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**ASSESSMENT ON ADVANCE PAYMENT MANAGEMENT AND CONTROL SYSTEM
OF PUBIC ORGANIZATION**

DECLARATION

I, the undersigned, declared that this thesis is my original work and it has never been presented in submitted elsewhere. All sources of materials used for this thesis have been duly acknowledged.

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Certificate of Originality

This is to certify that the project entitled 'Assessment on Advance Payment Management and Control System of Public Organization' is an original of Melese Tafese Digafe and is being submitted in partial fulfillment for award of Master's Degree in Business Administration from Indira Gandhi National Open University. This report has not been submitted earlier to this university or to any university for the fulfillment of the requirement of a course of study.

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ABSTRACT

The paper is about advance payment method management and controlling system assessment. Advance payment method is largely applicable method in public budget expenditure payment. The method plays an important role for better budget performance. It enhances suppliers to build capacity in procuring goods and services timely basis. The objective of the thesis is centering to assess the advance payment management and control system in public organizations. It focuses to examine the significance of advance payment method in budgets payments in the government agencies. The assessment beside the role it investigate the legal framework, the strength of the management of advance payment. The impact of uncollectable accounts on annual budget performance and the trend of unsettlement balance observed through data analysis. The study has been conducted using narrative literature review and quantitative research methods. The research was made analyzing the government institution; the Ministry of Environment, Forest and Climate change the financial management targeting the expenditure payment modality “advance payment Method” 26 directorates listed in the structure of the ministry, management members and employees of the organization population the sample basis of the study.

The literature reviewed includes public finance management; government budget, legal framework financial resources and receivable management. The study is expected to benefit as basis for other researchers, government agencies and the ministry which under studied MEFCC. A conceptual framework was developed where independent variable was Advance payment method management while the dependent variable was annual budget performance. Frequency and percentage amount was used to record the responses. The target population was 237 employees and management members in the area of study. Stratified sampling was used. The sample size was 81 accountants’ non-finance staffs and management members. The result was expected telling the existing advance payment management situation and what should be the future.

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CHAPTER ONE

1. INTRODUCTION

This study is assessing the significance of advance payment method with its management and the control system which impact on its uncollectable risk management. The uncollectable amount increase or decrease matter on the deliverability of goods or services to the public, that is the government commitment to the public in the budget year fulfilled or less performed. Accordingly this paper main objective is to examine the whether the payment method effectively managed and controlled as it is large amount of transaction pass through this method. While using this method how far the advance payment supported by policy and regulation and the effect of uncollectable balances affect the annual budget performed would be under consideration.

1.1. Background of the Study

“Strong Public Financial Management (PFM) systems are essential for improved service delivery, poverty reduction and for the achievement of the Millennium Development Goals [MDGs]. Effective PFM systems maximize financial efficiency, improve transparency and accountability, and – in theory– will contribute to long-term economic success” Pretorius.C. and Pretorius.N. (2008)

Public Finance as a resource is crucial for financing government activities. As such the government has responsibility to raise funds, manage and invest it public goods and services provided to the people to enhance their wellbeing and welfare. Accordingly, policy framework for financial management becomes critical in ensuring efficient raise and utilization of such funds to offer quality services provided to the people. Above all the policy framework for

financial management presents the roles and responsibilities of institutions in the raising and utilization of public finance. To this end, the legal framework and its related policy instruments set out like integrated management and control systems for the public sector financial management is vital.

In large organizations, management control system (MCS) plays a pivotal role. It serves as an instrument to ensure the achievement of organizational goal. It reports on performance of all aspects of an organization's activity on a regular basis so that all areas are reviewed (Emmanuel, Otley and Merchant, 1990, p.97)

A well-functioning public sector needs an effective resource management system to deliver quality public services consistent with citizen preferences, which also enables it to foster private market-led growth while managing fiscal and financial resources prudently. Such sound public sector resource management and government spending help determine the course of economic development and social equity, especially for the poor and other disadvantaged groups.

However, the extant literature shows that many low income countries like Ethiopia suffer from unsatisfactory and often dysfunctional governance systems that include rent seeking and malfeasance, inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. These poor public sector governance systems are mainly attributed to lack of a financial management system that provides accurate, relevant and timely financial data. Such data are pre-requisites for enabling informed decision that leads to welcome outcomes for access to public services by the poor and other disadvantaged members of society, such as women, children, and minorities by increasing the public sector's financial transparency and accountability.

In assuring such function “ government budgeting, provides conceptual framework such as, policy instrument that allocates scarce resources among competing sectors, managerial instrument that specifies ways and means to provide public service, serves as economic instrument that can foster economic growth and function as accounting instrument that holds the public officials accountable”. Ranjit Kumar Chakraborty, <http://www.novapdf.com/> Date Retrieved: June 15, 2015.

It is a pre-requisite for public sector organizations to have an efficient financial operation in place to implement an effective budgeting program, which is a function of accurate, relevant and timely financial data. In the public sector, this must also include variance analysis in the form of comparative information of actual versus budget figures. This is, particularly important for the public sectors due to the fact that budgets are not mere financial plans. Instead, budgets are legislative authorizations to collect and spend financial resources given by law. As a result, their financial system must enable different level officials to properly comply with budgetary stewardships by integrating budgetary accounts into the formal system to assist in monitoring budgetary compliance and reporting such compliance. However, if such financial systems are not in place, management will implement hasty decisions that may cause dysfunctional decision making.

Public expenditure management, principles and practices observed mainly focuses on budget preparation, budget execution, and cash planning. Each aspect of public expenditure management requires well developed system and committed practices backed by right decision.

For instance budget implementation, in the sense of delivering services by undertaking expenditures, is the responsibility of the line ministries and spending agencies, within regulatory controls set by governmental units’ equivalent with the ministry of finance. For example in the

Ethiopian context, the responsibility is carried out by the Ministry of Finance and Economic Development (MoFED).

Thus, Budget is an instrument and a means to use scarce financial resources in efficient and effective way by envisaging greater output on the purpose the budget is allocated for. Using such budget appropriation concept, budget is approved by the legislature for a line item of spending. Thus, budgetary laws give the executive branch the authority to incur obligations, which become due during the budget year up to a specified amount for specified purposes within a financial period (usually one fiscal year).

Authorization of expenditure budget also called appropriation for payment against a bill or invoice by line ministries or government agencies and other officials frequently done through the process of payment system. Payment system is an essential financial infrastructure and important for strengthening payment method.

Advance payment created in government expenditure accounts lead to receivables. Such receivables may gradually result in uncollectable. Advance payment in context of expenditure budget is where large volume of cash is pre-paid before actually receiving the goods or services paid for. Gradually, when such prepayments are not received in goods or services then uncollectable are created where prepaid cash are not settled within the annual budget year. Such uncollectable account is currently crucial problem that prohibit the rendering of quality services in the government budget implementation and for the treasury finance management. This indicates while, advance payments can be employed as an important part of payment method; it is also associated with a high risk of non-settlement.

This study, therefore, aims to assess the advance payment management and control system of public organizations in the case of ministry of environment and forest.

1.2. Background of the Organization

EPA was established under the Ministry of Natural Resources Development and Environmental Protection (MNRD&EP), in May 1994. Later, EPA as environmental regulatory and monitoring body has become independent institution and re-established by proclamation no. 295/2002. Currently, following the current global environmental issues and the national CRGE strategy of Ethiopia accelerate EPA to be developed and established at ministerial level by proclamation No 197/2010. According to this proclamation, all the rights and obligations of the former EPA have been transferred to the new Ministry of Environment and Forest (MEF).

Ministry of Environment and Forest (MEF) strives to ensure the establishment of a system that guarantees environmental and forest resource conservation, development and utilization to contribute to sustainable development and poverty reduction, coordinate research and technology transfer; promotes education and extension in environment and forest; coordinate implementation of CREGE strategy and builds the capacity of implementing entities; promote forest investment and marketing; lead and monitor implementation of international environment and forest conventions/protocols; and compile state of environment and forest conditions and changes therein.

According to the proclamation, MEFCC has been organized in two major sectors, the environment and forest, led by Minister and two state ministers. Under each major sector there are directorates which are responsible to meet the specific objectives for which they are

established. There are also, different project units mobilizing project funds under the supervision of the ministry.

The federal government bodies Activities and resources are managed through program budgeting system and the ministry designed its activities in three programming area called (Environment, Forest and Support and Services). Thus, the ministry has been organized itself suitable to the system to manage the recurrent and capital budget approved and allocated by the legislative body of the country. Similarly, MEFCC currently have 232 permanent employees who are engaged in different activities of the ministry.

1.3. Statement of the problem

Advance payment as a payment modality has a universal application in both public and private organizations. The application in government budget implementation utilizes advance payment as one of the basic method of payment for large volume of transactions of purchasing goods and services. The approval of large amount of expenditure budget in the public sector implies huge amount of financial resources allocated for purchase of goods and services which leads to increasing demand for effective and efficient financial management and control system.

In Ethiopia, advance payments are employed as major payment modality of governmental organizations starting their proclamation through the financial administration proclamation no. 648/2009 Thus, significant advance payments have been made in government agencies in order to utilize the appropriated budget and accordingly to incur public expenditures in the respective budget year. Such an advance payment framework in the government budget execution envisage

the speeding up of procurement efficiency and building up of the supplier's capacity in delivering goods and services that the government committed to offer for the public.

However, such advance payment scheme is challenged by huge amount of outstanding advance (uncollectable) balances that hinder the budget performance as well as annual delivery of goods and services for the public. For instance, in the year 2004/2005 (2012/13) among 57 audited government offices an amount of nearly 1,369,377,900.98 of the total federal agencies budget, recorded as uncollectable advances.

Such significant uncollectible account balance overstates the asset part of the government financial statement (Balance Sheet) and has an impact on financial planning and service delivery.

Thus, the unique nature of advance payment in government expenditure budget undertaken to be assessed and reviewed, in general the advance payment management and control system in context of legal framework, the probable of uncollectable balance management, the impact uncollectable balance on the budget performance and the general trend will require to be assessed.

Despite its significance, the failure of the advance payment modality did not get the deemed attention in terms of legal framework and administrative policies, while a series of auditor general reports indicate significant percentages of annual expenditure budget allocated for government organizations found unsettled and the accumulated uncollectable balances are increasing year to year. Therefore, this study aims to assess the advance payment management and control system of public organizations in the case of ministry of environment and forest.

1.4. Research Questions

In light of the problems discussed above, the research specifically aims to answer the following research questions:

- How does the ministry effectively control the advance payment modality across its entire recurrent and capital budget?
- What are the determinant factors for an efficient fund utilization practice in the Advance Payment Modality?
- What measures can be taken by the Ministry to effectively recover the uncollectible advance payments?
- What other alternative payment modalities be adopted by the ministry for efficient utilization of appropriated funds?

1.5. Objective of the study

The study's objective was presented as general and specific objectives.

1.6 General Objective

The general objective of this study was to assess the advance payment management and control system of public organizations in the case of ministry of environment and forest.

1.7 Specific Objectives

In line with the above general objective, the study specifically aims to:

1. Identify the means of control through which the ministry can effectively control the advance payment method across its entire recurrent and capital budget
2. Elaborate the determinant factors for an efficient fund utilization practice in the Advance Payment Modality.
3. Identify measures that can be taken by the Ministry to effectively recover the uncollectible advance payments.
4. Analyze alternative payment modalities that can be adopted by the ministry for efficient utilization of appropriated funds.

1.8 Significance of The study

The establishment of appropriate advance payment management and controlling system is indispensable method that encourages and facilitates effective payments from allocated budget in order to achieve organizational objectives. The study, assist to improve receivables management arises from advance payment and controlling system of the ministry. It create awareness to advance holders to develop positive attitude towards the timely settlement advances. Specifically, accountants and top management bodies improve receivable management policy and the controlling mechanisms based on the results obtained from the research. Likewise, the management can use the advance payment control system as a performance evaluation tool to down minimum level of uncollectable. This will bring to increase budget performance which enhances goods and service delivery to the public.

As a whole, *the study*, provide supportive opinions to improve advance payments management and control system. Furthermore and it will be an input for other researchers as a basis for further study on similar issues.

1.9 Scope and limitations of the Study

1.10 Scope of the study

The study would cover and focus on the Ministry of Environment, Forest and Climate Change (MEFCC) on the federal government recurrent and capital budget implementation area. In subject wise, it covers advance payment management and control systems. However, in organization terms, in addition to MEFCC regional bureaus of MEFCC and Ministry of Finance and Economic Development of Ethiopian Government also considered. The time delimitation of the study covers successive years from 2008/9 to 2013/14.

1.11 Limitations of the study

Since most of the time financial issues considered secret, financial information carried out will be kept confidential on the side of the ministry. Furthermore, because of the distinctive nature of research topic (non-trade receivable nature) availability of sufficient current literature on the topic will be some of the constraints. However, the researcher will try to fill the gap by broadening data collection through questionnaires and personal interviews and by making the study transparent and building awareness on the informants of the ministry bodies, the researcher try to narrow the limitation.

1.12 Organization of the Paper

The study paper starts with chapter one. It is arranged sequentially, commencing with background and includes organization profile, statement of problem, research questions. The objective part comprises general and specific objectives followed by significance and methodology of the study, followed by the scope and limitation of the study. The second chapter describes literature review. The third chapter covers the methodology; the data presentation, analysis and interpretation are presented in the fourth chapter. The last chapter provides conclusion and recommendations.

CHAPTER TWO

2. Literature Review

Recognizing it's important; this study focuses on public finance management area and attempts to make-up the analytical framework for the federal government bodies expenditure budget payment method. Specifically, some theories and concepts related to advance payment have to be described briefly as theoretical review and on the other side, some existing empirical experience on government budget payment methods also assessed.

2.1. Public Finance Management:

Collection of sufficient resources from the economy in an appropriate manner along with allocating and use of these resources efficiently and effectively constitute good financial management. Resource generation, resource allocation and expenditure management (resource utilization) are the essential components of a public financial management system. Higgs, Robert (2008).

The base for public finance management lies on strict legal frame, "A federal agency is a creature of law and can function only to the extent authorized by law. The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law."

GAO-04-261SP Appropriations Law-Vol. I (January 2004)

In public finance management the fundamental is legal availability with defined appropriations elements, such as purpose, time, and amount. The purposes for which appropriated funds may be spent, the balance of an appropriation or fund limited for obligation to a definite period and to utilize up to specified limit or amounts are major standards to define the accountability of the finance controller. The major principles of performance management in public sector are efficient utilization of resources; empowered public sector managers to make hands on decision; control focused on outputs/results instead of inputs and activities; and measurement of performance to enhance accountability. Hood (1991)

“Effective Public Financial Management (PFM) systems are required to maximize the efficient use of financial resources, create the highest level of transparency and accountability in government finances and to ensure long term economic success. Recent literature has highlighted the importance of sound PFM systems to service delivery, poverty reduction and the achievement of the millennium development goals (MDGs)”. Pretorius,C. and Pretorius, N.(2008)

The management and control system in Public Finance Management (PFM) is one of vital instrument to be considered. Thus, Financial Control system definition consists; A set of related dollar denominated variables used by management to control an organization, the people in the organization, and the resources used by the organization, The people involved in establishing, maintaining, monitoring and evaluating these variables, and The process, rules and procedures that govern the establishment, maintenance and monitoring of these variables. It is immediately clear that the system, as defined here, consists of three related and interrelated parts - a set of related variables, a group of people, and a process. (M. F. van Breda 1979)

2.2. The Legal Framework of public finance management

Main Laws, Proclamations and Regulations for Public Finance Management (PFM) are presented below:

- Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996
- Council of Ministers' Financial Regulations No.17/1997
- Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Agency Proclamation No. 430/2005 and Federal Public Procurement Directive, MOFED, July 2005

Recent Legislation

- The Federal government of Ethiopia Financial Administration Proclamation No 648/2009, August 6, 2009
- The Ethiopian Federal Government procurement and Property Administration proclamation No. 649/2009, Sep 9, 2009

(*). Besides the directive on procurement, this list does not include other directives, which complete the proclamations (there are more than 20 directives on PFM issued by MOFED)

(The federal PFM performance report – Repeat assessment, September 30th, 2010)

The legal framework for Financial Management presents the roles and responsibilities of key players in the area of financial management and outlines the key principles, laws, rules agreements etc that establish the public financial management operates in the government institutions. Management control deals with the following elements: strategic planning, budgeting, resource allocation, performance measurement, evaluation and reward, responsibility center allocation and transfer pricing. (Anthony and Govindarajan, 2008).

Principles of the Federal Appropriations Law of USA, state that “Advance payments in general are prohibited by 31 U.S.C. § 3324, which provides in part: “(a) Except as provided in this section, a payment under a contract to provide a service or deliver an article for the United States Government may not be more than the value of the service already provided or the article already delivered. “(b) An advance of public money may be made only if it is authorized by “(1) a specific appropriation or other law” The primary purpose of 31 U.S.C. § 3 324 is to protect the government against the risk of nonperformance—“to preclude the possibility of loss to the Government in the event a contract or—after receipt of payment—should fail to perform his contract or refuse or fail to refund moneys advanced.” Thus, in its simplest terms, the statute prohibits the government from paying for goods before they have been received or for services before they have been rendered A major exception, in this permits are the advance and progress payments under procurement contracts in certain situations, Advances of travel and transportation allowances for federal civilian employees and advances of allowances for basic housing, travel, and transportation, to members of the uniformed services (for themselves and in specified situations their dependents) are authorized by several statutes”. GAO-04-261SP Appropriations Law, Vol. I (January 2004)

2.3 Public Bodies

“Public bodies are the institutions that are entitled to request and receive a budget. A public body is defined as follows: it is an institution that has a legal mandate, receives a partial or complete budget directly from the respective finance and planning bodies, submits its final accounts directly to the ministry of finance, and is on approved list of public bodies issued by the office the Prime Minister” (FGE Accounting System Manual, January, 2002, Volume 2 P.9)

2.4 Annual Budget

An annual budget is any budget that is prepared for a 12-month period. An annual budget outlines both the income and expenditures that are expected to be received and paid over the coming year. Annual budgets are used by individuals, corporations, governments and various other types of organizations. www.investopedia.com/terms/a/annual-budget.asp

2.5 Government Budget

A government budget is a government document presenting the government's proposed revenues and spending for a financial year that is often passed by the legislature, approved by the chief executive or president and presented by the Finance Minister to the nation. https://en.wikipedia.org/wiki/Government_budget

The annual budget appropriation law requires, terms like purpose, time and amounts of expenditure budget of the core elements to be kept in Annual budget administration and need policy rules for advance payment to assure its settlement with in the budget years and or to be expire / expensed during the period/time. However, according to Office Federal Audit General Ethiopia annual report read huge uncollectable amount of appropriated budget from federal government agencies are critically affected the budget performance, inflate the amount of asset in the banc sheet and increased uncollectable risk. Federal Audit General Report April, 2013/2014.

2.6 The Theory of Advance Payment System (APS)

Business Type Advance payments: An advance payment, or simply an advance, is the part of a contractually due sum that is paid or received in advance for goods or services, while the balance included in the invoice will only follow the delivery. It is called a prepaid expense in accrual

accounting for the entity issuing the advance. Advanced payments are recorded as assets on the balance sheet. As these assets are used they are expended and recorded on the income statement for the period in which they are incurred. Insurance is a common prepaid asset, which will only be a prepaid asset because it is a proactive measure to protect business from unforeseen events. (From Wikipedia, the free encyclopedia)

In business context Advance Payment Systems is: “Paying Too Much Today and Being Satisfied Tomorrow”. It represent a pricing innovation, in which companies predict customers’ future consumption for the following year and then bill a series of monthly, uniform advance payments. Schulz, Fabian, Christian Schlereth, Nina Mazar, and Bernd Skiera (2015): Advance Payment Systems: *International Journal of Research in Marketing*, 32(3), in press

“Recent estimates suggest that around 80–90 percent of the world trade is facilitated by trade credit” (Williams, 2008), and In the manufacturing sector, accounts receivable make up 20–25 percent of the total assets of firms” (Fewings, Mian and Smith, 1992).

“Advance payments can be divided into received advance payments and paid advance payments. Received advance payments are payments that the company has received from its customers before the company has delivered the goods. Advance payments are liabilities from the moment they are received until the finished goods are delivered”, Leppiniemi (2002).

Paid advance payments are the opposite side, the company pays to its suppliers beforehand in order to receive the product or service later. This paper deal and is concentrated in paid advance payments not only in profit making organization it also applicable in government budget payment context.

Advance Payment in non commercial organization: Most literature explain the concept of advances payment, in both profit making and in non commercial organizations play the role of assisting the receiver parties by giving them funds immediately to pay for urgent work that will enable them to overcome their commitment as quickly as possible. However, the fund ownership remains with the payer entity as an asset till the contract commitment delivered. The purpose of advance payment is to accelerate and enhance things to happen.

“The functions for advance payments and payments to be justified have been developed for Public Sector customers in Spain, in order for FM users to create documents which represent invoices and payments using one transaction (F871, Post Payment Request). See Section Process Flow for details. In particular, the advance payment functionality enables public sector employees that are entitled to spend public funds to obtain cash advances before the actual spending, instead of subsequently being reimbursed by the organization’s treasury after the spending has occurred”. global.sap.com/community/eBook/2013_09.../index.html

2.7. The Legal framework of Advance Payment

Generally, goods and services provided to the Institute are paid for after receipt. On occasion, it may be necessary or desirable to provide a known and reputable supplier with an advance payment (prepayment) to pay for goods or services before delivery. This Policy describes the general provisions regarding advance payments including the requirement for Purchase Order notation, the submission of invoice, accounting reconciliation, receiving and documentation, and required approvals. California Institute of Technology, 2011, Advance Payments to suppliers (prepayment). (p.1)

“An Advance mean a payment for which there is no exchange of value and is to be accounted for by the recipient at some later date and does not include a progress payment made on account of, but before the completion of a contract”. The regulation describe also about purchase advance, travel advance and procedure required for report and “write-off” measures to be taken on customers default. The regulation article 38; “the head of a public body or the deputy head on behalf of the head shall have the power to write off up on the recommendation of the relevant department of the public body, debt up to an amount of birr ten thousand in each case provided that total amount to be so written off in a fiscal year shall not exceed birr fifty thousand”. The Ethiopian council of ministers, financial administration regulation No.190/2010

The above discussed, advance payment in the context of government budget application represents the cash outlays made by a federal entity to its employees, contractors, other federal entities, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. The functions for advance payments and payments to be justified have been developed for public sector customers. Thus, advance payment functionality enables public sector customers are entitled to spend public funds to obtain cash advances before the actual spending. Advances are recorded as assets and reduced when goods or services are received, A travel advance, for example, should be initially recorded as an asset and should be subsequently reduced when travel expenses are actually incurred. (Ethiopia CRGE Facility: Operations Manual, 2014)

“For government procurement, as situation requires 30% advance payment should be paid .this however should clearly sated on the guide line of bid document” and “based on contract agreement suppliers should submit for prepayment advance guarantee a certificate payment or bank certified check document” procurement regulation of the Ethiopia government,2002 ET. article 16 no.26.1 and 2

2.8 Uncollectable Account

'Accounts Uncollectible' refers to Loans, receivables or other debts that have virtually no chance of being paid. An account may become uncollectible for many reasons, including the debtor's bankruptcy, an inability to find the debtor, lack of proper documentation, etc. <http://www.investopedia.com>.

Account receivables in business firms are direct creation of "trade credit" likewise, receivables in public budgeting created either at time of government revenue collection or during expenditure budget disbursement, when pre-cash payment become necessary before actual receiving goods or services. "Advance payments are for pre-financing and are offset by the subsequent partial invoice. The system does not calculate retention amounts and additional costs. Advance payments only affect payment. They do not affect revenues". (<http://help.sap.com/saphelp>)

In business context, uncollectible trade receivables can be caused by some sales on account may not be collected. Customers go broke, become unhappy and refuse to pay, or may generally lack the ethics to complete their half of the bargain. Of course, a company does have legal recourse to try to collect such accounts, but those often fail. As a result, it becomes necessary to establish an accounting process for measuring and reporting these uncollectible items.

Uncollectible accounts are frequently called bad debts. "Receivables are disclosed in the financial statements at original historical cost. Bad debts are written off with the approval of Parliament, when identified and are reflected in the Statement of Losses of Public Money, stores written off and claims abandoned". MoFED, April 11-14, 2011

Accounting and financial policies are crucial to any business firm to maintain consistent accounting and financial methods. Techniques and procedures, “consistent accounting procedures are prescribed by GAAP to be adhered when preparing financial reports MIE as a business entity has developed accounting policies. The accounting manual specifies such policies and procedures. The accounting policy of MIE covers many aspects of accounting activities practiced by the company. This does not mean that those policies cover every point regarding the accounting task of the company. The credit policy of the company specified in the marketing and sales manual describe few points about credit standards on the bases of which of credit customer should be selected”. DR. Guruswamy, 2009, Assessment of Receivables Management of Manufacturing Companies in Ethiopia

“Audit report shows no improvement in public finance administration; over two billion birr remains unaccounted for. The Office of the Federal Auditor General has released the 2013/14 fiscal year audit report. The report says most audited federal offices had failed to show any progress while over two billion birr remained unaccounted for among federal institutions. The 64-page analysis of its audit findings into the accounts of ministries and other agencies of the federal government for the 2013-2014 fiscal years addresses a raft of issues of critical concern. The office has carried out the auditing in 143 of 145 federal institutions, which are entitled to be audited for their budgetary appropriation. The Office has audited 137 institutions by itself while Audit Service Corporation audited the remaining five institutions. The scathing annual report submitted to House of Peoples' Representatives (HPR) on Tuesday mainly emphasizes financial irregularities and the need for a performance report after a serious deliberation undertaken in federal government institutions”. The weekly news letter Reporter, 2013...pp. 17

2.9. Internal Control over Advance Payment

Advance payment guarantee

What makes good collateral is “High cost of loss to debtor relative to value to creditor” (O. Williamson, 1985), “Guarantee supplied by a party receiving an advance payment to the party advancing the payment. It provides that the advanced sum will be returned if the agreement under which the advance was made cannot be fulfilled”. <http://www.businessdictionary.com/>

a) Risk assessment

- It is the identification and analysis of relevant risks associated with achieving the objectives of programs
- Risks should be managed through controls.
- Managers assess risk upon the types of activities performed.

(UNDP training on HACT & Cash Transfers, to Do Implementing Partners.24-27 November, 2015)

b) Aging of Accounts Receivable

Aging of Accounts Receivable; this method is similar to Percentage of Ending Accounts Receivable, but it is a more precise variation. Aging considers that the longer a receivable is outstanding, the less likely it is to be collected. A separate estimate of the percentage of uncollectible is applied to each age classification group instead of applying an overall percentage.

c) Direct Write-Off Method

A simple method to account for uncollectible accounts is the direct write-off approach. Under this technique, a specific account receivable is removed from the accounting records at the time it is finally determined to be uncollectible. While the direct write-off method is simple, it is only

acceptable in those cases where bad debts are immaterial in amount. In accounting, an item is deemed material if it is large enough to affect the judgment of an informed financial statement user. Accounting expediency sometimes permits "incorrect approaches" when the effect is not material.

With the direct write-off method, many accounting periods may come and go before an account is finally determined to be uncollectible and written off. Under the direct write-off method, no entries are made until a customer actually defaults on payment, at which time the uncollectible account receivable is written off; therefore, no allowance account is required.

Receivables arise from a variety of trade and nontrade sources. Trade receivables relate to sales of goods and services on account. Among the costs and benefits of selling on account is the risk of uncollectible accounts. The same concept happens in government budget expense expenditure payment the costs of risk of uncollectable accounts.

Consider why the direct write-off method is not to be used in those cases where bad debts are material; what is "wrong" with the method? One important accounting principle is the notion of matching. That is, costs related to the production of revenue are reported during the same time period as the related revenue (i.e., "matched").

With the direct write-off method, many accounting periods may come and go before an account is finally determined to be uncollectible and written off. As a result, revenues from credit sales are recognized in one period, but the costs of uncollectible accounts related to those sales are not recognized until another subsequent period (producing an unacceptable mismatch of revenues and expenses).

To compensate for this problem, accountants have developed "allowance methods" to account for uncollectible accounts. Importantly, an allowance method must be used except in those cases where bad debts are not material (and for tax purposes where tax rules often stipulate that a direct write-off approach is to be used). Allowance methods will result in the recording of an estimated bad debts expense in the same period as the related credit sales. The concept of allowance method provided in the trade receivable not popular in non-trade receivable. Accordingly, the financial administration regulation of Ethiopia recognized the write-off method instead of allowance method. (Finance Administration Regulation of Ethiopia 16th Year No. Addis Ababa October 4th, 2010)

CHAPTER THREE

3. Methodology of the study

3.1 Philosophical Assumptions

This research is a paradigm guided research. The ontological assumption of the study is that there exists advance payment modalities that can be used to efficiently manage the funds allotted to governmental units. The epistemological assumption of the study is an interpretation of data collected from primary and secondary sources about the existing payment modality and factors determining efficient fund utilization through such modalities. The research's paradigm is an interpretative mixed approach.

3.2 Data Source

The research is based on both primary and secondary data sources. The data source to identify the means through which the ministry can effectively control the advance payment accounts. Thus both primary sources from different group members and secondary sources from formally documented materials collected.

In order to elaborate the determinant factors for efficient fund utilization practice in the Advance Payment Method, the research secures data from primary sources from subjective opinions of the major stakeholders of the modality and secondary sources from extant literature.

The information generated from the primary data sources expected to identify measures taken by the Ministry to recover the existing uncollectible advance payments. The result of the secondary data analysis is expected to point out indicators regarding the existing management practice, the extent of policy and regulation measure to regulate the payment method.

3.3 Research Design

The research followed a cross sectional research design and collected primary sources of data from different clusters of respondents.

3.4 Sources of Data

The research mainly uses data from primary sources collected using a mixed method approach. In such effort, both primary quantitative and qualitative data were gathered. Further, a secondary data was also used to elaborate the findings of the primary data.

3.5 Data Collection Method

Based on the objective of the study, the research is designed to employ questionnaires and interviews. The questionnaires are of close ended type. Respondents were expected to chose one which suits their opinion independently. Different questionnaires were designed according to respondents' occupational character. Thus, similar questioners were given to those respondents working in the ministry at management level, project unit and finance department. Separate questioners were used to employees who are not attached to the finance department of the ministry. Moreover, interview was conducted in order to solicit data that could not be explained in the structured questionnaires.

3.6 Population of the Study

The population of the study includes all permanent and project unit staff, management members, and other stakeholder's benefited from advance payment in the ministry. The total population of the study is 232.

3.7 Sampling Technique and Size

MEFCC, grown from an Authority level to ministerial level, has broadened its duties and responsibilities. As it is mandated in cross-sector developmental activities it works with many partners and stakeholders throughout the nation. To discharge its responsibility, the ministry is organized under two state ministers having 26 cores and support directorates and three project units running their own appropriated project budget.

Thus, from the total 26 directorates of core and support directorates, 6 core and 5 supports directorates and two project units were selected on the base of non probability sampling techniques that uses purposive sampling methodology on stratified bases for the study. In this study, the expected subject of the study comprised middle level management, the employees and the stakeholders as customer.

For convenience, respondents were classified into three groups .The first group are middle level management members. This includes the core and support directorates and team members. The second group comprises finance officers or the accountants including budget controllers and procurement specialists and the third respondents group comprised employee (staffs) and other stakeholders such as the ministry's branch offices personnel.

Accordingly, a total of eighty one (81) respondents,(41%) respondents from the management members, (44%) from finance and internal audit directorate, (38%) from project unit staff (34%) from Permanent Core Program Staff and (30%) from Permanent Support Program Staff members of advance payment modality customers and stakeholders will be involved.

Table 1: Population and sample of the study

	Parts	Population	Percent	Sample of Respondent
1	Management team	32	41%	13
2	Finance and Internal audit Directorates teams	18	44%	8
3	Project units staff	21	38%	8
4	Permanent Core Program Staff	83	34%	28
5	Permanent Support Program Staff	79	30%	24
	Total	232	Avg.37%	81

The questionnaire was distributed to 81 respondents and interviewed treasury and account directors from Ministry Of, Finance and Economic Development and Water and Energy to get additional view on the topic. Published and unpublished documents focusing on the Ethiopian Audit General Office and of the Ministry of Environment, Forest and climate change (MEFCC) were reviewed. The reviewed documents analyses a minimum of five (5) years practices which covers (from 2003 to 2007 ET. 2010/2011 to 2014/2015.) on the subject.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Descriptive technique is used for the analysis of the data. The study put benchmark from the literatures reviewed and evaluated the actual practice of the ministry. The primary data gathered through questionnaire have been presented and analyzed using tables which is suitable for clarity. Furthermore, the qualitative method of data analysis is also employed for feedbacks obtained from personal interviews.

4.1 Data collection instruments

As explained in the method of data collection, primary data were generated using collection instrument questionnaires. Questionnaires were used because they are easy to administer. When developing the questionnaire items, the fixed choice and closed- ended formats were used. These were used in order to guide the respondents to answer questions according to the requirements of the research. Secondary sources also, have been used to obtain data from available sources. Annual budget year closing reports and Office of General Audit reports, specifically the balance sheet statements were used to make trend analysis for uncollectable balances and to measure the impact of unsettled advance payment on budget performance.

4.2 Data presentation by tables

**Table 2. Annual budget and uncollectable balance from advance payment
(Recurrent Budget)**

CURRENCY ETHIOPIAN BIRR

No	Type of advance	Periods					Total
		2003-ET (2010/2011)	2004-ET (2011/2012)	2005-ET (2012/2013)	2006-ET (2013/2014)	2007-ET (2014/2015)	
	Annual recurrent budget	5,867,851.00	8,595,410.00	10,140,360.00	14,445,450.00	50,097,140	89,146,211.00
	Advance Type						
1	Staff Advance	710,819.80	208,932.32	1,140,820.80	76,115.15	446,298.36	2,582,986.72
2	Purchase Advance	1,769,377.84	259,505.28	1,314,496.76	107,987.28	481,640	3,933,007.16
3	Advance to Regional	-	-	-	-	-	
4	Budgetary Institution	1,166,289.20	1,891,862.20	371,401.52	480,420.48	401.76	3,910,380.16
		3,646,486.84	2,360,304.80	2,826,719.08	664,523.20	928,340.12	10,426,374.04
	Uncollectable Rate	62%	27%	28%	5%	2%	12%

Source: MEFCC, Annual financial reports (2010/2011-2014/2015)

On the above table the average relationship between the annual approved budget and type advance belongs to each year are 12%. Recurrent budget implementation limited to federal level and nil beneficiary in the region. Advance to budgetary institution take the highest portion. However, the trend of advance payment shows at a decrease rate. Recurrent budget is not paid as an advance for regional bureaus except in rare cases.

**Table 3. Periodical project fund received and advance payment rate
(Project Budget)**

CURRENCY ETHIOPIAN BIRR

No	Type of advance	periods					Total
		2003-ET (2010/2011)	2004-ET (2011/2012)	2005-ET (2012/2013)	2006-ET (2013/2014)	2007-ET (2014/2015)	
	Project Fund received	29,987,279.10	48,911,509.59	18,545,322.52	31,237,616.48	156,315,141.24	284,996,868.93
	Type of advance						
1	Staff Advance	115,508.75	127,301.17	11,919.02	42,099.91	65,718.93	362,547.78
2	Purchase Advance	-	188.22	8,722,178.57	99,704.45	205,118.26	9,027,189.50
3	Advance to Region	7,477,131.54	17,232,112.74	538,940.84	713,031.82	5,393,753.01	31,354,969.95
4	Budgetary Institution	7,078,181.79	2,516,815.98	150,548.08	1,882,662.34	173,102.33	11,801,310.52
	Total advance	14,670,822.08	19,876,418.11	9,243,586.51	2,737,498.52	5,837,692.53	52,546,017.75
	Rate of advance payment	49%	41%	51%	9%	4%	18%

Project advance much greater than recurrent budget and its coverage is at federal and regional level. Its trend indicate is showing decreasing rate. Project implementation is at ground level and more project fund transfer to the region of, 52,546,017.75, (60%) equivalent to 31,354,969.95 an advance to the region. mostly the project finance source is assistance, there is high variability and the advance payment also dependent on the assistance fund and beneficiary level.

4.3 Primary data response rate

Table 4. Response Rate

Description	Number of response	percentage
Sample size	81	100%
Total Response received	79	97.5 %
Discarded from response	2	2.5%
Usable response	78	97.5%
Incomplete questionnaire	2	
Interviewed leaders and personnel from regional states and branch offices	11	100%

4.4 Source: Survey Data (2016)

Of the total population of (232 employees) 81 employees were taken as a sample and consequently, questionnaires were distributed to all the selected samples. In addition to the above sample size, 20 branch offices team leader and project offices personnel interviewed to solicit their opinion. From the total distributed questionnaires (81), three questionnaires were discarded for incompleteness. As the result, the researcher is forced to analyze the remaining 78 relevant questionnaires which comprise 97.5% of the respondents.

Table 04.1 Response Rate

Management members Demographic Characteristics

Characteristics		Number of respondents	Percentage (%)
Occupation	Management member	13	100%
Gender of respondents	Male	8	62%
	Female	5	38%
Level of education	Degree	2	15%
	Masters and Above	11	85%
Job position	Directorate Director	11	85%
	Project Coordinator	2	15%
Work experience	1-5 Years	-	-
	6-10 Years	1	8%
	11-20 Years	3	23%
	21 and above	9	69%

Source: Survey Data (2016)

Respondents were asked to provide information regarding their demographic profile which included gender, level of education, job position and work experience. This question is posed to assess the exposure and maturity of management members in financial resources management. therefore, of the 13 management members (100), the numbers of male respondents are 8 and

constitute (62%) while the number of female is 5 which is 38% of the population. In regard to their educational background those with first degree (2) constitute 15% and the rest 11 which accounts for 85% hold either masters or doctorate degree. In relation to the position they held in the organization, 11 of respondents (85%) were found to be directorate director and the rest 2 comprising (15%) were project coordinator. Among the management respondents those having 21 years and above services constitute (69%), while those with 11.20 years experiences hold (23%). Job experience that range 6-10 years having (8%) share is found to be the lowest. This confirms that the share of the management groups having twenty one years and above experiences are dominant.

Table 04.2 - Management members' awareness and perception on advance payment

4.2 To what extent advance payment method used as expenditure payment instrument?

Response	Frequency (N=13)	Percentage
Very great extent	5	38.46%
Great extent	4	30.77%
Little Extent	4	30.77%

Source: Survey Data (2016)

To the question raised to measure the degree of advance payment method used as expenditure payment and the extent of policy and regulation strength, those management members respondents saying very great extent constitute (38.46%) followed by with an opinion of both Great extent and little extent, each having 30.77% share.

Table 4.3. If your choice is very great extent or great extent, do you think that advance payment method adequately supported by policy and regulation?

Response	Frequency (N=13)	Percentage
Yes	4	30.77%
No	9	69.23%

Source: Survey Data (2016)

Respondents with an opinion of very great extent or great extent, were asked whether the advance payment method is adequately supported by policy and regulation?

Accordingly, those with a negative response constitute (69.23 %) and the rest (30.77%) answered positively. From the response given one can conclude that the advance payment method is not sufficiently supported with policy and regulation

Table 4.4. How do you rate that management members have knowledge experience about advance payment method management?

Response	Frequency (N=13)	Percentage
High	3	23.08%
medium	6	46.15%
Little	3	23.08%
No	1	7.69%

Source: Survey Data (2016)

Respondents were given four choice(High, Medium, Little, No) to level management members knowledge and experience about advance payment method .From the table03.4,those who put management members knowledge and experience as medium (46.15 %), is the highest. Those who believed management member’s knowledge and experience as high and little have similar (23.08) share. The other opinion with a share of (7.69).The lowest share (7.69), level the management member’s as having no knowledge and experience on advance payment method.

Table 4.5. What is the trend of unsettled advance payment in the ministry?

Response	Frequency (N=13)	Percentage
Increasing	2	15.4%
Decreasing	2	15.4%
I do not know	9	69.2%

Source: Survey Data (2016)

Management members were asked on the trend of unsettled advance payment. Most management members (69.2%) replayed that they do not know. Those management members who feel the trend of unsettled advance payments is increasing and decreasing have the same number of respondents (15.4%)

Table 4.6. Which types of advance payment do you think the largest frequency from under listed APs type?

Response	Frequency (N=13)	Percentage
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Purchase advance	3	23.08%
Travel advance	8	61.54%
Inter project advance within ministry	1	7.69
Advance to other Gov't Agencies	1	7.69
Advance to Regional state	-	-

Source: Survey Data (2016)

Among the given five kinds of advance, payment (Purchase advance, Travel advance, Inter project advance within ministry, Advance to other Government Agencies and Advance to Regional state) respondents were asked to choose which type of advance payment happens frequently.

Accordingly, travel advance payment ,with 61.54% respondents ranked first followed by purchase advance payment which have a total of (23.08%)share among the respondents. The other two (Advance to other Gov't Agencies and Inter project advance within the ministry) having similar number (7.69%) of respondents ,were mentioned the third most frequent type of advance payment.

Table 4.7. Which type of payment takes the largest portion in purchasing goods and services?

Response	Frequency (N=13)	Percentage
Direct cash payment and expensing	7	53.85%
Advance payment and expensing	6	46.15%

Source: Survey Data (2016)

Directors were asked which method of payment is the highest in purchasing goods and services Of the total population, 53.85% of respondents said direct cash payment and expensing is the practice in purchasing, while the rest 46.15% maintain that goods and services are purchased with advance payment method

Table 4.8. By law venders are eligible for 30% prepayment for purchase of goods or services do you believe guarantee holding practical?

Response	Frequency (N=13)	Percentage
Yes	10	76.92%

No	3	23.08%
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Source: Survey Data (2016)

Concerning the advance payment guarantee holding from vendors and the effectiveness of regulation responded by management members indicate with an agreement, yes (76.92% and rejection with no responses showed (23.08%).

Table 4.9. Advance payment regulation stated that the settlement of travel advance shall be settled within seven days after coming from your travel, do you have knowledge about this regulation?

Response	Frequency (N=13)	Percentage
yes	5	38.46%
no	8	61.54%

Source: Survey Data (2016)

The highest number of respondents 61.54% confirm that they do not know the required settlement date for the advance payment. The share of respondents who claim to know the required date for settlement of advance payment is 38.46%

Table 4.10. Do you think a direct write-off method for uncollectable advance payment a solution for unsettled balance?

Response	Frequency (N=13)	Percentage
yes	4	30.77%
no	9	69.23%

Source: Survey Data (2016)

For the question raised whether a direct write-off treatments method for unsettled advance could serve as a solution, 30.77% of the respondents replied yes and the rest 69.23% responded negatively. Even though relatively few number of respondents considers it as positive measure and reflected their understanding to the write-off method as a means of treatment, a significant number of management members are not aware of the direct write off method as one of the tool to treat uncollectable advances

Table 4.11. If your response is yes how strong is the management in the ministry to get the pay back from the customers

Response	Frequency (N=13)	Percentage
Strong	-	-
Weak	6	46.15%
I don't know	7	53.85%

Source: Survey Data (2016)

A follow up question were given to assess the capacity (strength) of the Ministry in collecting advance payment made for customers. In light of this the majority of the respondent (53.85%) does not seem to know the capacity of the organization in collecting unsettled advances. The other 46.15% respondents label the capacity of the ministry weak. None of the respondents consider the organization capacity to collect advance payment as strong.

From the response given ,one can conclude that most management members either lack knowledge and understanding or do not consider it is their sphere of involvement.

Table. 5. Non Finance Staffs (Technical and Support Staff) awareness and perception on advance payment

Table 5.1. Do you feel that the ministry finance section performance satisfactory and discharge its responsibility in administrating and proper use of public resources?

Response	Support staff		Technical staff	
	Frequency (N=24)	Percentage	Frequency (N=28)	Percentage
Yes	22	91.67%	17	60.71%
No	2	8.33%	6	21.43%
I don't know	-	-	5	17.86%

Source: Survey Data (2016)

Question 05.1 was addressed for both Technical and Support staff of the Ministry. Accordingly, the share of Support staff (91.67%) who responded positively is significantly higher than the Technical staff whose share is (60.71%).Contrary to this, the proportion of Technical staff (21.43%) who do not regarded the performance of finance section as satisfactory is higher than the Support staff whose share is 8.33%.The share of the Technical staff responding I do not

know(17.86%) is observed to be close to the share of the same staff members whose responded negatively to the same issue. However, the majority of Technical and Support staff of the Ministry feel that the ministry finance section performance as satisfactory and administer public resources properly.

Table 5.2. Have you ever had any Training relevant to finance management?

Response	Support staff		Technical staff	
	Frequency (N=24)	Percentage	Frequency (N=28)	Percentage
Yes	4	16.67%	9	32.14
No	20	83.33%	17	60.72%
I don't know	-	-	2	7.14%

Source: Survey Data (2016)

From the responses given, the number of technical staff (32.14%) who claims to have had training is higher than support a staff (16.67%) who claims to have training. Similarly the number of respondent of the support staff who never had training (83.33%) is much higher than the technical staff (60.72%) Few respondents, among the technical constituting 7.14% staff said I don't know. In general, from the response given, lack of awareness among employee seems to contribute negatively to collect advance in ministry.

Table5.3. Have you ever heard about advance payment method and **do you consider it useful?**

Response	Support staff		Technical staff	
	Frequency (N=24)	Percentage	Frequency (N=28)	Percentage
Hearing APS Method				
Yes	4	16.67%	20	71.43%
No	16	66.66%	7	25%
I don't know	4	16.67%	1	3.57%
Usefulness of the method				
Yes	4	16.67%	20	71.43%
No	16	66.66%	5	17.86%
I don't know	4	16.67%	3	10.71%

Source: Survey Data (2016)

This question disclose that more **technical experts (71.43%) heard the about advance payment method than their counter part, the support staff 16.67%**. Moreover, the number of support staff who responded never heard about advance payment66.66% is found much higher than the number of technical staff (25%) with similar response

Though, there exists differences between support staff and technical experts responses on the issue, the average responses of yes ($16.67+71.43/2=52.39\%$) and No, ($66.67+25/2=58.34\%$), respondents shows that advance payment method is not well known. Similarly, on the question of usefulness of the advance payment method, technical and support staff respondents differ in opinion. Among the technical staff 71.43% responded that advance payment method as useful, while the other 17.86% replied in negative. Surprisingly great numbers of support staff, constituting 66.66%, do not consider it useful, while few of them (16.67%) believed in its usefulness. **This clearly indicates there is a low level of awareness that impact the settlement process.**

Table 5.4. Advance payment provides cash on hand before you deliver the service or sometimes goods, do you considered it is a liability?

Response	Support staff		Technical staff	
	Frequency (N=24) Support staff	Percentage	Frequency (N=28) Technical staff	Percentage
Yes	10	41.67%	20	71.43%
No	14	58.33	6	21.43%
I don't know	-	-	2	7.14%

Source: Survey Data (2016)

Among the technical staff who responded “yes” for the question number **04.4** constitutes (71.43%) ,and those saying “No” 21.43%. On the other hand, among support staffs, those with “yes” response accounted 41.67% and those saying “No” have a share of 58.33%.

It is likely that those respondents who entertained advance payment as liability settle advance payment early. Conversely, those who said “No” may not be sensitive for timely settlement of paid advance. The opinion holders may be forced to settle the paid advance when it is mandatory for them to get another advance for a new assignment.

With the same taken, the regional offices and the Ministry branches sport staff and technical staffs are not well aware of advance payment method to fulfill their obligations. As most

interview respondent conformed when fund is transferred from the Federal offices to regional or the branches with the transfer manual and guideline will not reach to the offices, most of the time the finance people do not have information about the money transfer and project activities are additional work on regular duties. Therefore, the advance payment does not consideration for timely settlement.

Table 5.5. Do you prefer advance payment before you deliver the service you are assigned?

Response	Frequency (N=24) Support staff	Percentage	Frequency (N=28) Technical staff	Percentage
Yes	7	29.17%	20	71.43%
No	13	54.17%	5	17.86%
I don't know	4	16.66%	3	10.71%

Source: Survey Data (2016)

Among technical staff, (71.43%) prefer advance payment before delivering the service the other rare (17.86%) are against before the deliverance of the services. As opposed to the technical staff respondents, few Support staff, (29.17%) prefer advance payment before delivering the service while the majority (54.17%) chooses after deliverance of the service. Furthermore, when looking the average of “yes” and “No” responses, the “yes” group average (50.30%) is greater than the “No” average (36.1%). Thus, the importance of APs is appeared to be appreciated.

Table 5.6. Do you heard about unsettled advance or uncollectable advances?

Response	Frequency (N=24) Support staff	Percentage	Frequency (N=28) Technical staff	Percentage
Yes	4	16.67%	11	39.29%
No	15	62.5%	16	57.14
I don't know	5	20.83%	1	3.57

Source: Survey Data (2016)

Awareness about unsettled advance or uncollectable advance payment more listen by the technical staff (39.29%) than the response given from support staff (16.67%), however the responses reflected from both support and technical staff, at average those who said “yes”(47.63%) is less from those who said “No”(59.8%) and including with those who said “I do not know” the awareness become more narrow within the ministry.

Table 5.7. The major advance payment administration in the ministry - policy and regulation problem?

Response	Frequency (N=24) Support staff	Percentage	Frequency (N=28) Technical staff	Percentage
Yes	4	16.67%	7	25%
No	20	83.33%	7	25%
I don't know	-	-	14	50%

Source: Survey Data (2016)

A great number of support staffs (83.33%) indicated their disagreement that policy and regulation are not problem in advance payment administration and although 50% of the technical staff respondents indicated their neutrality and gave equal conformity to “Yes” and “No” responses. according to the respondents at average from both group of experts it can be judged there is no policy and regulation gap in the management of APs.

Furthermore, the majority of interview respondents conformed that, they are not exposed to governmental policies, regulations and guidelines and also they are not taking any kind of training. Thus, due to lack of communication and awareness of the advance payment methods the settlement performance became very low.

In addition to this, the interview respondent suggested that lack of follow up, monitoring and sometimes lack sense of ownership made the advance payment progress sluggish.

Table 5.8. The major problems in advance payment administration in the ministry- Less management Attention and Low enforcement on uncollectable

Response	Frequency (N=24) Support staff	Percentage	Frequency (N=28) Technical staff	Percentage
Yes	18	75%	20	71.43%
No	20	8.33%	2	7.14%
I don't know	4	16.67%	6	21.43%

Source: Survey Data (2016)

From all questionnaire presented to the support and technical staff similar reflections are reflected in this question and confirmed Less management Attention and Low enforcement on uncollectable advance payment, the response similarly confirmed that the major problem the strength of the execution that matters things to happen. The responses support staff (75%) and technical staff (71.43%) proved low consideration of management bodies.

Table 5.9. Finance directorate provides adequate information on advance payment

Response	Frequency (N=24) support	Percentage	Frequency (N=28) Technical Staff	Percentage Technical Staff
Yes	4	16.67%	13	46.43%
No	18	75%	13	46.43%
I don't know	2	8.33%	2	7.14%

Source: Survey Data (2016)

The majority of the respondents from support staffs showed their objections “No” (75%) followed by having agreed (16.67%). However, the status of disagreed by the technical staffs became equally supported the directorate information provision is fifty, fifty percent. The overall respondent’s views indicate that the finance directorate did not disseminated information to its customers for better implementation and effectiveness. As noted above in (Q.03.8) the respondents confirmed the “Less management Attention and Low enforcement on uncollectable advance payment” negative response, is true because the finance management did not done on information provision to minimize the default customers to decrease the risk of uncollectable accounts.

Table 5.10. Internal control on advance payment appear adequate

Response	Frequency (N=24) Support Staff	Percentage Support Staff	Frequency (N=28) Technical Staff	Percentage Technical Staff
Yes	4	16.67%	15	53.57%
No	20	83.33%	11	39.29%
I don't know	-		2	7.14%

Source: survey data

As indicated on the above the majority of the respondents from support staffs showed their negative response (83.33%) followed by having agreed 16.67%) and zero neutrality, I don't know . However, the status of disagreed technical staffs became in contradiction with the response of support staff for similar question. As noted above for the same question the technical staff confirmed agreement (53.57%) and negative response (39.29%) with minimal neutrality (7.14%). according to the researcher, the internal control system is more focused in doing its activities in resources area which is managed by the support directorates such as finance , procurement and property administration which is resource managing area rather than core team activities, because core team activities are evaluated more of in performance management.

As table 5.10 shows the regional bureau experts and branch office of technical staff conformed internal control strength of advance payment is not satisfactory. This is due to the less attention given by the management bodies.

Table-6. Accountants and Auditors knowledge and awareness regarding recurrent and project fund advance payment management

	questions	professionals	Frequency (N=16)	yes	no	I do not know
6.1	Advance payment (APS) method is broadly used in the government expenditure budget payment; do you	Auditors	8	4 (50%)	2 (25%)	2 (25%)
		Accountants	8	6 (75%)	2 (25%)	0(%)
6. 2	In the ministry, Employee's perceived that policy and regulation understanding of APS is satisfactory	Auditors	8	3(37.5%)	3(37.5%)	2(25%)
		Accountants	8	2(25%)	5(62.5%)	1(12.5 %)
6. 3	Advance payment policy and regulation properly applicable in the ministry?	Auditors	8	3(37.5%)	3(37.5%)	2(25%)
		Accountants	8	4 (50%)	2(25%)	2(25%)
6. 4	There is established system, procedure and internal control strength to manage APS?	Auditors	8	3(37.5%)	4 (50%)	1(12.5 %)
		Accountants	8	4 (50%)	3(37.5%)	1(12.5 %)
6. 5	There is legal framework gap in managing APS?	Auditors	8	5(62.5%)	1(12.5 %)	2(25%)
		Accountants	8	1(12.5 %)	5(62.5%)	2(25%)
6. 6	adequate legal framework , but weak internal control system	Auditors	8	5(62.5%)	1(12.5 %)	2(25%)
		Accountants	8	5(62.5%)	2(25%)	1 (12.5 %)
6 7	The existing regulation provides continuous risk assessment on APs?	Auditors	8	2(25%)	5(62.5%)	1 (12.5 %)
		Accountants	8	2(25%)	4 (50%)	2(25%)

6. 8	Do you think write – off method of uncollectable accounts effective?	Auditors	8	3(37.5%)	5(62.5%)	0(%)
		Accountants	8	3(37.5%)	4 (50%)	1 (12.5 %)
6. 9	write – off committee established in the ministry performs its duties effectively?	Auditors	8	1(12.5%)	6 (75%)	1 (12.5 %)
		Accountants	8	1 (12.5 %)	4 (50%)	3(37.5%)
6. 10	Do you think the existing regulation and policy need improvement?	Auditors	8	6 (75%)	2(25%)	0(%)
		Accountants	8	5(62.5%)	2(25%)	1 (12.5 %)

Source: survey data

As indicated on table 04, the degree Accountants and Auditors confirmed with the average responses “Yes” (62.5%) that policy and regulation for the implementation of advance payment method has no problem and enable to work with it. Regard to the existing policy and regulation comply with the method, the view of the accountants and auditors disagree with No responses (50%) and the positive responses are (31.25%) and neutral response is (18.75%). however there is contradictory responses with policy and regulation complying with the method.

this might arises the employees (the non financial staff) understanding and the financial staff understanding may differ.

Regarding policy and regulation implementation, in the ministry the accountants and auditors responses tell us at average of (43.75%) “Yes”,(31.25%) and (25%) responded “I don’t know|”. thus, the policy and regulation capacity of the ministry less than (50%) almost weak level of strength. according to the response on internal control and leg framework gap, majority of the respondents gave confirmatory answers that, there are not satisfactory internal control and the also legal frame work break still existing.

For the question that adequate legal framework and the existence of weak internal control system the majority respondents gave confirmatory answers. From this, even though majority of the respondents were confirmed that the internal control system proved from many respondents responses. The question related regulation provision or enforcement to take risk assessment before advance payment permitted; the majority of the respondents gave negative responses that the law does not indicate about assessment. As done in business firms receivable management do, the public finance management doesn’t consider allowance for doubtful account for advance payment. however, the MoFED procurement agency regulation state that, when first payment 30% purchase advance paid equivalents amount in cash or equivalents to cash amount must be hold at bank and confirmation document submitted to the payer.

According to the accountants and auditors response, the write-off concept and its effectiveness are not broadly known and practical. According to the establishment guide line, write of committee formally established but it's not effectively function. Regarding the improvement of the policy and regulation, the majority of the respondent confirmed it is important issue to act and improve in order to manage uncollectable advance payment matters.

TABLE 7. The determinant factors for efficient advance payment management
(Respondent-Accountants, internal audit auditors and team leader)

Factors	Frequency (N=16)	yes		No	
		Frequency	percentage	Frequency	percentage
Procedure and process	16	4	25%	12	75%
Internal control strength	16	3	23.1%	13	76.9%
Advance Type	16	10	62.5%	6	37.5%
Nature of Activities	16	12	75%	4	25%
Managerial control and decision making strength	16	14	87.5%	2	12.5%

Source: Survey Data (2016)

As indicated on table 05, the Accountants, internal audit auditors and team leader response viewed the majority confirmed managerial control and decision making strength (87.5%) first priority and the nature of activities (75%) followed by advance type are taken as the determinant factors that needs focus while managing advance payment method. questions regarding advance payment method management and control area, for instance questions raised on table 03.10 and question 04.4 confirmed that as there is management and control function for advance payment is considerable. the respondents showed the same stand that the strength of decision and controlling is proved important.

Following, the respondent's choice indicated the determining factor is the nature of activity that required advance payment. In this context the nature of activity described as goods or services required to be purchased. For instance, the type of activities rendered by experts might demand field activity, therefore, it requires daily subsistence allowance (DSA) to be paid in advance, other activity might be project related that can be implemented in regional level, accordingly the fund may transfer from federal office to regional institution for executing the activities as per work plan, but the activity may not be implemented as scheduled and the budget period elapsed consequently the payment made remains uncollectable. Furthermore, international and local procurement related activities that require prepayments cause a creation of default customers and as a result an increase of uncollectable accounts created.

A great number of budget accountants, auditors and team leaders at third level (62.5%) indicated their agreement that advance type is the determining factor. From table 02.5 types of advance payment such as purchase, staff travel, regional, inter project or BI advance types also indicated as determining factor, that is from each type of advance uncollectable balances can be emanated following the nature of advance type. However, the status of disagreed respondents became in contradiction with the response on the factors internal control strength (76.9%) and procedure and process (75%) gave "No" conformity and on the other hand there is an agreement of same team agreement management decision making and control are determinant factors. Therefore, the researcher believes that the respondents who agreed on the above statement answered the question arbitrarily or without knowing the real situation across the ministry as they are more focusing on the control part of advance payment.

Table . 8. What other alternative payment modalities can be suggested to improve existing uncollectable caused by advance payment method (respondent: accountants and auditor team leaders)

	Questions Provided	Frequency (N=16)	yes		No	
			Frequency	percentage	Frequency	percentage
1	Improve the existing advance payment policy and regulation	16	14	87.5%	2	12.5%
2	Revisit the existing management and control system	16	13	81.25%	3	18.75%
3	To change advance payment method to cash payment method	16	5	31.5%	11	68.75%
4	Strengthening risk assessment and expand, increase guarantee rate using the existing legal framework	16	10	62.5%	6	37.5%

As performed on table 07 indicated, majority of respondent's response (87.5%) conformity answers obtained for improve the existing advance payment policy and regulation. Revisit the existing management and control system (81.25%) recommended being the second priority. Strengthening

risk assessment and expand, increase guarantee rate using the existing legal framework (62.5%) another third focusing area to be considered. questionnaire provided to the respondents was, the change of advance payment method to cash payment method. However this question was disconfirmed by (68.75%). according to the researcher observation, many questionnaire provided

to the respondent responses directly or indirectly reflect, confirm what has been given the response rate described above.

CHAPTER FIVE

5. Conclusion and Recommendation

The objective of this research is to assess the practice of advance payment management and control system of one government institution, the Ministry of Environment, Forest and Climate change. The study followed the steps and procedures applicable to the research and employed the necessary tools to arrive at the conclusion. Problems like the absence of the required data, policy documents and annual reports in the Ministry coupled with lack of commitment to honor appointments on the part of interviewee, competes with the time allocated for the research. However, with additional efforts, it was made possible to finalize the study as

The main body of the study based on sources the primary and secondary data collected from primary and secondary sources based on simple sampling and collection method. Primary data was gathered through closed system questionnaires and structured interview Five years advance payments documents and annual reports of MEFCC were used as secondary data.

5.1 CONCLUSIONS

Almost all distributed questionnaires to respondents were properly filed and collected completed in a very satisfactory level. The respondents were drawn from the Ministry of Environment, Forest and Climate change different departments. Among the respondents few are management members, Professionals from finance section, technical and support staffs, Accountants and Auditors were also included in the study.

The study assessed respondents /knowledge (awareness) and perception on advance payment and critically examined the existing policy and regulation matters. Attempts were made to Pointe out the determinant factors for efficient advance payment management and other alternative payment

modalities. Finally suggestion is forwarded which helps to improve the existing advance payment method.

5.1.1 Policy and regulation matters

- Besides providing advance payment regulation, familiarizing to the concerned party and creating a conducive environment for its implementation is deemed necessary.
- As many interviewees assert, government financial policy and regulations are not well known by management members and non-finance experts. As the result of lack of awareness and knowledge about advance payment and collection employees do not care to settle on the prescribed time
- The push factor to settles advance is not the rule established rather, it is the internal control that force employee to settle the paid advance before collecting another advance for a new assignment.

5.1.2 Regulatory framework,

- Monitoring and regular follow up is unknown for outstanding uncollectable advances. While, the number of defaulters show an increasing trend, risk management for advance payment were not considered in the legal framework and control processes. Moreover policy and regulations of advance payment methods and procedures has been accessed neither to middle level directors nor to support and technical staff of the organization.

In this regard, Accountants and auditors are well aware about the weakness and strength of the ministry. Accordingly, low level of awareness and knowledge on

the part of employee coupled with less management consideration together with poor policy and regulation impacted payment management method negatively.

5.1.3 Management members and experts knowledge on advance payment method

- Management member's educational background and experience legitimize the position they held in the organization. As they progressed from the lowest ladder of the civil service to a higher management level, they have the opportunity to acquaint themselves with different government financial administration. The response obtained from table 03.2 clearly show that management members are well of the significance of payment method.

Management members (table 03.3) while accepting the importance of advance payment method they believe the current practice of advance payment method is not yet supported by policy and regulation. Thus, this implies that policy and regulation matters should be the concern of the institution

- The other fact to be deduced from management members responses is that, even though the members scope is broad and have enough grasping capability they have reflected, they have no deep knowledge and information about advance payment method or they may put aside the issue to the finance management experts. This can be justified, among the type of advance payment they gave high mark to travel advance which relate with daily subsistence allowances which they frequently transact with the finance office. Thus, point can be deduced indirectly or directly management members decide on either on recurrent budget or project fund budget up to **(Birr)** 500,000.00 (according to the ministry management internal guide line directorate directors are delegated to approve up to Birr 500,000). Therefore, it requires internalizing policy and regulation as well as financial manuals.
- Regarding the expert's responses, as indicated and described on the tables many of the reposes confirm the advance payment as one of significant type of payment

and frequent use, it did not communicate and created awareness to the customers. In general, advance payment method as instrument the management, the user experts and all the beneficiaries of funds from the ministry, like regional state bureaus and other budgetary institutions are not clearly internalized the method.

5.1.4 The determinant factors for efficient APs management;

- Managerial control and decision making strength has given less consideration, the nature of activities and advance type preferred as determinant factor for better advance payment method effectiveness. Because of lack of where the sources of the basic problem arise, the ministry cannot take pro active measures for future arising defaults.

5.1.5 Alternative payment modalities for improvement

- Improve the existing advance payment policy and regulation. Revisit the existing management and control system, strengthening risk assessment and effective application of prepayment guarantee not adequately managed.

Regarding alternative payment modalities to improve the existing management, respondents proposed, to revisit the existing management and control system, strengthen risk assessment and execute prepayment guarantee without changing the payment modality.

5.2 Recommendations

5.2.1 Policy and Regulation matters

- The existing advance payment policy and regulation and the significance of the advance payment method application require more elaborated policy and regulation. The finance

administration proclamation and regulation in this regard state only the definition what receivable means and how uncollectable accounts erased from book of accounts by means of “write-Off” method. Thus, the legal framework requires to be revised. Similarly the ministry also needs to develop internal policy and control procedures.

- Monitoring of long outstanding receivables needs to improve. Development of Financial Procedure and Guidelines are required for prompt collection of unsettled accounts.
- The previous internal policy might have been satisfactory in providing reasonable assurance regarding the effective management of uncollectable advance payment. To serve the current need the ministry internal policy development, risk management and control processes have to be revised and update.

5.2.2 Communication of Policy, Regulation and Guidelines

- The ministry should familiarize its employee on the existing finance policy, Directives, rules and law in general and on the issue of advance payment in particular. Special attention should be paid to top management and middle level directors as they are delegated to approve a purchase of goods and services of big amount.

5.2.3 Enhancing Advance Payment Management control system

- MEFCC should create a mechanism for follow up and collect outstanding uncollectable accounts on a regular basis. Moreover the Ministry should get reasonable assurance before providing advance to customers. On top of this the ministry should oversee that policies and established procedures are followed consistently.
- The project fund, uncollectable balance compared with recurrent budget much more greater .however, during interview discussion regional, branch offices and the ministry

leaders stressed the project fund financial management should be evaluated similar to recurrent budget.

- Quality and timely delivery of report requires skill manpower. With this regard, the ministry considers to enhance institutional strength at all level, through Continuous creation of awareness on project manuals, finance policy and regulations to narrow the gap of knowledge observed around accountants and finance officers.

5.2.4 Uncollectable accounts and the write- off measures.

There are unsettled accounts stayed for many years, that don't get decisions, by strengthening the write- off committee they have to properly evaluate legal action needed either to erase from book of accounts or pay back to the ministry. Management should control with plan of action and serious follow up.

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ANNEX -1

Indira Gandhi National Open University

School of Management studies

Questionnaire for staff and management team members of selected Directorates in the ministry of Environment, Forest and climate change.

1. Purpose of the research

Dear respondent,

The intent of this questionnaire is to collect data on advance payment modality implementation and the issues related to uncollectable accounts risk. The subject matter of the study is entitled “assessment on advance payment management and control system in public organization” being partial fulfillment of MBA degree. Based on your response, the research is intended to deliver a study for academic purpose and will ensure confidentiality of any information provided here with. You are kindly asked to put your choices from stated questions and to put a tick mark on the answer of your choice. You may also require writing very short statements in blank space provided and respond to the best of your knowledge. I thank you, in advance for your sincere cooperation.

4.1 Management members’ demographic characteristics.

General guideline: please indicate your selection by marking (✓) in the box

1.1. **Occupation:**

- Finance and/or internal audit staff
- Non Finance/audit staff
- Management member

Gender: Male Female

1.2. **Job Position :** _____

1.3. **Education:** Diploma -- Bachelors --- Masters and Above---

1.4. **Work experiences;**

- 1-5 years
- 6-10 years
- 11-20 years
- 21-30 years
- More than 30years

General Questions

4.2 To what extent advance payment modality used as disbursement tool?

- a) Great extent
- b) Moderate extent
- c) Little extent

4.3 **If your choice is great extent or very great extent, do you think that advance payment modality adequately supported by policy and regulation?** ----- yes no

4.4 **Management members' knowledge about advance payment method?**

- high
- medium
- little
- No

4.5 **In your organization, do you think advance payment uncollectable Amount**

- increase
- decrease
- I don't know

4.6 In your organization which type of advance payment type do you think takes large amount

- Purchase Advance
- Travel advance
- Inter project advance within the ministry
- advance to government agencies

4.7 Which type of payment takes the largest portion in purchasing goods and services?

- direct cash payment and expensing
- advance payment (Suspense Voucher) and settled to expensing

7.8 When vendors are eligible for 30% prepayment for purchase of goods or services do you believe guarantee holding practical?

- yes
- no

4.9 Advance payment regulation stated that the settlement of travel advance shall be settled within seven days after coming from your travel, do you have knowledge about this regulation?

- yes
- no

4.10 Do you think a direct write-off method for uncollectable advance payment a solution for unsettled balance?

- Yes
- no

4.11 if your response is yes how strong is the management in the ministry to get the pay back from customers

- Strong
- weak

Please provide your level of agreement with the following symbol (✓) for each statement indicated in each row and response labeled as “yes” “no” or “I don’t know” as well as “Adequate”, “Inadequate” and “Need Improvement” columns.

Non Finance staffs (Technical and support staff) A, B and C)

A. Awareness and perception- on Advance payment	yes	no	I don't know
5.1 Do you feel that the ministry finance section performance satisfactory and discharge its responsibility in administrating and proper use of public resources?			
5.1 you ever had any Training relevant to finance management?			
5.3 have you heard and do you feel significance of APs v?			
5. 4 As advance payment provides cash on hand before you deliver the service or sometimes goods do you consider it as liability?			
5.5.Do you prefer advance payment before you deliver the service you are assigned?			
5.6 do you heard about unsettled advance or uncollectable?			
5.7 The major problems in the past involving the advance payment administration? <ul style="list-style-type: none">• policy and regulation problem			
5.8 The major problems in the past involving the advance payment administration? Less management Attention and Low enforcement on uncollectable			
5.9 Finance directorate provides adequate information on advance payment?			
5.10 Adequate internal control and reporting in order to have effective receivable management.			

Table-6. – Accountants and Auditors knowledge and awareness regarding recurrent and project fund advance payment management

	questions	professionals	Frequency (N=16)	yes	no	I do not know
04. 1	Advance payment (APS) method is broadly used in the government	Auditors				
		Accountants				
04. 2	In the ministry, Employee’s perceived that policy and regulation understanding of	Auditors				
		Accountants				
04. 3	Advance payment policy and regulation properly applicable in the ministry?	Auditors				
		Accountants				
04. 4	There is established system, procedure and internal control strength to manage APS?	Auditors				
		Accountants				
04. 5	There is legal framework gap in managing APS?	Auditors				
		Accountants				
04. 6	adequate legal framework , but weak	Auditors				
		Accountants				
04. 7	The existing regulation provides	Auditors				
		Accountants				
04. 8	Do you think write – off method of	Auditors				
		Accountants				
04. 9	write – off committee established in the	Auditors				
		Accountants				
04. 10	Do you think the existing regulation and policy need improvement?	Auditors				
		Accountants				

TABLE 7. The determinant factors for efficient advance payment management
(Respondent-Accountants, internal audit auditors and team leader)

Factors	Frequency (N=16)	yes		No	
		Frequency	percentage	Frequency	percentage
Procedure and process					
Internal control strength					
Advance Type					
Nature of Activities					
Managerial control and decision making strength					

Table . 8. What other alternative payment modalities can be suggested to improve existing uncollectable caused by advance payment method (respondent: accountants and auditor team leaders)

	Questions Provided	Frequency (N=16)	yes		No	
			Frequency	percentage	Frequency	percentage
1	Improve the existing advance payment policy and regulation					
2	Revisit the existing management and control system					
3	To change advance payment method to cash payment method					
4	Strengthening risk assessment and expand, increase guarantee rate using the existing legal framework					

Interview questions for MEFCC (branch offices and regional state environment bureau experts, team leaders and finance officers)

The purpose of this interview is to assess the overall advance payment management and control system in strength and weakness in the MEFCC.

- 4.1. Does MEFCC have internal policy on advance payment?
- 4.2. Have you ever read the finance administration regulation, guide lines and rules?
- 4.3. Have you ever participated any training or workshop prepared by government agencies or your institution?
- 4.4. Why advance transfer to the regional bureau do not settled timely?
- 4.5. Have you ever read the government financial administration regulation? Can you define the phrase advance payment mean?
- 4.6. Large amount of advance payments unsettled are recorded in the regional bureaus, would you explain some of the reasons or causes of unsettlement?
- 4.7. What can you suggest some of the determinant factors for advance payment uncollectable?
- 4.8. In your region many projects are implemented, most of the projects are funded from federal ministry project facility fund, while, in the region unsettled advance cumulated is high can you mention the reason?
- 4.9. Do you think a direct write- off method for uncollectable advance payment a solution for unsettled balance?
- 4.10. By law venders are eligible for 30% prepayment for purchase of goods or services do you believe guarantee holding practical?
- 4.11. The branch office received project fund advance from the head office, do you settle the advance timely?

Project Proposal No. 104010
(To be assigned by the School)



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31/12/15 KRS

MBA	MBA (B & F)
✓	

School of Management Studies
INDIRA GANDHI NATIONAL OPEN UNIVERSITY
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PROFORMA FOR APPROVAL OF PROJECT PROPOSAL (MS-100)

Enrolment No. - 109100920

Study Centre 8105

Regional Centre _____

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Title of the project :

Assessment On Advance Payment Management

Subject Area:

And Control System of Public Organization, The
Case of Ministry of Environment Forest & Climate Change.
HRM & OB/Accounting & Finance/Operations Management & Information System/Marketing/Corporate Management/Any Other (Specify)

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Is the Supervisor an Academic Counsellor of Management Programme of IGNOU?

Yes No

If Yes, Name and Code of Study Centre and the courses he/she is counselling for and since when

MS-4, MS-41, MS-43

No. of the Students currently working under the supervisor for MS-100

Signature of Student

Date: Dec, 15/2015

Signature of Supervisor

Date: December 15, 2015.

Please do not forget to enclose the synopsis of the project and the Bio-data of the Supervisor. In case the complete and signed Bio-Data of the Supervisor (Even if the proposed supervisor is an academic counsellor of IGNOU's Management Programme) is not enclosed, the proposal will not be entertained.

SYNOPSIS	SUPERVISOR
APPROVED ✓	APPROVED ✓
NOT APPROVED	NOT APPROVED

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SIGNATURE OF MANAGEMENT FACULTY

Date: _____

**Indra Gandhi National Open University
School of Management Studies**

Research proposal

**ASSESSMENT OF ADVANCE PAYMENT MANAGEMENT and
CONTROL SYSTEM IN THE PUBLIC BODIES: THE CASE OF
MINISTRY OF ENVIRONMENT, FOREST AND CLIMATE
CHANGE**

Submitted to: The Coordinator (Project)

School of Management Studies,

IGNOU, Maidan Garhi, New Delhi-110068

Prepared By: Melese Tafese Degafe

ID. NO.109 100 920

December, 2015

1. INTRODUCTION

1.1. Background of the Study

‘Strong Public Financial Management (PFM) systems are essential to improved service delivery, poverty reduction and to achievement of the MDGs. Effective PFM systems maximize financial efficiency, improve transparency and accountability, and – in theory– will contribute to long-term economic success’” Pretorius.C. and Pretorius.N. (2008)

Public Finance as a resource is crucial for financing government activities and the government has a responsibility to provide services to people. Accordingly, policy framework for financial management becomes critical in ensuring quality services provided to the people. Above all the policy framework for financial management presents the roles and responsibilities of institutions. The legal framework and its related policy instruments set out like management and control systems of, an integrated approach for public sector financial management is vital.

In large business organizations, management control system (mcs) plays a pivotal role. It serves as an instrument to ensure the achievement of organizational goal. It reports on performance of all aspects of an organization’s activity on a regular basis so that all areas are reviewed (Emmanuel, Otley and Merchant, 1990, p.97)

A well-functioning public sector needs an effective resource management to deliver quality public services consistent with citizen preferences, which also enables it to foster private market-led growth while managing fiscal and financial resources prudently. Such sound public sector resource management and government spending help determine the course of economic development and social equity, especially for the poor and other disadvantaged groups.

However, some facts shows in many low income countries like Ethiopia suffer from unsatisfactory and often dysfunctional governance systems that include rent seeking and

malfeasance, inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. These poor public sector governance systems are mainly attributed to lack of a financial management system that provides accurate, relevant and timely financial data. Such data are pre-requisites for enabling informed decision that leads to welcome outcomes for access to public services by the poor and other disadvantaged members of society, such as women, children, and minorities by increasing the public sectors financial transparency and accountability.

Assuring such function “ government budgeting, provides conceptual frame work such as, policy instrument that allocates scarce resources among competing sectors, managerial instrument that specifies ways and means to provide public service, serves as economic instrument that can foster economic growth and function as accounting instrument that holds the public officials accountable”. Ranjit Kumar Chakraborty, <http://www.novapdf.com/>

It is a pre-requisite for public sector organizations to have an efficient financial operation in place to implement an effective budgeting program, which is a function of accurate, relevant and timely financial data. In the public sector, this must also include comparative information of actual versus budget figures. This is, particularly important for the public sectors due to the fact that budgets are not mere financial plans. Instead budgets are authorizations to collect and spend financial resources given by law. As a result, their financial system must enable different level officials to properly comply with budgetary stewardships by integrating budgetary accounts into the formal system to assist in monitoring budgetary compliance and reporting such compliance. However, if such financial systems are not in place, management will implement hasty decisions that may cause dysfunctional decision making problems.

Public expenditure management, principles and practices observed mainly focuses on budget preparation, budget execution, and cash planning. Each aspect of public expenditure management requires well developed system and committed practices backed by right decision.

For instance budget implementation, in the sense of delivering services by undertaking expenditures, is the responsibility of the line ministries and spending agencies, within regulatory controls set by the ministry of finance, in Ethiopian context responsibility is carried out by the Ministry of Finance and Economic development (MoFED)

Thus, Budget is an instrument and a means to use scarce resources (financial) in efficient and effective way by envisaging greater out put on the purpose it allocated for.

Using budget appropriation concept, budget is approved by the legislature for a line item of spending. Thus budget law gives the executive branch the authority to incur obligations, which become due during the budget year up to a specified amount for specified purposes within a financial period (usually one fiscal year).

Authorization of expenditure budget for payment against a bill or invoice by line ministries or government agencies and others officials frequently done through the process of payment system. Payment system is an essential financial infrastructure and important for strengthening payment method. This paper is intended to provide an assessment and overview of advance payment employed in public expenditure budget execution.

Advance payment created in government expenditure accounts lead to account receivable/ uncollectable account which makes similar to the conventional Receivable called trade receivable and non- trade receivable (Advance payment in context of expenditure budget is where large volume of cash pre paid before actual expensing and uncollectable accounts are

created where prepaid cash are not settled within the annual budget year. the uncollectable account in the government budget implementation is coming critical hidden problem in the treasury finance management)

The intended purpose of the advance payment is, it enables the government bodies to be entitled for cash advance payment before the actual spending. .While, Advance payments employed as an important part of payment method, it is also associated with a high risk of non-settlement.

Thus, the paper envisages on assessing and reviewing the legal framework, specifically the policies and regulations, management and control system and critically evaluates the uncollectable accounts impact on the annual budget execution.

1.2. Ministry's profile

Mission Statement

Ministry of Environment and Forest (MEF) strives to ensure the establishment of a system that guarantees environmental and forest resource conservation, development and utilization to contribute to sustainable development and poverty reduction, coordinate research and technology transfer; promotes education and extension in environment and forest; coordinate implementation of CREGE strategy and builds the capacity of implementing entities; promote forest investment and marketing; lead and monitor implementation of international environment and forest conventions/protocols; and compile state of environment and forest conditions and changes therein. Ministry of Environment and Forest, National REDD+ Secretariat August, 2014

Governance

According to the proclamation, MEF has been organized in two major sectors, the environment and forest, led by Minister and two state ministers. Under each major sector there are

directorates which are responsible to meet the specific objectives for which they are established. There are also, different project units mobilizing project funds under the supervision of the ministry.

Brief history of ministry

According to the Ethiopian Environmental protection (EPA) annual bulletin on the authority profile EPA was established under the Ministry of Natural Resources Development and Environmental Protection (MNRD&EP), in May 1994. Later, EPA as environmental regulatory and monitoring body has become independent institution and re-established by proclamation no. 295/2002. Currently, following the current global environmental issues and the national CRGE strategy of Ethiopia accelerate EPA to be developed and established at ministerial level by proclamation No 197/2010. According to this proclamation, all the rights and obligations of the former EPA have been transferred to the new Ministry of Environment and Forest (MEF).

The Ministry's Resources

The federal government bodies Activities and resources are managed through program budgeting system and the ministry designed its activities in three programming area called (Environment, Forest and Support and Services). Thus, the ministry has been organized itself suitable to the system to manage the recurrent and capital budget approved and allocated by the legislative body of the country. Similarly, MEF currently have 250 permanent employees who are engaged in different activities of the ministry.

1.3. Statement of the problem

In Ethiopia, since financial management and control system, as Financial Administration Act, advance payments are employed as major payment modality along with its uncollectable risks. Thus, significant advance payments have been made in government agencies in order to utilize the appropriated budget and accordingly to make an expense in the respective budget year.

The conceptual framework of advance payment in the government budget execution envisage to speed up procurement efficiency and build up supplier's capacity in delivering goods and services that government committed to the public.

However, the intended commitment challenged by huge amount of outstanding advance (uncollectable) balances that hinder the budget performance as well as annual expected goods and services to be delivered for the public. For instance, in the year 2004/2005 (2012/13) among 57 audited government offices an amount of nearly 1.4 (%) of the total federal agencies budget, recorded as uncollectable advances.

Such significant account balance overstates the asset part of the government financial statement (Balance Sheet) and has an impact on financial planning.

Thus, the nature and the unique nature of advance payment in government expenditure budget undertaken to be assessed and reviewed, in general the advance payment management and control system in context of legal framework, the probable of uncollectable balance management, the impact uncollectable balance on the budget performance and the general trend will require to be assessed.

1.5. Rationale of Study.

Advance payment method has universal application in both public and private organization. the application in government budget implementation, it covers large volume of transaction In purchasing of goods and services as method of payment, however, the area did not get depth focus in terms of legal framework and as management found in the business enterprises. A country like Ethiopia which shows continuous economic growth, applies aggressive increase of

government budget that directly incur in procurement process. The approval of large amount of budget in the public sector implies huge amount of financial resources allocated for purchase of goods and services which leads to increasing demand for effective and efficient financial management and control system including advance payment management.

While a series of auditor general reports indicate significant percentages of annual expenditure budget allocated for government organizations found unsettled and the cumulated uncollectable accounts are year to year seem increasing. Therefore the importance of the advance payment method and the probable of uncollectable should not be overlooked.

1.5. Research Questions

the topic advance payment and its component the settlement issue is the point of discussion and therefore, based on the advance payment in government expenditure budget and unsettlement issue (the topic researched) the following research questions are undertaken to be answered through the process of the study.

1. Is there adequate theoretical ground of advance payment in context of public expenditure budget?
2. Laws and regulations enforcement level and perceptions of finance managers and officers /accountants and non- finance staffs?
3. What is the latest (2001-2006.Eth.) rate and trend of advance payment un collectable accounts, in the case study ministry?
4. Does the ministry develop effective advance controlling mechanisms across all its recurrent and capital budget ho

5. What can be done to reduce advance payment uncollectable issue in respect to policy, regulation and management system?

1.4. Objective of the study

1.4.1 General Object

The general objective of this study is to examine the advance payment in government expenditure execution and advance control system in the Ministry.

1.4.2 Specific Objective

- To identify the nature and significance of advance payment in government expenditure budget disbursement.
- To evaluate the respective policy and regulatory framework of advance payment and perceptions of the executive personnel.
- To Explain factors that determine the current trend of uncollectable advance payment balances and make analysis the impact on public service delivery
- To check the payment procedures related to purchase of goods and services
- To examine the advance payment clearance process and the probable uncollectable advance (receivables).

1.5 Significance of the study

The establishment of appropriate advance payment management and controlling system is indispensable method that encourages and facilitates effective payments from allocated budget in order to achieve organizational objectives. The study will assist to improve receivables management arises from advance payment and controlling system of the ministry. It create awareness to advance holders to develop positive attitude towards the timely settlement

advances Specifically, accountants and top management will improve receivable management policy and the controlling mechanisms based on the results obtained from the research. Likewise, the management can use the advance payment control system as a performance evaluation tool to down minimum level of uncollectable. This will bring to increase budget performance which enhances goods and service delivery to the public.

As a whole, the study will provide supportive opinions to improve advance payments management and control system. Furthermore, it will be an input for other researchers as a basis for further study on similar issues.

1.6 . Methodology of the study

1. 7.1. Research Design

Based on the objective of the study, the research is designed to include questionnaires and interviews. The questionnaires will be composed of close ended questions. They will be filled by finance heads, team leaders, internal auditors, and finance officers with consideration of informant's experiences. Furthermore, non- finance staffs informants such as profession experts of other disciplines and procurement personnel's will be included.

In addition, interview questions will be used in order to accommodate data that could not be explained in the structured questionnaires.

1.7.2 Population of the Study

The population of the study is all finance directorates staff, management members and other experts of advance payment customers of ministry.

1.7.3. Sampling Technique and Size

MEF is increasingly growing government organizations in the country and its service is cross-sect oral involving many partners and stakeholders throughout the nation. It has two sect oral

areas led by two state ministers and 26 cores and support directorates and two project units running their own appropriated project budget.

Thus, it is not possible to include all directorate staff members in the sample due to time and cost limiting factor. Because of this, from the two sector and 26 directorates, 6 directorate from core and 5 directorates from supports, will be selected for the intended study. The selected core directorate will be:

Environment sector

1. Technology transfer,
2. State of Environment, and
3. environmental impact assessment directorate

Forest sector

4. State forest, directorate
5. Forest policy directorate and
6. Fund facility directorate

Support Directorate

7. Finance,
8. Internal Audit,
9. Human Resource and Development Directorate,
10. Procurement, Property and General Services Directorate,
11. Plan and budget directorate

Moreover, the finance, plan and budget and internal audit directorates are more involved in the finance management and control system high consideration in representation will be given.

After selecting the directorate to be included in the sample, the next step will be determination of sample size in each unit of the study. In this study, the expected subject of the study will be the

management carrier people and the employees as customer and the budget holders and controllers will be subject of the study. Therefore, Regard to sample size, 100% of the management members from each selected directorate and 40% of the employees (non-management staff) from core directorate involved in the sample.

As the numbers of staffs of finance, plan and budget internal directorate are more engaged in the subject matter 100% management members and 50% non- management staff covers the sample size.

Random sampling technique is used to select individual respondent. The sample respondents used in this study are classified into three group of people .the first one is, the management group including the core and support and services directorate and team leader members. The second group of respondents will be the finance officers or the accountants including budget controllers and procurement specialists group. The third respondents group will be employees (staffs) those who are engaged directly advance payment customers and regional advance payment facilitators and controllers.

Therefore; a total of ninety (87) respondents, forty (33) respondents from the management members, seventeen (29) from finance control and operational management staffs and thirty (32) user of advance payments will be participated.

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1.7.4. Methods and Techniques of Data Collection

No	Divisions included in the sample	No of Managers	Sample size
	Core Directorate		
1	Technology transfer	2	5
2	State of Environment	2	6
3	Environmental impact assessment	2	4
4	State forest directorate	2	4
5	Forest policy directorate	2	8
6	Fund facility directorate	2	5
	Support Directorate		
1	Finance Directorate	3	8
2	Internal Audit Directorate	2	3
3	Procurement & general Service	3	10
4	Human resource and development	3	4
5	Plan and budget	2	4
	total	25	62

1.7.4.1 Data type and its source

To generate quantitative and qualitative data, the study employs both primary and secondary data. The primary data will be collected through a structured questionnaires as well as personal interview. The questionnaire is distributed to 87 member staffs of the ministry directorate directors, different level of finance management heads, team leaders, internal auditors, and accountants with consideration of experiences and non- finance staffs informants such as profession experts and procurement personnel's. . In addition personal interview will be added outside MEF, from Ministry Of Finance and Economic Development (MoFED) treasury and account section directors will be interviewed to strengthen and support the data reliability.

The secondary data will be approached with referring sources of published and unpublished materials especially the principal source will be the Ethiopian Audit General Office and the Ministry of Environment and Forest. Data collections mainly comprise 5- years that covers (2001-to-2006 ECY.) period.

1.7.5 Methods of Data Analysis and Interpretation

Descriptive techniques will be used for the analysis of the data. The study will make a benchmark of the literatures reviewed and make evaluation the actual practice of the ministry. The primary data gathered through questionnaire will be presented and analyzed using tables, percentage, graphs and pie chart is used which ever suitable for clarity. further more, the qualitative method of data analysis is also employed for feedbacks that are obtained from personal interviews.

1.8. Scope and limitations of the Study

1.8.1 Scope of the study

The study will cover and focus on the Ministry of Environment and Forest (MEF) government recurrent and capital (project) advance payment management and control systems base on budget year of the ministry, however, in organization terms, in addition to MEF Ministry of Finance and Economic Development of Ethiopian Government will be included as major source of finance and regulatory body.

1.8.2 Limitations of the study

Since most of the time financial issues considered secret, financial information carried out will be kept confidential on the side of the ministry. Furthermore, because of the distinctive nature of research topic (non-trade receivable nature) availability of sufficient current literature on the topic will be some of the constraints. However, the researcher will try to fill the gap by broadening data collection through questionnaires and personal interviews and plus, by making the study transparent and building awareness on the informants of the ministry bodies, the researcher try to narrow the limitation.

1.9. Organization of the Study

The study paper starts with chapter one. It is arranged sequentially, commencing with background and includes organization profile, statement of problem, research questions. The objective part comprises general and specific objectives followed by significance and methodology of the study, followed by the scope and limitation of the study. The second chapter describes literature review. The data presentation, analysis, and interpretation are presented in the third chapter. The last chapter provides conclusion and recommendations.

1.10. The study work plan and Budget break down

Sr.No.	Budget In Birr	Core activities	Time period
1	2500	Draft proposal preparation	July 1-30 ,2015
2	-	Submission of proposal for approval	August 1- 5,2015
3	6,000	Data collection related expense (lunch, breaks entertainments and transport)	August 6- Sept,15,2015
4	5,000	Data consolidation, analysis, interpretation (consultations, discussions with individuals groups or teams)	Sept 16 - Oct,15,2015
5	2,000	Draft Report preparations	Oct,16-30, 2015
6	4,000	Secretarial services, printing and binding	Nov, 1-15 ,2015
7		Final Report Submission	Nov,15-20, 2015
Total budget	Birr- 19,500		

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C U R R I C U L U M V I T A E
A Y E L E K E B E D E

P E R S O N A L D A T A

<i>Name:</i>	<i>Ayele Kebede</i>	
<i>Date of Birth:</i>	<i>June 21, 1980</i>	
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<i>Sex:</i>	<i>Male</i>	
<i>Nationality:</i>	<i>Ethiopian</i>	

E D U C A T I O N A L B A C K G R O U N D

February 2011-Date: **PhD Candidate** at Addis Ababa University. Pursuing Doctorial Study in Information Systems in the IT PhD Program at AAU

June 2008- Date: Pursuing an external auditing certification at the ACCA of United Kingdom.

April 2005 - April 2007: Pursued a postgraduate study in *Accounting and Finance at Addis Ababa University, Faculty of Business and Economics.*

✓ Earned *MSc. Degree in Accounting and Finance* with a *CGPA of 3.75*

October 1998 - July 2002: Attending an undergraduate study in *Jimma University, Faculty of Business and Economics.*

✓ Earned *BA degree in Accounting* with a *Major CGPA of 3.52.*

October 1996- July 1998: Attending high school education in *Yekatit 12 (Mcnnen) Senior Secondary School.*

✓ *Accomplished high school education passing Ethiopian School Living Certificate Examination (ESLCE) with Great Distinction.*

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Services for MBA students at St. Mary's University and also offered intensive tutorials on other courses at Admas University Distance Education division and at Indra Ghandi National Open University (IGNOU) distance program.

I have offered trainings on Basic Accounting and Finance for World Vision Senior Management, Federal Government of Ethiopia (FGE) Accounting for 10 woreda finance officials, and computerized accounting trainings at various institutions.

COMPUTER SKILLS

I have adequate knowledge in computing. I am conversant with the following application software: *MS Office, Peachtree Accounting, QucikBooks, and Sage ERP*. I can also work comfortably with *SPSS, STATA, SMART PLS, and Wcka*. Moreover, I can design executable prototypes using *Microsoft Visual Basic*.

MATERIALS WRITTEN

As an academicians, I have developed some text books published and unpublished alone and as co-authors.

- I developed a teaching module on "*Agricultural Accounting*" for distance learners and in-school trainers, which can be considered as the first attempt to develop an academic material on this area.
- I have written as a co-author a working book on Financial Accounting, published by St. Mary's University College Press.
- I have compiled a teaching module to St. Mary's University college on Basic Bookkeeping.
- I have developed a distance learning module for St. Mary's University College on International Trade and Finance.
- In addition, I compiled a module for Admas University College Distance Education Division on Introduction to Computerized Accounting.
- Currently I am writing a computerized accounting module for undergraduate students.

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- Moreover, I developed a *Guideline for Designing and Developing Curriculum in Admas University' College*

WORKSHOPS AND TRAININGS ATTENDED

National Bank of Ethiopia	Addis Ababa, Ethiopia
✓ Money Laundering and Terrorist Financing	
✓ Financial Leverage and Bank Financing	
St. Mary's University College	Addis Ababa, Ethiopia
✓ Pedagogy and Andragogy Training	
✓ VAT System and its current state in Ethiopia	
✓ Quality Assurance Training	
✓ Statistical Package for the Social Science (SPSS)	
Gtz	
TVET Program and Apprenticeship	
Bit e-learning Training	Addis Ababa, Ethiopia
Training of Trainers for Entrepreneurship Skills Certificate	
ZTE UNIVERISTY	Addis Ababa, Ethiopia
Multi Product Advanced Technology of GSM-RAN, WCN, Transmission DWDM, IN, WCDMA and Management	

LANGUAGES

I have a good command of both written and spoken English. Besides, my Amharic and Guragigna speaking and writing abilities are one of top rated. Moreover, I have an average skill in writing and speaking French.

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COMMUNITY ACTIVITIES

As a student in Jimma University I attended a *Community Based Training Program* (CBTP), a training offered at each summer vacation and considered as a peculiar innovative work of the University. The program is designed in such a way that, students are expected to carry out projects aimed at alleviating certain social problems by making use of available unexploited resources. Now, as an instructor I introduced *an on-site project work* that resembles the *CBTP* in St. Mary's University College for TVET students.

H O B B I E S

I am a good player of *Basket Ball* and *Chess*. I played in Jimma University, Faculty of Business Basketball Team. My spare time, till now devoted for playing Basketball in Addis Ababa University's Building and Construction college court. I have served as a goal keeper and coach for Jimma University, Faculty of Business and Economics football club. In addition, I have an entry level Martial art belt which I practice as a spare time activity. Besides, I am an Orthodox Christian that inherited me all the good characters of a God fearing man.

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