



Cooperative Education Report

Financial Perspective on the Procurement Procedures of an International Non-Government Organization

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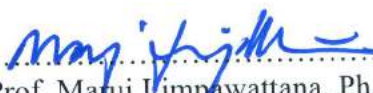
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Abstract

This internship is conducted at Health for Life Project, Nepal which is launched by U.S. Agency for International Development (USAID) and implemented by RTI International, U.S.A. The main objective of this study is to analyze the role of the finance department in the procurement process of an international non-governmental organization (INGO). As an intern in the finance department responsibilities were given to aid the organization in the post procurement process such as preparing payment sheets, ensuring availability of required supporting documents, VAT and Tax calculations, reconciliation of staff's leave statement for salary pay off, bank reconciliation and budget approval. As the roles were focused in the post procurement process of the organization, the report focuses on the procurement process as a whole, in a non-profit organization. The results found that on the basis of the assigned tasks mentioned above can clarify and understand the role of the financial department in the procurement process.

Keywords: Finance / Procurement process / Payments

Acknowledgement

The internship opportunity I had with Health for Life, as part of the curriculum of BBA program of Siam University, was a great chance for learning and professional development. Therefore, I consider myself as a very lucky individual as I was provided with an opportunity to be a part of it. I am also grateful for having a chance to meet so many wonderful people and professionals who led me through this internship period.

I would like to take this opportunity to express my deepest sense of gratitude to Ms. Mira Dhakal Arora, Operation Manager, Mr. Pratik Man Pradhan, Finance Specialist, and Ms. Roshni Pokharel, Finance Specialist Assistant for their careful and precious guidance which were extremely valuable for my study both theoretically and practically.

I would also like to extend my gratitude towards Dr. Pichit Eamsopana, for the constant support and guidance during the preparation of this report, and Siam University, Bangkok, for giving me this wonderful opportunity to learn and grow through practical implementation of my theoretical study.

I perceive as this opportunity as a big milestone in my career development. I will strive to use gained skills and knowledge in the best possible way, and I will continue to work on their improvement, in order to attain desired career objectives.

Astha Joshi

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Chapter 1: Introduction

1.1 Company Profile

Research Triangle Institute (RTI) International is a non-profit research institute with the sole purpose of improving human condition through integration of expertise across the social and laboratory sciences, engineering, and international development. There are currently more than 5,000 works in more than 75 countries of RTI projects aiming to tackle complex social and scientific challenges on behalf of governments, businesses, foundations, universities, and other clients and partners.

Health for Life is a five-year project launched by U.S. Agency for International Development (USAID) and implemented by RTI International intended to help strengthen the Nepali government's capacity to plan, manage, and deliver high-quality and equitable family planning, maternal, newborn, and child health services. The project is conducted closely with the Government of Nepal's Ministry of Health (MoH) to support the testing and roll-out of national-level policies, guidelines and programs (Nepal Health for Life, 2018).

The project covers 12 districts in the Mid-Western Development Region; 3 in the Western; one each in the Eastern, Central and Far-Western Regions; and in 10 most earthquakes affected districts. In these areas the project's activities directly address key health system constraints in the following areas: local health systems governance, data for decision making and evidence-based policy development, human resources management, quality improvement systems, and knowledge and behavior change.

To ensure smooth operation and service of its projects throughout Nepal, Health for Life constantly purchases assets, goods and services from several suppliers through a stated procurement method. The procurement method consists of the administration team selecting an appropriate supplier and preparing a requisition order with given price rates which will be approved and payed for by the finance team.

In the procurement process the finance team authorizes purchase requests and Local Purchase Orders (for making credit purchases), and payment requests. They write the cheque or issue the cash, record the transactions in the books of account and ensure that all the paperwork is properly filed, after the procurement is done. "Procurement is one of the riskiest areas in NGO financial management, often abused by kickbacks, paying too much for sub-standard goods, and buying from

related parties”. Therefore, the financial team plays an essential role in the procurement method to ensure everything is done efficiently, effectively and ethically (Mango, 2018).

As part of the undergraduate curriculum of Siam University, we need to participate in the co-op program in our final year. The co-op program requires us to intern in an organization for 3 months. To fulfill this requirement, I was an intern in the finance department of Health for Life. I interned there from 12 February, 2018 to 12 May, 2018, working 8 hours per day. Since the organization was at a closeout phase, my responsibilities as an intern mainly focused in the post procurement process.

1.2 Organizational structure

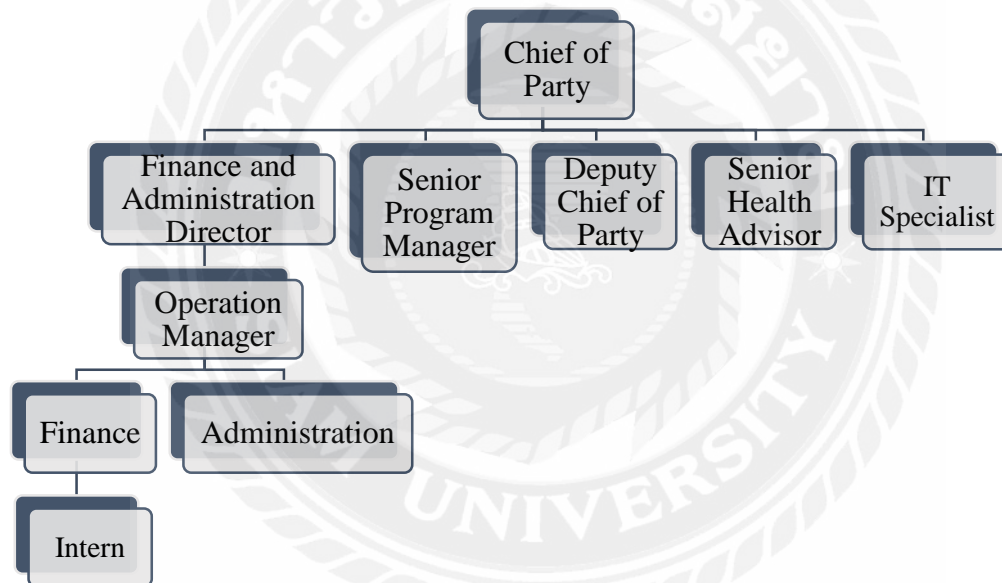


Figure 1 Organizational structure of the Health for Life

1.3 Statement of the report

This report focuses on the role of the finance department in the procurement process of an INGO. The report showcases my learning and growth throughout the internship period. Its objective is to clarify and display my understanding of

the procurement process in the perspective of a finance intern through the roles and responsibilities I was assigned throughout my tenure.

1.4 Objectives of the study

The overall objective of this study is to clarify the roles and importance of finance department in the procurement procedure of an INGO. The specific objectives of this study are as follows:

1. To identify the roles of the financial department throughout the procurement method of an INGO in Nepal.
2. To find out the major players in the procurement process in an INGO.
3. To analyze the differences between theory and practical implementation of procurement procedures.

1.5 Expected outcomes

Through this report I expect the roles of the finance department in the procurement process will be clearer and understandable. I believe this report will help readers understand that the role of financial department in the procurement process is not only to pay the bills, but is more than that. Also, I hope this report will aid in creating opportunities for improvement in the currently applied procurement process.

1.6 Limitation of study

This report is based on the responsibilities I was assigned as an intern in the financial department of Health for Life Nepal, RTI International. The major limitation of this report is that the data collected is from only one INGO. Also, I had the theoretical knowledge of management accounting of a for profit organization, however as I was interning at a nonprofit organization my theoretical background was not entirely applicable. Furthermore, I wasn't able to witness heavy procurements made by the organization as the INGO was during its closure when I started my internship.

Chapter 2: Literature Reviews

In explaining the various practices during procurement in an INGO, the theoretical concepts that support this research are described below, along with the respective job description.

2.1 Related theories or concepts

2.1.1 Value for money theory

The Concept of Value for Money (VFM) in everyday life can be explained as not paying more for a good or service than its quality or availability justified (Glendinning, 1988). This theory states that an organization should be able to obtain the maximum benefit over time with the resources available. It focuses on achieving an equilibrium balance among economy, efficiency and effectiveness and cost effectiveness (NCTL, 2018). Saxena (2012) indicates that value for money has become more prominent on the development agenda for a number of inter-related reasons because the nonprofit agencies are expected to understand and demonstrate the value for money of their work to those who are paying the bills, i.e. the donor agencies. In order to prove the aid is valid and managed well, VFM has become a valuable tool (Jackson, 2012).

I was able to apply this theory while aiding in approval of the yearly budget where the allocation of resources was done for optimum benefit.

2.1.2 Agency theory

Agency theory states the player acting as the principal delegates responsible for the execution of valued activities to the agent. Agency theory assumes that actors are rational making them capable of making decisions; based on the information available to them. However, the required information may not always be available to both parties; thus, creating an information asymmetry (Sanderson, 2015). The agency relationship appears whenever one of the parties must rely on the acts of the other. The agency relationship is a contract, under which the principal engages another person (the agent) to perform specific projects on its behalf, delegating decision making rights (Budnik, 2017).

This theory was applicable on all my roles and responsibilities as I acted as the agent on behalf of the organization during the filing and arrangement of required documents for procurement process.

2.1.3 Game theory

Game theory not only considers benefits less costs, but also the interaction between participants. It is used to predict their optimal decisions from their interactions. Game theory applies mathematical models to decision-making to predict the possible outcomes from interactions between parties (Norton, 2016). Research shows that application of game theory payoff matrices helps buyers navigate all possible scenarios of the event outcome well in advance and select tactics accordingly to influence the most desired outcome (Bhattacharya, 2013). By applying game theory, the organization can better position itself to bind all involved parties to a pre-agreed commitment, helping to steer negotiations through pre-assessed routes. This helps avoid the likelihood of the team ending up 'haggling' with internal stakeholders and suppliers (Moritz, 2018).

As I was delegated to ensure the supporting documents for payments were properly filed and aiding in budget revision process I explored the application of the Game theory during the preparation of requisition order and the purchase order, to make the optimal pricing decision for both the parties involved.

2.1.3 Probity theory

This theory states that all transactions must follow by the principle of fair and open competition. It emphasizes the full procedures of an organizational task must be recorded with respective notes and evidence, that supports the decisions made (NCTL, 2018). It is the evidence of ethical behavior, and can be defined as complete and confirmed integrity, uprightness, and honesty in a particular process. Procurement professionals must conduct their business practices in the most ethical manner (Wins, 2018). Similarly, in it is essential for non-governmental organization to balance ethical intervention with consistent funding. Conventional wisdom in this area suggests that the relationship between donors and NGOs creates a self-regulating mechanism against bad practice and effectively bring changes in the countries they aim to serve (Nesbitt, 2014).

As I was assigned to ensure that all the supporting documents were available for various transactions for transparency and accountability, I believe this theory was applicable as well during my internship.

Chapter 3: Methodology

3.1 Roles and responsibilities assigned by the company

3.1.1 Ensured required documents were filed with the procurement's payment sheets:

After the procurement is complete it is the role of the finance department to ensure that proper documents are filled and filed for transparency and accountability. These documents will be later submitted to the home office of RTI which is located in United States. As a financial intern I was responsible for rechecking if all the required supporting documents were present. The documents consisted of the payment sheet, tax invoice, purchase order, requisition order, home office approval and goods receipt note. If any of the aforementioned documents are not available, payment to the supplier would not be made.

3.1.2 Prepared procurement's payment sheet:

Payment sheets are the documents which are prepared in order to make payments to suppliers. It is made after the goods and services have been received. This based on the invoice which the organization receives. During my internship tenure I was assigned to prepare the respective payment sheet of different suppliers. These payment sheets consisted of the procurement details, the taxable amount, the Tax Deductible on Source and Value Added Tax. I was responsible for verifying the tax calculations and the final amount to be paid.

3.1.3 Aided in budget revision process:

As an intern, I was given an opportunity to aid my supervisor in reviewing the yearly budget. The budget help allocates the expenses for the organization to purchase services and goods for the following months. It aids in planning and controlling the organization's expenses and procure the required services or goods at a cost efficient price.

3.1.4 Supported in preparation of bank reconciliation statements:

A bank reconciliation statement is prepared so that the organization is able compare their records to those of their bank. Every month the finance department is responsible for reconciling the Health for Life books to their bank statement. During my internship period I aided my supervisor in preparing these monthly bank reconciliation statements using quick book and excel. This statement helps

the company track their payments and ensure that suppliers are being paid on time.

3.1.5 Preparation of supporting documents for staff termination:

During the process of staff termination, I was assigned to reconcile the paid leave of the terminated staffs from different project areas. I was responsible for calculating and updating the annual and sick paid leave of the terminated staff which would be referred by my superiors while making final salary payments.

3.1.6 Filed and exported data for VAT receivables procedural:

As per the Inland Revenue Department of Nepal, “Any persons or organizations employed in carrying out a project in the Kingdom of Nepal under a bilateral or multilateral agreement for which the Ministry of Finance has approved tax exemption may make a claim for refund of tax paid by them on purchases or imports made for the project.” Thus, I was assigned to export the VAT receivables data of purchases from different projects implemented by Health for Life, through Quick Book while filing the required supporting documents. This information was then submitted to Home office for review of the VAT receivables that are yet to be reimbursed by the government.

3.1.7 Reviewed travel expenses for staff reimbursements:

Before closing, the organization had to make final reimbursements for the travel claims made by its employees. I was responsible for ensuring the said claims had the required supporting documents, accurate calculations and supporting signatures of the respective authorities.

Chapter 4: Results and Discussion

4.1 Contributions of student made during the internship

As the project was in a close out process, I believe I was able to contribute to the organization by saving time and meet the planned deadlines. By completing the assigned tasks with accuracy, completeness and satisfaction in a timely manner, I believe I was able to contribute to smooth the closeout procedure of the organization.

During my internship tenure I completed various entry level tasks regarding the post procurement process. I was responsible for rechecking if all the required supporting documents were present of the respective procurements made. Similarly, I ensured the travel claims made by the employees of the organization had the required supporting documents, accurate calculations and supporting signatures of the respective authorities so that organization could reimburse them. After completing these tasks, I had identified and separated the documents that didn't meet the criteria set by the organization. This contributed the organization by screening the documents and saving time of my supervisor.

Furthermore, I was assigned to prepare the payment sheets of different vendors in an excel sheet by looking at the invoices and material requisition forms while verifying the tax calculations and the final amount to be paid. Also, I was assigned to calculate, review and update the leaves taken by the terminated and current staffs; as final salary payments were being made by the organization. Through these tasks I believe I was helped the process of payment to the suppliers of these goods and services become effective and efficient.

Lastly, I helped my supervisor while conducting the final bank reconciliation and budgeting process of the organization before closeout. As I had theoretical knowledge regarding these statements, I was able to easily follow the instructions given by my supervisor and help him complete the task within the planned deadlines.

4.2 Details of related learning process and new knowledge student have received:

The assignments I was given during my internship were all done under the guidance and supervision of my supervisors. Through constant interactions with my seniors by asking them queries helped me learn and grow my practical knowledge regarding the post procurement process. The self-initiative I took to take new roles every day, helped me step out of my comfort zone and garner new knowledge as well.

With the help of the assigned tasks I was able to gain new knowledge that wasn't taught us in the classrooms, which are stated below:

- i. To make final payment to its suppliers, the supporting documents required are: the payment sheet, tax invoice, purchase order, requisition order, home office approval and goods receipt note.
- ii. Reimbursement of Value added tax is only made when the total amount of goods equivalents Rs 5000 or more than that.
- iii. Tax deductible on source (TDS) is only levied to those vendors with whom we have transacted goods worth Rs. 50000. For new vendors, we are not obliged to charge TDS.
- iv. While recording the transactions, we must make sure that we attach all the documents related to that particular transaction. Failing to do so might create a huge problem in future as it might make the transaction invalid.
- v. While settling the travel claims, it is very important to check the credibility of the documents provided to us. We should check if the supporting documents have accurate calculations and supporting signatures of the respective authorities. The hardcopy of the claims should also be check with the soft copy to ensure that the employees are making accurate claims.
- vi. While paying rent to landlord, 10% TDS is deducted out of the total rent amount. Similarly, while making payment to its vendors, 1.5% TDS is deducted on the total payable amount. Also, when making payment to consultants or any other service providers, 15% TDS is deducted.

Chapter 5: Conclusion

5.1 Self-assessment as future professional:

By conducting this three-month long internship, I believe I am able to assess both of my strengths and weaknesses; as a future professional. I am now able to identify the areas where I can improve myself and become a better professional in this field.

Through the submission of quality work that met the requirements of the company on the basis of accuracy, completeness and satisfaction I was able to apply strong set of organization and planning skills. I had the ability to easily apply and learn knowledge in real working situations while implementing my academic knowledge in the given tasks as well. Plus, I could effectively communicate with my supervisors regarding the queries I had or the problems I encountered during the completion of my tasks. I always took the initiative to request for more work and worked on it immediately with utmost effort while taking responsibility for any mistakes made. Lastly, as a professional, I valued most my sense of ethics and morality which is essential in the finance department and in a workplace.

However, there was room for improvements to make myself a better a future professional. As an intern and new to this field I was in need of constant guidance and instructions from my supervisor, thus I can gain more experience in this sector to hone my decision skills and expand my knowledge or learning.

5.2 Comparison of practical learning VS theory

During my internship I was able to gather much new knowledge by working and doing tasks. I was able to learn more about the policies of Nepal and non-governmental organizations. I improved my interpersonal skills by communicating with my colleagues and make new connections. I learned how to prioritize, plan and organize efficiently. I also learned more about the procurement process through practical learning, such as the details regarding the supporting documents, taxes applied, et cetera.

However, theoretical knowledge was equally valuable as practical knowledge as the theoretical knowledge provided me a strong foundation due to which I was able to understand the guidelines and instructions of my supervisor.

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