from the work breakdown structure, the project network, and the schedule to compare time-phased costs with scheduled activities.

Unlike Gantt charts and S-curves, EVM evaluates a project by integrating the criteria of time, cost, and value. In other words, in addition to comparing actual and budgeted costs, EVM integrates the important element of time in determining what was accomplished (value realized) to draw conclusions about current project status. In essence, the earned value method measures the value of the work actually accomplished at the cost rates set out in the original budget. This quantity is known as earned value (EV). Furthermore, as EVM provides information about the efficiency with which budgeted money is used relative to the value realized, forecasts about the estimated cost and schedule to project completion can be made.

Earned Value Management (EVM) is the process of measuring performance of project work against a plan to identify variances. It can also be useful in predicting future variances and the final costs at completion. It is a system of mathematical formulas that compares work performed against work planned and measures the actual cost of the work performed. EVM is an important part of cost control as it allows a project manager to predict future variances from the expenses to date within the project.

Earned value management shows the relationship among all three of the primary project success criteria: cost, schedule, and performance.

It is only through earned value that the full nature of the association between the three success metrics of schedule, cost, and performance can be understood in relation to each other.

The two key elements involved in developing an earned value analysis are the work breakdown structure that provides, in a hierarchical structure, information regarding the individual tasks that need to be performed on the project individual work packages and a time-phased budget for each work package with which the project team can determine the timing of budget expenditures required to complete individual tasks. More importantly, the time-phased budget enables the project team to determine the points in the project when budget money is likely to be spent in pursuit of those tasks.

There are several important steps to be considered when conducting an earned value management analysis, including the following:

1. Clearly define each project activity or task, its resource needs, and a detailed budget for that task: Using the work breakdown structure, the project team can identify all necessary project tasks and the project resources assigned to that task, including personnel assignments and costs for equipment and materials. Given these task breakdowns and resource assignments, the budget or cost estimate for each project task can be generated.
2. Develop schedules for activity and resource usage—the purpose of this step is to determine, on a period-by-period basis, the percentage of the total budget allocated to each task throughout the life of the project. The outcome of this process is the establishment of a direct link between the project budget and the project schedule. Specifically, this step provides information on how much of the budget is allocated to each task, along with when the resources will be used during the project development cycle.
3. Develop a “time-phased” budget—Armed with the information available from the previous step, it is now possible to establish expenditures across the project’s life. With this information, we can now determine the planned value, which is the total (cumulative) amount of the budget, and serves as the project baseline. During any stage of the project development cycle, the planned value helps to identify the cumulative budget expenditures planned for that stage. The planned value in any period is a cumulative value, which is sum of all planned budget expenditures of all preceding time periods.
4. Determine and aggregate the actual costs incurred for each task that is being performed—the aggregate actual costs of performing a task represent the actual cost of work performed (AC). In addition, we can

also calculate the budgeted values for the tasks being performed. This gives us our project's earned value (EV).

5. Compute the cost and schedule variances as the project progresses— the three key pieces of data collected from the previous steps (PV, AC, and EV) can be used to calculate both the project's cost variance and schedule variance while the project is still in progress. The schedule variance is calculated as the difference between the budgeted cost of the work performed and the budgeted cost of the work scheduled to be performed to date, and is given by  $SV = EV - PV$ .

The budget, or cost, variance is defined as the difference between the budgeted cost of the work performed and the actual cost of the work performed to date, and is given by  $CV = EV - AC$ .

Any actual schedule deviation from the original planned value is attributed to the earned value. Given these earned value figures, which indicate the extent to which project tasks are completed, we can now compute the project's CV, which is the difference between the budgeted and actual costs of the project's activities.

What has to be determined is the value earned on the project to date; that is, the number of work packages and the percentage of work completed in each, over the time budgeted to them.

Earned value management's effectiveness as a performance metric depends on some important factors. The first, and most important, is the availability of highly accurate, up-to-date information on the percentage of work packages completed, which is vital for determining the earned value at any point in time. The accuracy of the calculated earned value hinges on an honest reporting system, as well as the integrity of the project team members and managers.

A second issue when establishing accurate or meaningful EVM results is the "human factor" that comes into play when projecting project activity completion. In the interest of looking good for the boss, or due to implicit or even explicit pressure from project managers themselves, the tendency to downplay serious cost problems can arise.

Despite these limitations, EVM is useful for enabling project managers and their teams to gain a better understanding of the "true" nature of project status midstream—specifically from the aspect of cost control. The real-time information provided by EVM can be invaluable in gathering the most up-to-date

cost information and in developing realistic and meaningful plans for addressing and rectifying any systematic problems associated with project cost management.

Ultimately, these cost management benefits stem from disciplined planning and the availability of metrics that show real variances from plan to generate necessary corrective actions.

In the final analysis, project cost control is fraught with many uncertainties. Therefore, it is imperative that top management take the time to periodically review budget and financial information. By using a formal review process, it is possible to prevent projects from going adrift or the escalation of costs without sanctions. A formal financial review process can also mitigate the risk of cost overruns, and ensure that the project stays on course.

At the completion of the project, it is the project manager's responsibility to ensure that all costs are accrued and accounted for, that a financial balance sheet is produced for audit and signature, and that the financial procedures of the company are adhered to.

### **2.1.5 REPORTING AND AUDITING**

Financial reports are needed primarily by those responsible for managing the organisation and by current and potential donor agencies; but those responsible for financial management of an NGO also need to 'give an account' of their stewardship to a wide range of stakeholders (Mango, 2013)

Project staffs need financial report to know how much money and resources are available for their projects and what has been spent so far.

Financial accountability requires that implementing organization demonstrate to the donor that their funds have been used for the purpose for which they were intended. The reference point is the original funding application and guidelines are usually provided with the confirmation of grant aid and the contract or agreement signed by both parties.

It is important to comply with the conditions and meet reporting deadlines to establish credibility, encourage confidence and to make sure the grant arrives on time.

It is important always to check Terms and Conditions of Grant Aid agreed to do as part of the agreement for funding with each donor. Conditions imposed by donors vary enormously but can include Progress reports – frequency, format and style of reports, usually quarterly to coincide with release of grant

installments; Scope and designation of funds – what funds may, or may not, be used for; whether funds can be carried forward from one financial year to the next; Administrative overheads – the specific items that are allowable or excluded, or a percentage limit based on the total grant ; Budget line items – specific budget headings/account classifications which correspond with the original grant application ;Virement policy – ie permission (or otherwise) to transfer surpluses in the budget from one budget heading to another, and within what limits; Accounting method – Accruals or Cash accounting ;Bank Accounts and interest – separate bank accounts are required by some donors and/or they do not allow keeping any interest earned on sums invested ;Depreciation policy – how to treat fixed assets purchased with a grant and External Audit – some donors require a separate external audit.

**The Donor Report**-Donors require that an NGO is able to demonstrate financial soundness before granting the release of funds. In most cases the report will include a budget compared to actual summary, accompanied by a narrative report on the activities being undertaken. Where there are several donors it is important to set up the accounting systems so that the information required by the donor agency can be easily retrieved. Otherwise the organisation will be involved in a tedious information gathering exercise every time a report is required.

When putting together a report to donors do meet reporting deadlines (or request an extension), produce accurate and verifiable figures, not conceal under-spends or over-spends, explain any significant variations, and keep the donor informed of any potential problems.

The Project Management Report provides information to the implementing Organization about the project management and to the funding agency and other financiers for project monitoring. The design of the Project Management Report provides the flexibility to adapt to the unique objectives and activities of each individual project. The column formats should be followed as closely as possible to facilitate comparison and aggregation and to enable electronic submission, processing and disbursement. The Project Management Report will form the basis for the funding agency's disbursement of its share of project financing provided it is prepared within the framework of acceptable financial management system and is submitted in the standard format and fulfills all other requirements.

Project Management Report are special purpose statements prepared in the format agreed at appraisal of the project and do not always follow International Accounting Standards( THE WORLD BANK, 1999)

Expenditures reported in the Project Management Report are as follows actual expenditures for the quarter (or other agreed reporting period), for the year to date, and cumulative to date (from the beginning of the project); planned (or budgeted) expenditures for the quarter, for the year to date, and cumulative to date; variances between actual and planned expenditures for the quarter, for the year to date, and cumulative to date; and the expenditure figures appearing in the Project Appraisal Document for the life of the project, updated to reflect project changes including agreed revisions, and grant agreement amendments.

**Uses of Funds by Project Activity Report** - This report summarizes project expenditures by components and sub-components (activities) consistent with those in the Project Appraisal Document. Sub-components are necessary only for those items considered significant for monitoring the project, with smaller components aggregated as appropriate.

### **What is an Audit?**

An audit is an independent examination of records, procedures and activities of an organisation, resulting in a report on the findings.

The two kinds of audit are the Internal Audit and The External Audit

An external audit is primarily for the benefit of those outside the organisation, eg stakeholders and funders. Internal audit is undertaken for the benefit of those inside the organisation, ie trustees and management.

The audit should be a positive experience and not one to be feared; it is an opportunity to receive feedback on strengths and weaknesses in systems.

Audits are important for organizations as they demonstrate a commitment to transparency and accountability and bring credibility. It is also a legal requirement in most countries to have the financial statements reviewed by an independent auditor once a year.

Internal audit involves a structured review of systems and procedures, as set by the Board and managers, to ensure efficient and effective practices. It is not an internal 'policing' function, rather an opportunity to improve systems and build internal capacity.

The internal auditor's report will highlight findings and make recommendations for action, where needed. It may be carried out by someone within the organisation, or an outsider may be engaged to carry out an 'internal audit'.

An internal audit will include a range of checks as part of the independent review, including financial accounting systems and procedures, management accounting systems and procedures, internal control mechanisms.

The internal auditor reviews the adequacy of the design of the systems of procedures, and checks that they are being appropriately implemented. A report is presented to the governing body and management, who respond by taking corrective action, perhaps changing a procedure, or training a staff member.

The 'Three E's' influence an internal auditor's approaches are Economy: paying no more than necessary for the resources needed, Efficiency: getting the greatest benefit with the fewest resources, Effectiveness: how successful at meeting objectives or 'doing the right thing'.

An external audit is an independent examination of the financial statements prepared by the organisation. It is usually conducted for statutory purposes (because the law requires it).

The purpose of external audit is to verify that the annual accounts provide a true and fair picture of the organization's finances; and that the use of funds is in accordance with the aims and objects as outlined in the constitution.

An external audit can be conducted either as part of the annual review of accounts or as a special review by a donor agency. Auditors are appointed by the Board of Trustees (or Annual General Meeting) or by a donor for a special audit. They are independent of the organisation employing them. Being independent means that the auditor must not have been involved in keeping the accounting records and is not personally connected in any way with the organisation being audited.

Auditors only have a limited time in which to complete their work, so they concentrate on testing the validity of a sample of transactions and results rather than vigorously checking everything.

Auditor-speak de-mystified: Material: An item is said to be 'material' if it is considered to be significant to the users of the financial statements. Test basis: A representative sample, the rest of the transactions are assumed to be similar to the sample tested.

The audit report- an audit results in a report addressed to members which gives an 'audit opinion' as to the 'true and fair' view given by the financial statements (of the state of affairs of the organisation and operations for the period.)

Auditor-speak de-mystified: 'True' means that the transaction did take place and that an asset exists. 'Fair' means that a transaction is fairly valued and that assets and liabilities are fairly stated.

Auditors will also often provide a Management Letter. This is separate to the audit report and is addressed to management. The report highlights weaknesses identified in the internal control systems and makes recommendations for improvements.

Project (or Donor) Audit is when donor agencies request an independent external audit of records and activities and will appoint a qualified person to undertake a review. The primary purpose of such a review is to check that grants are being used as intended and in accordance with the budget in the original funding agreement.

The auditor or evaluator will almost certainly wish to interview staff and committee members and may even request to observe the organisation in pursuance of its activities.

## *Types of Audits*

The following table shows the major types of Audits

**TABLE 2.1: TYPES OF AUDITS**

Area:	Internal	External	Project
Main purpose	Check effectiveness of systems & procedures	Verify the published accounts give a 'true & fair' view	Check that funds used in accordance with the funding agreement.
Focus of review (starting point)	Systems and Procedures manual	Financial statements & underlying records	Grant agreement
Appointed by	Management (but have direct line to the board)	Board (or members)	Donor, but may use normal external auditor if on approved list
Scope	As per planned schedule based on risk assessment. May be for a specific department, grantor period.	All financial transactions in the accounts, whole organisation	Usually limited to the project and related grant funding.
Report includes	Findings and recommendations for improvements	Auditor's opinion and Management letter	Usually, auditor's opinion(s) and recommendations
Employed by	The NGO or external body (outsourced)	External body	External body (sometimes donor themselves)
Qualifications	No formal requirement	Must be qualified & registered accountant	Usually qualified & registered accountant

### **2.1.6. RESPONSIBILITY OF MANAGING FINANCE**

The responsibility of managing finance rests on Governing body, board members and honorary officers (Mango, 2013)

The Governing Body - The governing body is legally responsible and accountable for governing and controlling the organisation and has several functions including responsibility for deciding on policy and strategy, custodianship (or safeguarding) of the financial and other assets of the organisation, appointing and supporting the Chief Executive and representing interests of stakeholders.

The governing body is often organized with a series of sub-committees like Finance, Personnel or Project sub-committees.

**Board members** are volunteers (i.e. not paid a salary) and are known variously as trustees, committee members, directors or council members.

**Honorary Officers** are those who are elected or appointed to specific positions on the board such as Chair, Treasurer and Secretary. They oversee the execution of board decisions and often sign legal undertakings.

The Chairperson is usually the main point of contact for the Chief Executive Officer (CEO), and usually fulfils an important public relations role for the organization.

The Treasurer's role is to oversee the finances of the organisation.

Even if they are not supervising the accounting process and preparing reports themselves, board members must still be sure that everything is in order and are ultimately responsible for the financial affairs of the organisation.

As the governing body is made up of volunteers who meet only a few times a year, it delegates authority for day-to-day management to the CEO, appointed by the board to implement policy.

The CEO then decides how to further delegate authority, to share out duties amongst the staff team. While it is acceptable for the governing body to delegate authority to staff members, it cannot delegate total responsibility since ultimate accountability rests with the trustees.

In practice, everyone who works to achieve the objectives of an organization has an important role to play in financial management. Every opportunity must be taken to integrate financial management into the day-to-day operational management of the organisation.

The financial procedures policy is critical for any organisation because it lays down procedures to ensure that the organization's resources (both financial and material) are put to their proper use. It is important that this policy is well understood by staff and members of the governing body, because they are all responsible for good management of resources. ([WWW.PROGRESSIO.ORG.UK/SITES/PROGRESSIO.ORG.UK](http://WWW.PROGRESSIO.ORG.UK/SITES/PROGRESSIO.ORG.UK))

Applying such a policy will ensure the good financial management and accounting practice that are essential for the organization's success. It is particularly important to have clear lines of responsibility at the most senior levels of the organisation, but all employees share responsibility for ensuring that finances are secured.

According to a guidance manual for good practice the trustees hold the organization's assets in trust for the beneficiaries and funders and are responsible for ensuring that they are used to achieve the aims for which the organization was established. Trustees are duty bound to ensure that proper account books and records are kept, that annual reports and accounts are prepared, and that these conform to any relevant local legislation.

It is the responsibility of the trustees and all staff to ensure that the organization's financial systems and procedures are adhered to at all times and to report any discrepancies immediately: in the case of staff, to their line manager, and in the case of the Executive Director or trustees, to the governing body.

### **Responsibilities of the Executive Director**

The Executive Director is responsible to ensure that all financial systems and procedures specified in the policy document are in place and that the staff adhere to them, to report any discrepancies in a timely fashion to the Chair or Treasurer, and to take the appropriate disciplinary action against staff found to be in breach. The Executive Director will rely on the assistance of the accountant to ensure the smooth financial operation of the organisation on a day-to-day basis.

Before committing the organisation to any expenditure for goods or services or to any financial liability, an employee must be satisfied that he or she has the necessary authority. A breach of the organization's financial policies and procedures could be considered serious misconduct and could lead to disciplinary

action It is also important to outline clearly the more specific responsibilities of those charged with managing the organization's finances. The specific responsibilities are as follow:

**The Chair or Treasurer** oversees and monitors adherence to the financial procedures set out in the policy document; provides advice and support to the Executive Director and governing body on financial management issues; represents the governing body on issues relating to the sound financial management of the organisation; liaises with the appointed auditor and presents audited annual accounts to the Annual General Meeting.

**Trustees** approve financial systems, procedures and management; approve annual budget and annual audited accounts; monitor income and expenditure; implement policy on loans, investments and reserves; approve arrangements for insurance and risk management; approve all salaries, new posts, appointments and authorize all the organization's bank accounts and their signatories.

**The Executive Director** presents accurate, timely and high quality financial information and reports to the governing body; formulates the annual budget; monitors financial outcomes against the budgets on a monthly basis and takes appropriate action ; facilitates the annual audit ;reports annually to the governing body on a competitive quotation process for all annual contracts for goods, services, insurance, etc ;ensures that all staff adhere to the financial procedures outlined in the financial procedures policy document ; authorizes petty cash top-ups against expenditure documented by the Office Manager ; keeps abreast of any changes in financial legislation and regulations affecting the organisation ; directs and coordinates financial strategies and plans, linking these to the annual work plan ; ensures adequate insurance to cover assets and liabilities ; checks records of incoming cheques and cash against bank statements ; banks incoming receipts at least weekly ; keeps the cheque book in an appropriate, secure and safe place.

**Finance Officer** records all incoming cheques and cash and ensures the security of these until they are banked ; maintains an up-to-date record of all assets and regularly checks that these are secure and well maintained ; prepares expenditure documentation for appropriate authorization; checks orders received against invoices and keeps records of orders placed but not yet received ; manages petty cash float, subject to cash count and checks by the Executive Director whenever a top-up is requested ; keeps the assets registers.

These responsibilities should be reflected in the terms of reference of the governing body and in the individual job descriptions of staff. If the organisation employs an accountant, then some of the responsibilities of the Executive Director outlined above may be delegated to this post-holder.

## **2.2. EMPIRICAL LITERATURE REVIEW**

There are researches done in the area of financial management and related subjects in Ethiopia and Kenya, even though it is not on the specific area with that of the research done currently by the researcher.

The first one is with a title. (Ayene, 2014)

The purpose of assessment was to assess the financial management practices of the local NGOs in Addis Ababa. Descriptive method of assessment was conducted and data were collected by applying random sampling technique, 92 respondents were selected from the total population of 1,275. The major findings were lack of: budget approval by board, common cost allocation system, records keeping for gifts in kind items, cash forecast preparation, finance staff participation in budget preparation and review, and concentration on limited projects and sources of fund, weakness in standardized financial statement preparation and delay in reporting among others. Finally, the researcher recommended: as means to discharge responsibility & accountability and to show service giving efforts, operational efficiency and effectiveness to contribution to the development endeavor of the country, they should establish a well organized financial management systems: budget management, accounts record keeping, internal control and reporting. Board should monitor regularly the financial management system, senior management shall give due attention for strengthening internal control activities.

Another study conducted was(Marsabit Sub County, 2016)

The main objective of this study was to determine the effect of financial planning on project deliverables of Non-Governmental Organizations. The study aimed at analyzing the financial planning that will lead to a better project deliverable of NGOs. The study focused on the aspects of financial planning which include financial objectives, financial resources, financial efficiency and financial standards and their effect on the project deliverable of NGOs. A total of 40 employees were interviewed in the office. The researcher used census method. Data was collected using Questionnaires which were both closed ended and open ended, where descriptive statistics was utilized to organize and describe the data while excel computer package was used to present the analysis in tables, pie charts and bar graphs. The research found out that the effect

of financial objectives to project deliverables was good, financial resources affected the project deliverables in PISP; financial efficiency affected the project deliverables in PISP and lastly, the research found out that financial standards influenced the performance of projects. The study recommends for management to ensure financial objectives are set to determine the amount that is needed or desired, the time frame in which it must be made and how the money will be spent; management needs to ensure adequate, suitable and appropriate financial resources are available to ensure achievement of project deliverables; and management should ensure financial planning is in place for optimized utilization of scarce resources. Further studies were recommended on the individual aspects of financial planning that is financial objectives, financial resources, financial efficiency and financial standards. Also, a study could also be carried out focusing on factors influencing formulation of financial plans or even challenges faced during formulation of financial plans in Non-Governmental Organizations in Kenya.

### 2.3. CONCEPTUAL DEFINITION OF THE RESEARCH PROBLEM

Conceptual framework (theoretical framework) is an organization or matrix of concepts that provides a focus for inquiry. It is a group of concepts that are broadly defined and systematically organized to provide a focus, a rationale, and a tool for the integration and interpretation of information.

A conceptual framework model is designed to provide a solution for the research problem based on the literature reviewed and findings of previous study.

The following financial management model is used to frame the research assessment.



FIGURE 2- 1: FINANCIAL MANAGEMENT MODEL

- I. **Activities and resources to implement projects:** Funds are released based on project proposals and grant agreement, and Government, stakeholders and beneficiaries expect quality deliverables, transparency and accountability for resource utilization and project success.
- II. **Implementing Organizations:** NGOs carry out projects with the resources provided in order to achieve objectives such as reduction in death due health problem, capacitating health workers and improve the holistic development of the target society.
- III. **Need for efficient and effective utilization of financial resources:** Financial management is concerned with ensuring that each spent is being used efficiently and effectively for the intended /planned purpose only, whether projects are completed within the approved budget without compromising quality of deliverables. Efficient and effective management of finance is one of the knowledge areas for project success.
- IV. **Research Question:** The research question is to ensure whether there is an efficient and effective management of finance (grant) in a consortium project.

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

Research methodology considers the context of the research and the results in order to achieve meaningful research outcomes. Knowing where design fits into the whole research process from framing a question to finally analyzing and reporting data is important in research methodology.

The way in which researchers develop research designs is fundamentally affected by whether the research question is descriptive or explanatory. While descriptive research (case studies, surveys) is concerned on what is going on, explanatory is on why it is going on.

### **3.1. Research Design**

The research design is the methodology and procedure a researcher follows to answer the research question and defines the study type, research question, hypotheses, variables, and data collection methods. It is the general plan of how is going about answering the research question(s).

The research design contains clear objectives derived from the research question(s), specify the sources from which it intends to collect data, and consider the constraints that are inevitably have as well as discussing ethical issues.

Descriptive research seeks to describe the current status of an identified variable or phenomenon. In this study descriptive research of survey type is employed using questionnaires to collect data as well as document review as a secondary data.

Questionnaires were designed, amended, standardized and administered. Using the survey strategy, quantitative data were collected and analyzed quantitatively using descriptive and inferential statistics. Quantitative method is the data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data.

Designing a study helps researchers to plan and implement the study in a way that will help them obtain the intended results, thus increasing the chances of obtaining information that could be associated with the real situation.

### **3.2 Target Population and Sampling**

Target population is the entire group of people or objects to which the researcher wishes to generalize the study findings. For this research, the target populations were employees of Health Poverty Action (HPA), MCMDO and EPaRDA those working as Directors, Managers, Finance and project officers. The total number of these groups of employees was 26. These people are expected to have tested experience in financial management and theoretical knowledge of managing finance in a project.

Purposive sampling (also known as judgment, selective or subjective sampling) is a sampling technique in which researcher relies on his or her own judgment when choosing members of population to participate in the study. It is a non-probability sampling method and researchers often believe that they can obtain a representative sample by using a sound judgment, which will result in saving time and money”.

According to Price (2009), purposive sampling is a form of non-probability sampling in which decisions concerning the individuals to be included in the sample are taken by the researcher, based upon a variety of criteria which may include specialist knowledge of the research issue, or capacity and willingness to participate in the research. Some types of research design necessitate researchers taking a decision about the individual participants who would be most likely to contribute appropriate data, both in terms of relevance and depth. Purposive sampling was preferred in this study and made use of when the members of the entire population do not have the same understanding, or when the sampling size is very small to represent the entire population efficiently. The sampling technique used for the selection of questionnaire respondents was purposive sampling technique.

The question of how large a sample should be depends on the kind of data analysis the researcher plans to use, how accurate the sample has to be for the researchers” purposes and the population characteristics. Because of the nature of the research, the whole employees wouldn’t be participant, and the sample population of the study comprised purposely selected target groups from the organization were 26 participants, the target population of the research is taken as a whole to get good result. Accordingly, workers with experience and background of both project management and project Finance management were considered as respondents to the study.

### **3.3. Research Instrument Development**

The main data gathering instruments employed in this study were questionnaire and document reviews. The questionnaire is taken from the paper “Assessment of Financial Management Practices in Local NGOs-A Case of Local NGOs in Addis Ababa)” by Mengesha Ayene, June 2014” and from Asia Development Bank financial management assessment Questionnaire whose validity and reliability has

been tested. Besides, modification was done to customize to the context of this research through pilot testing and discussing with experienced researchers in and outside the organization under consideration and research advisor.

### **3.4 The Research Process**

#### **3.4.1 The Administration of Questionnaires**

The data sources for this study include both primary and secondary sources. Primary data were collected using self-administered questionnaires completed by the respondents. The researcher has chosen to use personal hand delivery administration method to ensure that the target sample is received and returned the questionnaire. This method ensures very high response rate as fewer people refused to participate in the study. Most of the questionnaires were attitudinal or opinion variables that records how the respondents feel about efficiency and effectiveness of Financial Management in a project.

The questionnaires were distributed to Directors, Project staff, Finance Managers and Middle Level Finance staff. The questionnaires were distributed to the respondents considering that they have the knowhow and exposure of project finance management. Questionnaire distribution was considered vital for the survey in order to have a true reflection of how management of finance is practiced in a project. Five point Likert-style rating scale questionnaires were used. The respondent was asked how strongly she or he agrees or disagrees with a statement(s) for the effectiveness of Financial Management in projects.

#### **3.4.2 Document review**

Documents considered important to conduct the study are reviewed and these include monthly, quarterly and annual financial reports; Audit reports both annual and project specific; and Donor agreements and amendments.

### **3.5 Data Analysis Method**

Data Analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. There are a variety of specific data analysis method like data mining, text analytics, business intelligence, and data visualizations. Data initially obtained must be processed or organized for analysis, and involve placing data into rows and columns in a table format that is structured data for further analysis within spreadsheet or statistical software. The researcher uses tables, mean, frequencies and percentages to analyze the quantitative data obtained through the use of the survey

questionnaire. Data analysis and conclusions use deductive reasoning, a process where repeated observations of a phenomenon leads one to believe that there is a certain probability and predictability attached to the occurrence of that event. Data is analyzed under following headings: General Information, Planning Related points, budget management practices, controlling and reporting practice.

Coding was given to all closed ended (structured) interview to rearrange the responses of each question in a manageable way. After coding of the self administered questionnaires, data entry was taken. The data obtained from the self administered questionnaires to assess the effectiveness of monitoring the project was analyzed using Statistical Package for Social Science(SPSS) and adapted to the required format after extracting into excel sheet.

### **3.6. Ethical Consideration**

The researcher took into account the ethical obligations to the professionals in the industry whose input from the research questionnaire were kept confidential and will only be used for academic purposes. Respondents to the questionnaire had the right not to answer questions that they felt were not appropriate without any intimidation. Respondents were given assurance about secrecy of their responses. The researcher formulated the research topic and research design, got access to data, collect data, processed and stored the data and wrote up the research findings in a moral and responsible way.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1. Introduction

This chapter discusses about the findings gathered through questionnaire from respondents and document reviews. The primary objective of this assessment is to analyze how financial resources are managed in a project executed in a consortium basis. The results are presented in the form of tables with mean and percentages. The primary data for this assessment was collected from staff of HPA, MCMDO and EPaRDA who have the exposure and experience of project management and/or finance management, and that is why purposive sampling is used to design the research. The secondary data were collected from books, manuals, journals, reports, research papers and various websites.

#### 4.2. Data Analyzes and Presentation from Questionnaires

The data collected using questionnaire is analyzed in the general information, planning, budgeting, controlling and reporting point of views. For the purpose of gathering primary data questionnaires were distributed to 26 respondents and all were collected. The general information questionnaire was concerned on educational qualification and years of service in that organization.

**TABLE 4 - 1: GENERAL INFORMATION (EDUCATION AND EXPERIENCE)**

*Staff educational level*

Sl No.	Questions	Options of Responses					Total Responses
		Certificate	Diploma	BA/BSc	Masters	PhD	
1	Staff educational level	0	0	16	10	0	26
		0%	0%	62%	38%	0%	100%

*Staff years of experiences in finance management/project management*

Sl No.	Questions	Options of Responses					Total Responses
		0-2 years	3-5 years	6-10 years	11-15 years	>15 years	
1	staff years of work experiences finance /project management	0	5	16	3	2	26
		0%	19%	62%	12%	8%	100%

As it can be observed from table 4.1, regarding respondent's education level, 62 percent of them hold first degree, 38 percent hold Master's Degree, and none of the respondents hold Doctorate degree, diploma or certificate. Regarding the general work experience of the respondents while none of them had 0- 2 years of experience, 19 percent of the respondents had 3-5 years of experience, 62 percent had 6-10 years of experience, 12 percent had 11-15 years of experience and 8 percent had above 15 years of experience. Thus, it is possible to consider that all of the respondents had the required experience and educational background to deliver rational information for the study and it is possible to conclude that these respondents were able to provide reliable information about financial management in a project.

**TABLE 4 - 2: DESCRIPTIVE STATISTICS FOR PLANNING**

SR No.	Questions	N	Mean	Std. Deviation
1	Procedures are in place to plan project activities and prepare the budgets.	26	3.7308	1.37281
2	The organizational structure is appropriate for the needs of the project.	26	4.2308	1.06987
3	Risk assessment that relate with finance is done during the planning phase.	26	2.3077	1.19228
4	All resources necessary for project activities are listed in the planning phase.	26	3.7308	1.37281
5	The correct cost driver is used to determine the cost of the resource required for project activities.	26	3.8846	1.21085
6	Cost estimating techniques are used to determine the cost of the resource required for project activities.	26	1.9615	1.18257
7	Current market survey that considers inflation is done to determine the rate of cost driver to be used in cost estimating.	26	1.8077	1.16685
8	Historical information regarding what types of resources were required for similar work on previous projects is used to plan resource requirements.	26	4.0769	.97665
9	The project team knows the nature and category of all costs that are likely to be encountered during the course of a project.	26	2.1154	1.27521
	Valid N (listwise)	26	3.0940	

*Summary of planning related Questions and responses*

Project financial planning is the process of determining project costs and developing a budget. Good financial planning has many benefits, including estimating benefits, reducing financial risk, and planning for unexpected costs. Financial planning is a key to prepare smart project budget decisions.

As it is depicted in Table 4.2 respondents were asked financial planning related questions to assess the practice of financial planning in the organization. The respondents were instructed to respond to the statements on a 5 point Likert scale and indicate the extent they agree with the statements that is: 5- Strongly agree, 4-Agree, 3-Neutral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.5 means that the respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were neutral, 3.50-4.50 means they agreed, and a mean above 4.50 means the respondents strongly agreed. As indicated on Table 4.2, the respondents' responses for the statements are as follows.

Procedures are in place to plan project activities and prepare the budgets (M=3.7308, SD=1.37281), the organizational structure is appropriate for the needs of the project, (M=4.2308, SD=1.06987), all resources necessary for project activities are listed in the planning phase(M=3.7308, SD= 1.37281), the correct cost driver is used to determine the cost of the resource required for project activities(M=3.8846, SD=1.21085), Historical information regarding what types of resources were required for similar work on previous projects is used to plan resource requirements(M=4.0769, SD=0.97665).The above financial planning practices questionnaire had mean scores within 3.5 – 4.5 and therefore the respondents agreed with the practice of those lists of planning practices in their organization. However, the respondents replied on risk assessment that relate with finance is done during the planning phase with (M=2.3077, SD=1.19228), Cost estimating techniques are used to determine the cost of the resource required for project activities with (M=1.9615, SD=1.18257),current market survey that considers inflation is done to determine the rate of cost driver to be used in cost estimating with (M= 1.8077, SD=1.16685),the project team knows the nature and category of all costs that are likely to be encountered during the course of a project with ( M=2.1154,SD=1.27521).Thus the respondents disagree on these planning activities because all had a mean score between 1.5 and 2.50.

**TABLE 4 - 3: DESCRIPTIVE STATISTICS FOR BUDGETING**

SR No.	Questions	N	Mean	Std. Deviation
1	The project plans and budgets of project activities are realistic, based on valid assumptions, and developed by knowledgeable individuals.	26	4.0000	1.09545
2	Budgets do include physical and financial targets.	26	3.9615	1.28002
3	Budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance.	26	3.6154	1.23538
4	Approvals for variations from the budget are required in advance.	26	4.0385	.87090
5	Cost allocations to the various funding sources are made accurately and in accordance with established agreements.	26	3.1538	1.37673
6	Finance staff is involved in the project budget preparation process.	26	2.1538	1.22286
7	The boards formally approve the project budget of the organization.	26	4.0385	.99923
8	A reasonable contingency budget is developed for selected activities.	26	2.0000	1.05830
9	The chart of accounts to account for the project finance is based on the budget line developed.	26	2.4231	1.33186
10	There is a system for the concerned project team to ensure that each expenditure is identified and tied to a specific project activity and its associated milestone.	26	1.7692	.95111
11	Budget is updated when there is a change in project activities and schedule.	26	1.9231	.84489
12	The revised budget is properly documented and communicated timely for concerned project staff.	26	1.9231	.93480
	Valid N (listwise)	26	2.9167	

**Summary of budget related Questions and responses**

The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to the budget limit and used for the planned activities. Furthermore, budget is also important as guideline towards the achievement of planned

programs/project and measurement of performance. Budgeting, implementing, monitoring and measuring the performance are the main activities to be done by finance and program /project staff and thus require the involvement and participation of staff from both technical and managerial levels.

As indicated in Table 4.3 the respondents reacted on the involvement of Finance staff in the project budget preparation process (Q6) with Mean=2.1538, SD= 1.22286, the development of a reasonable contingency budget for selected activities (Q8) with Mean =2.0000 , SD= 1.05830, whether the chart of accounts to account for the project finance is based on the budget line developed (Q9)with Mean =2.4231, SD= 1.33186, Whether there is a system for the concerned project team to ensure that each expenditure is identified and tied to a specific project activity and its associated milestone (Q10)with Mean=1.7692, SD= 0.95111, Budget is updated when there is a change in project activities and schedule (Q11) with Mean=1.9231, SD= 0.84489, and The revised budget is properly documented and communicated timely for concerned project staff (Q12)with Mean=1.9231, SD= .93480, respectively. All mean score for each of the preceding questionnaire lies within 1.5 and 2.5 leading to infer that the respondents disagree on each statement of budgeting activities.

Again from the table 4.3 ,for the questions project plans and budgets of project activities are realistic, based on valid assumptions, and developed by knowledgeable individuals (Q1)(M=4.0000, SD= 1.09545), Budgets do include physical and financial targets (Q2)(M=3.9615, SD= 1.28002), Budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance (Q3)(M=3.6154, SD= 1.23538), Approvals for variations from the budget are required in advance ( Q4)(M=4.0385, SD= 0.87090),and The board formally approves the project budget of the organization (Q7)(M=4.0385 , SD= 0.99923) ,the Mean Scores are within 3.5 and 4.5 which implies that the respondents agree on these budget activities.

On the other hand cost allocations to the various funding sources are made accurately and in accordance with established agreements(Q5) with Mean =3.1538, SD= 1.37673 lays between 2.5 and 3.5 which show that the respondents were neutral for this statement.

**TABLE 4 - 4: DESCRIPTIVE STATISTICS FOR CONTROLLING**

SR No.	Questions	N	Mean	Std. Deviation
1	The entity has an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds.	26	4.1538	.78446
2	All accounting and supporting documents are retained on a permanent basis in a defined system that allows authorized users easy access.	26	3.8846	1.14287
3	The following functional responsibilities are performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction.	26	4.0000	1.16619
4	The functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated.	26	4.0769	1.01678
5	Actual expenditures are compared to the budget with reasonable frequency, and explanations required for significant variations from the budget.	26	1.9615	.99923
6	All invoices are stamped PAID, dated, reviewed and approved, and clearly marked for project account code assignment.	26	3.8077	1.09615
7	Policies and procedures do clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them.	26	3.3462	1.12933
8	The project has established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities.	26	3.1923	1.16685
9	The organization has a financial manual specifically to manage project finance.	26	1.6923	.78838
10	The accounting policy and procedure manual is updated for the project activities.	26	2.0385	1.07632
11	Funders /donors provide trainings on financial management activities on agreed projects.	26	2.6923	1.12318
12	Value for money analysis (earned value management) is done for funds utilized in the project.	26	1.7692	.81524
13	The organization has a mechanism that let stakeholders including beneficiaries to know how funds are utilized.	26	2.0385	.95836
14	The system for keeping financial records and documentation observe internationally accepted accounting standards and principles.	26	3.9231	1.12865
15	The organization has a system to reliably record and report the financial transactions of the project.	26	4.3077	.67937
16	There is a system to allocate costs across both project activities and the anticipated time in which the budget is to be expended.	26	2.2692	1.04145
	Valid N (listwise)	26	3.0721	

**Summary of Control of finance related Questions and responses**

Controlling of financial resources in a project involves taking the cost baseline and performance data about what has actually been done in order to determine the work accomplished against the amount spent. The key to effective cost control is the management of approved cost performance baseline and the changes to that baseline.

As Table 4.4 presents that respondents replied for the question Actual expenditures are compared to the budget with reasonable frequency, and explanations required for significant variations from the budget (Q5) with Mean=1.9615, SD= 0.99923, The organization has a financial manual specifically to manage project finance (Q9) with Mean =1.6923, SD= 0.78838, The accounting policy and procedure manual is updated for the project activities (Q10 ) with Mean=2.0385, SD= 1.07632, Value for money analysis (earned value management) is done for funds utilized in the project (Q12) with Mean=1.7692, SD= 0.81524, The organization has a mechanism that let stakeholders including beneficiaries to know how funds are utilized (Q13) with Mean=2.0385, SD= 0.95836) and There is a system to allocate costs across both project activities and the anticipated time in which the budget is to be expended (Q16) with Mean=2.2692, SD= 1.04145. These results ,with the mean score between 1.5 and 2.5, infer that the respondents disagree for these financial controlling activities and shows there is a gap in preparing budget actual utilization report on time for decision making, in setting a financial manual specifically for project as well as updating the accounting policies and procedures for project activities, in performing value for money analysis, in letting stakeholders to scan fund utilization, and in allocating costs across both project activities and expected time.

On the other hand the results for the statements; Policies and procedures do clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them with Mean = 3.3462,SD = 1.12933 ,The project has established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities with Mean 3.1923 ,SD = 1.16685, and Funders /donors provide trainings on financial management activities on agreed projects with Mean 2.6923,SD = 1.12318;shows that the mean score is between 2.5 and 3.5 .These result implies that the respondents are neutral or not aware of it.

Again from Table 4.4 the mean score for the following controlling activities lays within 3.5 to 4.5 that imply that the respondents agree on each statement. The questions are the entity has an accounting system that allows for the proper recording of project financial transactions with Mean = 4.1538,SD = 0.78446,All accounting and supporting documents are retained on a permanent basis in a defined system

that allows authorized users easy access with Mean = 3.8846 ,SD = 3.8846,The following functional responsibilities are performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction with Mean = 4.0000 , SD = 1.16619, The functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated with Mean = 4.0769 ,SD =1.01678, All invoices are stamped PAID, dated, reviewed and approved, and clearly marked for project account code assignment with Mean = 3.8077,SD = 1.09615,The system for keeping financial records and documentation observe internationally accepted accounting standards and principles with Mean = 3.9231 , SD = 1.12865 and The organization has a system to reliably record and report the financial transactions of the project with Mean = 4.3077 SD= 0.67937.This implies that as the mean score is from 3.5 to 4.5 the responds agree on the controlling activities done in the organization.

**TABLE 4 - 5: DESCRIPTIVE STATISTICS REPORTING**

SR No.	Questions	N	Mean	Std. Deviation
1	The chart of accounts is adequate to properly account for and report on project activities and disbursement categories.	26	2.1923	.98058
2	Information among the different implementing agencies flows in an accurate and timely fashion.	26	3.8462	1.18970
3	Periodic reconciliations are performed among the different offices/implementing agencies.	26	4.1538	.92487
4	Another auditor is appointed to audit the project financial statements.	26	4.2692	.66679
5	The project has prepared acceptable terms of reference for project audit.	26	4.1154	.71144
6	Budget monitoring report is done at the end of the agreed period and provided to managers to see actual expenses and performances against budget and activities planned to analyze variance for decisions.	26	2.1538	1.12044
7	The reporting system has the capacity to link the financial information with the project's physical progress.	26	1.9615	.72004
8	The financial reports are checked and reviewed against the activities reports by the management.	26	1.6154	.80384
9	If separate systems are used to gather and compile physical data for Question 7, controls are in place to reduce the risk that the physical data may not synchronize with the financial data.	26	1.9615	.99923
10	The project has established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used.	26	4.2692	.77757

11	The organization's financial management system track revenues and expenditures and provide financial results separately for each project or program agreement.	26	4.1923	.69393
12	Funders/donors transfer fund timely as per the original plan in the implementation of projects.	26	2.2692	1.25085
13	The activity performance reports are analyzed and measured against budget allocated.	26	2.1154	1.03255
14	The organization is at a very good status in meeting government and donor requirements in financial management and reporting.	26	4.1538	1.04661
15	There is a system of reporting any challenges that has impact on project progress to Donors in time.	26	1.8462	1.12044
16	There is a tolerable level of limit for over/under project budget utilization.	26	3.6154	1.23538
17	The organization has a system to provide sufficient financial report for managing and monitoring project activities.	26	1.9615	.82369
	Valid N (listwise)	26	2.8162	

#### **Summary of reporting of financial performance related Questions and responses**

Financial reports are needed primarily by those responsible for managing the organisation and by current and potential donor agencies as well as by wide range of stakeholders. Project staffs need financial report to know how much money and resources are available for their projects and what has been spent so far.

Financial report related questions were distributed to respondents and as depicted in Table 4.5, the mean score on adequacy of chart of accounts to report activities (Q1) with Mean =2.1923, SD= 0.98058, on budget monitoring report question (Q6) with Mean =2.1538, SD= 1.12044, on checking and reviewing of financial report against activities (Q7) with Mean = 1.9615, SD= 0.72004, on the reporting system capability to link finance report with physical report (Q8) with Mean = 1.6154, SD= 0.80384 , on the presence of control to reduce risk in synchronizing financial data with activities manually (Q9) with Mean 1.9615,SD = 0.99923, on timely fund transferring (Q12) (M=2.2692, SD= 1.25085), performance report analyzes with budget (Q13) with Mean = 2.1154, SD= 1.03255 ,challenge reporting system to donors (Q15) with Mean = 1.8462, SD= 1.12044),and on availability of system that provide financial report for managing project activities (Q17 ) with Mean =1.9615, SD= 0.82369 lays between 1.5 and 2.5. The mean score within 1.5 to 2.5 implies that the respondent disagree on the reporting activities presented for them using questionnaire. This indicate that the majority of the respondents argue that Donors do not transfer fund timely, the activity performance reports were not analyzed and measured against budget allocated, the system of reporting any challenges that has impact on project progress to Donors in time is not that

much, and the organization does not have a system to provide sufficient financial report for managing and monitoring project activities.

On the other hand, again from Table 4.5 above the mean score for the questions ; there is information flow among the different implementing agencies in an accurate and timely fashion (Q2) with Mean = 3.8462 , SD= 1.18970,Periodic reconciliations are performed among the different offices/implementing agencies (Q3) with Mean = 4.1538, SD= 0.92487 ,Another auditor is appointed to audit the project financial statements (Q4) with Mean =4.2692, SD= 0.66679, The project has prepared acceptable terms of reference for project audit (Q5) with Mean = 4.1154, SD= 0.71144 , The project has established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used (Q10) with Mean = 4.2692, SD= 0.77757, The organization's financial management system track revenues and expenditures and provide financial results separately for each project or program agreement(Q 11) with Mean = 4.1923, SD= 0.69393,The organization is at a very good status in meeting government and donor requirements in financial management and reporting (Q14) with Mean = 4.1538, SD= 1.04661,and There is a tolerable level of limit for over/under project budget utilization (Q16) with Mean 3.6154 ,SD = 1.23538 ;were between 3.5 and 4.5 .The Mean score within 3.5 to 4.5 infer that the respondents agree on the preceding activities of reporting.

Together with the close ended (those having alternatives to select) questions, the questionnaire distributed had open ended questions. Respondents were required to describe financial related problems observed during the initiation and planning, executing, controlling and reporting, and finally closing phases of the project and possible reasons. Accordingly their responses are as follow.

At the initiation and planning phase of the project respondents argued that there is no resource person to assist planning; there is poor knowledge of current market which resulted in poor estimation of costs; the planning is not participative thus lead to over /under planning of financial resources because planning is done at Head Office without visiting the present beneficiaries; there is a lot of back and forth communication with Donors caused by inaccurate planning that lead to a rough relation with Donors and delay to start the project on time; and expectations are not developed and communicated clearly to the front of the project.

During the executing phase of the project respondents claimed that there is no frequent update of burn rate (budget utilization ) report; there is a high need of budget to execute activities due to inflation and

different interest of the local stakeholders; the overlaps of schedule with stakeholders, the frequent staff turnover ,the lack of facilities and late release of funds from Donors lead to underutilization of funds resulting in reduction in total obligated fund or even cancellation; and unable to execute activities according to the plan because of the delay in fund transferring, conflict in the intervention area of the project as well as delay in getting the agreement with the Government.

For controlling and reporting practice of the project respondents replied that there is a need of huge budget by governing bodies (signatories) whereas Donors allow small budget for monitoring; cross checking of physical and financial report is not done because separate reporting format is used by program and finance units; no timely and regular monitoring as the organization is not willing to do it for the fact that the controlling and monitoring expense is categorized in the administration cost (30%) of the 70/30 rule of the Government; there is a delay of reporting to Donors because of the far distance between the intervention area and the coordination (Head Office); and there would be misappropriation of resources as HPA has few staff and difficult to put segregation of duties in place.

During the closing phase of the project respondents argued that there is a lot of back and forth communication at the end of the project in consolidating the overall final financial reports because of lack of timely regular monitoring of partners expenditure and clearing of issues before the end of the project; there is no closing plan and proper handover of project outlays; there is a hassle of project materials movement and disposal that require unexpected expense for which most of the time Donors did not allow such costs ;and delay of monitoring by the Government that will lead to a payment beyond the project period.

### **4.3. Document Review**

Relevant documents to assess the study were explored and these include Donors agreement and amendment, Audit reports, financial reports, project agreements with Government and electronic communications.

In assessing the conduct of audit in the organization, the researcher has found out that there is both project and annual audit.

Projects have a specific start period and end period. When projects are not done within the specified time period additional resources would be required unless otherwise it is a No-cost extension type. To assess whether projects have been completed within the specified time or not the researcher has go through the grant agreement made between HPA and Cordaid. The project number was 111077 and the project title was Building Local Capacity for Maternal and Newborn Health. The project period was 1 June 2014 until 31 May 2015 signed at The Hague dated 14 May 2014. The budget amount signed was Euro 255,633.00. The project was extended to 31 December 2016 with additional budget of Euro 99,470.00. The agreement stated that the Audit report is expected not later than 31<sup>st</sup> of March 2017. Actually the Audit report was completed as of June 08, 2017 with a delay of two month. This has a negative impact on the smooth relation of the donors and implementing organization not only for future application of call for proposal but also for referencing to other funding application.

The audit report for the project Building Local Capacity for Maternal and Newborn Health funded by Cordaid depicted that the approved budget was Euro 354,875.68 and the total expenditure was Euro 298,277.72 with a utilization rate of 84%. The result shows that there is unutilized budget of Euro 56,597.97 which is more than 1 million in Ethiopian Birr. This shows that utilization of funds is not as planned.

Project activities that has financial implication has to be done based on the schedule as it can save unnecessary expenses occurrence while rushing at the end of the project period. The researcher has tried to investigate the transaction list of HPA Cordaid project and from the annual expenditure of ETB 2,466,712.04, while 82 percent (ETB 2,010,556.72) are made from October 2016 to December 2016, 48 percent (ETB 1,178,186.79) are made in December 2016. This would lead misappropriation of resources.

The monthly and annual financial report prepared by the finance staff does not show the budget and actual expenditure comparisons rather only the expenditure parts. This will lead to under or over utilization of project budgets.

For effective monitoring and evaluation of project activities' budget utilization it is good to have a system that has the capacity to link the financial information with the project's physical progress. The researcher has investigated that it has been done manually by numbering on excel sheet extracted from accounting system. Such practice would be exposed to error that will lead to misinterpreted information for users.

The data collected for the assessment of the management of finance in a consortium project through questionnaire and document review are discussed as follows. The consistency and inconsistency of the results achieved through the questionnaire and document review techniques are analyzed.

Accordingly the results obtained for the questions concerning whether Actual expenditures are compared to the budget with reasonable frequency, and explanations are required for significant variations from the budget; whether there is a system to allocate costs across both project activities and the anticipated time in which the budget is to be expended; and budget monitoring report is done at the end of the agreed period and provided to managers to see actual expenses and performances against budget and activities planned to analyze variance for decisions are consistent both in the questionnaire and document review.

## **CHAPTER FIVE**

### **SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS**

This chapter presents the summary of the research findings, Conclusions and recommendations. The objective of the study is to assess the practice of managing finance in a project executed in a consortium basis which is led by HPA (i.e. considering HPA (lead), MCMDO and EPaRDA). The study findings answer all research questions in this study (i.e. How is project finance managed in a consortium projects lead by HPA?, What are the factors those have impact on effectiveness in managing project Finance by HPA?, What are the financial planning procedures in place for managing finance in a consortium projects lead by HPA? and What are the financial controlling mechanisms in place for managing finance in a consortium projects lead by HPA?.) as per the results in chapter four. In addition, this chapter present the conclusion and recommendations of the study.

#### **5.1. Summary of Findings**

Project management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements. Much of project management is concerned with planning and controlling the three key variables associated with projects. The variables are time, cost and quality and they are interrelated and a change in any single variable frequently has a significant impact on the others. Since project management is concerned with managing change, within the constraints of the three key variables of time, cost and quality, organizational structures for managing projects can be expected to differ from traditional organizational structures, which were developed to help managers manage in more stable environments.

In most developing countries like Ethiopia NGO's supplement government efforts to improve the living standards through implementation of diverse donor funded projects. In most cases projects implemented by NGO's involve the use of donor funds in order to achieve specific objectives stipulated in the grant agreement between funder and the implementing partner. In order to achieve projects objective, efficient and effective management of finance is basic.

The specific objectives of this study were to assess how financial management is done in a consortium project, to analyze the factors those have impact on the effectiveness of managing finance in a consortium

project, to assess the indicators of the effectiveness of project Finance Management and to identify the prevailing gap in financial Management and propose for improvement.

To assess the system of financial management the researcher observes from planning, budgeting, controlling and reporting point of view. In doing so descriptive research method was employed and using purposive sampling both primary and secondary data were used. Data were collected using Questionnaire and document reviews so as to summarize and analyze the phenomena.

The research has found out that in the context of financial planning procedures are in place to plan project activities and prepare the budgets; the structure of the organization is appropriate for running projects; project activities are developed by considering all resources necessary for implementation ; the correct cost driver (unit of measure) is used to determine the cost of the resource required for project activities ; and historical information regarding what types of resources were required for similar work on previous projects is used to plan resource requirements for new projects.

And from budgeting point of view the study explored out that the project plans and budgets of project activities are realistic, based on valid assumptions, and developed by knowledgeable individuals; budget prepared does include physical targets and is for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance; approvals for variations from the budget are required in advance ;and the board formally approves the project budget of the organization.

The study from the controlling context has also revealed that the accounting system allows for the proper recording of project financial transactions; all financial documents are retained on a permanent basis in a defined system ;segregation duties in finance area is established ;all invoices are authenticated and marked for project account code assignment ; the system is there to reliably record and report the financial transactions of the project ; and the system for keeping financial records and documentation observe internationally accepted accounting standards and principles.

Furthermore the study has depicted that, in the area of financial reporting, information among the different implementing agencies flows in an accurate and timely fashion; periodic reconciliations are performed among the different offices/implementing agencies; Auditor is appointed to audit the project financial statements in line with acceptable terms of reference to conduct the project audit ; financial management reporting system that specify what reports are to be prepared and what to contain as well as how to be used is established ; the financial management system track revenues and expenditures and provide

financial results separately for each project or program ; tolerable level of limit for over/under project budget utilization is specified ; and the financial management and reporting system meets the government and Donor requirements .

Thus, the above mentioned results were taken as the most important strengths of managing finance in HPA, MCMDO and EPaRDA while executing project in a tripartite agreement type.

The study has found out that lack of risk assessment in finance related issues; the absence of cost estimating techniques; not doing current market survey that considers inflation; project team gap in understanding the nature and category costs ; the preparation of project budget without the involvement of Finance staff ;not considering reasonable contingency budget for selected activities ; not developing chart of accounts based on the budget line developed ; lack of system that ensure each expenditure is identified and tied to a specific project activity and its associated milestone ; not updating ,communicating and documenting budget when there is a change in project activities and schedule in time ; the absence of budget actual expenditures report at a certain frequency ;lack of a financial manual specifically to manage project finance ; not doing value for money analysis for funds utilized in the project ; and the absence of a mechanism that let stakeholders to know how funds are utilized and a system to allocate costs across both project activities and the anticipated time of spending were the gaps observed in the function of budgeting and controlling of financial resources.

The gaps observed in reporting financial results include financial reports are not checked and reviewed against the activities reports by the management; the absence of reporting system that link the financial information with the project's physical progress; lack of a system to report challenges on project progress to Donors in time; and lack of a system that provide sufficient financial report for managing and monitoring project activities.

## **5.2. Conclusions**

As per the findings summary in the previous section the researcher concludes for those consortiums which is led by HPA, the project finance management have been implemented by using the financial management cycle i.e. the starting point is planning, which is followed by budgeting, then executing ( Managing and controlling ) and the final stage is measuring which involve reporting and auditing. Here the lead agency HPA always takes the responsibility of consolidating the plan, the budget and monitor the execution and finally the reporting and auditing.

As per the finding in this study the management of finance for projects implemented by consortium arrangement which is led by HPA is impacted by the presence of the risk assessment during the initiation as well as during execution, the presence of rule and regulation by the implementing partners (IP's), the presence of the work plan along with the financial resource, conflict and delay during agreement signing with the local government for the implementation, lack of stockholders participation during planning and execution of the intended project and not applying the requirement for value for money during the budgeting and execution.

The financial planning procedures which is designed by HPA for projects implemented in consortium arrangement includes; Planning project activities with the required resources, Prepare the budgets as per market value as well as previous budgeting for similar projects; considering the existing structure of the organization.

The financial controlling mechanisms employed by HPA throughout the project life of those projects implemented in consortium arrangements includes; the presence of standardized financial recording system, the presence of adequate archiving system for those financial documents during execution as well as after the end date of the project as per the donor requirements, the presence of segregation of duties by the IP's during the execution of the project activities, and the presence of standard reporting procedure.

### **5.3. Recommendations**

Considering the major findings of the study observed in each cycle of managing finance, the researcher has forwarded the following recommendations though the recommendation in one function could have impact on the other.

#### **During planning function of financial management:**

Risk assessment related to finance has to be conducted so as to proactively mitigate unforeseen events. To do risk assessment one can (1) identify the risks using 'SWOT' analysis i.e. identify financial strengths, weaknesses, opportunities and threats, then think of each of the threats as a potential risk; (2) each risk is classified according to how serious it would be for the organisation if it did happen (critical, major, or manageable) and then classified according to the likelihood of occurrence (likely, possible or remote). The risks the trustees need to be most concerned about are those which would have a critical or major impact and are quite possible or likely to occur; (3) take action on the most serious risks that is actions should be taken to reduce the likelihood of the risk occurring, or the impact if it did occur;(4) continue to monitor

progress meaning that risk assessment should not be a one off event because the financial risks predicted to faces will change over time, the decisions taken to reduce the risks may or may not be properly implemented, the actions taken may or may not be effective in reducing the risk. Thus it is important to keep reviewing the situation by developing and maintaining a risk register regularly reviewed at Board meetings.

Conduct participative financial planning, state and communicate clearly the expectations of the project to the concerned staff.

Use cost estimating techniques to determine the cost of resources required for project activities.

Aware project team to internalize nature and category of costs, and do current market survey by considering inflation to determine the unit cost of resources needed for project activities.

**During budgeting:**

Ensure the involvement of finance staff in the budget preparation process so as to prepare a comprehensive and correct budget.

Practice the development of contingency budget for reasonably selected activities so as to alleviate unforeseen expenditures.

Create chart of accounts for project finance based on the budget developed so that it made easy in tracking burn rate.

Properly document and communicate the revised budget to the concerned stakeholders in time when there is budget revision as a result of change in project activities and schedule so that everyone can adjust their plan.

Develop a system so that concerned staff can ensure that each expenditure is identified and tied to a specific project activity and its associated milestone.

**During controlling and recording:**

Prepare budget against actual expenditures report with explanation for variation at a reasonable frequency so that project team can update their plan of activities.

It is good to set financial manual specifically for managing finance of the project and or update the parent organization's manual for smooth running of the project.

Value for money analysis (earned value management) and letting stakeholders to know how budget is utilized has to be done to ensure that funds are utilized only for intended purpose as this would help to develop smooth relation with Donors and stakeholders.

It is important for organization to have a system to allocate costs across both project activities and the anticipated time in which the budget is to be expended using tools like Gantt chart and other so as to proactively aware when are activities to be done and how much resources are required.

### **During reporting of financial results**

Set adequate chart of accounts to properly account for and report on project activities and disbursement categories.

Prepare budget monitoring report at the end of the agreed period and provided to managers to see actual expenses and performances against budget and activities planned to analyze variance for decisions. For budget monitoring use ABC budgeting

By considering the volume of transactions and cost benefit analysis it is good for the organization to have a system that has the capacity to link the financial information with the project's physical progress as it helps the management to easily check and review the financial reports against the activities reports.

The organization has to clearly ensure whether the requirements of Donors are in harmony so that Funders/Donors are ready to transfer funds timely as per the original plan in the implementation of projects.

Regular monitoring and follow up of partner's expenditure and clearing of issues has to be there so as to avoid a lot of back and forth communication at the end of the project in consolidating the overall final financial reports.

Closing plan has to be developed proactively so as to ease the handover of project outlays, to reduce the hassle of project materials movement and disposal that require unexpected expense and to facilitate timely Government monitoring activities.

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# ANNEX I- QUESTIONNAIRE

**Addis Ababa University**  
**College of Business and Economics**  
**School of Commerce**

**Project Management Graduate Program**

The questionnaire is designed to collect information on Financial Management of Projects executed in a consortium basis and /or in agreement of two or more organizations by considering the case of Health Poverty Action (Lead), MCMDO and EPaRDA. The information is going to be used as a primary data in this research which the researcher is conducting as a partial fulfillment of his study at Addis Ababa University for completing Master of Project Management.

Believing that your frank and genuine responses will contribute vastly to the quality of the findings of this study, the researcher would like to ask you kindly to complete this questionnaire, as truthfully as possible. He would also like to inform you that the responses you provide will be kept confidential and will not be disclosed to the third party without your consent.

The researcher would like to express his heartfelt thanks in advance for taking part in this endeavor.

**Azmeraw Nigusie ;251 912 13 24 18 ,azwns@gmail.com**

### Direction

No need of writing your name;

Put “✓” mark in the appropriate space;

If you cannot get any satisfying choice among the given alternatives, you can write on the remark column.

For the open ended items, give brief answer in the space provided.

Consider the following abbreviation and use where appropriate:

**SD= Strongly disagree, DA= Disagree, NL= Neutral, AG= Agree, SA= Strongly agree**

### General Information

Staff educational level

SI No.	Questions	Options of Responses					Remark
		Certificate	Diploma	BA/BSc	Masters	PhD	
1	Staff educational level						

Staff years of experiences in finance management/project management

Sl No.	Questions	Options of Responses					Remark
		0-2 years	3-5 years	6-10 years	11-15 years	Above 15 years	
1	staff years of work experiences finance /project management						

**Planning related Questions**

No	Questions	Response Categories				
		SD	DA	NL	AG	SA
1	Procedures are in place to plan project activities and prepare the budgets.					
2	The organizational structure is appropriate for the needs of the project.					
3	Finance related risk assessment is done in the planning phase.					
4	All resources necessary for project activities are listed in the planning phase.					
5	The correct cost driver is used to determine the cost of the resource required for project activities.					
6	Cost estimating techniques are used to determine the cost of the resource required for project activities.					
7	Current market survey that considers inflation is done to determine the rate of cost driver to be used in cost estimating.					
8	Historical information regarding what types of resources were required for similar work on previous projects is used to plan resource requirements.					
9	The project team knows the nature and category of all costs that are likely to be encountered during the course of a project.					

**Budget related Questions**

No.	Questions	Response Categories				
		SD	DA	NL	AG	SA
1	The project plans and budgets of project activities are realistic, based on valid assumptions, and developed by knowledgeable individuals.					
2	Budgets do include physical and financial targets.					

3	Budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance.					
4	Approvals for variations from the budget are required in advance.					
5	Cost allocations to the various funding sources are made accurately and in accordance with established agreements.					
6	Finance staff is involved in the project budget preparation process.					
7	The boards formally approve the project budget of the organization.					
8	A reasonable contingency budget is developed for selected activities.					
9	The chart of accounts to account for the project finance is based on the budget line developed.					
10	There is a system for the concerned project team to ensure that each expenditure is identified and tied to a specific project activity .					
11	Budget is updated when there is a change in project activities and schedule.					
12	The revised budget is properly documented and communicated timely for concerned project staff.					

#### Controlling Related Questions

No.	Questions	Response Categories				
		SD	DA	NL	AG	SA
1	The entity has an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds.					
2	All accounting and supporting documents are retained on a permanent basis in a defined system that allows authorized users easy access.					
3	The following functional responsibilities are performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction.					
4	The functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated.					
5	Actual expenditures are compared to the budget with reasonable frequency, and explanations are required for significant variations from the budget.					
6	All invoices are stamped PAID, dated, reviewed and approved, and clearly marked for project account code assignment.					
7	Policies and procedures do clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them.					

8	The project has established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities.					
9	The organization has a financial manual specifically to manage project finance.					
10	The accounting policy and procedure manual is updated for the project activities.					
11	Funders /donors provide trainings on financial management activities on agreed projects.					
12	Value for money analysis (earned value management) is done for funds utilized in the project.					
13	The organization has a mechanism that let stakeholders including beneficiaries to know how funds are utilized.					
14	The system for keeping financial records and documentation observe internationally accepted accounting standards and principles.					
15	The organization has a system to reliably record and report the financial transactions of the project.					
16	There is a system to allocate costs across both project activities and the anticipated time in which the budget is to be expended.					

#### Report Related Questions

No.	Questions	Response Categories				
		SD	DA	NL	AG	SA
1	The chart of accounts is adequate to properly account for and report on project activities and disbursement categories.					
2	Information among the different implementing agencies flows in an accurate and timely fashion.					
3	Periodic reconciliations are performed among the different offices/implementing agencies.					
4	Another auditor is appointed to audit the project financial statements.					
5	The project has prepared acceptable terms of reference for project audit.					
6	Budget monitoring report is done at the end of the agreed period and provided to managers to see actual expenses and performances against budget and activities planned to analyze variance for decisions.					
7	The reporting system has the capacity to link the financial information with the project's physical progress.					
8	The financial reports are checked and reviewed against the activities reports by the management.					

9	If separate systems are used to gather and compile physical data for Question 8, controls are in place to reduce the risk that the physical data may not synchronize with the financial data.					
10	The project has established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used.					
11	The organization's financial management system track revenues and expenditures and provide financial results separately for each project or program agreement.					
12	Funders/donors transfer fund timely as per the original plan in the implementation of projects.					
13	The activity performance reports are analyzed and measured against budget allocated.					
14	The organization is at a very good status in meeting government and donor requirements in financial management and reporting.					
15	There is a system of reporting any challenges that has impact on project progress to Donors in time.					
16	There is a tolerable level of limit for over/under project budget utilization.					
17	The organization has a system to provide sufficient financial report for managing and monitoring project activities.					

***Open ended Questions***

*Would you please briefly state your response for the following open ended Questions?*

<b>Project management phases</b>	<b>Problems observed those have financial implications</b>	<b>Possible reasons</b>
Initiating and planning		
Executing		
Controlling and reporting		
Closing		

Many thanks