

**ADDIS ABABA UNIVERSITY  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**EVALUATION OF REPORTING AND PERFORMANCE**

**OF**

**CHARITIES AND SOCIETIES IN ETHIOPIA**

A Research Project in Partial Fulfillment of the Requirements for Master of  
Science in Accounting and Finance

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Addis Ababa

## Declaration

I, the undersigned, declare that this project entitled '**Evaluation of Reporting and Performance of Charities and Societies in Ethiopia**' is my original work. I have carried out the research work independently with the guidance and support of the research advisor. This study has not been submitted to any degree/diploma in this or any other institution, and that all sources of materials used for the study have been duly acknowledged.

Declared by:

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Date \_\_\_\_\_

Confirmed by Advisor

Name \_\_\_\_\_

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Date \_\_\_\_\_

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**Date:** June 2010

**Name:** Andarge Lakew

## **Abstract**

For the purpose of this paper, Charities and Societies in Ethiopia mean humanitarian private organization, using its own resources, not profit making and participating to fulfill government efforts with a view to eliminate poverty. There are 1630 registered Charities and Societies in Ethiopia as of May 31, 2010. The major intervention areas of CSs in Ethiopia are; general health, education, agriculture, water and sanitation, child development, HIV/AIDS, and others focused on child and women rights.

Evidence compiled by NBE shows that the global resources mobilized by the voluntary sector are immense and this has benefited the country's economy significantly. Between 2004 and first-half of 2008 the total of NGO transfers amounted to US\$1.78 billion. The annual break-down of this is greater than earnings from the export of coffee (NBE 2007; 2008).

Financial statements prepared by CSs serve as a means to communicate with funding agents, government and other stakeholders. In preparing basic financial statements, CSs in Ethiopia use both generally accepted accounting principles (GAAP) and international financial reporting system (IFRS)/IAS. US GAAP is highly applicable and there is a tendency to use IFRS/IAS in the future. Most CSs in Ethiopia keep records of non-exchange transactions, prepare the three basic financial statements prescribed by FASB, and the statements are continuously validated by independent body.

Performance evaluation is undertaken based on major areas; financial management, income independence, board governance, program cost, output and outcome measure, and effective use of volunteer service. For most organizations, a higher percentage of resources spent on program services than on management and fundraising is considered a positive performance indicator. According to the research result most CSs in Ethiopia demonstrate above average performance.

## Table of Contents

	<b>Page</b>
CHAPTER ONE .....	1
1. Introduction.....	1
1.1. Historical Back Ground .....	1
1.2. Statement of the Problem.....	2
1.3. Objective of the Study .....	3
1.4. Significance of the Study .....	4
1.5. Scope of the Study .....	5
1.6. Research Methodology .....	5
1.6.1. Data Source .....	5
1.6.2. Sample Size and Sampling Techniques .....	6
1.6.3. Data Analysis .....	6
1.7. Limitations of the Study.....	6
1.8. Organization of the Paper .....	7
CHAPTER TWO .....	8
2. Literature Review.....	8
2.1. Introduction .....	8
2.2. Required financial statements .....	9
2.2.1. Statement of financial position .....	10
2.2.2. Statement of Activities.....	13
2.2.3. Statement of Cash Flows .....	22
2.3. Financial Statement Disclosures .....	26

2.4. NGO Performance Evaluation .....	26
2.4.1 Fruitful Performance Measurement Areas .....	27
2.4.2 CSs Performance and Program Effectiveness Evaluation Process .....	30
2.4.3 Measuring Service Effort and Accomplishment .....	33
CHAPTER THREE .....	35
3. Data Presentation and Analysis .....	35
3.1 Initial Remarks .....	35
3.2. Accounting and Reporting by CSs in Ethiopia .....	36
3.2.1 Method of Accounting for CSs in Ethiopia .....	37
3.2.2 Accounting Standards used by CSs in Ethiopia .....	37
3.2.3 Financial Statements Prepared by CSs in Ethiopia .....	39
3.2.4 Reporting Net Assets .....	40
3.2.5 Main type of funding for CSs in Ethiopia .....	40
3.2.6 Support (contribution revenue) .....	41
3.2.7 Recording Conditional and Unconditional Promises to Give .....	42
3.2.8 Recording Gifts in Kind .....	43
3.2.9 Recording Contributed Services .....	44
3.2.10 Recording Depreciation .....	45
3.3. Performance of CSs in Ethiopia .....	45
3.3.1. Financial Management by CSs in Ethiopia .....	45
3.3.2 Income Independence .....	50
3.3.3. Strategic management .....	52
3.3.4. Board Governance .....	52

3.3.5. Volunteers .....	54
3.3.6. Outcome Monitoring.....	55
3.3.7 Overall Organizational Performance .....	57
3.4 Auditing .....	59
3.5 Importance of Developing Accounting and Auditing Standards .....	64
3.6 Limitations on CS’s Financial Statements .....	65
3.7 Future Accounting and Legal Issues affecting CSs accounting and Reporting .....	65
CHAPTER FOUR.....	67
4. Conclusion and Recommendation .....	67
4.1 Conclusions.....	67
4.2 Recommendations.....	72
References	
Annexes	

## List of Tables

	<b>Page</b>
Table 2-1: Illustrative Statement of Financial Position	11
Table 2-2: Illustrative Statements of Activities	19
Table 2-3: Illustrative Statement of Cash Flows	24
Table 3-1: Category of Charity	36
Table 3-2: Method of Accounting for CSs in Ethiopia	37
Table 3-3: Accounting standards	38
Table 3-4: Financial Statements prepared by CSs in Ethiopia	39
Table 3-5: Reporting net assets	40
Table 3-6: Main types of funding	41
Table 3-7: Recording Support (contribution Revenue)	42
Table 3-8: Recording Conditional and unconditional promises to give	42
Table 3-9: Recording gifts in kind	43
Table 3-10: Gifts in Kind	43
Table 3-11: Recording contributed services	44
Table 3-12: How contributed services are recorded?	44
Table 3-13: Do you calculate Depreciation Expense	45
Table 3-14: Do you prepare financial budget forecasts?	46
Table 3-15: In your plan do you plan to make surplus, breakeven, small deficit or substantial deficit?	46
Table 3-16: How do you rate your organization in meeting government and organization standards?	47
Table 3-17: Who conducts the audit?	48
Table 3-18: How often the audit is done?	48
Table 3-19: Do you believe that the reports issued to external users explain the significant activities that you undertook to achieve your objectives?	49



	Does the annual report explain the impacts on or the consequences	
Table 3-20:	resulting from the existence of your organization?	49
Table 3-21:	Percentage of revenue contributed by single large donor	51
Table 3-22:	Concerns about the sustainability of key source of revenue	51
Table 3-23:	Does your organization have board of directors?	52
Table 3-24:	On which issues your board focuses on?	53
Table 3-25:	What is the most important task of your board?	53
	Are any of your board members remunerated for the board	
Table 3-26:	position?	54
Table 3-27:	Does your organization hire volunteers?	54
	Does your organization use any specific monitoring and evaluation	
Table 3-28:	techniques?	55
Table 3-29:	Does your organization have goals for each program?	56
Table 3-30:	Do you measure the outcome of your program?	57
Table 3-31:	How would you rate the overall organizational performance?	58
Table 3-32:	Respondents profile	59
Table 3-33:	Position in the firm	60
Table 3-34:	Does your firm audit financial statements of CSs?	60
Table 3-35:	Audit principles, guide lines and procedures	61
Table 3-36:	How often you audit your clients?	61
Table 3-37:	Should CSs maintain records of fixed assets?	62
Table 3-38:	Acceptable Methods of accounting for CSs in Ethiopia	63
Table 3-39:	Accounting standards to be followed by CSs in Ethiopia	63
Table 3-40:	Does Ethiopia have specific accounting and auditing standards?	64

## **Acronyms**

CSs: Charities and Societies

FASB: Financial Accounting Standards Board

GAAP: Generally Accepted Accounting Principles

NPOs: Not-for-profit Organizations

NGOs: Nongovernmental Organizations

SFAS: Statement of Financial Accounting Standards

IAS: International Accounting Standards

IFRS: International Financial Reporting System

CRDA: Christian Relief Development Agency

DPPC: Disaster Prevention and Preparedness Commission

## CHAPTER ONE

### 1. Introduction

#### 1.1. Historical Back Ground

The first organizations in Ethiopia which can be defined as CSs were traditional self help systems. They existed in the country for centuries before they started to develop some sort of structure. In time developing further, some were registered as proper organizations and today they are better known as Community Based Organizations (CBOs). Some of these early self help systems were the *Debo* and *Afarsata* which were systems providing mutual aid and reconciliation. Today the commonly known self-help systems are *Ekub* and *Edir* which is a rotating saving and credit system (available at <http://www.crdaethiopia.org>, accessed on February 13, 2010).

In 1960 both foreign and local CSs were established when these self-help groups could no longer suffice to support the needy of the country. The first CSs as we know them today that were established in the country were the Ethiopian Red Cross and Swedish Save the Children. Following this and the famine of 1973 and later of 1984, the number of CSs increased and these were mostly international. Later on with the change in government in 1990 a more conducive environment was established further encouraging the growth of CSs in Ethiopia. This time as their numbers increased more local CSs flourished (available at <http://www.crdaethiopia.org>, accessed on February 13, 2010).

The history of CSs in Ethiopia began by providing relief services, which lasted for a long time. With an improvement in the situation after the famine, the focus of CSs shifted towards rehabilitating people in need. This was then gradually followed by CSs involvement in development programs. Although a large majority of the NGO sector undertakes development programs today, because of recurring drought in certain pocket areas of the country, there are CSs which undertake relief activity alongside their

development programs. A further improvement in their development work is the establishment of few advocating CSs. Today, CSs advocate on different policy issues that have implication on their work and/or beneficiaries (available at <http://www.crdaethiopia.org>, accessed on February 13, 2010).

A new proclamation governing charities and societies has been established by the year 2009. It is called as Charities and Societies Proclamation No. 621/2009. As stipulated on the introduction part of the proclamation, it is expected to serve two purposes. First, to enact a law in order to ensure the realization of citizen's right to association, protected in the constitution of Federal Democratic Republic of Ethiopia. Second, to promulgate a law to aid and facilitate, the role of charities and societies in the overall development of Ethiopian people. The proclamation allows establishing an oversight body over CSs in Ethiopia called Charities and Societies Registration Agency. The agency has already started its work and re-registration of CSs is on process. Article 15 defines types of charities. Accordingly a charity may be formed as a charitable Endowment, a charitable Institution, a charitable Trust or a charitable society.

In 1998 it was reported that around 240 local and international CSs were registered in Ethiopia. As of May 31, 2010 1630 local and international CSs are registered by the new charities and societies agency.

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

In the absence of specific accounting and financial reporting standards under the laws of the land, it will become a very difficult task for CSs to follow a standardized procedure in generation and presentation of accounting and financial information. CSs reporting and operation is shaped by donor and government rules and regulations. Government, donors and other stakeholders try to impose their interests on the type of activities to be done, where, how and when for it to be done and the format to be used for reporting and accounting. The requirements imposed by donors and governments, on the form and

design of financial reports by NFPs is compelling to customizing the standard financial reporting and accounting. The restrictions imposed by government on the manner of spending (like spending 70% of the total budget directly to specified program costs and the remaining 30% to administrative costs) are also likely to affect the financial reporting and accounting. NGO's financial reporting and accounting may not comply with Generally Accepted Accounting Principles. Seid, 2006, in his study on 'Internal control Systems in Ethiopian CSs', indicated that internal controls by CSs in Ethiopia, specifically in local CSs, lack a number of elementary controls prescribed by accounting literature. He further noted the likelihood of highly publicized case of fraud or accounting error.

Therefore, the study will reveal the adequacy of CSs reporting and performance by answering the following research questions:

- Are there a predetermined NGO accounting and reporting standards in Ethiopia?
- How is the degree of compliance to acceptable standards?
- Is the system of reporting sufficient to describe CSs performance?
- Are the three basic financial statements stipulated by FASB 117 sufficient to meet all user needs?
- What is the role of external auditors?
- What future accounting and legal issues will affect NGO accounting and financial reporting in Ethiopia?

### **1.3. Objective of the Study**

The general objective of the study is to evaluate reporting and performance of CSs in Ethiopia. The research seeks to understand accounting processes and reporting practices in CSs and the conditions that sustain those processes and practices.

The specific objectives will be:

- Identify acceptable accounting and reporting standards by CSs in Ethiopia
- Identify the adequacy of reporting to measure accomplishments and service efforts of CSs
- Identify the adequacy of reporting to measure resource allocation decisions
- Identify recognition and measurement rules applied to assets, liabilities, revenues and expenses by CSs
- Identify how revenue and assets obtained through non-exchange transactions are accounted for by CSs
- Identify when pledges, donated goods and government grants are recognized in the financial statements and how are they measured by CSs
- Review the adequacy of the basic financial statements stipulated by FASB statement No.117 in meeting all user needs.
- Find out deviations from GAAP or IAS (whichever is applicable) that materially affect financial reporting and accounting methods
- Examine the role of external auditors
- Identify what future accounting or legal issues are likely to affect CSs in Ethiopia

#### **1.4. Significance of the Study**

- The study will help to understand adequacy of reporting and performance of CSs in Ethiopia.
- The study will help to understand current accounting processes and reporting practices by CSs and the conditions that sustain those processes and practices.
- The study will help as an easy reference to see areas of focus to make changes on the current reporting practice as changes may be required and made.

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

The study focuses only on Charities and Societies registered as a development partner participating to fulfill government efforts with a view to eliminate poverty. Therefore, it doesn't include all NFPs in Ethiopia.

## **1.6. Research Methodology**

### **1.6.1. Data Source**

The research methodology for this study begins with literature review, continues with financial statements and other organization documents analysis, interview and questionnaire. Both primary data and secondary data sources were used.

Primary data is obtained through interviews and questionnaire. The interview is conducted to key financial personnel in the selected CSs. This enabled me to address issues that are not included on the questionnaire and/or issues that were not clearly understood by questionnaire respondents.

Questionnaire were designed to address possible detail practice of financial reporting and accounting by the selected CSs on the way it allows to collect large amount of data. The questions were kept short and a simple language was used so as to enhance understandability and maximize the response rate. The numbers of questions are kept to a minimum to encourage respondents for response. Both open ended and close ended questions are used so as to get the information needed to answer the problem. Respondents were also informed to feel free to add any information that they feel is left or forgotten.

Secondary data is collected by reviewing topic related books, related journals, published and unpublished organization documents and the internet. Researches, made in previous time, related to the research topic were an input towards this research. A thorough examination of the detail items included in the financial statements is made focusing

specially on the three basic financial statements (statement of position, statement of activities and statement of cash flows) and basis of accounting and measurement.

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

As of May 31, 2010, a total of 1630 Charities and Societies have been registered by the Charities and Societies Agency in accordance with proclamation NO 621/2009. Assuming a 95 percent confidence level, a 5 percent margin of error, and 10 percent variance a base sample size of 57 Charities and Societies is used. Simple random sampling technique is applied so that all registered CSs would have equal chance of being selected.

### **1.6.3. Data Analysis**

Depending up on the volume of data collected through the instruments applied for this research, the analysis is made using statistical software SPSS.

## **1.7. Limitations of the Study**

The study is made entirely based on questionnaire. It was not possible to go through the details of financial statements of CSs. Some of the reasons were:

- The assignment of a new oversight body on CSs, the office is busy on registration and office setup
- DPPC under gone BPR, during reshuffling files were disregarded and transferred without being identified and they were not able to locate data, data were not properly recorded and there was no organized filing system, and
- For CRDA member CSs, reports are not submitted to CRDA often times and what is there is scrambled



## **1.8. Organization of the Paper**

For simplicity and understandability the paper had four chapters. The first chapter deals with introduction which includes the historical background, objective of the study, significance of the study, limitation of the study and the methodology used. The second chapter deals with literature review where related journals and books, published and unpublished organization documents reviewed. The third chapter deals with data findings and analysis where data obtained is presented as they are and analyzed through statistical tools (SPSS). The last chapter deals with conclusions and recommendations.

## CHAPTER TWO

### 2. Literature Review

#### 2.1. Introduction

Charities and Societies are variously described as autonomous, non-profit-making, self governing and campaigning organizations with a focus on the well-being of others. They have been characterized as organizations “whose stated purpose is the promotion of environmental and/or social goals rather than the achievement or protection of economic power in the market place or political power through the electoral process” (Bendell, 2000).

Significant amount of resource is mobilized by Charities and Societies which is obtained from donors, member contributions, creditors and others. Evidence compiled by NBE shows that the global resources mobilized by the voluntary sector are immense and this has benefited the country’s economy significantly. Between 2004 and first-half of 2008 the total of NGO transfers amounted to US\$1.78 billion. The annual break-down of this is greater than earnings from the export of coffee (NBE 2007; 2008, available at [www.nbe.gov.et](http://www.nbe.gov.et), accessed on December 23, 2009).

As a means to discharge responsibility and accountability and to show their service giving efforts, operational efficiency and effectiveness and their contribution to the development endeavor of the country, Charities and Societies prepare financial Statements. The primary purpose of financial statements is to provide relevant information to meet the common interest of donors, members, creditors and others who provide resources to not-for-profit organizations. The basic financial statements issued by Charities and Societies are: a statement of financial position, a statement of activities, and a statement of cash flows.

In evaluating organizational performance and reporting it is a must to have organizational performance data and a benchmark that creates a framework for analyzing the data. The organizational data obtained should answer the question of effectiveness, efficiency, impact and best practices of the organization which is under evaluation. The standards will help to compare its actual performance against past performance or performance of similar organizations or public expectations.

## **2.2. Required financial statements**

Charities and Societies are considered as partners in development and good governance. The activities, of these development partners and their immense resource, are currently governed by proclamation No. 621/2009 in Ethiopia. Article 78 of the Charities and Societies proclamation No. 621/2009 defines annual statement of accounts. Sub article 1 of this article requires a Charity or Society to submit an annual statement of accounts to the Agency prepared in accordance with acceptable standards. What is unclear in this article is it doesn't answer the question '*What are these acceptable standards?*' Sub article 2 of this article says, notwithstanding sub article 1 of this article Charities and Societies whose annual flow of funds does not exceed Br. 50,000 (Fifty Thousand) may choose to prepare the statement of accounts receipts and payments account and a statement of assets and liabilities. This indicates the existence of two types of reports based on annual flow of funds. One, statement of accounts prepared by those CSs whose annual flow of funds is Br. 50,000 and less; and the other prepared by those whose annual flow of funds are greater than Br. 50,000.

According to article 80 sub article 1 of the proclamation the officers of a Charity or Ethiopian Resident Society shall prepare and transmit to the Agency an annual activity report on the major activities and relevant information regarding the Charity or Society. Sub article 3 states that the report shall accompany the annual statement of accounts. What is unclear in the proclamation is that it doesn't specify information to be included

in the annual report. It just says major activities and relevant information without explaining what is major and what is relevant. When we see the case of USA and the international practice, the basic financial statements prepared by NFPs as stipulated by FASB are statement of financial position, statement of activities and statement of cash flows.

### **2.2.1. Statement of financial position**

As stipulated by FASB statement No. 117 Paragraph 9, the purpose of a statement of financial position is to provide relevant information about an organization's assets, liabilities, and net assets and about their relationships to each other at a moment in time.

The information provided in a statement of financial position, used with related disclosures and information in other financial statements, helps donors, members, creditors, and others to assess (a) the organization's ability to continue to provide services and (b) the organization's liquidity, financial flexibility, ability to meet obligations, and needs for external financing. Net assets (the difference between assets and liabilities) must be classified into three classes as unrestricted, temporarily restricted and permanently restricted net assets.

**Table: 2-1****Title: Illustrative Statement of Financial Position**

<b>Not-for-Profit Organization</b>		
<b>Statements of Financial Position December 31, 2010 and 2009</b>		
	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	75	460
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	<u>218,070</u>	<u>203,500</u>
<b>Total assets:</b>	<b><u>292,220</u></b>	<b><u>278,480</u></b>
Liabilities and net assets:		
Accounts Payable	2,570	1,050
Refundable Advance		650
Grants Payable	875	1,300
Notes Payable		1,140
Annuity Obligations	1,685	1,700
Long-term debt	<u>5,500</u>	<u>6,500</u>
<b>Total Liabilities</b>	<b><u>10,630</u></b>	<b><u>12,340</u></b>
Net assets:		
Unrestricted	115,228	103,670

Temporarily restricted (Note B)	24,342	25,470
Permanently restricted (Note C)	<u>142,020</u>	<u>137,000</u>
<b>Total Net assets</b>	<b><u>281,590</u></b>	<b><u>266,400</u></b>
<b>Total liabilities and net assets</b>	<b><u>292,220</u></b>	<b><u>278,480</u></b>

**Source:** CPA Australia (2000), External Reporting Centre of Excellence

Although the preparation and use of statement of financial position is highly practiced by CSs, it is not without a critique as to whether or not serving the purpose. Sian Flynne, Ken Leo, and Pat Addison, 2000, raise some critical comments in relation to the statement of financial position as follows:

- 1) The statement doesn't discuss how it can assist in determining the organization's ability to continue to provide services. It is presumed that the important information is the balance of net assets, including the break-up in terms of restrictions.
- 2) If the statement of financial position is primarily to provide information concerning liquidity, then should the assets be reported at fair value rather than historical cost? Recording assets at historical cost provides little information on liquidity.
- 3) If assets are reported at fair value, then depreciation should be based on change in fair value. Whether this calculation provides a depreciation charge relevant for the statement of activities needs to be assessed.
- 4) In the light of the above comment, as there is no specified equity section in the statement of financial position, it is possible that a useful form of reporting could be a balance sheet that is independent of the statement of activities and cash flow statement. The statement of financial position could be generated other than from a double-entry accrual based system. This would allow more flexibility in the preparation of the other financial statements. This is something indirectly considered by Anthony (1978). Anthony's study (1978:114) focused on the flow

approach with the income statement and the statement of changes in financial position providing an integrated statement. He then saw no conceptual issues arising in relation to the balance sheet. However, he did not consider providing a balance sheet that did not integrate with the other financial statements yet provided useful information in relation to liquidity. One of the premises of his study (1978:24) was that general purpose financial statements should articulate with each other.

- 5) If the statement on financial position concentrated on liquidity, then information on liabilities could be expanded by providing information on maturity such as maturity within time periods.

### **2.2.2. Statement of Activities**

The primary purpose of a statement of activities is to provide relevant information about (a) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (b) the relationships of those transactions and other events and circumstances to each other, and (c) how the organization's resources are used in providing various programs or services.

The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to (1) evaluate the organization's performance during a period, (2) assess an organization's service efforts and its ability to continue to provide services, and (3) assess how and organization's managers have discharged their stewardship responsibilities and other aspects of their performance (available at [http:// www.fasb.org](http://www.fasb.org), accessed on February 13, 2010).

According to SFAS No. 117 appendix B paragraph 62 reporting expenses by natural classification is not required by NFPs with the exception of voluntary health and welfare organizations which are required to provide a statement that reports expenses by their functional and natural classifications in a matrix format (paragraph 64). The justification

given for not requiring NFPs to report expenses by natural classification is that it may not be essential in understanding the service efforts of the organizations or in assessing the ability of all organizations to continue to provide services.

### **Accounting for Revenues, Gains, and Support**

**Revenues:** Traditionally, revenues have been defined as increases in unrestricted net assets that arise from exchange transactions in which the other party receives direct tangible benefits matching with the resources provided (available at [http:// www.fasb.org](http://www.fasb.org), accessed on February 13, 2010).

Examples include:

- ✓ Membership dues
- ✓ Program service fees
- ✓ Sales of supplies and services
- ✓ Investment income
- ✓ Some grants

**Gains:** Gains are increases in unrestricted net assets that relate to peripheral or incidental transactions of the entity and often are beyond the control of management.

Examples include:

- ✓ Realized gains on investment transactions
- ✓ Gains on sale or disposal of equipment

**Support:** Support is a category of revenue (often called contribution revenue) that arises from contributions of resources in non-exchange transactions in which the donor derives no tangible benefit from the recipient agency. Support increases unrestricted net assets when no donor restrictions exist or the restrictions have expired, increases temporarily restricted net assets when the donor imposes restrictions as to purpose (how the asset is used) or time (when the asset is used) and increases permanently restricted net assets when the donor stipulates that the assets must be held in perpetuity, but the organization can spend the income from the assets.



### **Promises to Give**

A promise to give is defined as “a written or oral agreement to contribute cash or other assets to another entity”; however, to be recognized in financial statements there must be sufficient evidence in the form of verifiable documentation that a promise was made and received.

- ✓ Unconditional promises depend only on the passage of time or demand by the promises for performance. Record these as support in the period made.
- ✓ Conditional Promises depend on the occurrence of a specified future and uncertain event to bind the promissory, such as obtaining matching gifts by the recipient. Do not record these as support until the conditions are substantially met.

**Donated Materials:** Donated materials (gift in kind) should be recorded as contributions and as expenses (supplies expense or cost of goods sold); at fair value on the date of the gift if an objective, clearly measurable basis for fair value can be established.

**Contributed Services:** Contributed services should be recorded as contributions and expenses (salaries expense) at fair value if the services:

- ✓ Create or enhance nonfinancial assets (such as a carpenter constructing a building), or
- ✓ Are provided by individuals possessing specialized skills that typically would need to be purchased if not provided by donation (e.g. accountants)

Entities that receive contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Contributions of works of art, historical treasures, and similar assets need not be recognized as revenues and capitalized if the donated items are added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain (available at [http:// www.fasb.org](http://www.fasb.org), accessed on February 13, 2010).

**Special Events:** Special events are fund-raising activities in which something of tangible value is offered to donor participants for a payment that includes a contribution.

Examples include: Dinner, dances, golf outings, bazaars and cookie sales

- ✓ If special events give rise to incidental revenue, such as advertising, this revenue is reported in the special events category of support
- ✓ Special event revenue and direct costs of the event should be reported at gross amounts, unless the expenses are peripheral or incidental in nature, in which case they can be netted against the gross revenue.

### **Statement of Functional Expenses**

Expenses must be disclosed by functional classification either in the statement of activities or in the footnotes:

#### **Program Services**

Generally include goods and services distributed to beneficiaries, customers, or members to fulfill the purpose and mission of the organization.

#### **Management and General Activities**

Include general oversight, business management, general record keeping, budgeting, finance and other management and administrative activities.

#### **Fund Raising activities**

Fund raising activities include publicizing and conducting fund-raising campaigns, maintaining donor mailing lists, conducting special fund-raising events, preparing and distributing activities involved in the solicitation of contributions from individuals, foundations, government agencies, etc.

## **Membership - Development activities**

Include soliciting for prospective members and memberships dues, membership relations, and other related activities.

Voluntary health and welfare organizations are required to continue to report information about expenses by functional and natural classifications in matrix format in a separate financial statement. Other not-for-profit entities are required to report functional classifications and are encouraged, but not required, to provide information about the natural classification of expenses (available at <http://managementhelp.org>, accessed on February 13, 2010).

**Joint Costs with a Fund Raising Appeal:** Joint costs with a fund-raising appeal are reported as fund-raising support expenses, rather than allocating them to functional programs, such as education or advocacy. The criteria to be applied includes considering:

- Purpose
- Audience
- Content

**Depreciation:** Depreciation spreads the carrying amount (cost less residual value) of an asset over its useful life. The carrying amount of the asset is reduced at the end of each year and the amount of reduction is expensed as depreciation. Depreciation provides a measure of the consumption of the asset.

Items of property, plant and equipment must be depreciated over their useful lives. The entity must estimate the asset's useful life and then select a depreciation method and rate that will take the asset's carrying value to its residual value over its useful economic life. Leased assets and donated assets are depreciated in the same way as other items of property, plant and equipment (available at <http://www.nizca.com>, accessed on February 13, 2010).

According to FASB statement number 93 not-for-profit organizations are required to recognize the cost of using up the future economic benefits or service potentials of their long-lived tangible assets (depreciation) and shall disclose the following:

- Depreciation expense for the period
- Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
- Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date
- A general description of the method or methods used in computing depreciation for major classes of depreciable assets
- Consistent with the accepted practice for land used as a building site, depreciation need not be recognized on individual works of art or historical treasures whose economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.

**Table: 2-2**

**Title:** Illustrative Statements of Activities

<b>Not-for-Profit Organization</b>	
<b>Statement of Activities</b>	
<b>Year ended December 31, 2010</b>	
(in thousands)	
Changes in unrestricted net assets:	
Revenues and gains:	
Contributions	8,640
Fees	5,400
Income on long-term investments	5,600
Other investment income	850
Net unrealized and realized gains on long-term investments	8,228
Other	150
<b>Total unrestricted revenues and gains</b>	<b>28,868</b>
Net assets released from restrictions:	
Satisfaction of program restrictions	11,990
Satisfaction of equipment acquisition restriction	1,500
Expiration of time restriction	1,250
<b>Total net assets released from restrictions</b>	<b>14,740</b>
<b>Total unrestricted revenues, gains, and other support</b>	<b>43,608</b>
Expenses and losses:	
Program A	13,100
Program B	8,540
Program C	5,760
Management and general	2,420

Fund raising	2,150
<b>Total expenses</b>	<b>31,970</b>
Fire loss	80
<b>Total expenses and losses</b>	<b>32,050</b>
Increase in unrestricted net assets	11,558
<b>Changes in temporarily restricted net assets:</b>	
Contributions	8,110
Income on long-term investments	2,580
Net unrealized and realized gains on long-term investments	2,952
Actuarial loss on annuity obligations	(30)
Net assets released from restrictions	<u>(14,740)</u>
Decrease in temporarily restricted net assets	<u>1,128</u>
<b>Changes in permanently restricted net assets:</b>	
Contributions	280
Income on long-term investments	120
Net unrealized and realized gains on long-term investments	<u>4,620</u>
Increase in permanently restricted net assets	<u>5,020</u>
<b>Increase in net assets</b>	<b>15,450</b>
<b>Net assets at beginning of year</b>	<b><u>266,140</u></b>
<b>Net assets at end of year</b>	<b><u>281,590</u></b>

Source: CPA Australia (2000), External Reporting Centre of Excellence

Similar to statement of financial position, even if the preparation and use of statement of activities is highly practiced by CSs, it is not without a critique as to whether it is serving the purpose or not. Sian Flynne, Ken Leo, and Pat Addison, (2000) had some comments on the Statement of Activities presented as follows:

1. Does the statement provide clear information on the performance of the entity and management? In the statement of financial performance provided by a business entity, the bottom line the net profit or loss for the period is used as a key indicator of the performance of the entity. Surely the change in net assets is not the key figure that users of CSs' statements should be concerned with.
2. The statement of activities does not distinguish between the results from trading activities and other activities. Where trading activities are a part of the operations of CSs, should the revenues and expenses from the activity be isolated and a profit/loss on trading reported
3. Is it necessary for information on expenses to be provided on both a program basis as well as a natural basis? SFAS 117 requires this only for voluntary health and welfare organizations.
4. A clear distinction between the amounts directly spent on programs and those spent on support services could be made. Support services include the fundraising, administration and general expenses that do not directly affect a particular program.
5. As with revenues, the expense categories should convey the nature of the entity's activities. What are the appropriate categories depends on the decisions to be made using the information. It is possible that specific categories of expenses such as fundraising, educational, program and administration need to be defined.
6. The requirement that depreciation accounting should apply to all CSs irrespective of the nature of the services provided is, however, based on false premises. This is because depreciation expense is only required for net income determination and capital maintenance purposes by business enterprises and similar CSs.
7. Any suggestion that depreciation accounting is necessary for NFPs capital maintenance purposes is also blemished. As Mautz explains, these organizations do not look to revenue from operations to maintain capital because, by serving clients at no charge, they intentionally impair their capital in the satisfactory

performance of their mandate. As a result, CSs providing social services must look elsewhere than to revenue for funds required to replace their capital.

8. Not-for-profit organizations should report expenses as decreases in unrestricted net assets”. This means that, when a restricted asset is used for the purpose specified under the restriction, there is firstly a transfer from restricted assets to unrestricted. The question that needs to be raised is whether the requirement for all expenses to be decreases in unrestricted net assets causes subsequent confusion to readers of the statement of activities. A similar conclusion can be reached here as was made with the statement of financial position. There is insufficient interrelationship between the information needs of users and the information required to be supplied in the statement of activities.

### **2.2.3. Statement of Cash Flows**

Cash flows are reported in three categories as changes in operating, investing, and financing activities. The indirect method or direct method (with reconciliation) may be used for reporting cash flows from operating activities. The following details should be noted in preparing the cash flow statement.

- Unrestricted gifts are reported as part of operating activities
- Restricted contributions given for long-term purposes are included with financing activities along with the related income
- The receipt of temporarily and permanently restricted net assets given for long-term purposes are included in the financing activities section as is the related income
- Issuance and repayment of long term debt is included in the financing activities section
- Noncash gifts or in-kind contributions are disclosed as noncash investing and financing activities in a separate section



Relating to the classification of cash flows FASB explain as follows:

- Financing activities for not-for-profit activities include receiving donor-restricted resources that must be used for long-term purposes.
- Cash inflows from financing activities for not-for-profits also include receipts from contributions and investment income that are restricted by the stipulations of the donor for the purposes of acquiring, constructing or improving property, plant, equipment or other long-lived assets or establishing or increasing a permanent endowment or a term endowment.
- In the statement of cash flows for profit-oriented entities, interest and dividends received are categorized as cash flows from operating activities. However, for not-for-profit organizations, if interest and dividends are donor-restricted for the long-term purposes (as indicated in above) they are not considered to be part of operating cash receipts, but rather cash flows from financing activities.
- Information about noncash investing and financing activities which may be shown narratively or disclosed in a separate schedule for profit oriented entities is amended for to include obtaining a building or investment in the form of a gift.

**Table: 2-3**

**Title: Illustrative Statement of Cash Flows**

**Not-for-Profit Organization**

**Statement of Cash Flows Year Ended June 30, 19X1**

<b>Cash flows from operating activities:</b>	
Cash received from service recipients	5,220
Cash received from contributors	8,03
Cash collected on contributions receivable	2,615
Interest and dividends received	8,570
Miscellaneous receipts	150
Interest paid	(382)
Cash paid to employees and suppliers	(23,808)
Grants paid	<u>(425)</u>
<b>Net cash used by operating activities</b>	<b><u>(30)</u></b>
<b>Cash flows from investing activities:</b>	
Insurance proceeds from fire loss on building	250
Purchase of equipment	(1,500)
Proceeds from sale of investments	76,100
Purchase of investments	<u>(74,900)</u>
<b>Net cash used by investing activities</b>	<b><u>(50)</u></b>
<b>Cash flows from financing activities:</b>	

Proceeds from contributions restricted for:	
Investment in endowment	200
Investment in term endowment	70
Investment in plant	1,210
Investment subject to annuity agreements	<u>200</u>
	<u>1,680</u>
Other financing activities:	
Interest and dividends restricted for reinvestment	200
Payments of annuity obligations	(145)
Payments of notes payable	(1,140)
Payments on long-term debt	<u>(1,000)</u>
	<u>(1,985)</u>
<b>Net cash used by financing activities</b>	<b><u>(305)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b><u>(385)</u></b>
Cash and cash equivalents at beginning of the year	<u>460</u>
<b>Cash and cash equivalents at end of the year</b>	<b><u>75</u></b>

Source: CPA Australia (2000), External Reporting Centre of Excellence

### **2.3. Financial Statement Disclosures**

Article 81 of the Charities and Societies proclamation 621/2009 defines the Agency's right to disclose information obtained from CSs to the public. And according to article 82, Charities and Societies can report books of account, audit reports and annual reports to persons or organizations other than the Agency. The article fails to discuss about the items that need disclosure and on how the disclosure should appear in the financial statements.

FASB require specific disclosures for not-for-profit entities and encourage certain other financial statement disclosures for contributed Services, temporarily restricted assets, gifts of long-lived assets, promises to give, contributions of works of art or collections items, permanent and temporary restrictions, board designations, and depreciation.

### **2.4. NGO Performance Evaluation**

Performance measures quantitatively tell us something important about our products, services, and the processes that produce them. They are a tool to help us understand, manage, and improve what our organizations do. Performance measures are always tied to a goal or an objective (the target). Measuring the performance of a not for profit organization is not as simple as measuring the performance of for profit organizations. A performance involves a process and a result.

The basic concept of performance measurement involves:

- planning and meeting established operating goals/standards
- detecting deviations from planned levels of performance; and
- Restoring performance to the planned levels or achieving new levels of performance.

Rick Davies, in his paper on Monitoring and evaluating NGO achievements, noted that over the last decade there has been a dramatic growth in the number of CSs involved in

development aid, in both developed and developing countries. Davies also mentioned the presence of a growing concern about identifying the achievements of CSs associated with this growth.

Nonprofits have various objectives and roles based on their communities and missions. Evaluation should be done at least from these two aspects; performance measurement of programs, and organizational evaluation. Organizational evaluation contains two viewpoints; one from outside to measure organization's credibility, such as fair process of decision-making or financial sustainability, and the other from inside to assess organizational social capital, such as teamwork or human resource development.

One approach that we can use to judge an NPO's performance is to measure the amount of resources the organization spends on providing program services (to carry out its purpose) and what it spends on management and general expenses and fundraising. For most organizations, a higher percentage of resources spent on program services than on management and fundraising is considered a positive performance indicator.

#### **2.4.1 Fruitful Performance Measurement Areas**

Before implementing performance evaluation process it is recommended to identify fruitful performance measurement areas. Depending on the interests of the evaluating group, different areas of measures may be used in evaluating performances. The performance evaluation areas used by the Canadian Donors Award program are presented hereunder.

According to the Canadian donors award program there are ten areas with which the performance of CSs can be evaluated. They are:

**Financial Management:** It is believed to be the most comprehensive measure of all the performance criteria, with five separate variables; year-over-year financial management,

growth in revenues, cost control, ratio of program spending to total spending, and financial reporting.

Year-to-year management assesses the organization's ability to generate an optimal surplus each year. Growth in revenue and cost containment variables, evaluate the organization's ability to increase revenues while at the same time containing costs. Program expenditures as a percentage of total expenditures, is perhaps the most important as it assesses how much of the financial resources of the agency were directly used to deliver programs. The final variable, financial reporting, deals with whether or not the organization has an independent entity, such as an accountant or consultant, validate financial records, and whether an annual report is sent to donors and members of the organization (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Income Independence:** Income independence assesses the level of diversifications in an organization's revenues. Four measures will be used to assess performance; the number of revenue sources, the percentage of total revenue accounted for by the organization's largest donor, the extent of government versus private funding, and the size of the accumulated surplus (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Strategic Management:** It is a process by which resources, both tangible and intangibles are directed towards a common goal or objective. It is a multi-staged, multi faceted process of goal setting and resources allocation. The stages are; articulating mission, setting goals, setting program specific objectives and finally, the staff and volunteers must agree on specific goals to support the program goals, the organizational objectives, and the mission statement (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Board Governance:** The board of directors is the critical link between the donors and members of a non-profit organization and its staff and managers. Assesses five areas of

Board Governance; independence, contributions, involvement, participation, and conflict policy. These areas of assessment represent a foundation upon which to assess the independence, accountability, and effectiveness of board governance (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Volunteers:** The use of volunteers deals with the effectiveness and use of personnel both paid and volunteer. Five measures will be used to assess the use of volunteers. They are: ratio of volunteer hours to staff hours, recruiting activities, management and development of volunteer resources, donations (other than time), and turnover (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Staff:** One of the greatest strengths of any organization is its staff. Staff provide the front line contact and services to clients, as well as the support and managerial services that enable the program staff and volunteers to achieve their goals. The staff performance measure focuses on four areas. They are: the number of program hours provided per full-time equivalent staff member, the ratio of program staff to total staff, turnover, and staff management and development (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Innovation:** It is believed that many of the key aspects of innovation are difficult to quantify, and even more difficult to assess objectively. An organization's culture and leadership play an important role in fostering innovation in an organization. Staff and volunteers must be receptive and supportive of change for innovation to occur regularly and have a positive effect (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Program cost:** This performance measure assesses the per-hour cost of providing a program or service. It only assesses the direct cost of providing the program. One of the

limitations to this measure is that it doesn't account to program quality (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Outcome Monitoring:** It measures the extent to which organizations assess their own performance in terms of achieving specific goals in their programs. Outcomes, which describe the intended result or consequence of delivering a program, should not be confused with outputs, a measure of the goods or services actually provided by a program. Outputs are the means to an end, while outcomes are the desired end itself (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

**Accessibility:** This performance measure like the outcome monitoring measure is more applicable in some categories, such as the Prevention and Treatment of Substance Abuse and the Provision of Basic necessities, than in others. It asks questions regarding accessibility to programs, including whether inquiries are made regarding the cause of the current circumstance, whether program use is monitored, and whether program access is restricted or prioritized according to need (available at [www.donnerawards.org](http://www.donnerawards.org), accessed on December 23, 2009).

#### **2.4.2 CSs Performance and Program Effectiveness Evaluation Process**

According to Anthony (1988, pp745), there are two processes that are used in analyzing and evaluating the performance of an organization and the effectiveness of its programs. They are operations analysis and program evaluation. Operations analysis examines the operations of the organization as a whole, with the objective of assessing whether the efficiency and effectiveness of the organization can be improved while program evaluation focuses on programs with the objective of recommending whether these programs should be expanded, contracted, redirected, or discontinued. Operations analysis is evaluation of process while program evaluation is evaluation of results of the process.



#### **2.4.2.1. Operations analysis**

An operations analysis is called by some a management audit. Although the techniques can be applied to any type of ongoing activity, they are especially applicable to service, support, and administration activities and to such ongoing mission activities as police and fire protection, and the regular activities of a hospital or educational institution (Anthony 1988).

#### **2.4.2.2. Program evaluation**

Programs tend to go on forever unless they are subject to periodic, hardheaded reexamination. There is a need to look at operations in program terms to ascertain whether the benefits of each program continue to exceed its cost, and whether there are ways to improve its effectiveness. Although opportunities are especially significant in nonprofit organizations, primarily because the semiautomatic measure of efficiency that is provided by the bottom line on a business income statement does not exist in nonprofit organizations (Anthony 1988).

**The Driving Force for Program Evaluation:** The legislative or other governing body that initially authorized and funded a program wants to find out how well it is proceeding, as a basis for continuing, changing, or ending it. The public and the media become interested in certain programs, particularly those that they believe to be ineffective. Users or potential users of the program, such as prospective students of a university or physicians considering the referral of patients to a hospital, want information about the program's quality. Donors or other funds providers to arts organizations, charities, museums, and the like, want to know how well the funds were spent (Anthony 1988).

**Problems in Program Evaluation:** According to Anthony (1988) a program evaluation seeks to answer such questions as: is the program being carried out according to the

intent of those who authorized it? Why or why not? What would have happened if there had been no program? Answering these questions is an extraordinarily difficult task.

Some of the problems are the following:

- Objectives are often difficult to define
- Output measurement is difficult
- The relationship between cause and effect is often difficult to understand
- The effort required to make a valid judgment may cost more than it is worth
- Appropriate action may not be forthcoming

**Types of program evaluations:** Anthony (1988) recommended that before a full scale evaluation is undertaken, the evaluators must presumably make a preliminary analysis to settle on one, or a combination of evaluation types, and should work out a plan for the evaluation effort. Types of evaluations are:

- Subjective evaluation
- Peer review evaluation
- Case study evaluations
- Statistical evaluation
- Sample survey evaluations
- Field experiments

**Steps in Making an Evaluation:** According to Anthony (1988) the following are steps to be followed in making a formal program evaluation:

- Decide on the purpose of the evaluation
- Examine the available information
- Tentatively, decide the strategy
- Test the proposed design
- Carry out the evaluation
- Draft a tentative report

- Check the results

### **2.4.3 Measuring Service Effort and Accomplishment**

Service efforts and accomplishment measures fall into four categories: input measures, output measures, outcome measures and efficiency measures.

They quantify the effort expended on a program (inputs), the level of services provided (outputs), the effect a service has on the program's stated objectives (outcomes) and a comparison of the level of inputs with outputs or outcomes (efficiency).

**Output Measure:** Output information is needed for two purposes. 1) to measure efficiency which is the ratio of outputs to inputs (expenses); and 2) to measure effectiveness, which is the extent to which actual output corresponds to the organization's goals and objectives. Anthony (1988) stipulates that in the absence of profit measure, neither efficiency nor effectiveness can be analyzed unless an adequate substitute can be found. He further noted that despite the importance of devising good measures of output, current management control systems tend to be deficient in this respect. Among the different terms used to classify output measure, Anthony recommends three terms; results measures, process measures and social indicators.

**Results measures:** A result measure is a measure of output expressed in terms that are supposedly related to an organization's objectives. In the ideal situation, the objectives are stated in measureable terms, and the output measures are stated in these same terms. When this relationship is not feasible, as is often the case, the output measure represents the closest feasible way of measuring the accomplishment of an objective that cannot itself be expressed quantitatively. Such a measure is called a surrogate or a proxy.

**Process Measures:** A process measure relates to an activity carried on by the organization. The essential difference between a results measure and a process measure is

that the former is ends oriented, while the latter is means oriented. An ends-oriented indicator is a direct measure of success in achieving an objective. A means-oriented indicator is a measure of what a responsibility center or an individual does to help achieve the objective.

**Social indicators:** A social indicator is a broad measure of output which significantly reflects the work of the organization. Social indicators are a rough indication of what an organization has accomplished.

**Outcome measures:** Outcome measures weigh how well a program accomplished its goal. For example, a program designed to teach reading to adults may use the literacy rate for the area served as an outcome measure. One limitation of outcome measures is many factors other than a specific program can effect them. Often, the final step an NPO can take in using service efforts and accomplishments techniques is to employ them to measure efficiency. These measures compute either inputs/outputs or inputs/outcomes indicators and provide information on how efficient an organization is at achieving its program goals. For example, a program that teaches reading to adults could compute a cost (input) for each adult who reaches a certain reading level (output).

As GAO stipulated in its Performance Measurement and Evaluation glossary (1998), Performance measures may address the type or level of program activities conducted (process), the direct products and services delivered by a program (outputs), and/or the results of those products and services (outcomes). A “program” may be any activity, project, function, or policy that has an identifiable purpose or set of objectives.

## CHAPTER THREE

### 3. Data Presentation and Analysis

#### 3.1 Initial Remarks

There are 1630 Charities and Societies registered in accordance with the new proclamation number 621/2009 as of May 31, 2010. The purpose of the study was to evaluate reporting and performance of CSs in Ethiopia. Under this accounting methods and standards used by CSs, financial statements prepared by CSs, record and reporting of non-exchange transactions are identified. CSs performances are evaluated in terms of financial management, income independence, board governance, program cost and use of volunteer service. Five years activity report of CSs is analyzed and finally respondents were allowed to rate themselves as excellent, very good, good, average, poor, very poor and bad. More than seventy five questionnaires were distributed to randomly selected CSs but only fifty seven (75%) were returned. Therefore, the data presented below is response given by fifty seven Charities and Societies. Nine Ethiopian Charities, fifteen Ethiopian Resident Charities and thirty three Foreign Charities filled and turned in the questionnaire. Table 3-1 shows the respondents charity category, one is Charitable Trust, one Charitable Endowment, twenty two Charitable Institutions, twenty eight Charitable Societies and five failed to identify their category.

**Table:3-1**  
**Title: Category of Charity**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Charitable Trust	1	1.8	1.9	1.9
Charitable Endowment	1	1.8	1.9	3.8
Charitable Institution	22	38.6	42.3	46.2
Charitable Societies	28	49.1	53.8	100.0
Total	52	91.2	100.0	
Missing System	5	8.8		
Total	57	100.0		

*Source: Questionnaire*

**Programs offered by CSs in Ethiopia:** The major types of programs offered by CSs in Ethiopia are; general health, education, agriculture, water and sanitation, child development, HIV/AIDS, and others focused on child and women rights. Of the respondents 43.9% offer general health, 45.6% offer education, 36.8% offer water and sanitation, 31.6% agriculture, 36.8% offer child development, 47.4% offer HIV/AIDS and 47.4% offer other programs. This indicates that one CSO offered more than one program.

### **3.2. Accounting and Reporting by CSs in Ethiopia**

Article 78 of the Charities and Societies proclamation No. 621/2009 defines annual statement of accounts. Sub article 1 of this article requires a Charity or Society to submit an annual statement of accounts prepared in accordance with acceptable standards to the Agency. What is unclear in this article is it doesn't answer the question '*What are these acceptable standards?*' Sub article 2 of this article says, notwithstanding sub article 1 of this article Charities and Societies whose annual flow of funds does not exceed Br. 50,000 (Fifty Thousand) may choose the statement of accounts to prepare receipts and payments account and a statement of assets and liabilities. This indicates the existence of

two types of reports based on annual flow of funds. One, statement of accounts prepared by those CSs whose annual flow of funds is Br. 50,000 and less; and the other prepared by those whose annual flow of funds are greater than Br. 50,000.

Article 80 sub article 1 of the proclamation requires the officers of a Charity or Ethiopian Resident Society to prepare and submit to the Agency an annual activity report on the major activities and relevant information regarding the Charity or Society. Sub article 3 states that the report should accompany the annual statement of accounts. What is unclear in the proclamation is that it doesn't specify information to be included in the annual report. It just says major activities and relevant information without explaining what is major and what is relevant.

### 3.2.1 Method of Accounting for CSs in Ethiopia

As can be seen from table 3-2 almost all the three accounting methods are equally applicable by CSs in Ethiopia.

**Table: 3-2**  
**Title:** Method of accounting for CSs in Ethiopia

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Accrual	17	29.8	30.9	30.9
Cash Basis	19	33.3	34.5	65.5
Modified Cash basis	19	33.3	34.5	100.0
Total	55	96.5	100.0	
Missing System	2	3.5		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.2 Accounting Standards used by CSs in Ethiopia

As table 3-3 shows 92.6% of CSs in Ethiopia use Generally Accepted Accounting Principles (GAAP). The International Accounting Standard (IAS) or IFRS is also used by

some CSs. As it is indicated in the audit section of this analysis, there is no specific or common standard used by CSs in Ethiopia. Both IAS/IFRS and GAAP are equally applicable even if the study shows that GAAP is highly applicable.

**Table: 3-3**  
**Title: Accounting standards**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	GAAP	50	87.7	92.6	92.6
	IAS	4	7.0	7.4	100.0
	Total	54	94.7	100.0	
Missing	System	3	5.3		
Total		57	100.0		

*Source: Questionnaire*



### 3.2.3 Financial Statements Prepared by CSs in Ethiopia

Table 3-4 below shows that all CSs in Ethiopia prepare statement of activities, 94.6% prepare statement of position, 35.7% prepare statement of functional expenses and 32.1% prepare statement of cash flows. Statement of activity and/or statement of functional expenses are the report defined as activity report by CSO proclamation No. 621/2009.

**Table: 3-4**

**Title:** Financial statements prepared by CSs in Ethiopia

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
• Statement of activities	3	5.3	5.4	5.4
• Financial position and statement of activities, statement of functional expenses	20	35.1	35.7	41.1
• Financial position, statement of activities and cash flows	18	31.6	32.1	73.2
• Statement of position and statement of activities	15	26.3	26.8	100.0
Total	56	98.2	100.0	
Missing System	1	1.8		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.4 Reporting Net Assets

Table 3-5 shows that CSs in Ethiopia report net assets as restricted, temporarily restricted, and unrestricted net asset. There are few CSs which use the word fund balance in terms of net assets and disclose no information whether there is restriction on the fund balance or not.

**Table: 3-5**  
**Title: Reporting net assets**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Restricted	14	24.6	26.4	26.4
Temporarily restricted	2	3.5	3.8	30.2
Unrestricted	16	28.1	30.2	60.4
All	15	26.3	28.3	88.7
Other	6	10.5	11.3	100.0
Total	53	93.0	100.0	
Missing System	4	7.0		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.5 Main type of funding for CSs in Ethiopia

The main types of funding for CSs in Ethiopia are donations and grants. Table 3-6 indicates that CSs in Ethiopia highly rely on donations and grants. This implies that their operation's sustainability is at the leniency of donors.

**Table: 3-6**  
**Title: Main type of funding**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
• Donations	5	8.8	8.9	8.9
• Grant	6	10.5	10.7	19.6
• Membership subscription	1	1.8	1.8	21.4
• Donation, Membership subscription, grant and fundraising	32	56.1	57.1	78.6
• Donations, grant and government	7	12.3	12.5	91.1
• Interest or investments, trading activities, grants, government, membership contribution	5	8.8	8.9	100.0
Total	56	98.2	100.0	
Missing System	1	1.8		
Total	57	100.0		

*Source: Questionnaire*

### **3.2.6 Support (contribution revenue)**

As table 3-7 shows, 82.5% of CSs record Support (contribution revenue) in their book of accounts. Out of those who keep records of contribution revenue, 44.7% record as unrestricted asset, 27.7% record as restricted assets, 23.4% record as contribution income and the rest record as temporarily restricted assets.

**Table: 3-7**

**Title:** Recording Support (Contribution Revenue)

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Restricted net assets	13	22.8	27.7	27.7
Temporarily restricted	2	3.5	4.3	31.9
Unrestricted net assets	21	36.8	44.7	76.6
Contribution Income	11	19.3	23.4	100.0
Total	47	82.5	100.0	
Missing System	10	17.5		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.7 Recording Conditional and Unconditional Promises to Give

As table 3-8 below shows, 94.1% of CSs in Ethiopia do not record conditional and unconditional promises to give. Of those who keep records 50% of them include disclosure of promises to give in their financial statements.

**Table: 3-8**

**Title:** Recording Conditional and unconditional promises to give

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	3	5.3	5.9	5.9
No	48	84.2	94.1	100.0
Total	51	89.5	100.0	
Missing System	6	10.5		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.8 Recording Gifts in Kind

Table 3-9 shows that 66% of CSs in Ethiopia keep records of gifts in kind and 34% do not keep records of gifts in kind.

**Table: 3-9**  
**Title: Recording gifts in kind**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	35	61.4	66.0	66.0
No	18	31.6	34.0	100.0
Total	53	93.0	100.0	
Missing System	4	7.0		
Total	57	100.0		

*Source: Questionnaire*

Table 3-10 shows that of those who keep records, 51.5% record as contribution revenue at fair value for gifts received in kind only and 36.4% record for both gifts received and made as contribution revenue and expense respectively at fair value. 9.1% record only for control purposes not for reporting.

**Table: 3-10**  
**Title: Gifts in kind**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
As contribution revenue/fair value	17	29.8	51.5	51.5
As Expense/fair value	1	1.8	3.0	54.5
All	12	21.1	36.4	90.9
Other	3	5.3	9.1	100.0
Total	33	57.9	100.0	
Missing System (don't keep record)	24	42.1		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.9 Recording Contributed Services

As table 3-11 below shows, 69.1% of CSs in Ethiopia do not keep records of contributed services.

**Table: 3-11**  
**Title: Recording contributed services**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	16	28.1	29.1	29.1
No	38	66.7	69.1	98.2
Other	1	1.8	1.8	100.0
Total	55	96.5	100.0	
Missing System	2	3.5		
Total	57	100.0		

*Source: Questionnaire*

Table 3-12 shows that of those 29.1% who keep records of contributed services, 62.5% record as contribution revenue and expense at fair value, 6% keep records only for filing purpose i.e do not include in their financial statements.

**Table 3-12**  
**Title: How Contributed Services are recorded?**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
As contribution revenue/fair value	3	5.3	18.8	18.8
As Expense/fair value	2	3.5	12.5	31.3
All	10	17.5	62.5	93.8
Other	1	1.8	6.3	100.0
Total	16	28.1	100.0	
Missing System	41	71.9		
Total	57	100.0		

*Source: Questionnaire*

### 3.2.10 Recording Depreciation

As table 3-13 shows, 77.2% of CSs in Ethiopia do not keep records of depreciation expense and report in their financial statements. Of those who keep records of depreciation (22.8%) only 1-2% report in their financial statements as contra asset account, the rest calculate depreciation only for asset replacement and control purpose, and use straight line method of depreciation.

**Table: 3-13**

**Title:** Do you calculate depreciation expense?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	13	22.8	22.8	22.8
No	44	77.2	77.2	100.0
Total	57	100.0	100.0	

**Source:** *Questionnaire*

### 3.3. Performance of CSs in Ethiopia

To evaluate performance of CSs in Ethiopia, the researcher's focus area are; financial management, income independence, board governance, program cost, and use of volunteer service. Under each major area readers can observe different variables used to evaluate performance.

#### 3.3.1. Financial Management by CSs in Ethiopia

When we see the year –over- year financial management, 78.2% of CSs in Ethiopia prepare financial forecasts on annual basis. Based on this variable charities and societies are expected to generate an optimal surplus each year. The surplus accumulated is expected to provide an insurance against unexpected income change in particular period enabling CSs to avoid borrowing to finance any unexpected deficit while at the same time providing some level of financial flexibility (see table 3-14).

**Table: 3-14****Title:** Do you prepare financial budget forecasts?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	43	75.4	78.2	78.2
	No	12	21.1	21.8	100.0
	Total	55	96.5	100.0	
Missing	System	2	3.5		
Total		57	100.0		

*Source: Questionnaire*

Table 3-15 below shows that of those who prepare financial forecasts, only 9.3% plan for surplus, 86% plan to breakeven and the rest plan for small and substantial deficit. From this variable point of view, CSs in Ethiopia do not have contingent plan against unexpected income changes and do not have financial flexibility for they always breakeven. A change in income could affect the operation of the organization significantly.

**Table: 3-15****Title:** In your plan do you plan to make surplus, breakeven, small deficit or substantial deficit?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Make surplus	4	7.0	9.3	9.3
Breakeven	37	64.9	86.0	95.3
Make a small deficit	1	1.8	2.3	97.7
Make a substantial deficit	1	1.8	2.3	100.0
Total	43	75.4	100.0	
Missing System	14	24.6		
Total	57	100.0		

*Source: Questionnaire*



**Program expenditures as a percentage of total Expenditures:** According to the new Ethiopian Charities and Societies proclamation (No 621/2009), out of the total annual budget a minimum of 70 percent is expected to be spent for programs and the remaining 30% for administration. When we see the performance CSs in Ethiopia from this variable point of view, almost all CSs seem to understand the regulation and are acting accordingly. The five year empirical data evidence obtained from forty three CSs, shows an average of 28% administration cost which ranges from 6% -34% of total expenditure (see annex 3-1). Out of the forty three CSs only two performed below the current standard in managing administration cost. What can be observed from annex 3-1 is that CSs do have problems in budgeting. Many of the CSs generate revenue more than what they have planned at the beginning of the period. Annex 3-1 also shows that program spending is on average 72% of total spending which ranges actually from 66% to 94%.

Respondents were asked to rate themselves in meeting government and organization standards. As can be seen from table 3-16, 34.6% rate themselves excellent, 50% rate very good, 7.7% good, 5.8% average and 1.9% rate themselves very poor. Although this variable doesn't show the classification of expenditures in the book of CSs, we can say that 92.3% of CSs in Ethiopia are performing above average.

**Table: 3-16**

**Title:** How do you rate your organization in meeting government and organization standards?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Excellent	18	31.6	34.6	34.6
Very good	26	45.6	50.0	84.6
Good	4	7.0	7.7	92.3
Average	3	5.3	5.8	98.1
Very poor	1	1.8	1.9	100.0
Total	52	91.2	100.0	
Missing System	5	8.8		
Total	57	100.0		

*Source: Questionnaire*

**Financial Reporting:** CSs in Ethiopia keep financial records, prepare financial statements and send audited financial statements to donors and other stakeholders. Books of accounts are kept on the basis of GAAP and their validity of financial records is checked by independent body on annual basis. Financial statement validation is made by both internal and external independent auditors.

**Table: 3-17**

**Title: Who conducts the audit?**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
External auditors	42	73.7	73.7	73.7
Internal auditors	1	1.8	1.8	75.4
All	14	24.6	24.6	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

Almost all of the CSs statement is audited by external auditors annually. There are few (24.6%), which use internal auditors (see table 3-18 below).

**Table: 3-18**

**Title: How often the audit is done?**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Monthly by internal auditors	1	1.8	1.8	1.8
Annually by external auditors	55	96.5	96.5	98.2
Other	1	1.8	1.8	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

Referring to table 3-17 and table 3-18, using financial reporting as a variable to measure performance of CSs financial management, we can say that all CSs in Ethiopia are performing excellently.

Table 3-19 shows that 96.5% of CSs are confident that the annual reports issued to external users explain the significant activities they undertook to achieve their objectives.

**Table: 3-19**

**Title:** Do you believe that the reports issued to external users explain the significant activities that you undertook to achieve your objectives?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	55	96.5	96.5	96.5
No	2	3.5	3.5	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

Table 3-20 shows that more than 86% of CSs in Ethiopia believe that the annual reports explain the impacts on or the consequences resulting from the existence of their organization, and 10.5% of CSs do not believe that their annual reports explain the impacts on or the consequences resulting from the existence of their organization.

**Table: 3-20**

**Title:** Does the annual report explain the impacts on or the consequences resulting from the existence of your organization?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	49	86.0	86.0	86.0
No	6	10.5	10.5	96.5
NA	2	3.5	3.5	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

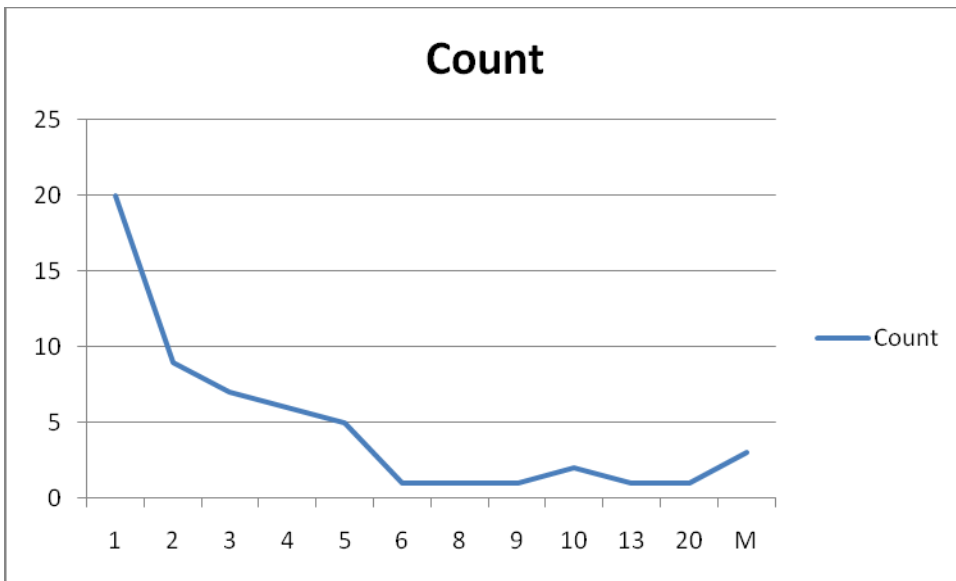
### 3.3.2 Income Independence

The level of diversification in CSs revenues is poor in Ethiopia. Diversification protects CSs against unexpected changes in income sources, and increases the stability of the CSs revenues. Almost all of the CSs in Ethiopia are dependent to their funding sources. When we see the income independence of CSs in Ethiopia using the number of revenue sources and amount of accumulated surplus it looks the following.

**The number of revenue source:** More than 82% of CSs in Ethiopia have less than five revenue sources the highest being having only one donor. This indicates that there performance is tied to a limited number of resources with a small pool of large donors. A large pool of small donors would perform substantially better than those with a small pool of large donors (see graph 3-1).

**Graph: 3-1**

**Title: Revenue Source**



*Source: Questionnaire*

When we see percentage of total revenue accounted for by the largest donor, as can be seen from table 3-21 below, 61% of CSs in Ethiopia obtain 80-100 percent of their revenue from a single source, 25% CSs obtain 50-70 percent of their revenue from a single source, and 15% of CSs obtain 20-40 percent of their revenue from a single source. Therefore, CSs in Ethiopia are highly dependent on a single source of revenue.

**Table: 3-21**

**Title:** Percentage of revenue contributed by single large donor

%age of revenue provided by single donor	Count	Percent
20-30	4	7%
31-40	3	5%
41-50	1	2%
51-60	1	2%
61-70	3	5%
71-80	10	18%
81-90	7	12%
91-100	28	49%
	57	100%

*Source: Questionnaire*

Table 3-22 shows that 64.2% of CSs in Ethiopia have concerns about the sustainability of their revenue sources. The concern is the result of their dependence on a single revenue source.

**Table 3-22**

**Title:** Concerns about the sustainability of key source of revenue

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	34	59.6	64.2	64.2
No	19	33.3	35.8	100.0
Total	53	93.0	100.0	
Missing System	4	7.0		
Total	57	100.0		

*Source: Questionnaire*

**The size of the accumulated surplus:** The size of the accumulated surplus measures the organization’s ability to endure difficult financial periods. The optimal size of accumulated surplus is equal to one year’s annual expense which allows the organization one year of service without any revenues. Surplus below one year’s annual expenses places increased pressure on the organization and create instability in the planning process. Almost all CSs in Ethiopia could not endure difficult financial periods, because majority of them do not plan for surplus in their budget forecast (see table 3-15).

### 3.3.3. Strategic management

Strategic management involves articulating a mission and vision statement. The mission defines why an organization exists and the ultimate objective that it wants to achieve. Almost all of CSs in Ethiopia have a defined mission and vision statements. Majority of them also define specific objectives to be achieved in a specified period of time.

### 3.3.4. Board Governance

As can be seen from table 3-23 below, 73.7% of Charities and Societies in Ethiopia have board of directors. Of those who have board of directors, almost all CSs board members are independent. This tells us board members accountability and effectiveness in board governance. As to contributions, most of the board members do not contribute to the CSO’s they govern. The board of directors are expected to ensure that directors and managers operate in a manner consistent with organization goals and objectives and truly and responsibly. CSs board focuses on strategic and operational issues.

**Table: 3-23**

**Title:** Does your organization have board of directors?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	42	73.7	73.7	73.7
No	15	26.3	26.3	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

As can be seen from table 3-24 below, 64.3% of CSs board focus on strategic issues and 35.7% focuses on both strategic and operational issues.

**Table: 3-24**

**Title:** On which issues your board focuses on?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Strategic issues	27	47.4	64.3	64.3
All	15	26.3	35.7	100.0
Total	42	73.7	100.0	
Missing System	15	26.3		
Total	57	100.0		

*Source: Questionnaire*

The important tasks of CSs board are; strategic planning, fund raising, protecting organization reputation, ensuring effective program and oversight of management. Among all the tasks CSs board in Ethiopia focus on strategic planning and oversight of management (see table 3-25 below).

**Table: 3-25**

**Title:** What is the most important task of your board?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Strategic planning	35	61.4	89.7	89.7
Ensuring effective programs	1	1.8	2.6	92.3
Oversight of management	3	5.3	7.7	100.0
Total	39	68.4	100.0	
Missing System	18	31.6		
Total	57	100.0		

*Source: Questionnaire*

Table 3-26 shows that 92.3% of CSs board members receive no remuneration form the organizations they govern.

**Table: 3-26**

**Title:** Are any of your board members remunerated for the board position?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	3	5.3	7.7	7.7
No	36	63.2	92.3	100.0
Total	39	68.4	100.0	
Missing System	18	31.6		
Total	57	100.0		

*Source: Questionnaire*

Taking the variables; board independence, contribution, strategic focus and important tasks, as a measure of CSs performance, except their limited involvement in contribution and fund raising activities, we can say that CSs board governance in Ethiopia is effective.

### 3.3.5. Volunteers

Volunteers provide unpaid staffing. It refers to people who donate time to charities and societies instead of money and gifts in kind. Therefore, this criteria deal with the effective use of both paid and unpaid personnel. Table 3-25 below shows that 41% up to 51% of CSs in Ethiopia hire volunteers. This indicates that they had much to work to improve the effective use of unpaid labor.

**Table: 3-27**

**Title:** Does your organization hire volunteers?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	29	50.9	50.9	50.9
No	28	49.1	49.1	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*



### 3.3.6. Outcome Monitoring

It measures the extent with which an organization evaluates their own performance in terms of achieving specific goals in their programs. Outcomes measure the intended result or consequence of delivering a program. Table 3-28 below shows, 82.5% of CSs in Ethiopia have developed a specific program output and outcome monitoring and evaluation techniques. Among the techniques are: base line survey, index, field visit, discussion with focus group, comparing planned activities against actual achievements, using software, using performance indicators, review meeting, mid-term and end-term evaluation by government sector offices and external consultants, interviews, observation, using activity check list and using log-frame are some of the techniques.

**Table: 3-28**

**Title:** Does your organization use any specific monitoring and evaluation techniques?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	47	82.5	82.5	82.5
No	9	15.8	15.8	98.2
NA	1	1.8	1.8	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

Table 3-29 shows that 92.9% of CSs in Ethiopia develop goals for each program. This makes easier the monitoring and evaluation process regardless of the techniques used for evaluation.

**Table: 3-29**

**Title:** Does your organization have goals for each program?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	52	91.2	92.9	92.9
No	4	7.0	7.1	100.0
Total	56	98.2	100.0	
Missing System	1	1.8		
Total	57	100.0		

*Source: Questionnaire*

Although developing a common output and outcome measure for all charities and societies is a difficult probably impossible task in measuring program output and outcome.

Table 3- 30 below shows that 93% CSs in Ethiopia measure the outcome of their programs. It is also difficult to develop a common measuring tool for all programs within an organization itself.

CSs in Ethiopia generally use the following output and outcome measurement techniques.

- Comparing planned activities against actual achievements
- Using specific indicators for a program at the time of planning
- Impact assessment
- Conducting base line survey
- Conducting mid-term and end term program evaluation
- Using periodic field reports and audit reports
- Resource mobilization VS actual achievements
- Review meeting
- Observation and
- Focus group discussion and interview

**Table: 3-30**

**Title:** Do you measure the outcome of your program?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	53	93.0	93.0	93.0
No	4	7.0	7.0	100.0
Total	57	100.0	100.0	

*Source: Questionnaire*

CSs also measure program efficiency and effectiveness using the following techniques. Efficiency is measured using resource utilization per unit of output produced or resource utilization per unit of program, while effectiveness is measured by comparing achievements with related program goals. On top of these some of the techniques used for program output and outcome measurement are also used to measure program efficiency and effectiveness.

### **3.3.7 Overall Organizational Performance**

Measuring organizational performance in terms of output and outcome is beyond the scope of this paper. From annex 3-1 and table 3-16, we can see that CSs maintaining above average financial performance measured in terms of percentage of program cost to total cost and percentage of administration cost to total cost. For most organizations, a higher percentage of resources spent on program services than on management and fundraising is considered a positive performance indicator.

Finally, respondents were asked to rate the overall performance of their organization as excellent, very good, good, average, poor, very poor and bad. Table 3-31 below shows that 23.5% rate themselves excellent, 58.8% very good, 13.7% good, 3.9% very poor. Therefore, we can say that most of CSs in Ethiopia have above average performance.

**Table: 3-31**

**Title:** How would you rate the overall organizational performance?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Very poor	2	3.5	3.9	3.9
Good	7	12.3	13.7	17.6
Very good	30	52.6	58.8	76.5
Excellent	12	21.1	23.5	100.0
Total	51	89.5	100.0	
Missing System	6	10.5		
Total	57	100.0		

*Source: Questionnaire*

### 3.4 Auditing

The Charities and Societies oversight body, Ethiopian Charities and Societies Agency, solely depends on independent auditors report on CSs. CSs in Ethiopia are audited by private audit firms. There are about forty six private audit firms in Ethiopia. They are expected to perform their audit work in accordance with acceptable auditing standards (IAS/IFRS or GAAS). Looking the unlimited dependence on private auditor's report, and the absence of a clear commonly used auditing standards; the researcher conducted a survey on the general audit principle and procedures followed by Ethiopian private audit firms while auditing CSs.

Survey questionnaire was distributed to twelve audit firms. When we see the respondents' profile, all the respondents have BA/BSc except one who have diploma.

**Table: 3-32**  
**Title: Respondents profile**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	1	8.3	8.3	8.3
BSc/BA	11	91.7	91.7	100.0
Total	12	100.0	100.0	

*Source: Questionnaire*

Out of the twelve respondents seven were senior auditors, two auditors, one audit manager, one assistant audit manager and one audit team leader (see table 3-33). All the respondents assume senior positions so that their response is something of value without dispute reflecting the reality.

**Table: 3-33**

**Title: Position in the firm**

Valid Values	Count	Percent
Assistant audit manager	1	8.3%
Audit manager	1	8.3%
Audit team leader	1	8.3%
Auditor	2	16.7%
Senior auditor	7	58.3%

*Source: Questionnaire*

Respondents were asked whether they audit financial statements of Charities and Societies or not, the type of services they provide and the number of CSs they audit in the past two years. As presented in table 3-34 below, all of the respondents reply that they audit CSs accounts. The services they provide to CSs are: audit services, advisory and consultancy service, statutory audit, investigation and forensic audit. As to the number of CSs they audited, all of the respondents have audited at least a minimum of two CSs in the past two years the maximum being fifty CSs.

**Table: 3-34**

**Title: Does your firm audit financial statements of CSs?**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	12	100.0	100.0	100.0

*Source: Questionnaire*

Table 3-35 shows almost all audit firms use GAAS while auditing CSs books of accounts. There are few which use IAS for UK based charities and societies. On top of the GAAS and IAS, the firms use by laws of CSs, various CSs manuals (purchase,

finance, and administration manuals), proclamations specifically related to CSs, other proclamations (example tax proclamations) and agreement documents with donors.

**Table: 3-35**

**Title:** Audit principles, guide lines and procedures

Valid	Frequency	Percent	Valid %	Cumulative Percent
✓ GAAS	7	58.3	58.3	58.3
✓ GAAS and other CSs related compliance requirements	1	8.3	8.3	66.7
✓ GAAS, by laws of CSs, various CSs manuals, CSs proclamation, other proclamations and grant agreement with donors	1	8.3	8.3	75.0
✓ IAS and GAAS	1	8.3	8.3	83.3
✓ IAS and specific requirements of donors	1	8.3	8.3	91.7
✓ IAS for UK based CSs, GAAS for US based and local CSs, by laws of CSs, donor agreement documents	1	8.3	8.3	100.0
Total	12	100.0	100.0	

*Source: Questionnaire*

Respondents were asked how often they audit their client's account. As shown from the next table all audit firms audit their clients on annual basis unless conditions enforce them to conduct during interim periods.

**Table: 3-36**

**Title:** How often you audit your clients?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Annually	12	100.0	100.0	100.0

*Source: Questionnaire*

## Depreciation

Depreciation is one of the disputable areas of CSs reporting. Audit firms were asked whether CSs should maintain records of fixed asset and calculate depreciation expense and report results to financial statements. As can be seen from table 3-37, 11 of the respondents said that CSs in Ethiopia are not required to calculate and report depreciation expenses in their financial statements. Two of the respondents said that CSs are required to maintain a separate record of fixed assets for control purpose. Exceptionally, one respondent said that CSs proclamation No 621/2009 requires CSs to maintain fixed asset records, calculate depreciation and report in their financial statements. The respondent further explained that straight line method of depreciation should be used in determining depreciation expense.

**Table: 3-37**

**Title:** Should CSs maintain records of fixed assets?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	1	8.3	8.3	8.3
No	11	91.7	91.7	100.0
Total	12	100.0	100.0	

*Source: Questionnaire*

## Acceptable Method of Accounting

Most important question that auditors should answer about CSs in Ethiopia is that what is the acceptable accounting standard that CSs should use? As table 3-38 below shows, all methods of accounting are used by CSs. 58% of the respondents said that modified cash basis should be used, 33.3% of the respondents said cash basis and only one respondent said accrual method. We can conclude that there is no specific method of accounting for CSs.



**Table: 3-38****Title:** Acceptable Methods of accounting for CSs in Ethiopia

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Accrual	1	8.3	8.3	8.3
Cash basis	4	33.3	33.3	41.7
Modified Cash basis	7	58.3	58.3	100.0
Total	12	100.0	100.0	

*Source: Questionnaire***Accounting Standards**

The respondents were asked about the accounting standards to be applied by CSs in Ethiopia. As table 3-39 shows, there is no specific standard that the organizations should follow. Both Generally Accepted Accounting Principles and International Accounting Standards can be used. It is up to the CS's choice which one to use.

**Table: 3-39****Title:** Accounting standards to be followed by CSs in Ethiopia

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid GAAP	9	75.0	75.0	75.0
IAS	1	8.3	8.3	83.3
GAAP and IAS	2	16.7	16.7	100.0
Total	12	100.0	100.0	

*Source: Questionnaire*

Respondents were asked about the presence of specific accounting and auditing standards in Ethiopia. Their response is ‘No’ (see table 3-40 below).

**Table: 3-40**

**Title:** Does Ethiopia have specific accounting and auditing standards?

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
No	12	100.0	100.0	100.0

*Source: Questionnaire*

### 3.5 Importance of Developing Accounting and Auditing Standards

Respondents were also asked about the importance of developing country specific accounting and auditing standards. Their response is summarized as follows:

- A strong accountancy body is needed to formulate country specific accounting and auditing standards that best fits to the legal and environmental factor
- Accept the international accounting and auditing standards and modify it with country specific rules and regulations
- I agree with the idea of developing country specific standards to address specific issues and allow flexibility
- I disagree with the idea of developing country specific standards since globalization is becoming the center of each activity
- I recommend the use of one standards that matches with global practice
- I am satisfied with the existing practice. The standards which are in use currently can accommodate the existing needs. Therefore, there is no need to develop country specific standards

When we summarize the response majority of the respondents agree on the importance of using a standard common to all proposing IAS, few agree on the idea of developing country specific standards and building a strong accountancy body and there are also some who are comfortable with the existing practice.

### **3.6 Limitations on CS's Financial Statements**

Respondents were also asked about the limitations they have observed on CSs financial statements while performing their audit work. Their response is summarized as follows:

- The reports are adequate to inform users
- Fixed assets do not show the actual amount on the financial statements and some obligations (eg pension) are not presented clearly and fairly
- Most CSs prepare statements according to donor specifications. This limits the information for other users
- Most reports of CSs do not have the basic information needed by users
- Reports are not sometimes prepared in accordance with donors requirements, actual and budget comparison is not performed, and charging expenditures to the wrong account code is done sometimes
- Some CSs use volunteers to prepare financial statements at the end of the period without having adequate documents and in some CSs there is no segregation of duties which questions the statements truthfulness

Regardless of the above limitations, more than 50% of the respondents believe that the statements are adequate enough to explain service giving efforts of the organization and its performance to users.

### **3.7 Future Accounting and Legal Issues affecting CSs accounting and Reporting**

Respondents were asked about future accounting and legal issues that are likely to affect CSs accounting and reporting in Ethiopia. Their response is summarized as follows:

- The government may issue any proclamation that hinders some of the activities of CSs and/or operating location or their revenue mix like what has been done by proclamation No 621/2009 at any time
- The need to adopt IAS

- The new CSs proclamation will affect the report forcing them to use a regular spending pattern which is 30% for administration and 70% for programs and to compile the report accordingly
- The new proclamation affects reporting on depreciation
- The new proclamation and the adoption policy which requires two years resident in Ethiopia for adopting a child
- The new proclamation and the adoption policy which requires two years resident in Ethiopia for adopting a child
- The new proclamation could affect accounting and reporting forcing to hide income sources
- The new proclamation may lead to misclassification of expenses like classifying administration expense to program expenses
- The new proclamation prohibits some of the activities of CSs like human rights and advocacy

Almost all of the respondents have concerns about the newly issued Charities and Societies proclamation (621/2009). The proclamation affects CSs revenue mix, spending manner and limits their activities. Some of the respondents have fear that the proclamation may encourage CSs to hide revenue sources and misclassify expenditures to meet standards (example classifying administration expenses as program expenses).

## **CHAPTER FOUR**

### **4. Conclusion and Recommendation**

#### **4.1 Conclusions**

This paper deals with evaluation of reporting and performance of CSs in Ethiopia and for this paper, Charities and Societies in Ethiopia mean humanitarian private organization, using its own resources, not profit making and participating to fulfill government efforts with a view to eliminate poverty. There are 1630 registered Charities and Societies in Ethiopia as of May 31, 2010. The major intervention areas of CSs in Ethiopia are; general health, education, agriculture, water and sanitation, child development, HIV/AIDS, and others focused on child and women rights. For most organizations, a higher percentage of resources spent on program services than on management and fundraising is considered a positive performance indicator. The study shows that majority of CSs in Ethiopia demonstrate above average performance.

Article 78 of the Charities and Societies proclamation No. 621/2009 defines annual statement of accounts. Sub article 1 of this article requires a Charity or Society to submit an annual statement of accounts prepared in accordance with acceptable standards to the Agency. These acceptable standards are Generally Accepted Accounting Principles (GAAP), International Accounting Standards (IAS)/IFRS, by laws of CSs, agreement documents with donors, tax proclamation and other CSs related proclamations. Ethiopia does not have its own accounting and auditing standards. Majority of the accounting is done using US based GAAP. There is actually a tendency to use the International Accounting and Auditing standards.

The officers of a Charity or Ethiopian Resident Society is required to prepare and transmit to the Agency an annual activity report on the major activities and relevant information regarding the Charity or Society. CSs in Ethiopia prepare statement of activities, statement of position, statement of functional expenses and statement of cash

flows. Statement of activity and/or statement of functional expenses are the report defined as activity report by CSO proclamation No. 621/2009.

CSs in Ethiopia report net assets as restricted, temporarily restricted, and unrestricted net asset in the statement of position. There are few CSs which use fund balance in terms of net assets and they disclose no information whether there is restriction on the fund balance or not.

The main types of funding for CSs in Ethiopia are donations and grants. CSs highly depend on donations and grants. This implies that their operation's sustainability is in the hands of donors.

CSs record Support (contribution revenue) in their book of accounts. 94.1% of CSs in Ethiopia do not record conditional and unconditional promises to give. Of those who keep records 50% of them include disclosure of promises to give in their financial statements. 66% of CSs in Ethiopia keep records of gifts in kind. Of those who keep records, 51.5% record as contribution revenue at fair value for gifts received in kind only and 36.4% record for both gifts received and made as contribution revenue and expense respectively at fair value. 9.1% record only for control purposes not for reporting. 69.1% of CSs in Ethiopia do not keep records of contributed services. Of those 29.1% who keep records of contributed services, 62.5% record as contribution revenue and expense at fair value, 6% keep records only for filing purpose. 77.2% of CSs in Ethiopia do not keep records of depreciation expense and report in their financial statements. Of those who keep records of depreciation (22.8%) only 1-2% report in their financial statements as contra asset account, the rest calculate depreciation only for asset replacement and control purpose, and use straight line method of depreciation.

CSs in Ethiopia keep financial records, prepare financial statements and send audited financial statements to donors and other stakeholders. Books of accounts are kept on the basis of GAAP and their validity of financial records is checked by independent body on

annual basis. Financial statement validation is made by both internal and external independent auditors. Almost all of the CSs statement is audited by external auditors annually. Above 96.5% of CSs are confident that the annual reports issued to external users explain the significant activities they undertook to achieve their objectives and more than 86% of them believe that the reports explain the impacts on or the consequences resulting from the existence of their organization. 10.5% of them do not believe that their annual reports explain the impacts on or the consequences resulting from the existence of their organization.

CSs in Ethiopia are highly dependent on single revenue source. They do not have contingent plan against unexpected income changes and do not have financial flexibility for they always breakeven. The size of the accumulated surplus measures the organization's ability to endure difficult financial periods. Surplus below one year's annual expenses places increased pressure on the organization and create instability in the planning process. Almost all CSs in Ethiopia could not endure difficult financial periods, because majority of them do not plan for surplus in their budget forecast. The level of diversification in CSs revenues is poor in Ethiopia. More than 82% of CSs in Ethiopia have less than five revenue sources the highest being having only one donor. This indicates that there performance is tied to a limited number of resources with a small pool of large donors. A change in income could affect the operation of the organization significantly. When we see percentage of total revenue accounted for by the largest donor; 61% of CSs in Ethiopia obtain 80-100 percent of their revenue from a single source, 25% CSs obtain 50-70 percent of their revenue from a single source, 15% of CSs obtain 20-40 percent of their revenue from a single source. Therefore, CSs in Ethiopia are highly dependent on a single source of revenue. Because they depend on a single revenue source 64.2% of CSs have concerns about the sustainability of their revenue sources.

Strategic management involves articulating a mission and vision statement. Almost all of CSs in Ethiopia have a defined mission and vision statements. 73.7% of Charities and

Societies in Ethiopia have board of directors. Of those who have board of directors, almost all CSs board members are independent indicating their accountability and effectiveness in board governance. Most of the board members do not contribute to the CSO's they govern. 65.3% of CSs board focus on strategic issues and 35.7% focuses on both strategic and operational issues. Among all the tasks CSs board in Ethiopia focus on strategic planning and oversight of management. Of those who have board of directors, 92.3% of CSs board members receive no remuneration form the organizations they govern. Except their limited involvement in contribution and fund raising activities, we can say that CSs board governance in Ethiopia is effective.

Volunteers provide unpaid staffing. It refers to people who donate time to charities and societies instead of money and gifts in kind. 46% of CSs in Ethiopia hire volunteers. This indicates that they had much to work to improve the effective use of unpaid labor.

It is difficult to develop a common output and outcome measuring tool for all programs within an organization itself. 82.5% of CSs in Ethiopia have developed a specific program output and outcome monitoring and evaluation techniques. Among the techniques are: base line survey, index, field visit, discussion with focus group, comparing planned activities against actual achievements, using software, using performance indicators, review meeting, mid-term and end-term evaluation by government sector offices and external consultants, interviews, observation, using activity check list and using log-frame are some of the techniques. 91.2% of CSs in Ethiopia develop goals for each program. Some of the output and outcome measurement techniques are:

- Comparing planned activities against actual achievements
- Using specific indicators for a program at the time of planning
- Impact assessment
- Conducting base line survey
- Conducting mid-term and end term program evaluation
- Using periodic field reports and audit reports



- Resource mobilization VS actual achievements
- Review meeting
- Observation and
- Focus group discussion and interview

CSs also measure program efficiency and effectiveness. Efficiency is measured using resource utilization per unit of output produced or resource utilization per unit of program, while effectiveness is measured by comparing achievements with related program goals. On top of these some of the techniques used for program output and outcome measurement are also used to measure program efficiency and effectiveness.

The Charities and Societies oversight body, Ethiopian Charities and Societies Agency, solely depends on independent auditors report on CSs. CSs in Ethiopia are audited by private audit firms.

Almost all audit firms use GAAS while auditing CSs books of accounts. There are few which use IAS/IFRS for UK based charities and societies. In addition to GAAS and IAS/IFRS, the firms use by laws of CSs, various CSs manuals (purchase, finance, and administration manuals), proclamations specifically related to CSs, other proclamations (example tax proclamations) and agreement documents with donors.

Majority of the respondents agree on the importance of using a standard common to all proposing IAS, few agree on the idea of developing country specific standards and building a strong accountancy body and there are also some who are comfortable with the existing practice.

Reports are in summary form, indicated in qualitative terms and usually targeted to the specific user group (donors and government) focus on the output. Thus it might not give clear information to all external users about the organization effort. To some extent the budget VS actual expenditure report might give user how the organization use the resource it acquired.

Almost all of the respondents have concerns about the newly issued Charities and Societies proclamation (621/2009). The proclamation affects CSs revenue mix, spending manner and limits their activities. Some of the respondents have fear that the proclamation may encourage CSs to hide revenue sources and misclassify expenditures to meet standards (example classifying administration expenses as program expenses).

#### **4.2 Recommendations**

1. A strong accountancy body is needed to formulate country specific accounting and auditing standards that best fits to the legal and environmental factor.
2. The world is becoming one because of globalization. Therefore, I recommend adopting the international accounting and auditing standards for Charities and Societies in Ethiopia.
3. CSs are not obliged to record fixed asset and report in their financial statements. Statement of financial position does not show the actual amount of fixed assets. Therefore, I recommend the enforcement of recording fixed assets and recognize the cost of using up the future economic benefits or service potentials of their long-lived tangible assets (depreciation) and to disclose depreciation expense for the period, balances of major classes of depreciable assets, by nature or function, at the balance sheet date, accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date and a general description of the method or methods used in computing depreciation for major classes of depreciable assets.
4. CSs had strong fear that the government may issue any proclamation that hinders some of their activities and/or operating location or their revenue mix like what has been done by proclamation No 621/2009 at any time. Therefore, the oversight body should work on clearing their fear and create a stable working environment.
5. CSs still had concerns about the newly issued Charities and Societies proclamation (621/2009). The proclamation affects CSs revenue mix, spending manner and limits their activities. It may encourage CSs to hide revenue sources

and misclassify expenditures to meet standards (example classifying administration expenses as program expenses). Therefore, the oversight body should establish a controlling mechanism to reveal this and other related errors which may arise either from lack of understanding or deliberate misrepresentation of accounts and account classifications.

6. The oversight body should minimize its reliance on external audit reports by developing its own monitoring and evaluation techniques for CSs overall operations and programs.
7. Charities and Societies in Ethiopia are highly dependent to a single revenue source. They do not have contingent plan against unexpected income changes and do not have financial flexibility. Therefore, I recommend for them to diversify and expand their revenue source and plan for surplus in their financial forecast so that a change in income may not affect the operation of the organization significantly.
8. Volunteers provide unpaid staffing. It refers to people who donate time to charities and societies instead of money and gifts in kind. Therefore, I recommend for CSs to consider effective use of volunteer service.
9. Reports are in summary form, indicated in qualitative terms and usually targeted to the specific user group (donors and government) focus on the output. Thus it might not give clear information to all external users about the organization effort. Therefore, I recommend CSs to maintain a record which details all of their service giving efforts and which shows the outcome of their existence.
10. The new CSO legislation requires administration cost to be 30 percent and less. This may limit the use of activity based costing system for joint cost allocation.
11. This research is based on questionnaire only. Therefore, I recommend future studies to include detailed analysis of CSs financial statements.

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ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES

**Project Title: Evaluation of Reporting and Performance of  
Charities and Societies in Ethiopia**

By

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Date: \_\_\_\_\_

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**Annex - 1**

Addis Ababa University  
School of Postgraduate Studies  
Department of Accounting and Finance

***Dear Respondents:***

*This questionnaire is a supporting document for my thesis which is on “**Evaluation of Reporting and Performance of Charities and Societies in Ethiopia**”. The objective is to obtain first hand information as an input to the research. Therefore, I kindly request you to answer the questions with due care and reflecting your genuine attitudes so that the findings will be fair presentation of the reality. Please note that any personal information including the identity of your organization will not be disclosed in the final presentation of the paper.*

***Thank you!***

**I. Background Information**

Please put a tick mark (√) in the box that describes you best or give your answer in writing where applicable.

1. Respondents profile (Certificate, deploma, BA/Bsc, MA/MSc, Phd)

Your position in the firm \_\_\_\_\_

2. Name of Audit Firm \_\_\_\_\_ (optional)

3. Year of establishment \_\_\_\_\_ EC/GC, Category \_\_\_\_\_

4. State your organization’s mission, vision and objective?

- \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



5. Please specify the type of services you offer to your clients (Charities and Societies).

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6. Does your firm audit financial statements of Charities and Societies?

Yes

No

7. If your answer to question No. 6 is yes, state the number of Charities and Societies you have audited in the past two years? \_\_\_\_\_

8. What are the guide lines, principles, procedures followed while you audit Charities and Societies? **Use the back of this paper in case the space provided is not enough.**

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9. What are the acceptable method of accounting for Charities and Societies in Ethiopia?

Accrual

Cash basis

Modified cash basis

If your answer is modified cash basis, please explain

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10. Which accounting standard is expected to be followed by Charities and Societies in Ethiopia?

GAAP (generally accepted accounting principles)

IAS (international accounting standards)

Other/specify \_\_\_\_\_

11. On which of the following financial statements you perform your audit work?

Financial position

Cash flows

Statement of activities

Statement of functional expenses

All

Others/specify

\_\_\_\_\_

12. Are Charities and Societies in Ethiopia obliged to keep records of fixed assets and report depreciation expense in their financial statements?

Yes

No

13. If your answer to question No. 12 is 'yes', what is the method of depreciation used by Charities and Societies?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

14. How often you audit your client organizations?

Monthly

Quarterly

Annually

Other/ specify \_\_\_\_\_

15. Does Ethiopia have its own accounting and auditing standards?

Yes

No

16. If your answer to question No. 15 is yes, how do you describe the standards?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

17. If your answer to question No. 15 is no, what do you suggest on the necessity of developing country specific accounting and auditing standards?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

18. Do you believe that the report submitted by Charities and Societies in Ethiopia provide adequate information to evaluate the service giving effort and performance of the organization?

- Yes
- No

19. If your answer to question 18 is 'No', state the limitations you have observed while conducting your audit. **Use the back page of this paper if the space provided is not enough.**

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20. What future accounting or legal issues are likely to affect Charities and Societies accounting and reporting in Ethiopia?

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**Thank you!**

Addis Ababa University  
School of Postgraduate Studies  
Department of Accounting and Finance

***Dear Respondents:***

*This questionnaire is a supporting document for my thesis which is on “Evaluation of Reporting and Performance of Charities and Societies in Ethiopia”. The objective of the questionnaire is to obtain first hand information as an input to my research. Therefore, I kindly request you to answer the questions with due care and reflecting your genuine attitudes so that the findings will be fair presentation of the reality. Please note that any personal information including the identity of your organization will not be disclosed in the final presentation of the paper.*

***Thank you!***

**II. Background Information**

Please put a tick mark (√) in the box that describes you best or give your answer in writing where applicable.

21. Respondents profile ( Certificate,  diploma,  BA/Bsc,  MA/MSc,  Phd,  other)

Title in the organization \_\_\_\_\_

22. Type of Charity and Society

- Ethiopian Charities
- Ethiopian Resident Charities
- Foreign Charities
- Mass-Based Societies

23. Category of Charity

- Charitable Trust
- Charitable Endowment

Charitable Institution

Chartable Societies

24. Year of establishment \_\_\_\_\_EC/GC

25. Specify the program your organization offer (you can select more than one program that you offer).

- General Health
- Education
- Agriculture
- Water and Sanitation
- Child development
- HIV/AIDS
- Others/specify

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26. Who are your stakeholders?

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27. State your organization's mission, vision and objective? (use the back of this paper if the space is not enough)

- ---

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- ---

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- ---

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### III. Financial Management

1. Does your organization have board of directors?

- Yes
- No

If yes, state the duties of the organization's board of directors and the number of meetings that the board made per annum?

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2. On which issue your board focus on:

- Strategic issues
- Operational issues
- All

3. What is the most important task of your Board? **(you can tick more than one)**

- Strategic planning
- Fund raising
- Protecting your reputation
- Ensuring effective programs
- Oversight of management

4. Are any of your board members remunerated for their board position?

- Yes
- No

If yes, what is the annual fee level per individual? \_\_\_\_\_

5. Does your organization have a policy to appraise management performance?

- Yes
- No

If yes, how often the appraisal is made? \_\_\_\_\_

6. If your organization has a conflict of interest policy, who signs the policy? **(you can tick more than one)**

- Board members
- Top managers
- All employees
- Volunteers

- Other management personnel
- Employees below management level



7. What are the main types of funding for your organization? (you can tick more than one)

- Donations
- Grants
- Membership subscriptions
- Government/Local government
- Fundraising
- Lottery
- Interest or investments
- Trading activities
- Other funding/ specify \_\_\_\_\_

8. How many sources of revenue does your organization maintain? \_\_\_\_\_

9. What percentage of your operating revenue is provided by your single largest revenue source?  
\_\_\_\_\_

10. Do you have concerns about the sustainability of your key source(s) of revenue?

- Yes
- No

If yes, please explain your concern  
\_\_\_\_\_  
\_\_\_\_\_

11. Do you prepare financial budget forecasts?

- Yes
- No

If yes, specify the period that the forecast covers \_\_\_\_\_

12. If your answer to question No. 9 is 'yes', in preparing your budget, do you plan to:

- Make surplus
- Breakeven
- Make a small deficit
- Make a substantial deficit

13. Have there been any significant changes in your organization's purpose(s) and/or program activities in the past year? (for example, amending of the official stated mission, adding or terminating a major program etc)

- Yes
- No

If yes, please explain

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14. What is the scope of your organization's fund raising activities?

- National
- Regional
- International
- Local
- All

15. Is there a policy governing the level of spending on programs and fundraising activities?

- Yes
- No

If yes, what are the standard spending levels for each? \_\_\_\_\_

16. What is your average annual revenue considering the past five years (2005-09)?

\_\_\_\_\_Birr/USD/other specify

17. Considering the past five years (2005-09), what is the average budget for programs?

\_\_\_\_\_Birr/USD/other specify

18. Considering the past five years (2005-09), what is the average actual spending for programs?

\_\_\_\_\_Birr/USD/other specify

19. Considering the past five years (2005-09), what is the average budget spending for administration?

\_\_\_\_\_Birr/USD/other specify

20. Considering the past five years (2005-09), what is the average actual spending for administration?

\_\_\_\_\_Birr/USD/other specify

21. How do you rate your organization in meeting government and organization standards?

- Excellent
- Very good
- Good

- Average
- Poor
- Very poor
- Bad

#### IV. Reporting and Performance

1. What is your organization method of accounting?

- Accrual
- Cash basis
- Modified cash basis

If your answer is modified cash basis, please explain

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2. Which accounting standard your organization uses?

- GAAP (generally accepted accounting standards)
- IAS (international accounting standards)
- Other/specify \_\_\_\_\_

3. Which one the following financial statements you prepare? **(you can tick more than one)**

- Financial position
- Statement of activities (revenue and expenditure report)
- Cash flows
- Statement of functional expenses
- All
- Others/specify \_\_\_\_\_

4. Does your annual report explain the significant activities that you undertook to achieve your objective and the outcomes you expected from your activities?

- Yes
- No

If your answer is 'yes', which statement explain the significant activities?

---

5. Net assets of your organization are reported as: **(you can tick more than one)**

- Restricted
- Temporarily restricted
- Unrestricted
- All

Other/specify \_\_\_\_\_

6. Support (contribution revenue) is recorded in your book of accounts as: **(you can tick more than one)**

- Restricted net assets
  - Temporarily restricted net assets
  - Unrestricted net assets
  - Other /Specify
- 
- 

7. Do you keep records of conditional and unconditional promises to give?

- Yes
- No

If yes, how do you report in the financial statements?

---

8. If your answer to question No. 7 is yes, does your financial statement include disclosure of promises to give?

- Yes
- No

9. Do you record gifts in kind?

- Yes
- No

10. If your answer to question No. 9 is yes, how and at what amount?

- As contribution revenue for gifts received/fair value
- As expense for gifts made to others/fair value
- Both
- Other/specify \_\_\_\_\_

11. Do you record contributed services?

- Yes
- No

12. If your answer to question No 11 is yes, how do you record it?

- As contributions revenue for services received
- As expense for services made to others
- Both

- Other/ specify \_\_\_\_\_
13. Do you calculate depreciation expense?
- Yes
- No
14. If your answer to question No. 13 is yes, how do you calculate and report depreciation expense in the financial statements?
- \_\_\_\_\_
15. Does your organization hire volunteers?
- Yes
- No
16. If your answer to question No. 15 is 'yes', do you keep records of services provided by volunteers? If yes, how?
- \_\_\_\_\_
- \_\_\_\_\_
17. Are your financial statements continuously audited?
- Yes     No
18. If your answer to question No. 17 is 'yes', who conducts the audit?
- External auditors
- Internal auditors
- Both
19. If your answer to question No. 17 is yes, how often the audit is done? (**you can tick more than one**)
- Monthly by Internal auditors
- Quarterly by Internal Auditors
- Annually by External Auditors
- Other/ specify \_\_\_\_\_
20. Does your organization use any specific program monitoring and evaluation techniques?
- Yes             No
21. If your answer to question No. 20 is 'yes' list techniques used. (**you can use the back page for question No. 21, 22 and 23**)
- \_\_\_\_\_

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22. How do you measure overall performance of your organization (output and outcome)?

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23. Does your organization have goals for each program?

- Yes       No



24. How do you measure program efficiency and effectiveness?

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25. Do you measure the outcome of your programs?

- Yes                       No

If your answer is yes, how do you measure?

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26. Do you believe that the reports issued to external users explain the significant activities that you undertook to achieve your objectives (what programs you run, what projects you undertake, what services you provide, and what grants you make)?

- Yes  
 No  
 NA

27. If your answer to question No. 26 is 'No', state the limitations of the financial statement's to explain the significant activities that you undertook to achieve your objectives.

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28. Does the annual report explain the impacts on or the consequences for, the community resulting from the existence of your organization (out comes)?

- Yes  
 No  
 NA

29. Taking all the above variables in to account and considering the past five years of your organization's operation, how would you rate the overall organizational performance?

- Bad                                       Good                                       Average  
 Very poor                                       Very good  
 Poor     Excellent

30. What future accounting or legal issues are likely to affect your organization's operations (both positively and negatively)?

**Thank you!**



**Annex 3-1**

**FIVE YEAR AVERAGE REVENUE AND COST STRUCTURE OF SELECTED CHARITIES AND SOCIETIES IN BIRR (2005 - 2009)**

Code	Revenue	Program cost		Administration cost		Total Budget	Total Expenditure	Admin %age	Program %age	%age of program cost to budget	%age of program cost to revenue
		Budget	Actual	Budget	Actual						
001	14,000,000	9,800,000	10,500,000	3,500,000	2,800,000	13,300,000	13,300,000	21%	79%	<b>107%</b>	75%
002	2,500,000	2,000,000	2,100,000	500,000	400,000	2,500,000	2,500,000	16%	84%	<b>105%</b>	84%
003	5,000,000	4,500,000	4,000,000	600,000	500,000	5,100,000	4,500,000	11%	89%	89%	80%
004	1,000,000	700,000	700,000	350,000	300,000	1,050,000	1,000,000	30%	70%	100%	70%
005	800,000	700,000	710,000	90,000	80,000	790,000	790,000	10%	90%	<b>101%</b>	89%
006	140,000,000	112,000,000	105,000,000	7,000,000	6,300,000	119,000,000	111,300,000	<b>6%</b>	<b>94%</b>	94%	75%
007	25,000,000	23,000,000	24,000,000	4,600,000	4,655,000	27,600,000	28,655,000	16%	84%	104%	96%
008	28,000,000	32,500,000	24,000,000	9,000,000	9,200,000	41,500,000	33,200,000	28%	72%	74%	86%
009	420,000,000	350,000,000	350,000,000	63,000,000	63,000,000	413,000,000	413,000,000	15%	85%	100%	83%
010	21,000,000	15,960,000	15,960,000	5,040,000	5,040,000	21,000,000	21,000,000	24%	76%	100%	76%
012	4,839,200	4,357,000	4,208,000	653,550	653,550	5,010,550	4,861,550	13%	87%	97%	87%
013	9,800,000	8,960,000	8,960,000	840,000	840,000	9,800,000	9,800,000	9%	91%	100%	91%
014	2,000,000	2,000,000	1,950,000	100,000	1,000,000	2,100,000	2,950,000	<b>34%</b>	<b>66%</b>	98%	98%
016	3,402,000	3,031,560	2,429,388	364,392	308,520	3,395,952	2,737,908	11%	89%	80%	71%
017	6,919,618	4,843,733	4,267,333	2,075,885	1,828,857	6,919,618	6,096,190	30%	70%	88%	62%
018	4,500,000	3,150,000	3,825,000	1,350,000	675,000	4,500,000	4,500,000	15%	85%	<b>121%</b>	85%
019	61,600,000	49,200,000	60,116,000	3,825,000	3,825,000	53,025,000	63,941,000	<b>6%</b>	<b>94%</b>	<b>122%</b>	98%
020	16,000,000	110,000,000	15,000,000	5,000,000	5,000,000	115,000,000	20,000,000	25%	75%	14%	94%

025	4,207,758	2,875,894	3,500,000	678,463	778,463	3,554,357	4,278,463	18%	82%	<b>122%</b>	83%
026	39,200,000	28,000,000	39,200,000	11,200,000	11,200,000	39,200,000	50,400,000	22%	78%	<b>140%</b>	100%
027	1,500,000	2,000,000	1,700,000	340,000	368,000	2,340,000	2,068,000	18%	82%	85%	113%
028	35,000,000	28,000,000	25,200,000	7,000,000	2,800,000	35,000,000	28,000,000	10%	90%	90%	72%
030	1,000,000	1,000,000	900,000	180,000	100,000	1,180,000	1,000,000	10%	90%	90%	90%
031	500,000,000	480,000,000	480,000,000	180,000,000	180,000,000	660,000,000	660,000,000	27%	73%	100%	96%
032	280,000,000	126,000,000	126,000,000	56,000,000	56,000,000	182,000,000	182,000,000	<b>31%</b>	<b>69%</b>	100%	45%
033	112,000,000	78,400,000	78,400,000	33,600,000	33,600,000	112,000,000	112,000,000	30%	70%	100%	70%
034	300,000,000	275,000,000	260,000,000	52,000,000	44,000,000	327,000,000	304,000,000	14%	86%	95%	87%
037	8,720,000,000	6,100,000,000	6,100,000,000	2,600,000,000	2,600,000,000	8,700,000,000	8,700,000,000	30%	70%	100%	70%
038	8,794,426	9,807,827	7,947,914	980,783	787,950	10,788,610	8,735,864	<b>9%</b>	<b>91%</b>	81%	90%
040	45,000,000	45,000,000	44,000,000	5,000,000	5,000,000	50,000,000	49,000,000	10%	90%	98%	98%
042	6,354,000	5,214,728	4,797,550	1,139,272	1,139,272	6,354,000	5,936,822	19%	81%	92%	76%
043	2,474,560	2,121,000	2,096,432	421,000	435,273	2,542,000	2,531,705	17%	83%	99%	85%
044	700,000	609,804	479,597	107,612	106,195	717,416	585,792	18%	82%	79%	69%
048	57,805,863	54,497,737	46,737,553	7,571,470	8,697,077	62,069,207	55,434,630	16%	84%	86%	81%
050	8,000,000	9,000,000	7,500,000	900,000	750,000	9,900,000	8,250,000	<b>9%</b>	<b>91%</b>	83%	94%
052	10,250,000	8,710,000	7,839,000	650,000	617,500	9,360,000	8,456,500	<b>7%</b>	<b>93%</b>	90%	76%
053	38,116,400	39,450,908	37,957,318	13,285,062	11,725,028	52,735,970	49,682,346	24%	76%	96%	100%
055	3,000,000	3,000,000	2,900,000	900,000	800,000	3,900,000	3,700,000	22%	78%	97%	97%
056	36,000,000	27,000,000	27,000,000	8,100,000	8,100,000	35,100,000	35,100,000	23%	77%	100%	75%
<b>Total</b>	<b>10,975,763,825</b>	<b>8,062,390,191</b>	<b>7,941,881,085</b>	<b>3,087,942,489</b>	<b>3,073,410,685</b>	<b>11,150,332,680</b>	<b>11,015,291,770</b>	<b>28%</b>	<b>72%</b>	<b>99%</b>	72%

