



Cooperative Education Report Financial Management System of NGO (ENPHO)

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Title Financial Management System of NGO (ENPHO)

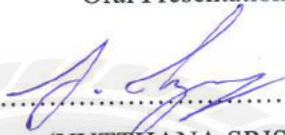
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Abstract

This Internship is conducted at Environment and Public Health Organization (ENPHO), which is a service oriented, scientific and nongovernmental organization established on 4th November 1990. The main objective of this study is for me to be familiar with the financial management system of NGO as well as to understand the importance of financial management in an organization. Literatures have shown that financial management is a crucial part of organization management. A sound financial management is a key to success of an organization. Financial management is basically an application of general management principles to financial resources of the organization. It's a given fact that NGOs operates in rapid changing and challenging world. In order to survive in this ever-changing and challenging environment organization needs to understand the importance of financial management. In Non-governmental Organizations the resources are often limited and restricted to prescribes purpose. Thus it is essential for a manager to understand the importance of financial management in an organization.



Keywords: Nongovernmental, Organization, Finance, Management

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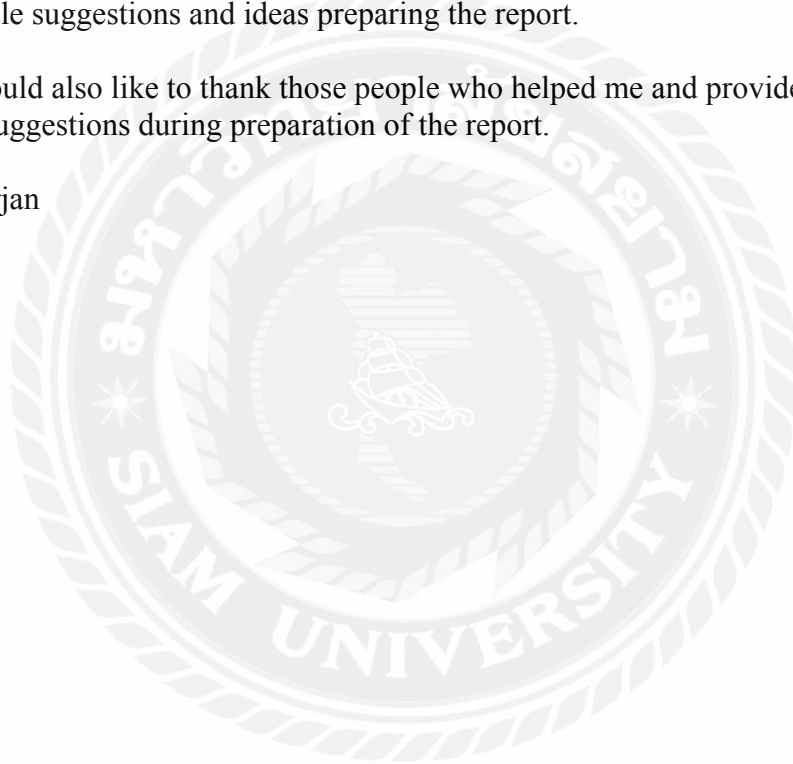


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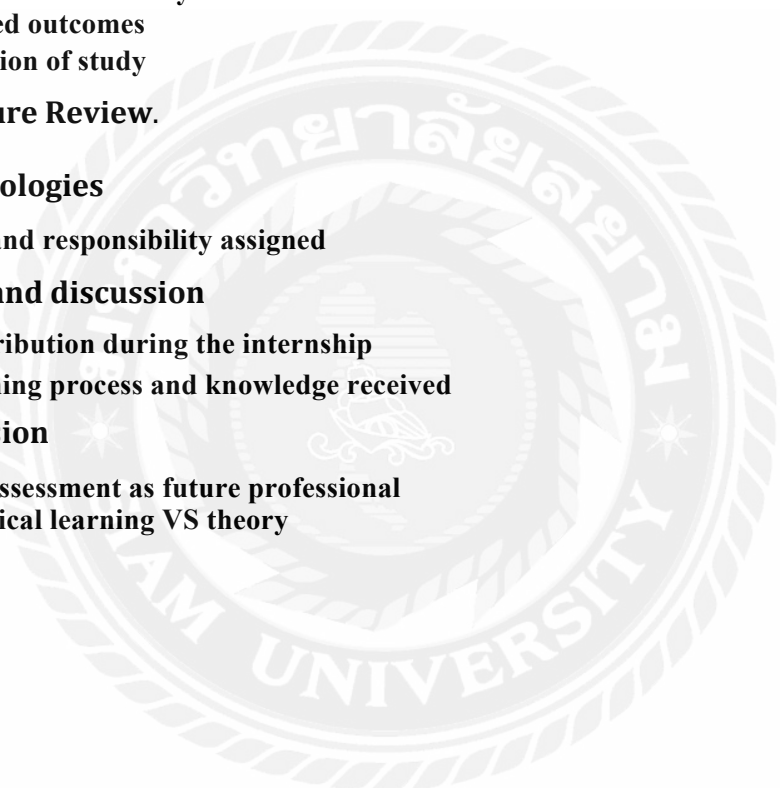
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1. Introduction

1.1. Company profile

Environment and Public Health Organization (ENPHO), a service oriented, scientific, national Non-Government organization was established on 4th November 1990 (ENPHO Introduction). ENPHO constantly strives toward sustainable community development. Since its establishment, ENPHO has been taking initiative and action in the area of water, sanitation and hygiene (WASH), environment and public health (ENPHO Introduction). ENPHO runs a government accredited laboratory and promotes eco-friendly technologies such as SODIS, ECOSAN toilets and wastewater treatment through reed bed systems. ENPHO develops and promote integrated community bases approaches endorsing safe water, sustainable sanitation, solid waste management, hygiene behaviour and improving indoor air, and environmental and air quality monitoring to create Healthy society (ENPHO Introduction).

In 2016 ENPHO completed its 25 years of successful journey on safe water, sustainable sanitation, hygiene promotion, community based WASH, disaster risk reduction and emergency WASH, environmental studies including capacity building and advocacy (ENPHO Introduction).

Vision

Creating Eco-society

Mission

To develop, demonstrate and disseminate (3D) appropriate technologies to enable societies become healthy and environment friendly.

Goal

To support environmental study, sustainable total sanitation, hygiene practices and safe drinking water contribution water contribution to meet the national target.

Strategic objective of the organization

- Improve household and community access to safe drinking water.
- Promote integrated water optimization technologies
- Promote environmental and sustainable sanitation system
- Enhance knowledge on hygiene behaviour and sanitation practices
- Improve WASH practices in disaster management.

1.2 Organizational Structure

ENPHO is governed by a General Assembly comprising of 107 members that elects an Executive Board once every three year. The Executive Director leads the 275 staff members of which 42% are female. ENPHO has completed more than 300 projects and provided services to more than 3.7 million people in Nepal in these past 26 years since its establishment. It currently is running many different projects. Sound financial management plays an important role in success of these projects as well as success of the organization as a whole. Financial Management is the process of planning, organizing, directing, controlling and monitoring financial resources and activities such as procurement and utilization of funds in an organization (Juneja). It basically is an application of general management principles to financial resources of the organization. Therefore, effective financial management is an essential key to achieve goals and objectives of any organization including non-governmental or non-profit organization.

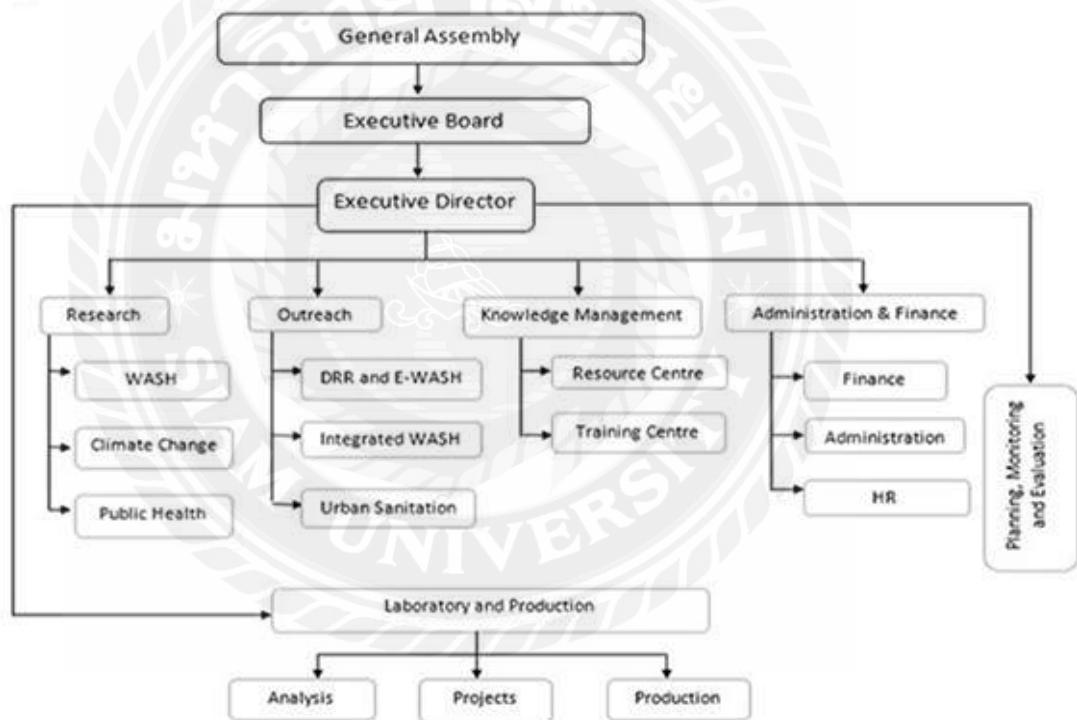
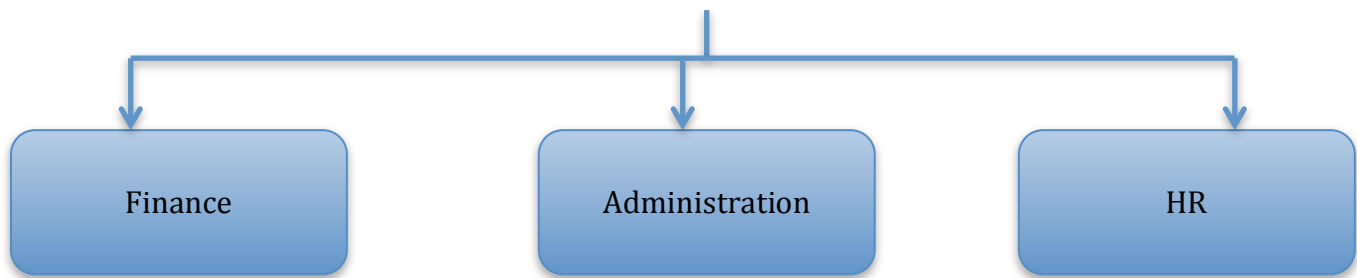


Figure 1 Organogram

The department I interned for is Administration and finance department. Under which I worked for Finance and Human Resource Units.

Administration
and finance



1.3 Statement of problem

Literatures have shown that financial management is a crucial part of organization management. In Many NGOs, since it is a non-profit organization, financial management is given low priorities, which is often characterised by poor financial planning and monitoring system (Lewis, 2005). Managers should develop the necessary understanding of financial management tools. It's a given fact that NGOs operates in rapid changing and challenging world. In other to survive in this ever-changing and challenging environment organization needs to understand the importance of financial management.

Sound financial management is essential for the success of any development projects. Managers should take in account the type of system used for the project also the country system for financial management. In Non-governmental Organizations the resources are often limited and restricted to prescribes purpose. Thus it is essential for a manager to understand the importance of financial management system in an organization. Though most of the organization claim to have understood and followed the guidelines and principle of a good financial management many organization fail to properly implement it. We, students are taught about the importance of financial management, its building blocks and key principles in universities. Thus this internship will help to understand whether or not all those theories we learn in the classroom can be practically implemented. What challenges an organization faces while implementing those theories.

1.4 Objectives of the study

The main objective of this study is to fulfil the partial requirement of BBA undergraduate program and to gain knowledge and skill through real life experience of working in an organization.

Specific objectives are as follows;

- To analyse and understand the basic financial management system of ENPHO
- To determine the challenges of financial management at ENPHO
- To find out whether or not theories studied can be applied or implemented practically

1.5 Expected outcomes

- To perform the task provided to best of my ability.
- Develop communication and problem solving skills.
- Abide by a professional code of conduct and ethics.
- To gain basic knowledge related to financial management of NGO.

- Develop appropriate workplace attitude
- Developing individual responsibilities

1.6 Limitation of study

It was a great opportunity for me to work at ENPHO as an intern. But there are certain limitations while preparing this project.

The overall financial management system of an organization is very large topic to cover in such a short internship period. Thus it will be difficult to understand all the concept of financial management system of the organization. So this is one of the limitations of the report. Another limitation is the amount of information provided to the intern. Since working as an intern there are certain information that cannot be disclosed due to confidentiality. And there are limitation to how much information an intern can disclose. Another limitation is interpretation and implementation of the information based on my understanding. Time constrain can also be considered one of the limitation.



1. Literature Review

This part of the report contains certain theories and guiding principles that help to maintain a good financial health of an organization including nongovernmental organizations.

Financial management is not just about keeping accounting records. It is in fact an important part of over all organization management. In simple words financial management is the process of planning, organizing, directing, controlling and monitoring financial resources and activities such as procurement and utilization of funds in an organization (Lewis, 2005). Metaphorically speaking, financial management in NGOs is like maintenance to a vehicle. If we fail to maintain the vehicle by putting good quality oil and provide regular service, the vehicle will eventually break down and fail to reach its intended destination. In practice, financial management is basically about taking action and initiation to maintain good financial health of an organization (Juneja).

Financial control is at the heart of financial management. There are many tools that help achieve good practice in financial management and control.

Planning, organizing, controlling and monitoring are the 4 key pillars that are essential for good financial management (USAID and CAP, 2012). Planning helps to look ahead and prepare for future by preparing budget to cover the activities of a program or a project as well as that of an organization for a year or longer period. Organizing helps to provide right person at the right time for the right job as well clarifies why and how the duties should be performed. Controlling establishes system and procedure, checks and balance, in order to make sure that the financial resources are properly handled and risk are managed. It includes budget, delegated authority, procurement procedure, reconciliation, internal external audit, insurance etc. Monitoring compares plans with actual performance to identify strengths and weaknesses in planning and implementing and adjust as necessary (USAID and CAP, 2012). It includes budget-monitoring reports, cash flow reports, project report, donor report, audit report etc.

Guiding principle of financial management

It is necessary and useful to identify good practice principle that can be used as a standard in developing proper financial management system in NGOs. Some of the guiding principles are as follows:

Accountability: Accountability is a moral or legal duty placed on an individual, group or organization, to explain how funds equipment or authority given by third party has been used (Lewis, 2005). For NGO accountability refers to empowered and responsible staff and managers who have authorities and responsibilities for making decisions that can improve delivery of the organization's objective and goals and can improve management of financial and human resources (Lewis, 2005).

Custodianship: Custodianship refers to stewardship or safekeeping of organizations resources (Lewis, 2005). The custodians in an NGO holds the assets and funds in trust and make sure that they are used in accordance to the constitution or any contractual agreements.

Consistency: the financial system of any organization should be consistent over the year so that it will be easier to compare, make trend analysis and facilitated transparency. But it doesn't mean that the system cannot be refines. However any inconsistency can be taken as an indication of manipulation. (Lewis, 2005)

Transparency: System should be established where all the financial information can be recorded accurately and presented clearly and also can be easily disclosed to those who have right to request it.

Integrity: for a proper financial management, it is necessary that the organization and its individual must be honest and reliable. Integrity in organization can be achieved when all the records are made and presented in accordance to the given guideline and must be true reflection of reality also there should not be any doubts in utilization of the funds (Lewis, 2005).

Standard Documentation: the financial records and documentation should be maintained in accordance to accounting standard and principle accepted internationally (USAID and CAP, 2012).

Building blocks of good financial management

Different NGOs use different financial system. There is no model financial system that suits all NGOs but there are some basic building blocks that help achieve good financial management.

i)Accounting Records

Accounting records that describe the earnings and expenditure of the organization are the basic foundation of accounting (USAID and CAP, 2012). Every organization should keep accurate records of every financial transaction that take place in order to show how funds have been utilized (Lewis, 2005). According to local laws and regulation of most countries, all registered NGOs are required to maintain a system for recording and submitting all types of financial transaction made for the purpose of implementing a project or running their organization (Lewis, 2005). Keeping accurate financial records promotes accountability, integrity transparency and avoids any sort of suspicion (Lewis, 2005). This information can also be used as future references and helps manager understand more about the operations of an NGO as well as helps in decision making. Basically accounting records fall into two main categories: Supporting documents and book of accounts

Supporting documents includes:

- Vouchers for money received
- Received voucher
- Invoices- certified and stamps as paid
- Paying in vouchers for money paid into the bank
- Bank statement
- Journal vouchers for adjustment and noncash transaction.
- Payment vouchers
- Local purchase order
- Goods received notes
- Other Supporting document of different transaction

Books of accounts includes

- Bank book for each bank
- Petty cash book
- General ledger
- Journal
- Wage book
- Asset register
- Stock control book

ii)Internal control

Internal control is necessary in any organization to make sure that there is no misuse of funds, avoid losses and detect errors and omission in accounting records. Some common internal control that are often used are

- **Delegation of authority:** It is not possible for an individual to make all the decisions and authorize all the transactions. Thus delegation of authority is necessary in order to ensure smooth operation during absence of key personnel.
- **Separation of duties:** In order to prevent any temptation to dishonesty or misuse of funds, there must be separation of various duties within financial procedure. For example, duties ordering the goods, receiving the goods, authorizing the payment, keeping the records and reconciling the account should not be assigned to only one person (Lewis, 2005). This weakens the internal financial control as well as puts all responsibility on only one person thus hampering the smooth running of organization in case of absence of that person (NaturalHR, 2010). Thus it is necessary to separate duties among different individuals.
- **Reconciliation:** Basically means checking that the amounts of cash that are shown in the bankbook are same to that of cashbook. It is necessary to verify accounting records to make sure that there are no errors. Records such as bankbooks, petty cash book, stock control record and salaries and deduction schedule should be reconciled in regular intervals.

iii) Budgeting: Accurate budget preparation can be an indicator for good financial management. Budget has several functions and is important in every step of a project. Budget is necessary for planning and forecasting the cost of a project. It helps to determine whether or not there is sufficient amount required to complete the project. Budgeting is also an important part of any negotiation with donors. A budget shows how the grant will be utilized to achieve certain results. Budgeting also helps in controlling the project. Without an accurate budget it is difficult to monitor the progress of the project. In certain circumstances it might be necessary to review the entire budget.

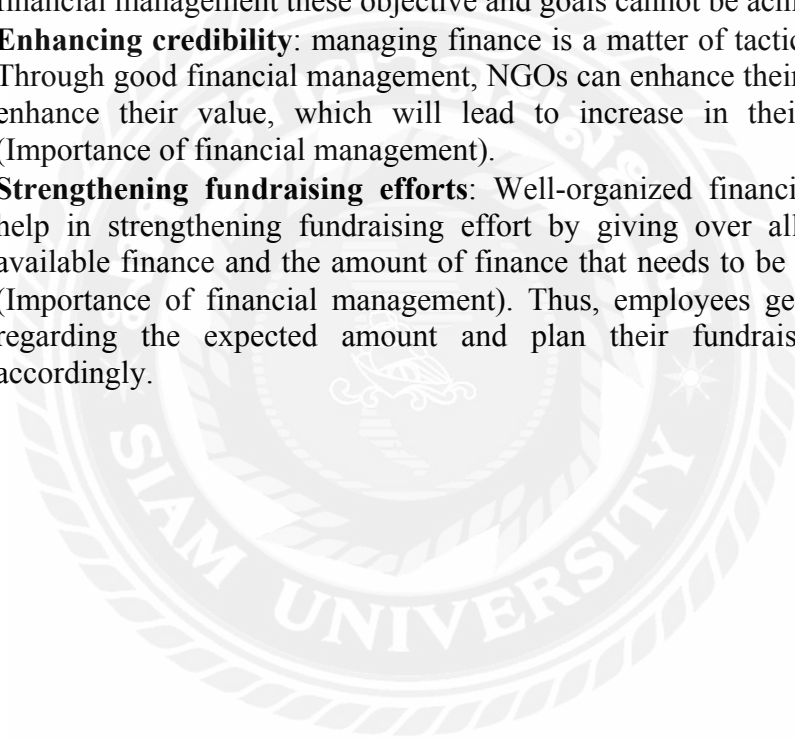
iv) Financial reporting: Financial reports help summarize the income and expenditure of an organization over a certain period of time. It helps to know about the financial position of an organization. Financial reports must be accurate, timely and relevant (Lewis, 2005).

Importance of Financial management for NGO

Most NGOs consider financial management as secondary activity. They are inclined more toward social service. It is true that social activity is a nature of NGOs but unless your finances and funds are sorted, you cannot achieve your goals. The primary significance of financial planning and management for NGOs is to achieve its goals and objectives. Thus financial management is one important aspect that NGOs must take into consideration. Some of the importance are as follows.

- **Being accountable to donor:** NGOs' main source of income is donor funds or grants. Most NGOs rely completely on these funds. Thus proper accounting system in place becomes important. NGOs must be accountable to their donors and to those who support their cause (Importance of financial management). With proper accounting system you can keep track of your expenditure and submit timely reports. This will lead to enhanced trust between the NGO and the donor, which will result in continuous support to the NGO. With limited resources it is important for NGOs to manage funds in a careful manner.

- **Secure Future:** NGOs should option for sustainable use of financial resources. NGO should also keep in mind about future before spending for venture in present. Present financial condition of an organization determines its future.
- **Eliminating Fraud and theft:** a complete financial planning, control and monitoring, issues such as malpractices, illegal deeds, frauds can be easily addressed (Importance of financial management). It is mandatory for organization for thorough check for minimizing such malpractice as well as preventing abuse of resources.
- **Making productive decision:** Sound financial management helps NGO make productive decision concerning fundraising, resource allocation, and fund mobilization and fund undertakings.
- **Achieving Objectives:** NGOs are guided by certain policies and procedure that are related to its overall objectives. Each decision taken by the authority is based on its main goals and objectives. Thus without sound financial management these objective and goals cannot be achieved.
- **Enhancing credibility:** managing finance is a matter of tactics and skills. Through good financial management, NGOs can enhance their images that enhance their value, which will lead to increase in their credibility (Importance of financial management).
- **Strengthening fundraising efforts:** Well-organized financial resources help in strengthening fundraising effort by giving over all idea about available finance and the amount of finance that needs to be accumulated (Importance of financial management). Thus, employees get a fair idea regarding the expected amount and plan their fundraising venture accordingly.



1. Methodologies

3.1. Roles and responsibility assigned

I have been assigned as an intern in administration and finance department. The activities performed are as follows.

- To count and record data for cost share report: Cost sharing is a multi party agreement under which cost of program or project are shared by involved parties, according to an agreed upon formula ("Cost sharing"). Cost sharing basically refers to distributing expenses of water sanitation and hygiene projects among the main stakeholders. Here in a year numbers of programmes related to WASH (water sanitation and hygiene) are conducted and are required preparing the cost share report. So the job assigned to me was to count and cross verify the difference between the actual cost and reported cost of the WASH project.
- To make accounting data entry in format or system provided by the project: The donor or the project provides the format for data entry. So we just enter the data collected from the supporting documents of the projects or programmes.
- To update the timesheet and leave request of triggers in Excel and Record ENPHO Staff's leave request in Excel: Time sheet is a record of the amount of time an employee has spent at work, on a particular job or project (NaturalHR, 2010). Thus HR should maintain such documents for performance evaluation and salary purpose. So my job was to check whether or not the documents were received and update it in excel. Similar activity was done for the leave request of the employee.
- Data cross verification for technical supervisor reported under Nepal earthquake recovery and reconstruction: The data provided by field level engineer and database officer need to be tallied so that there are no errors. The data were related to the reconstruction of houses after the earthquake.
- To translate feedback and evaluation form from Nepali to English for Joint Monitoring Visit and enter the translated data in excel: These were basically a feed back about the projects and programmes collected from local level stakeholder. Local level stakeholders include schools, health and water division. They provide feedback on the project conducted and how the programme can be further improved. The organization requires recording these data for future references.
- To arrange triggers and district WASH officer's timesheet according to region and district. ENPHO conducts its projects and programs related to WASH in more than 40 districts. WASH managers and WASH triggers are assigned to each district. WASH Triggers need to prepare a timesheet. So my job was to arrange and maintain these timesheet in a file.
- Cross checking whether or not the vouchers have been received.
- Maintaining and arranging the vouchers and supporting documents in a file. Every document such as main documents, settlement documents and

supporting documents are required to be maintained in a file. These files are maintained and kept as records for 10 years max.

- Checking whether or not there is required signature in the settlement documents.
- Preparation of vouchers such as journal voucher, payment voucher and receipt voucher. It was required to prepare vouchers for various bills, such as payment of bills, program advance settlement, receipt of payments, insurance payment, salary etc. these records are needed to be kept for future purposes.
- Updating the expenditure data in excel sheet. These data are updated on a monthly basis. The expenditures incurred with in a month are recorded and updated to check that the expenses have not exceeded the given budget.



4. Result and discussion

4.1 Contribution during the internship

The contribution made by me during the internship was providing assistant and support to the team and the superiors. I assisted the team in their work and provided suggestions. I was assigned to develop a checklist for orientation. For which I came up with the idea of checklist for 3 phase of orientation, before orientation, during orientation and after orientation. For the finance department I assisted and helped the team in preparation of the report for the audit. I also helped to organize the files and maintain the supporting documents and checked and cross-verified the required documents. As an intern the most I could contribute was my valuable time and effort to the organization. I got to be a part of such great team. In return I gained an invaluable experience from this internship.

4.2 Learning process and knowledge received

“The only source of knowledge is experience” Albert Einstein. An internship is one such source that provides an opportunity to gain valuable applied experience and skill development in a professional setting. Interning in an organization especially in an NGO is good for an individual as it offers more flexibility to work with different team and departments as well as provides opportunities to take more responsibilities. During my internship at ENPHO I got to be a part of a close-knit team. Though having a friendly work environment and a family like feel, every employee at ENPHO are very professional about their work. The friendly environment makes it easier for interns to adapt to the work place. The first week was all about knowing about organization, its culture, goals, mission etc. I was appointed to human resource department and given a task of arranging timesheet of triggers and officers working in different district. These daily activity sheets of employees are necessary to be maintained in order to track the activities they carry out on daily basis. These records are later useful in performance evaluation of the employee. Later I was given the task of updating and recording the timesheet and leave application of employees in an excel sheet in the given format. Every responsibility that was provided to me helped me develop and prepare myself as a future professional and helped me grow as a person.

Before this internship, I had no experience working in a non-governmental organization. So I had little to no knowledge about how the organization operates nor had an idea about the financing system of such organization. This coop internship experience at ENPHO has helped me to gain an insight into non-governmental sector. I also obtained insights into career opportunities through interaction, observation and work experience in the organization and also built another step towards success through interpersonal, managerial, communication and entrepreneurial skills gained from this internship period. I did my internship in Human Resource department and Finance department. Human resource in NGO is a means of ensuring sustainable growth, as it is a fundamental strength upon which people, strategies, processes and operations are based (Sokkie, 2013). Financial management is a crucial part of the success of the organization. Since it is a non-profit organization the financial aspect are given low priorities. Some NGOs have certain principles that help to guide the project behaviour and help in the development of procedure and policies for financing activities. These principles include accountability to explain how funds are

being used, transparency to ensure financial activities are recorded accurately, consistency is maintained so that comparison can be made and safe keeping of the records and resources. The procedure and guideline followed by ENPHO for reporting financial activities depends largely on the project and the donors. Everything including the guidelines, required documents and preparation and deadline of the reports are predetermined in the contract. ENPHO generally follows the accrual basis of accounting and records grants or funds as an income in the year in which it is received. The amount expenses out are shown as expenditure in income and expenditure account. They use software known as FAMAS to prepare financial statements. FAMAS is an integrated computer based financial and management accounting system that is exclusively designed to meet the each financial and management accounting standard of different specific sectors e.g., social development sector, government sector, corporate business sector, education and service sector, banking and finance sector etc (FAMAS, 2017).



5. Conclusion

5.1 Self assessment as future professional

This internship was a hands-on experience in a professional environment. It was an opportunity for me to observe, learn and implement the concept and theories. I got an idea of how a non-governmental organization operates in basic level. I got the basic idea of the organizational culture, which will help me develop as a future professional. Working as an intern for 3 month, I was able to learn more about the work culture of an NGO. Every employee treats each other like family. A strong bond is created when two individual with a common goal or objectives are met. They work hard and support each other to achieve that goal thus ensuring the success of an organization. The most important thing observed was how a financial management is crucial for a success of project and how all the aspect of financial management such as budgeting, internal control, accounting records and financial reports contributes toward the success of the project. Over all this internship have provided me with invaluable professional experience as well help me develop professional and interpersonal skills, communication and presentation skills, adaptability and time management.

5.2 Practical learning VS theory

People who advance to the furthest in life are those people who acquire knowledge at both ends. Both theoretical knowledge as well as practical knowledge is important for an individual to succeed in life. Theoretical learning helps one to understand why one technique works and other doesn't. It helps you set strategy. It teaches you through experience of others. It often leads to better understanding of concept through seeing it in context of greater whole and understanding the why behind it. Where as practical learning helps you acquire the specific technique that becomes the tool of your trade. There are things that you can only learn through experience. Practical learning can often leads to deeper understanding of a concept through act of doing and personal experience. Theories are a conceptual framework that acts as a backbone to any practical learning. As Anton Chekov said Knowledge is of no value unless you put it into action. Similarly the theoretical knowledge we gained in this course of four year BBA program will be of no value if we were not able to relate it in practical learning. It is true that not all the theories that we studied can be applied, some theories had to be modified as per the situation and circumstances. This coop education program has helped us to be familiar with organizational work culture and helped us to learn new skills, develop as a professional, build network and connection and helped build a career path.

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