



ACCOUNTING FOR NGOS, COMPLIANCES AND DEVIATIONS

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Abstract

For ensuring true and fair view of the financial position of NGOs, there is a need of proper accounting. The NGOs in Ethiopia are lacking standardized and harmonized accounting system. Some NGOs are to a large extent follow the GAAP as far as possible within the legal requirements. Over the years, the legal frame work in Ethiopia evolved through the provisions of Civil Code 1960 and the related proclamations, legal notices and the periodical rules and regulations, and the code of conduct issued by then the RoA, the DPPC, the CRDA and now the AABE. All these regulations are meant to ensure true and fair view of the financial position. Apart from these legal aspects, there are a few external reporting stipulations that are applicable to the NGOs. They are given by the FASB since 1983 and over the years they are reviewed and revised. To ensure full disclosure of the financial operations and also to be highly transparent, then the FASB and at present the IPSASB & the AABE suggests to follow the then Accounting Standards No. 93 & 99, 116, 117, 124, 136 and now particularly the IPSAS 1, 2, 3, 4, 17 that are directly applicable to NGOs as per the Financial Reporting Proclamation 847/2014 & Charities & Societies Proclamation No. 621/2009 and the guide line of the AABE. A field investigation as to the compliance of the NGOs of Ethiopia with the GAAP locally enforced legal stipulations and the FASB Standards reveals that there are many deviations. The nomenclatures of the Statement of Activities as adopted by the NGOs are varied and rarely uniform. Further, the field investigation reveals that out of 31 NGOs only 12 prepare Balance Sheets and even the balance sheets prepared by them are not containing the vital information about depreciation in case of 4 NGOs. With regard to the Statement of Cash Flows (IPSAS and FASB Standard) very few prepare it out of the 31 NGOs. Thus, the field survey reveals that there are significant deviations when compared with the accounting standards resulting a poor disclosure and transparency. To ensure fair disclosure with in the framework of FASB Standards and IPSASB standards, local accounting requirements in line with the Civil Code, then the regulations of DPPC and now the AABE, there is a need to develop or adopt IPSAS as per Proclamation 847/2014 an internationally oriented and locally developed accounting principles and an appropriate package of three Annual Financial Statements for the NGOs in Ethiopia.

Introduction

Non-governmental organizations (NGOs) have a long history of service in Ethiopia. Their involvement in the economic and social life of the country began in early 20th century. Their forceful involvement in the development efforts of the country, however, started with the drought-induced famine of 1973 – 74. Initially their operations focused on relief that saved millions of lives. Since then they have become a permanent feature in the country's development process. The recurrence of the 1984 – 85 drought gave a further boost to the growth of NGOs operations. As the NGOs were increasingly pulled into the development front, their role and areas of intervention changed from time to time. The growth of NGOs in Ethiopia has been vigorous over the last two to three decades. The number of NGOs, especially indigenous NGOs has been rising. It is, therefore, then the Ministry of Justice, DPPC, CRDA and now the AABE recognized the need of fully document the contributions of the NGOs community.

Accordingly Proclamation No. 621/2009, Charities and Societies Proclamation, Article 77 NGOs which Charities and Societies have the duty to keep the Accounting Records.

The Officers of a Charity or Society have to ensure that accounting records are kept in respect of the Charity or Society which are sufficient to show and explain all the transactions and disclose at any time. The accounting records have to contain entries showing from day to day all sums of money received and expended by the Charity or Society, and the matters in respect of which the receipt and expenditure takes place and record of the assets and liabilities of the Charity or Society. As per Article 78, Annual Statements of Accounts any Charity or Society are to be submitted to the Agency prepared in accordance with acceptable standards. According to Financial



Reporting Proclamation 847/2014, Article 5, acceptable standards means Applicable Financial Reporting Standards. The financial reporting standards to be used when preparing financial statements are International financial reporting standards, or International financial reporting standards for small and medium enterprises, and International public sector accounting standards applicable to charities and societies.

This study is concerned with the accounting and reporting practices of Nongovernmental Organizations (NGOs). They are distinctive from other organization by (i) hybrid structure in terms of status features, (ii) service being the main objective, (iii) absence of profit motive, (iv) public support, (v) accountability to the resource providers by stewardship function through appropriate accounting control system such as fund accounting and budgeting and (vi) democratic management.

Accounting features of NGOs: In the context of present study the following three major accounting features of NGOs are worth noting.

Governance by board of directors: As with a business corporation elected or appointed directors; trustees or governors govern an NGO.

Measurement of cost expirations: Cost expirations or expenses, rather than expenditures, are reported in the statement of activities of most NGOs. Allocation of expenses (including depreciation) and revenues to the appropriate accounting period thus is a common characteristic of NGOs.

Use of accrual basis of accounting: NGOs employ the same accrual basis of accounting used by business enterprises. As against this, most of the NGOs are maintaining their accounts on cash or modified cash basis of accounting.

In the light of the above discussion the NGOs are the integral component of the NFPOs, and they are the organizations operating for the social welfare, relief, rehabilitation and development on voluntary basis, and not-for-profit.

The purpose of this paper, therefore, is to compare the existing accounting and reporting practices of the NGOs in Ethiopia with the standard practices and guidelines issued by the regulatory and controlling agencies like then the DPPC, the Registrar of Associations of the MoJ, and the Civil Code 1960 of Ethiopia and regulations framed in 1966, Charities and Societies Proclamation 621/2009, Financial Reporting Proclamation 847/2014, Article 5 and the Accounting and Audit Board of Ethiopia (AABE) guidelines.

Thus, this paper addresses the present accounting and reporting practices of the select NGOs against the standards given by the Financial Accounting Standards Board (FASB), particularly the International Public Sector Accounting Standards Board (IPSASB) and the local legal requirements as per the existing rules and regulations like Financial Reporting Proclamation 847/2014 and guidelines of the AABE, and then identifies the deviations or departures.

Methodology

Sample of NGOs: For this study there are 344 active and operational NGOs identified. The sample of 31 NGOs, which constitutes 9% of the total number of 344 NGOs, is considered as a representative. The purpose of this representative sample study is to facilitate an in-depth study of the accounting and reporting practices of the NGOs in Ethiopia.

The sample design is developed to use the primary as well as secondary data. Appropriately designed questionnaire is canvassed to collect the primary data. The questionnaire developed and thoroughly pre-tested to ensure the reliability and drawing meaningful inferences. The researcher's attempts to make an in-depth enquiry with the Auditors of the select NGOs could not be fruitful as they feel that revelations of the financial position (accounting and reporting aspects) of their clients amounts to breach of professional discipline. Hence, they have not been interviewed for the purpose of research.

The following procedure has been followed to make the sample as representative as possible.

Out of 344 active and operational NGOs, 224 are indigenous and the rest of 120 are international by their sponsorship. Hence a sample of 31 NGOs have been taken. Their head-offices are located in Addis Ababa. Hence, a sample frame of all the NGOs was obtained and stratified as under:

1. A stratification of all the NGOs in the sample frame are made into two categories, viz., indigenous and international.
2. Since the international NGOs are mainly for limited objectives, as many as six international NGOs were drawn on random sample without any eye upon their specified objectives.
3. Regarding the rest of the twenty-five NGOs (indigenous), the sample is further stratified according to their major objectives like: rehabilitation, health care, education, drought relief etc.

Legal Requirements of NGOs

In Ethiopia, the legal framework establishing NGOs is based upon the Article 479 of the Civil Code 1960. The Civil Code states that the Article 479 is applicable to all associations organized to undertake social, economic and other legally permissible activities. Based on the Civil Code provisions, the Associations Registrations Regulations have been framed in 1966. The primary objective of the regulations is to oversee the activities of the NGOs through administrative and accounting controls. The detailed registration power and duty of the office is stated under the Ethiopian civil Code and Legal Notice No. 321/66. The Article 12 of this legal notice provides that every association shall keep adequate accounts and records of income and expenditure. The NGO will also make the same available to inspection from time to time or at any time upon the request by duly authorized official. The Civil Code further, prescribes that government licensed auditors should audit the accounts. The legal Notice No.321 further requires that every association has to submit a report comprising income and expenditure statement, balance sheet, and auditor's report in respect of the major activities of the organization during the said financial year. Amending this legal Notice, another official guidelines referring to the NGOs was issued in July 1995. Accordingly, Associations' Registration Office is one of the main Departments in Ministry of Justice. Before 1995 the regulatory organ for registration of associations was Ministry of Interior, but after, this power and duty was transferred to Ministry of Justice by proclamation No. 4/1995. This was a felt necessary by the government in view of then the National Policy on Disaster Prevention and Management (NPODPM) formulated to ensure coordinated approach by the NGOs. According to these guidelines, the Audit Report of the NGOs should reach then the DPPC within a maximum period of six months of the succeeding financial year. This report should explain the status of the resources of the organization, fixed assets, resource utilization and other matters relating to expenses and incomes. However, these regulatory agencies did not prescribe the formats of Annual Financial Statements but Charities and Societies Proclamation 621/2009, and Financial Reporting Proclamation 847/2014, Article 5 are very clear about it in addition to the Accounting and Audit Board of Ethiopia (AABE) guidelines. Hence, the accounts and consequential reports are influenced by GAAP/IPSAS. The purpose of such reports is to convey sufficient information to the concerned authorities of the FGE and the public about the associations' activities. Further, the report should also reveal the sources of its funds and also how it is expended for achieving the objectives.

GAAP/IPSASs as Applicable to Ethiopia

Earlier generally accepted accounting principles (GAAP) and at present International Public Sector Accounting Standards (IPSASs) are the development of conventions, concepts, standards, rules, principles, precepts and procedures that are necessary for the purpose of consistency and comparability at a point of time in any business non-business environment respectively. Fess and Warren opine that accounting principles have been developed individuals to help accounting data more useful in an ever-changing society. They represent the best possible guides based on reason, observation and experimentation, to the achievement of the desired results. These principles are continually re-examined and revised to keep pace with the increasing complexity of business operations. General acceptance among the members of the accounting profession is the criterion for determining an accounting principle. As such, it is clear that the IPSASs are applied in any country after a great churning of the principles by practicing accountants and accounting educators, working both independently, and under the

sponsorship of various accounting organizations. Again it is clear that the IPSASs are the result of the efforts of the various national and international professional organizations.

According to IPSAS 1, Paragraph 21, a complete set of financial statements comprises (a) A Statement of Financial Position, (b) A Statement of Financial Performance, (c) A Statement of Change in net assets/equity, (d) A Cash flow Statement, (e) A comparison of Budget and Actual amounts, (f) Notes, comprising a summary of significant accounting policies and other explanatory notes and (g) Comparative information in respect of the preceding period.

A brief mention about the professional bodies responsible for developing accounting standards, at this stage is not irrelevant. Broadly, these accounting standard setting organizations may be categorized as US-based and international accounting standard organizations. The former (US model) focuses on the information needs of the common stockholder or the credit grantor through the application of GAAP/IPSAS. The latter organization is also developing international accounting standards in addition to US based organization. In US; APB was responsible from 1959 to 1973 and FASB has replaced the APB in 1973 for setting the US accounting standards. At international level, IASC (established in 1973 and located in London) was working till 2001 in developing the accounting standards to be considered for application by the member countries for harmonization worldwide. As on today, i.e., from 2001 the IASB (after restructuring of the IASC) has been issuing International Financial Reporting Standards. Though there is no uniformity between their accounting standards in certain aspects, presently there is an attempt to work together (FASB and IASB) to improve the international standards. In September 2002, the FASB issued ‘The Norwalk Agreement’ in which both the FASB of IASB and IPSASB pledged to work together to make their respective financial reporting standards as comparable as possible. Now the International Public Sector Accounting Standards Board (IPSASB) works to improve public sector financial reporting worldwide through the development of IPSAS, international accrual-based accounting standards, for use by governments and other public sector entities around the world. Today, many key decision-makers, politicians, and public finance management leaders are taking the key steps toward meaningful reform, including the adoption and implementation of accrual accounting and International Public Sector Accounting Standards (IPSAS), which true with Ethiopian context as per Financial Reporting Proclamation 847/2014 and the establishment of the Accounting and Audit Board of Ethiopia.

Regarding the GAAP in Ethiopia, there were no locally developed standards but now all related IPSAS apply to all Charities and Societies. In this context there are two aspects to be noted. Earlier, in the absence of locally developed GAAP, almost all the accountants and auditors in Ethiopia used to apply the US, GAAP or IFRS of IASB in case of business and non-business organizations. Second, there are three professional accountants associations such as Ethiopian Professional Association of Accountants and Auditors (EPAAA), Ethiopian Accountancy and Finance Association (EAFA), and Accounting Society of Ethiopia (ASE). Of course, these country-professional organizations did not come up with any accounting standards to be followed but now the AASB is closely following it.

Justification of Applicability of then the FASB now IPSAS to the NGOs in Ethiopia

Though Ethiopia is a least developed country, it is gearing its accounting system to the US or/and international accounting standards of the IPSASB for the following reasons.

1. As already mentioned, that there were no locally developed accounting principles, there is a need for Ethiopian Accounting professionals to look into other sources now the IPSASs.
2. In accordance with Ethiopian Government Regulation No. 321/66 and then the DPPC’s guidelines, and now IPSAS, NGO’s prepare annual financial statements in accordance with then the GAAP and present IPSAS as appropriate to their circumstances. It was observed by the World Bank that there were no national GAAP for Ethiopia but now as per Financial Reporting Proclamation 847/2014 all NGOs need to apply IPSASs. Standards set by the IPSASB are the primary source of IPSAS in the absence of the locally developed accounting principles.
3. In Ethiopia, at present almost all business and non-business organizations follow the IFRS of IASB and IPSAS as per the Financial Reporting Proclamation 847/2014.



4. Education at higher levels in the field of accountancy, US pattern is employed and in practice there is a tendency to follow then the US or UK patterns and now IPSASs.

Accounting Standards-FASB/IPSASs

In the absence of the specific accounting standards in the country, it is necessary to follow the time-tested and generally acceptable accounting principles. In terms of then GAAP, and present IPSASs the following are relevant:

(a) Entity concept, (b) accounting period concept, (c) going concern concept, (d) objective evidence principle, (e) money measurement concept, (f) cost principles, (g) matching principle, (h) full disclosure principle, (i) consistency principle, (j) materiality principle, and (k) conservatism principle. In the above paragraph, it is noted that there are no specific accounting standards prescribed by the Government in Ethiopia except to demand adequate financial information that enable them to ascertain the sources of funds, their uses, fixed assets and their utilization. Hence, it is pertinent to examine how far the NGOs in Ethiopia are following the GAAP of Statements issued by the FASB and IPSASs.

In addition to the above generally accepted accounting principles, as stated earlier, there are five Financial Accounting Standards Board Statements (Earlier Standards: 93 & 99 for depreciation; 116 for contributions received and made; 117 for the financial statements to be prepared; 124 for investments; and 136 for transfers of assets and present IPSASs), which are relevant to the NGOs.

As the objective of this study is to probe into the accounting and reporting practices of NGOs in Ethiopia, an attempt is earlier made to survey the practices and also the legal stipulations with regard to accounting and reporting procedures. As the FASB/IPSAS suggested Accounting and Reporting Standards for NGOs, a brief discussion about them is not impertinent. The purpose of this discussion, further, is to make a comparison between the prevailing practices and the standard practices amidst the accounting environment created by the law of the land.

Accounting for Contributions

It is noted that almost all the 31 NGOs are receiving donations from the local philanthropists and also from the international agencies. Further, donations are observed to be major sources of income to the NGOs. A close examination of the financial statements reveals that the details of the donations, their restrictions, and the form of donations (whether in cash or kind) are not disclosed by any NGO under study. Even then the DPPC and MoJ did not insist for disclosure about the nature of donations. However, the FASB/IPSAS has suggested to follow Standards for ensuring fair accounting practices and disclosure for the nature and sources of donations. Hence, a brief discussion about the Statement is given below.

The FASB/IPSAS indicates accounting procedures to be adopted by nonprofit entities for contributions made as well as received. Contribution is defined as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal basis. This means that a contribution with a donor imposed condition, such as a matching requirement, should not be recognized until the condition has been met and, secondly, the donor should not be receiving anything of value back for a contribution. Contributions are recorded not just when cash is received, but also when promises (pledges) are made. This means donees must record pledges receivable and contribution income prior to receiving the cash. This is a change in practice for many nonprofit entities, who previously only recorded pledged amounts when the cash was received. Contributions are recorded immediately as income even though the contribution may have had donor restrictions that have not been met. This requirement has been particularly controversial as most nonprofit organizations record donor restricted contributions, that is contributions that are restricted for a specific operating purpose or future period, as "deferred revenue" on the balance sheet until the restriction of the gift has been met. The FASB/IPSAS concluded that restricted contributions only limit the use of the funds but do not result in liabilities.



Therefore, the amounts should be recognized as income currently even though the related expenditure that satisfies the restriction may not be made until a future period.

Non-cash contributions, such as buildings and equipment, and contributed services, (such as the time of volunteers), should be recorded, but the criteria for recognition, particularly contributed services, is much more restrictive. Non-cash contributions that do not meet the criteria cannot be recorded. Basically, a volunteer's time can only be recorded if the time is spent building an asset for the nonprofit or the volunteer possesses a professional skill such as an attorney or CPA, and the nonprofit would have paid for the service had the service not been donated. In the context of the sample NGOs, it is to be noted, that none is making distinction between the various types of contributions.

Accounting Standard on Financial Statements

The financial statements of the selected NGOs, as observed in the preceding discussions, are found different from the suggested formats of the FASB/IPSAS. Then the DPPC and MoJ simply suggested to follow the standard pattern of the reporting. They have neither prescribed the formats nor guided the Auditors of the NGOs to follow such and such format available at any source. It is found that there is no consistency with regard to the presentation of the Income and Expenditure Statements. However, in many NGOs, there is, to some extent, uniformity and consistency in preparing and submission of Balance Sheet. In this context a brief discussion is presented here about the FASB/IPSAS, which deals with the presentation of Financial Statements. The set of financial statements includes a statement of financial position (balance sheet), statement of activity (Income and expenditure Statement), statement of cash flows and, for voluntary health and welfare organizations, a statement of functional expenses. Financial statements are to focus on the entity as a whole, rather than reporting on separate fund groups. Contributions and net assets (previously called fund balance) are now to be shown in three categories based solely on donor-imposed restrictions. The three categories are "unrestricted", "temporarily restricted" and "permanently restricted". Hence, expenses are to be reported (1) by functional categories (programs, management and general, and fundraising) rather than by natural categories and (2) in the unrestricted column or category even though the source of the funds may have been restricted.

All capital gains and losses on investments and other assets are to be reported in the unrestricted category, unless there are explicit donor restrictions, or state law, which require the reporting of gains or losses in a restricted category. The present investigation with the select 31 NGOs reveals that all of them except 4 deviate from FASB/IPSAS Standard in preparing annual Financial Statements. As a matter of fact few NGOs prepare Cash Flow Statements.

Accounting for Investments (FASB Statement No. 124 and IPSAS 16): This standard specifies that fair value should be measurement basis for investments in all debt securities and in equity securities that have readily determinable fair values. The standard requires debt securities be valued at fair value. Investment income for the period includes interest or dividends and the changes in fair value. Changes in fair value of investments in temporarily restricted or permanently restricted net assets are recognized in accordance with donor restrictions as to the income. The NGOs in Ethiopia do not have any investments since they generally run short of funds to meet the socio-economic programs. Further, there is no stock market in the country. As such there is no possibility of determining the fair value. Hence, this Standard is not relevant to the NGOs in Ethiopia.

Transfers of Assets (FASB Statement No.136 and IPSAS): This standard defines three parties to the typical contribution process. The donor is the initial provider of the resources. The recipient organization receives the assets from the donor. The beneficiary is the entity that eventually receives the assets through the recipient organization, as specified by the donor. This process is not that relevant since the NGOs in Ethiopia do not have such transactions.

Present Reporting Practices Vis-À-Vis FASB/IPSAS

In the light of the then FASB, Statement No.117 and now IPSAS 1 Presentation of Financial Statements, and particularly IPSAS 17 "Property, Plant and Equipment" it can be mentioned that out of 31select NGOs, only 4

(two local and two foreign) to some extent, are falling in line with the Standards because of flexibility permitted by the government of Ethiopia.

As stated earlier, the FASB Statement No.117 and IPSAS 2 “Cash flow Statement” state that the NGOs have to prepare Cash Flow Statements for the year. At this stage, it is to be noted that none of the select 31 NGOs prepare the Cash Flow Statement (see Appendix).

In Ethiopia, almost all the established NGOs receive donations from foreign agencies, like churches, funding agencies, and other NGOs of foreign origin. All of the funds from the foreign agencies are received in foreign currency. As such, there is a problem of currency transactions and conversion of foreign currency into local currency (Birr). In this context, the FASB and particularly IPSAS 4 “The effect of changes in foreign exchange rates” are to be applied with regard to foreign currency transactions in case of NGOs. At present, the accounting practice of the NGOs is that they recognize the receipt of foreign donations for accounting purposes at the exchange rate prevailing on the date of actual receiving of the funds in line with IPSAS 4. Regarding the pledges (promises) of the foreign agencies for donations, they are recognized for accounting purposes, the exchange rate obtained on the date of Statement of Financial Position. The problem of translation of pledges of foreign donations arises only with the NGOs following the accrual basis of accounting.

Recognition of Depreciation: The depreciation is provided against the fixed assets by only 8 NGOs out of the 31 under study. They are following the stipulations of then the DPPC with regard to the rates of depreciation. However, out of 31 NGOs, 23 are treating the fixed assets as expense in the year of acquisition. Hence, it is neither shown in the Balance Sheet nor mentioned any where about the nature of the assets. This accounting policy is made known by the auditors in their ‘Notes’. This is not consistent with the generally accepted accounting principles and IPSAS. In continuation to this, a brief discussion about the FASB Statement No.93/99 and IPSAS is attempted.

This Statement requires all not-for-profit organizations (NGOs), to recognize the cost of used up long-lived tangible assets (depreciation) for making the general-purpose external financial statements. However, depreciation need not be recognized for certain works of art and certain historical treasures. The requirements of APB Opinion No.12, Omnibus Opinion-1967 and IPSAS are such that this information about depreciation should be shown in the financial statements. This Statement No.93 & 99 and IPSAS do not prescribe the method of financial statement display, recognition of assets, or measurement of used up value (depreciation) to be recognized for a particular period. The FASB No.93 & 99 and IPSAS 17 suggested that this Statement relating to depreciation be implemented.

After having gauged the accounting practices and reporting pattern of NGOs, in the context of the prescribed GAAP, the FASB and IPSASs 17, an idea about the compliances and deviations between the practice and prescriptions is presented in the following table.

Accounting and Reporting Practices of NGOs- Analysis of Compliances and Deviations

FASB/IPSAS Standards	Regulatory Agencies Prescriptions	Practice s of the NGOs	Extent of Compliance as percentage to 31 NGOs	Extent of Deviation as a percentage to 31 NGOs
Statement of Activities/Statement of Financial Performance	Income and Expenditure Account as per the GAAP	As stated earlier the titles of the Account is differently given by the different NGOs	-----	-----
Statement of Financial Position	Balance sheet	Only 12 NGOs are preparing the	38% of NGOs.	62% of NGOs

(Balance Sheet)		Balance Sheet		
Statement of Cash Flows	Not prescribed	No NGO prepares.	-----	100% of NGOs
Provision for Depreciation	Rates of depreciation are prescribed	Depreciation is recognized.	26% of NGOs	74% of NGOs

Source: Analysis of the questionnaire.

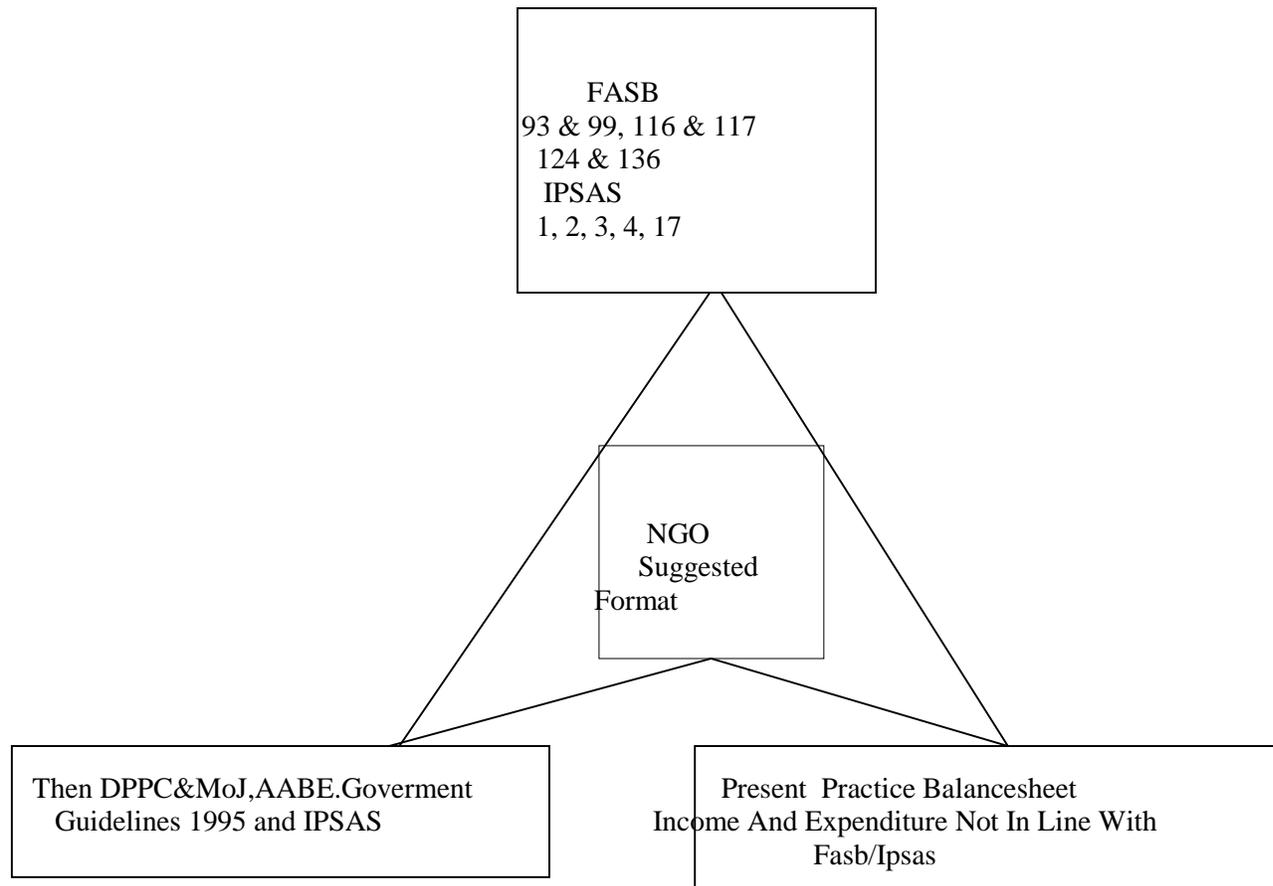
From the data presented in the above table, it can be discerned that there is a deviation in the accounting and reporting practices among the NGOs and also in terms of the prescriptions of FASB/IPSAS and the Regulatory Agencies.

A Triangular Reconciliation of the Accounting and Reporting Practices

Through the preceding paragraphs, a fair idea about the existing accounting and reporting practices of NGOs in Ethiopia is obtained. Further, a discussion about the government prescriptions and the FASB & IPSAS suggestions as to the reporting practices are attempted. Thus, the study is now in a triangle frame of the practices, suggestions and prescriptions. It is also understood through the preceding discussions, that the accounting and reporting practices are not comparable with the FASB and IPSAS package of financial statements. It is also not clear whether the accounting and reporting practices of NGOs in Ethiopia are conforming to the government (then DPPC & MoJ and AABE) stipulations or not due to the vague and passing prescriptions. As such an attempt is made here to highlight the need for assimilation, and modification of the present practices in the context of the FASB and IPSAS suggestions and the field practices. Perfection in any field is the result of persistent practice and cross-fertilization of ideas and experiments. As the present study is concerned with the accounting and reporting practices of NGOs in Ethiopia, an empirical modification is indicated.

The following chart gives a pyramid of the sources of accounting and reporting principles enabling the creation of locally compatible, transparent and accountable environment for the NGOs. The peak point of the pyramid is indicating the Accounting standards given by then the FASB viz., Statement Nos.93 & 99, 116, 117, 124, 136, and now IPSAS 1, 2, 3, 4, 9, 17, 23 and 24, the left side bottom point is indicating the government prescriptions that can be sourced out from the guidelines (1995) and the agreements signed by the NGO concerned with then the DPPC, MoJ now the AABE and the right side bottom point of the pyramid is explaining the existing accounting and reporting practices of the NGOs such as the accounting policies, preparations of annual financial statements and the budgets. Between these three angles of the pyramid, the NGOs must tend to improve their present practices that are lacking transparency, accountability, and full disclosure. As such the NGOs are shown in the mid-point of the triangle evidencing their readiness to accept any accounting and reporting standards that suits the local and international needs. An attempt is made to suggest locally compatible package of Annual Financial Statement for the NGOs in Ethiopia.

PYRAMID



Conclusion

Keeping in view the accounting and reporting requirements of the then DPPC, and the RoA (Ministry of Justice), & now the Accounting & Audit Board of Ethiopia and the harmonization obligation with the GAAP, FASB and IPSAS, an internationally oriented and locally developed accounting principles and an appropriate package of three Annual Financial Statements are required. They are: (i) Balance Sheet (Statement of Financial Position), (ii) Income and Expenditure Account (Statement of Activities or Statement of Financial Performance), and (iii) Cash Flow Statement. The first two statements' Schedules should disclose various relevant details.

1. Balance Sheet with its Schedules provides full disclosure of various assets, depreciation, details of balances of each item at the beginning and at the end of the financial year. Thus, they are more revealing and satisfy the transparency needs of the users.
2. Income and Expenditure Account is a period based account for disclosing income and expenditure. It explains the nature and effects of activities in terms of income and expenditure for the financial period. It should show in a classified manner (restricted, temporarily restricted and permanently restricted) with total amounts against each item. A number of schedules, wherever there is a possibility of inflating or deflating costs or revenues, are required to be more transparent.

Both the above statements to a large extent conform to the GAAP of the FASB and IPSAS prescriptions. They also meet the requirements of the regulatory agencies in Ethiopia.

Cash Flow Statement is also required with the details of various sources of cash and applications of cash so as to highlight the operating and non-operating activities that take place during the year. This statement is also suggested by the FASB as GAAP and IPSAS.

References

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	Title of Statement	NGOs	% to 31
A	Income and Expenditure Statement	24	77.42
	Revenue and Expenditure Statement	2	06.45
	Receipts and Expenditure Statement	1	03.23
	Receipts and Payments Statement	2	06.45
	Receipts and Disbursement	1	03.23
	Statement Statement of Activities	1	03.23
B	Balance Sheet	12	38.71
C	Cash Flows Statement	0	-----
D	Program wise Expenditure	8	25.81
E	Schedules or Notes to Accounts	31	100
F	Statement of Budget and Actual Comparison	3	09.67
G	Budget for the following year	Nil	Nil
H	Audit Report – Notes	28	90.32
	Background of the organization	31	100
	Accounting policies	15	48.39
	Recommendations for rectifications		
	Audit Report – Opinion		
	Unqualified Report (i.e. Present fairly)		
	Qualified Report Except for	16	51.61
Disclaimer Report	15	48.39	
		Nil	Nil
I	Management letter of Internal Control Memorandum	3	09.67
J	Comparative figures of previous year	31	100

Source: Financial Statements of NGOs