KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ARCHITECTURE AND PLANNING

DEPARTMENT OF BUILDING TECHNOLOGY

TOPIC:

RELEVANCE OF AUDITED FINANCIAL STATEMENT DURING TENDER EVALUATION IN GHANA: A CASE OF KNUST

HAROLD TWUMASI, BBA Accounting (Hons)

THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A MASYER OF SCIENCE DEGREE IN PROCUREMENT MANAGEMENT

NOVEMBER, 2014

DECLARATION

I hereby declare that this thesis submission is my own work towards the MSc and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

Student Name	**Date**	**Signature**
Twumasi	…………………………	……………………..

Certified by

………………………………………………..

Dr.Theophilus Adjei Kumi

(Supervisor)

…………………………………..

Prof Joshua Ayarkwa

(Head of Department)

ABSTRACT

In recent times, much attention has been given to a number of regulations in public institutions. Prominent among these is the Public Procurement law, Act 663 of 2003. Even though the Act is capable of ensuring efficient and effective procurement practices, its implementation is beset with quite a number of difficulties, because according to the Act 663, Section 22(i) and (ii) qualification of tenderers includes financial resources but the details are missing. KNUST is one of the public institutions facing this problem of what financial ratios to use in order to ascertain the financial capability of suppliers for their procurement needs. In this study the purpose was to find out the level of frequency with which Audited Financial Statements are requested and the procedures and method used in analyzing the audited financial statements. The study shows that most of panel members for tender evaluation at KNUST are quite experienced with most members having served on the evaluation panel between Four (4) and Six (6)yrs. The study reveals that audited financial statements are required from suppliers almost all the time as part of the tender evaluation process and liquidity ratios were the main financial ratios used for the assessment of supplier for goods. Interestingly, all the respondents in the study underscored the importance of audited financial statements in tender evaluation. However, the panel for works relies on the determination of annual work turnover of suppliers and even though the panel members (works) indicated they have some level of knowledge in financial management and auditing, it appears that these are rarely applied in terms of using financial ratios in supplier assessment. The study recommends amongst others, the use of other ratios such as profitability and efficient ratios in addition to the liquidity ratios in assessing financial capabilities of suppliers, the inclusion of a professional accountant on the evaluation panels and the evaluation panel should be an ad-hoc committee and a review of the procurement Act (Act 633) to cater for the gaps.

KEYWORDS: Financial Statement, Procurement Act, Tender evaluation Panel, Audit

DEDICATION

I dedicate this work to my wife, Christiana Twumasi, and children, Eugene Adjei Twumasi, Christian Twumasi and Nana Yaw Mensah-Bonsu Twumasi.

ACKNOWLEDGEMENT

I wish to express my profound gratitude to the Almighty God for seeing me through my programme. I owe a depth of gratitude to my supervisor, Dr. Theophilus Adjei-Kumi whose suggestions were apt for the final form of this study.

Similarly, I register my profound gratitude to Mr. Patrick Sakyi, of KwikStat Lab, Okyerekrom-Fumesua and Osei Peter Junior of Good Link Computer Services, Ejisu.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

1.1 Background information

The concept of public procurement entail buying goods works and services of the right quality, at the right quantity, at the right price, from the right source and right time (Soreide, 2002). According to Cole (2007), Procurement is defined as "the purchase of merchandise or services at the optimum possible total cost in the correct amount and quality". In Ghana, the Public Procurement Act 2003 (Act 663) was enacted to harmonize public procurement processes in the public service, secure judiciary, economic and efficient use of state resources and furthermore, ensure that public procurement is fair, transparent and non-discriminatory (Ministry of Finance, 2001). Osei-Tutu *et al.* (2010) also believed that, the import of the Public Procurement Act (Act 663) was to implement modern procurement models to meet the current trend of procurement and to sanitize the procurement system because of the improper use of public finance.

Procurement is triggered where requirements can be supplied better by an external source. This identification of this external supplier (the most appropriate supplier) is the main objective of tender evaluation.

The most appropriate supplier shall be at least;

- Experience in similar procurements
- Private sector operator
- Registered to undertake business in Ghana
- Have the minimum personnel to undertake the project

- Have the minimum equipment holding
- Financially sound to undertake the procurement

In essence the most appropriate supplier should satisfy the criteria set up in the tender data sheet.

Cummings and Qiao (2003) asserted that, selection of a best tenderer should be based on competence, Erridge *et al*. (1999) also indicated that because every project requires financial commitment, it is advisable to emphasize on the financial performance of tenderers. Lysons (1996) indicated earlier that, in purchasing, it is always at the advantage of the purchaser to assess the performance of the product or services he want buy.The Public Procurement Act, 2003 (Act 663) also classified the criteria for the selection of tenderers into the following sub-groups;

1. Eligibility (Historical, conflict of interact, etc)
2. Historical contract, Non-performance (History of non- performance on contract, failure to sign contracts, etc)
3. Financial (History of financial performance)
4. Experience (General procurement experience)
5. Equipment
6. Key personnel

These are former qualification criteria. According to the Public Procurement Act,2003 (Act 663) the criteria would be used to draw up a short list of competent supplier via a process called pre–qualification. Where there is no pre-qualification, the same criteria shall be used at the post qualification stage (Government of Ghana, 2003).

The above criteria, in addition to the quoted price and other commercial requirements are used by the employer to select the best source for any procurement. For the purpose of this work, the focus shall be on criteria number 3 (financial qualification).

1.2 Statement of Problem

According to PPA 2003, Act 663, section 22(1)(ii) under qualification of tenderer includes financial Resources but the details are missing. Also, the manual to the Act 663 does not give details on the issue of financial resources and how they should be considered for evaluation.

Section 4.3 of the Instruction To Tenders (ITT) of the standard tender document for medium size works (from PPA 2003, Act 663) standard templates does well to identify items like,

- Total monetary value of construction work performed for each of the last five years
- Report on financial standing of tenderer for past five (5) years.

However, evidence of adequacy for analysis from these documents and thresholds to use to ascertain qualification is not given. Proper and professional consideration of the financial qualification criteria requires personnel with requisite financial management skills at the tender evaluation level and such considerations refer;

A. The analysis of financial statements (Audited Financial Statement) including balance sheets, cash flow statements, income statements for the past five (5) years);

B. Determination of annual work turnover calculated as average total certified payments received for contract in progress / completed within the last five (5) years;

C. Determination of financial resources of tenderer in liquid Assets line of credit.

Analysis sometimes requires the computation of certain account ratio which comes with its own interpretation, advantages and disadvantages

- Mode of analysis is still vague
- Ratio to use not specified
- Minimum or maximum values of ratios to adopt for the purpose of qualification or disqualification are not given.

The study is therefore to ascertain how the tender evaluation panel of KNUST utilizes the audited financial statements of suppliers during procurement

1.3 Aim of Study

The aim of the study was to ascertain how the tender evaluation panel of KNUST utilizes the audited financial statement of suppliers during procurement.

1.4 Objectives of Study

The objectives of the study are;

1\. To establish the level of frequency with which audited financial statements are requested by KNUST for their procurement needs.

1\. To document the details of procedures and methods used in analyzing audited financial statement of supplier for financial capability

2\. To document the capability of tender evaluation panel set up at KNUST to undertake analysis of Audited financial statements

3\. To document the perception of the level of importance of audited financial statements to the procurement unit of KNUST during Tender evaluation.

1.5 Scope of Study

Kwame Nkrumah University of Science and Technology (KNUST) procurement unit including the development office was selected for this study because it embark on most procurement activities for the institution every now and then. Though the study was confined to KNUST, the outcome of the study can be applied to other tertiary institutions.

1.6 Significance of Study

Procurement is a process that involves a great deal of financial commitment, moreover the import of procurement is to ensure transparency and accountability to the shareholders whose resources are used for the procurement of goods, works and services (Ministry of Finance, 2001). The tender evaluation stage of procurement requires the tenderers to have a strong financial history according to the Public Procurement Act, 2003 (Act 663) (Government of Ghana, 2003). The study expounded on the effect of audited financial statement on the procurement process, how it is done as well as its importance to the KNUST. Such understanding provided by this stage will enlighten tender evaluation panel to understand the rationale for requesting the audited financial statement of tenderers and improve their knowledge on the whole tender evaluation process.

1.7 Limitation of the study

The problems that were encountered embarking in this study included among other things, the reluctance and unwillingness on the part of some of the respondents and experts in the area of concern in providing the necessary information. Another problem was difficulties involved in agreeing to a particular time for meeting.

1.8 Research Methodology

The research work is a case study because the study addressed peculiar issues relating to a procurement in KNUST and provided an in-depth understanding on the correlation between audited financial statement and during the tender evaluation stage as asserted by Naoum (1998) Case study is adopted to address peculiar issues relating to a peculiar subject and provide an in-depth understanding on a subject. Purposive sampling method was used to interview the respondents because of the technical nature of the issue at stake. The respondents were Director of procurement, director of Works and Chairman, Tender Evaluation committee of KNUST and certain key personnel of the Tender Evaluation panel of KNUST.

1.9 Organization of dissertation

The chapter 1 outlined introduction; background of the study, concepts, problem statement, aim and objectives, scope of research and Organization of study. Chapter 2 explored greater depth on the issues related to financial statement during procurement. The Chapter 3 dealt with the research methodology. Chapter 4 dealt with data analysis and interpretation. Chapter 5 was the conclusion and Recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Public Procurement has the aim of value for money and the prevention of profligate spending associated with government institutions in Ghana. This chapter review existing literature on procurement management, financial statement and financial ratios used and their role in the tender evaluation process.

2.2 Public Procurement in Ghana

Ghana has accumulated considerable and valuable experience on public procurement under civil and military administrations (Osei-Tutu *et al*., 2011). During the pre-independence era, that is, prior to 1957 there was a public procurement policy in which public procurement was treated as part of the colonial administrative process in the British Empire. The World Bank (2003) provided a detailed account of the procurement system within the past three decades. The colonial administration engaged Public Works Department (PWD) for procurement of works and Crown Agents for procurement of goods. A decade after independence, that is from independence 1957 to 1967, Government relied less frequently on Crown Agents for procurement of goods and procured goods directly through MDAs. For procurement of works, Government set up the Ghana National Construction (GNCC) to carry out works, and reduced the force account component of PWD. In 1960, the Government established in Ghana supply Commission (GSC) for procurement of goods for all public institutions. Essentially the GSC took over the functions of Crown Agents. In 1976, the Government established the Ghana National Procurement Agency (GNPA) for procurement of bulk items such as sugar, fertilizers, auto parts, etc. for sale to public and private sectors. GSC and GNPA had purchasing manuals for their use. In 1975, the Architectural and Engineering Services Corporation (AESC) was established to carry out consulting services for works contracts. Except for SOEs, public institutions were mandated to use GSC, GNPA GNCC and AESC for public contracts. In 1967 the Government set up the Central, Regional and District Tender Boards as advisory bodies for works contracts and subsequently in 1996 changed them to contract awarding authorities. By 1996, GSC was overwhelmed by demands from its clients, inefficiency was rampant, and there were numerous complaints on contract prices, delayed delivery and at times delivery of wrong items. MDAs began to handle procurement of goods following FAR rules but without institutional arrangements. Works procurement procedures though not comprehensive, were described under the Central, Regional and District Tender Board procedures. There are still no guidelines for procurement of consultant services. AESC and GSC were transformed into limited companies in 1996 and 1999 respectively, thus basis. Due to the inadequately of public procurement procedures, procurement procedures under World Bank-financed project signed from 2000 were defined in a “Procurement procedures Manual” prepared for the project. These manuals were based on World Bank guidelines and Bank’s standard bidding documents.

World Bank (1985) carried out the first CPARs in Ghana in 1985 and a second one in 1996. The 1985 CPAR recommended non-applicability of NCB, price inspection and comparison in ICB contracts and a review of GSC’s and GNP’s procurement practices. Between 1985 and 1996 there were other studies on specific issues of public procurement in Ghana. These studies focused on approval procedures and effectiveness of GSC and GNPA. World Bank (1996) provided a list of major and minor unacceptable features for Bank financing and a list of recommendations for improvements. In-addition, the World Bank identified the main deficiencies in the public procurement system as loose legal framework lack of codified procedures and regulations weak capacity of procurement staff, unclear institutional and organizational arrangements for processing procurement and decision-making in award of contracts. The CPAR recommended comprehensive procurement reforms and an International Procurement Legal consultant, Gosta Westring, was contracted in 1997 to assist Government draft a procurement code (World Bank, 1997). Government did not act on the consultant's draft Public Procurement Bill. The on-going procurement reforms started in 1999 and were financed under an IDA credit "Public Finance Management Technical Assistance Project". The legal instruments promulgated at different times granting legitimacy to the public procurement system like the Ghana Supply Commission Act which was reviewed later in 1990 by PNDC Law 245, the Contract Act, Act 25 of 1960, the National Procurement Agency Decree SMCD 55 and the Financial Administration Decree SMCD 221 are discussed below.

2.3 What are financial statements?

According to the ICA-Ghana (2011), financial statements represent a formal record of the internal activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company. Financial statements reflect the financial effects of business transactions and events on the entity.

2.4 Components of financial statements

According to ICA-Ghana (2011) the complete sets of financial statements include the following components:

(i) A statement of financial position as at the end of the period

(ii) A statement of comprehensive income for the period

(iii) A statement of changes in equity for the period

(iv) A statement of the cash flow for the period

(v) Notes comprising summary of significant accounting policy and other explanatory information

(vi) A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement or when it reclassifies items in the financial statement.

2.4.1 Statement of Financial Position

Statement of Financial Position also known as the Balance Sheet, presents the financial position of an entity at a given date. It is comprised of the following three elements:

- Assets: Something a business owns or controls (e.g. cash, inventory, plant and machinery. etc.)
- Liabilities: Something a business owes to someone (e.g. creditors, bank loans, etc.)
- Equity: What the business owes to its owners. This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between the assets and business.

2.4.2 Income Statement

Income statement, also known as the profit and loss statement, reports the company's financial performance in terms of net profit or loss over a specified period. Income statement is composed of the following two elements:

- Income: What the business has earned over a period (e.g. sales revenue, divided income, etc.)
- Expense: The cost incurred by the business over a period (e.g. salaries and wages, depreciation, rental charges, etc.)

2.4.3 Statement of Cash Flows

The statement of cash flows classifies cash receipts and cash payments arising from investing activities, financing activities, and operating activities.

2.4.3.1 Investing Activities

Investing activities include the results of the purchase or sale of debt and equity securities of other entities and fixed assets. Cash inflows from investing activities are comprised of (1) receipts from sales of equity and debt securities of other companies and (2) amounts from the sale of fixed assets. Cash outflows for investing include (1) payments to buy equity or debt securities of other companies and (2) payments to buy fixed assets.

2.4.3.2 Financing activities

Financing activities include the issuance of stock and the reacquisition of previously issued shares (treasury stock), as well as the payment of dividends to stockholders. Also included are debt financing and repayment. Cash flows from financing activities are comprised of funds received from the sale of stock and the incurrence of debt. Cash outflows for financing activities include (1) repaying debt, (2) repurchasing of stock, and (3) issuing dividend payments.

2.4.3.3 Operating Activities

Operating activities are connected to the manufacture and sale of goods or the rendering of services. Cash inflows from operating activities include (1) cash sales or collection on receivable arising from the initial sale of merchandise or rendering of service and (2) cash receipts from debt securities (e.g., interest income) or equity securities (e.g., dividend income) of other entities. Cash outflows for operating activities include (1) cash paid for raw material or merchandise intended for resale, (2) payments on accounts payable arising from the initial purchase of goods, (3) payments to suppliers of operating expense items (e.g., office supplies, advertising, insurance), and (4) wages. Figure 2.1.Shows an outline of the statement of cash flows.

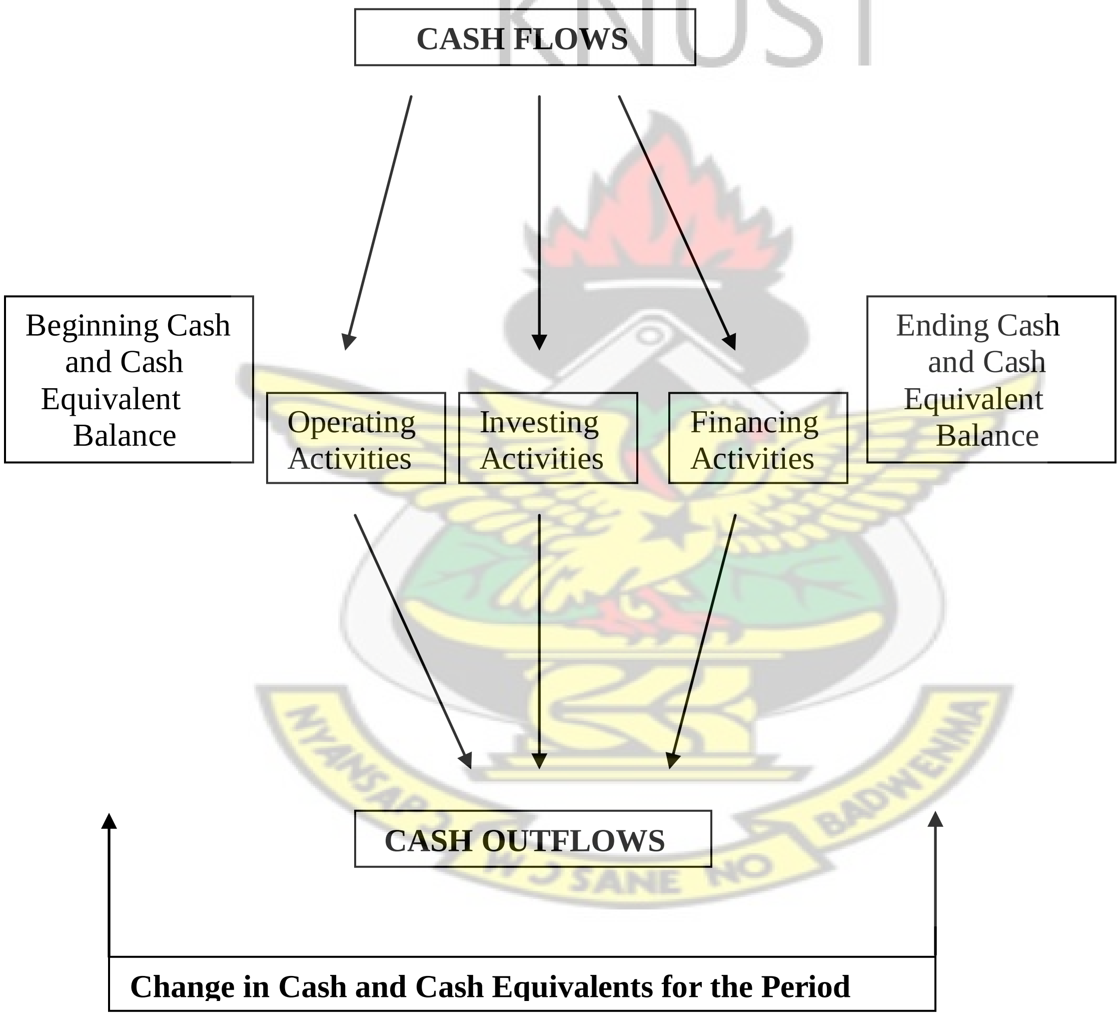

Figure 2.1Outline of the Statement of Cash Flows

2.5. The importance of audited financial statements of a business firm

Public companies are required to have their financial statements audited to protect the interests of Investors and outside stakeholders.

2.5.1 Significance

Audited financial statement allows public companies to seek outside investment for improving or expanding their business operations. Audited statements act as proof to investors that the company is capable of operating profitably and within legal boundaries (Williams *et al*., 2002).

2.5.2 Considerations

Because audits can be expensive and time consuming, public companies spend lots of time properly recording financial transactions according to Generally Accepted Accounting principles. This is limits the chances of remedial audits, which incur unnecessary expenses for the company (Williams *et al*., 2002).

2.5.3 Warning

Financial audits that result in a qualified audit opinion indicate that certain business operations or financial information is questionable or that significant risks may exist for the company (Williams *et al*., 2002).

2.6 Characteristics of Accounting Information

According to Vitez (2004), Williams *et al.* (2002), Atrill and McLaney (2013) and Catherine (2007), the characteristics of accounting information are:

- Bias: Bias measurement is the tendency of a measure to fall more often one side and other of what it represent instead of being equally likely to fall on either side.

Bias in accounting measures means a tendency to be consistency too high or too low.

- Comparability: The quality of information that enables user to identify similarities in and differences between set of economic phenomena.
- Completeness: The inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena.
- Conservatism: A prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.
- Consistency: Conformity from period to period with unchanging policies and procedures.
- Feedback value: The quality of information that enables users to confirm or create the prior expectations.
- Materiality: The magnitude of an Omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.
- Neutrality: Absence in reported information of bias intended to attain a predetermined result or to induce a particularly mode of behavior.
- Predictive value: The quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events.
- Relevance: The capability of information to make a difference in a decision by helping users to formed predictions about the outcomes of past, present, and future event or to confirm or correct prior expectations.

- Reliability: The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.
- Representational faithfulness: Correspondence or agreement between a measure or description and the phenomenon that is purports to represent (sometimes called validity).
- Timeliness: Having information available to a decision maker before it loses its capacity to influence decisions.
- Understandability: The quality of information that enables users to perceive its significance.
- Verifiability: The ability through consensus among measures to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

2.7. Reasons for Preparation of Financial Statements

Financial decisions are typically based on information generated from the accounting system. Financial management, stakeholders, potential investors, and creditor are concerned with how well the company is doing. The three reports generated by the accounting system and included in the company's annual report are the balance sheet, income statement, and statement of cash flows (Atrill and McLaney, 2013). Although the form of these financial statements may vary among different businesses or other economic units, their basic purposes do not change.

The balance sheet portrays the financial position of the organization at a particular time in time. It shows what you own (assets), how much you owe to vendors and lenders (liabilities), and what is left (assets minus liabilities, known as equity or net worth) (Catherine, 2007). A balance sheet of a company's financial position as of a certain date. The balance sheet equation can be stated as: Asset-liabilities = Stakeholders' Equity (Catherine,2007; Atrill and McLaney, 2013; Williams *et al*., 2002; Institute of Chartered Accountants (ICA-Ghana), 2011).

The income statement, on the other hand measures the operating performance for a specified period of a time (e.g., for the year ended December 31, 20×1). If the balance sheet is a snapshot, the income statement is a motion picture. The income statement serves as bridge between two consecutive balance sheets. Simply put, the balance sheet indicates the wealth of your company and the income statement tells you how your company did last year. The balance sheet and the income statement tell different things about your company. For example, the fact that the company made a big profit last year does not necessarily mean it is liquid (has the ability to pay current liabilities using current assets) or solvent (noncurrent assets are enough to meet noncurrent liabilities) (Atrill and McLaney, 2013; Williams *et al*., 2002). A company may have reported a significant net income but still have a deficient net worth. In other words, to find out how your organization is doing, you need both statements. The income statement summarizes your company's operating results for the accounting period; these results are reflected in the equity (net worth) on the balance sheet. The third basic financial statement is the statement of cash flows. This statement provides useful information about the inflows and outflows of cash that cannot be found in the balance sheet and the income statement (Williams *et al*., 2002)

2.8. Balance Sheet Limitations

The balance sheet has major limitations.

(i) First, the balance sheet does not reflect current value or fair market value because accountants apply the historical cost principle in valuing and reporting assets and liabilities.

(ii) Second, the balance sheet omits many items that have financial value to the business.

2.8.1 Assertions

Financial statement audits are used to ensure that creditors and investors have a reasonably presentation to decide on lending limits and stock safety. The assertions of management are stated in the financial statements. The financial statements are made up of the balance sheet, the income statement, and the cash flow statement. The balance sheet represents the net worth of the organization. The income and cash flow statements support the balance sheet, and represent the overall accounting management of the organization (Atrill and McLaney, 2013; Catherine, 2007; Institute of Chartered Accountants (ICA-Ghana), 2011)

2.9. Income Statement and Cash Flow Statement

Retained earnings and current net income, as stated in the income statement, represent the net worth. The retained represent the funds or investment of the organization in itself, and retained for the purpose of paying dividends and debt. The current net income, as reported on the income statement, represents the ability of management to generate revenue and pay expenses with funds left over each mouth (Institute of Chartered Accountants (ICA-Ghana), 2011)

The cash flow statement shows creditors and investors the operational, funding and investment activities of the organization. The financial statement audit is intended an opinion on the management's ability to sufficiently protect the assets of the organization and properly manage the funds.

2.10. Objectives of financial reporting

Financial reporting provides information that is useful in making business and economic decisions. The objectives of general purpose external financial reporting primarily come from the needs of external users who must rely on information that management communicates to them. Statement of Financial Accounting Concepts (SFAC) No. 1 describes the objectives of financial reporting;

1. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensive to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.
2. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sales, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and other assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.
3. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer

resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

The primary focus of financial reporting is ordinarily considered to be information about earnings and its components. Earnings analysis gives clue to (a) management's performance, (b) long-term earning capabilities, (c) future earnings, and (d) risks associated with lending to and investing in the enterprise.

2.11 Purpose of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (IASB Framework).

Financial Statements provide useful information to a wide range of users:

Managers require financial statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

Shareholders Use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis.

Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements. For instance, fluctuating profits indicate higher risk. Therefore, Financial Statements provide a basis for the investment decisions of potential investors.

Financial Institutions (e.g. banks) use Financial Statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity.

Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health.

Customers use Financial Statements to assess whether a supplier has the resources to ensure the steady supply of goods in the future. This is especially vital where a customer is dependent on a supplier for a specialized component.

Employees use Financial Statements for assessing the company's profitability and its consequence on their future remuneration and job security.

Competitors compare their performance with vital companies to learn and develop strategies to improve their competitiveness.

General Public may be interested in the effects of a company on the economy, environment and the local community.

Governments require Financial Statements to determine the correctness of tax declared in the tax returns. Government also keeps track of economic progress through analysis of Financial Statements of business from different sectors of the economy.

2.12 What Is a Project Financial Evaluation?

2.12.1 Definition

A project Financial Evaluation is an in-depth investigation of cash flow and risk with the object of determining a project's eventual return on investment. Financial evaluation is a process through which the financial activities of a business, institute, individual or other entities are determined. This is an approach that essentially determines the cash inflows and outflow. Furthermore, it also assists the concern authority or individual to manage their monetary activities in a controlled way. These help in meeting the financial goals and help the business to structure their budgeting so as to reach a strong financial hold (Barrett, 2000; Vitez, 2004)

2.12.2 Significance

The PFE is meant to look at all the fiscal factors involved in undertaking the project; without it, a business entity does not have the information it needs to make an informal decision about a given project's scope and risks.

2.12.3 Features

Each PFE is different, but each involves the careful definition of each factor that a project represents - - its cash flow, insurances, capital outlay and the time line over which the costs will be recouped and the profits realized.

2.12.4 Misconceptions

These are many modalities and definitions, but there are not any set-in-stone rules regarding the content or administration of a PFE. The only imperative is thoroughness.

As these documents are generally referred to in case of future need, such kind of evaluation has to be conducted by an established financial body and its credentials has to be specified at the foremost.

- Irrespective of the purpose of the particular financial evaluation, the document must specify the important determinants like number of assets, liabilities, shareholder equities, total income and revenues etc.

- One must also ensure not to frame such questions that are ambiguous or prolix in nature. Instead, prior documenting a financial appraisal document, one must try to decide the areas that are to be interrogated.

2.12.5 Financial Assessment Evaluation

The financial assessment evaluation is conducted by a company to understand the areas that need financial-attentions. This is done to ensure that there is financial stability within the company as well as regular cash flow. This is highly necessary to ensure the profitability of the company. Irrespective of the size of the company, the evaluation must take place. There must be complete awareness about the financial conditions of the company and it must redress the problem areas immediately. The financial assessment evaluation should be composed in a lucid manner and should take into account all the pertinent issues (Williams *et al*., 2002).

2.12.6 Financial Evaluation Techniques

2.12.6.1 Net Worth

One of the main evaluations the financial department conduct is an assessment of the company's net worth, which is highlighted in the company's annual report with the hopes of attracting potential investors and stockholders. The net worth of a business is the total sum of the liabilities subtracted from the owned asset values of the business. If the company has a negative worth due to outstanding banking loans and unpaid taxes, the financial evaluation may lead analysts to create a plan to lower the liabilities and increase the assets.

2.12.6.2 Monthly Expense Budgets

A business has a monthly operational budget that shows how much the business has in income and how much it has in expenses. A financial evaluation of the company can include analyzing the monthly budget to see how the business is spending money. To earn a profit, the company must spend less than it is earning to have a monthly profit. One financial evaluation technique is to add up everything the company is spending on a monthly basis and compare it to the income. Financial planning and adjustment may be needed if the business has a negative income each month.

2.12.6.3 Financial Plans and Goals

Another evaluation technique is to analyze the current financial plans and its goals. A financial plan is constructed around a set amount of financial goals that indicate what the company wants to achieve. Business owners may set unrealistic goals, so one financial evaluation technique is to look over the financial plan and determine whether the goals are realistic based on the income of the business and overall spending.

2.12.6.4 Market Growth and Potential

The financial standing of a company can be improved by changing the company's approach to the market. Financial analysts may spend time analyzing the market in terms of its growth potential for the particular products or services the business offers. If the company already has many direct competitors on the market, the financial analyst may see earning potential if the company takes the product development or services in a slightly different direction. This type of financial evaluation technique is a pre-planning technique.

2.13 Tender Evaluation

According to the manual to the Act 663 2.6:

A. Tender Evaluation panel shall be an ad-hoc body of not more than five (5) members constitutes for a specific procurement packages". The panel shall include members with skills, knowledge and experience relevant to procurement requirement, which may include

- Relevant technical skills
- End user representation
- Procurement and contracting skills
- Financial management or analysis skills
- Legal expertise

The evaluation of tenders is the stage in the procurement process during which a contracting authority identifies which one of the tenders meeting the set requirements is the best one on the basis of the pre-announced award criteria, either the lowest priced or the most economically advantageous tender.

The evaluation of tenders must be carried out by a suitably competent evaluation panel and in accordance with the Act 663, 2003.

Key principles govern the process of evaluation of tenders

Non – discrimination – This principle means that any discrimination with regard to tenders on the basis of nationality, gender, religion etc. is forbidden.

Equal Treatment – Means that tenders submitted within the set deadline are to be treated equally. They must be evaluated on the basis of the same terms, conditions and requirements set in the tender documents and buy applying the same pre – announced award criteria.

Transparency – Means written records must be kept (normally in the form of reports and minutes of the meeting held) of all actions of the evaluation panel. All discussion taken must be sufficiently justified and documented.

2.14 How does an Evaluation Panel Operate?

The process of evaluation of tenders is generally carried out by a suitably competent evaluation panel. In principle; the evaluation panel normally has only mandate to identify the best tenderer and to make a recommendation as to the award of the contract (Barrett, 2000).

It is a good practice for all of the evaluation panel's members including the chairperson and secretary to sign a declaration of impartiality and confidentiality of similar kind of declaration before they start to evaluate tenders.

According to the manual to the Act 663, of 2003, 2.6.2, "Recommendation for award of contract shall be made solely on the basis of information and evaluation criteria provided in the tender documents or request for proposal and without resort to any extrinsic evidence or influenced by personal or political preferences.

Where any member of the Tender Evaluation Panel has a conflict of interest in any tender evaluation, he/she shall declare his interest in the tender, leave the meeting while the matter considered and shall not participate in the deliberations or decision – making process of the panel in relation to that submission".

2.15. Financial Viability Assessments

Financial viability assessment is one of a range of measures designed to reduce risk. A tenderer financial viability can rapidly deteriorate or improve with changes to the economic and operating environment. As such it should be recognized that a point in time assessment of viability can only be screen out high risk tenders and is not substitute for sound project planning and contract management (Williams *et al*., 2002). While the information provided for financial evaluation is a historical snapshot which can only give current short term future likelihood based on current known issues and situations, and agency must satisfy itself that based on that current available information the tenderer it is dealing with is likely to remain financially viable for the life of the proposed contract or can be readily replaced should they become insolvent (Williams *et al*., 2002).

Financial statement may be analyzed to provide insight into a tenderer financial stability (Government of Ghana, 2003). A range of financial ratios can be used to assess a tenderer profitability, liquidity and financial stability. Care should be used in applying the ratios, as standard vary between industries. If a project is assessed as being moderate or high risk, it may be appropriate to seek professional financial assessment of the lowest evaluated tender (Barrett, 2000; Vitez, 2004)

Companies produce financial statements that provide information about their financial position and performance. Financial information is used by a wide range of stakeholders in making economic decisions, typically, those that own companies, the shareholders, are not those that manage it. Therefore, the owners of these companies (as well as stakeholders such as banks, suppliers and customers) take comfort from independent assurance that the financial statements fairly present in all material respects, the company's financial position and performance. (Barrett, 2000; Vitez, 2004)

To enhance the degree of confidence in the financial statements a, qualified external party (an auditor) in engaged to examine the financial statements including related disclosures produced by management to give their professional opinion on whether they fairly reflect in all material respect the company's financial performance after a given periods (an income statements) and financial position as of a particular date (s) (a balance sheet) in accordance with an applicable financial reporting framework (Vitez, 2004).

2.16. Financial viability assessment process

According to Vitez (2004), assessing the project financial viability and risk is the first part of the financial viability assessment process, and it consist of the following:

- "The nature of the property or services, Level of complexity

  The project involving a complex procurement, such as payroll services and centralized information technology services are higher risk than simple supplies procurement. More complex, high value and relatively important projects will normally be subject to a formal risk management process."

- "Value of the procurement.

  Projects involving large value procurement are generally more risky than that involving small value procurement. However, procurement value should not be used as the sole indicator of project risk.

  In assessing financial viability risk, the value of procurement within a project should be considered both in the context of relative value to the department or agency, and in the context of relative value to the likely tenderer or potential suppliers."

- "Other Factors

Many other factors have the potential to impact on the overall level of risk of the supply of particular property or services. These can include,

(i) General economic factors

(ii) The tightness of the labour market.

(iii) Levels of demand for the required services

2.17. Users of financial statement

According to Atrill snd McLaney (2013) and Catherine (2007) these category of people utilize financial statements in their activities;

- ✓ Shareholders and management
- ✓ Potential investors and analysts
- ✓ Banks and other lenders
- ✓ Tax authorities and other government / regulatory bodies
- ✓ Employee trade unions
- ✓ Suppliers
- ✓ Competitors
- ✓ General public etc.

According to Institute of Chartered Accountants (ICA-Ghana) (2011), shareholders and management financial statement are produced not only for their own sake but for the uses to which they can be put by various groups interested in different aspects of the report. These users include:

- ✓ Potential investors and analysts who are interested in the profitability, earnings potential dividend policy, financial stability and risk exposure.
- ✓ Banks and other lenders who are also concern about the company's solvency and ability to pay debt and interest as and when they fall due, assets backing for liability.
- ✓ Tax authorities and other government / regulatory bodies are also interested and growth prospects of companies within the economy, their ability to meet their task liability, their ability to generate employment and meet their statutory responsibility.
- ✓ Employee trade unions are also interested in stability, financial soundness, growth and efficiency.
- ✓ Suppliers are also concern in the continued existence of their client company and it growth.

2.19 Financial ratios used to assess financial viability

According to Institute of Chartered Accountants (ICA-Ghana) (2011), the most common path for the assessment of financial viability of a tenderer is by the use of financial ratios. The following financial ratios may be used to provide insight into a tenderer profitability, liquidity and financial stability. The most appropriate financial ratios will vary with the industry, the economic conditions and the risk of the procurement associated with the project.

2.19.1 Shareholders and Management, Profitability Ratios

They are interested in the overall profitability, financial soundness, growth and efficiency. The basic techniques used to analyze financial statements in the use of financial ratio which can be categorized as follows

a. Gross Profit Margin = $\frac{Gross\ Profit}{sales} \times 100$

b. Reform on Capital Employed = $\frac{Net\ Profit}{Capital\ Employment} \times 100$

c. Expenses / Sales = $\frac{Expenses}{Sales} \times 100$

d. Net Profit Margin = $\frac{Net\ Profit}{sales} \times 100$

These ratios measure the entity's potential to earn income / revenue in excess of its operating expenses. The profit earned, is not itself significant since the size of the business earning that profit may vary enormously. It is significant to consider the size of the profit figure relative to the size of the business (Institute of Chartered Accountants (ICA-Ghana), 2011).

In reviewing a tender's profit performance, the following questions as may assist,

1. Does the tenderer have a track record of profitable operations, as measured by profits generated in at least two out of the three most recent financial years?

2. What are the trends showing in relation to the tenderer sales expenses and net profit? Is there an upward or downward trend.

2.19.2 Liquidity ratios

These ratios measured the ability of an entity to meet its current liabilities as and when they fall due. Ratios under this group include

i. Current Ratios / Working Capital Ratios Current Assets

This ratio measured the adequacy of current assets to meet short terms liabilities. It reflects whether the entity is in position to meet its liabilities as they fall due.

In additionally, a current ratio of 2 or higher was regarded as appropriate for most business to remain fair Credit worthiness. However, in recent times, a figure of 1.5 may be regarded as the norm (In good practice, what in an ideal ratio depends on the industry and the particular circumstance of the entity in valued (Institute of Chartered Accountants (ICA-Ghana), 2011).

ii. Quick Ratio $= \frac{Current\ Assets - Stock}{Current\ liabilities}$

This is known as Acid test ratio because by eliminating inventories from current assets, it provides the acid test of whether the enterprise has sufficient resources (in terms of receivables and cash) to settle if is current liabilities. Norm for the quick ratio ranges for 1 to 0.7 (Institute of Chartered Accountants (ICA-Ghana), 2011).

iii. Inventory Stock Turnover

Cost of Sale

Average Stocks

This ratio expresses the number of days / weeks / months it taken on the average to get average finished goods to sold and replaced.

2.19.3 Efficiency ratio

These ratios show how effective management has utilized the resources of the business to generate income. Among the ratios are the following

i. Sales to Assets Ratio $= \frac{Sales}{Fixed\ Assets}$

ii. Sales to Capital Employed

Sales

Capital employed

This ratio measures the relationship between sales and Capital employed.

2.20 University History

The University of Science and Technology succeeded the Kumasi College of Technology which was established by a Government Ordinance on 6th October, 1951. It was however, opened officially on 22nd January, 1952 with 200 Teacher Training students transferred from Achimota, to form the nucleus of the new College.

In October, 1952, the School of Engineering and the Department of Commerce were established and the first students were admitted. From 1952 to 1955, the School of Engineering prepared students for professional qualifications only. In 1955, the School embarked on courses leading to the University of London, Bachelor of Engineering External Degree Examinations.

A Pharmacy Department was established in January, 1953, with the transfer of the former School of Pharmacy from Korle-Bu Hospital, Accra, to the College. The Department ran a two-year comprehensive course in Pharmacy leading to the award of the Pharmacy Board Certificate.

A Department of Agriculture was opened in the same year to provide a number of ad hoc courses of varying duration, from a few terms to three years, for the Ministry of Agriculture. A Department of General Studies was also instituted to prepare students for the Higher School Certificate Examinations in both Science and Arts subjects and to give instruction in such subjects as were requested by the other departments.

Once established, the College began to grow and in 1957, the School of Architecture, Town Planning and Building was inaugurated and its first students were admitted in January, 1958, for professional courses in Architecture, Town Planning and Building. As the College expanded, it was decided that the Kumasi College of Technology be made a purely science and technology institution. In pursuit of this policy, the Teacher Training College, with the exception of the Art School, was transferred in January, 1958, to the Winneba Training College, and in 1959, the Commerce Department was transferred to Achimota to form the nucleus of the present School of administration of the University of Ghana, Legon.

2.21 Accession to University Status – The birth of KNUST

In December, 1960, the Government of Ghana appointed a University Commission to advise it on the future development of University Education in Ghana, in connection with the proposal to transform the University College of Ghana and the Kumasi College of Technology into an independent University of Ghana.

Following the report of the commission which came out early 1961, Government decided to establish two independent Universities in Kumasi and at Legon near Accra.

The Kumasi College of Technology was thus transformed into a full-fledged University and renamed **Kwame Nkrumah University of Science and Technology** by an Act of Parliament on 22nd August, 1961.

The University's name was changed to University of Science and Technology after the Revolution of 24th February, 1966. The University of Science and Technology was officially inaugurated on Wednesday, 20th November, 1961. However, by another act of Parliament, Act

559 of 1998, the University has been renamed Kwame Nkrumah University of Science and Technology, Kumasi.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the steps used in conducting the study. It looks at the sources of data, research design, population, samples and procedures, instruments used for collection of data and technique used in analyzing the data collected and the institutional profile of KNUST.

3.2 Research Strategy

The importance of adopting a particular research strategy lies in its ability to help the researcher answer the research question and meet the set objectives. There are many research strategies available to researchers but what the researcher finds appropriate for this particular study is the case study strategy (Bouma and Atkinson, 1995). It is a research strategy under which the researcher can make use of different data gathering techniques including interviews and secondary information. The advantage of using case study is that it addresses peculiar issues relating to a peculiar subject and provide an in-depth understanding on a subject (Naoum, 1998). Using a case study as a strategy for doing research is limited by the fact that its findings cannot be used to make a wider generalization. However, its findings could still be said to be useful in settings with similar features as in the case of Public Universities in Ghana.

3.3 Sources of Data

The main sources of data were from both primary and secondary sources. Each source has its unique strengths and weaknesses so combining the two would cancel out the method effect leading to a greater confidence being placed in the researcher's conclusion (Saunders *et al*., 2007)

3.3.1 Primary Data

Data from this source was basically from the staff of procurement unit and development office of KNUST. The unit includes the procurement department, finance staff, registrar department, legal department and tender evaluation panel. Interview was used to collect data due to technical nature of issues concerns.

3.3.2 Secondary data

Data from this source was collected from relevant books, Business, newspaper, journals, and articles from the internet sources, institutional reports, conference papers and presentation, written by experts from the field of procurement. This gave the researcher an insight into procurement challenges, especially in the area of the utilization of financial statement during bid evaluation.

3.4 Sampling Techniques

The study employed purposive sampling in the selection of respondents from the procurement unit, development office and key officials of the institution on the assumption that they have adequate knowledge on the topic under investigation as asserted by Naoum (1998) that, purposive sampling is adopted to sought the views of specific individuals with the required expertise to assist a research. In this regard only respondents responsible for managing the procurement of the institution were interviewed for the study. Due to the technical nature of the topic, the following personnel were purposively identified for interview. These staff play vital and significant roles in the procurement of goods, works and services at KNUST.

3.5 Sample Size

Due to the nature of the study, specific individuals responsible for the procurement of Works, Goods and Services were sampled for the study and experts in the field of accounting were also sampled to sought their views on audited financial statement and the tender evaluation stage. Table 3.1 shows the number of people sampled for the study

Table 3.1 Samples and data collection methods

SOURCES	NUMBER SAMPLE	DATA COLLLECTION METHOD
Tender Evaluation Panel	8	Structured Interview
Finance Staff	3	Structured Interview
Registrar Dept	2	Structured Interview
Legal Dept	1	Structured Interview
Procurement Dept	6	Structured Interview
Total	**20**	

3.5 Research Design

Research design is the deliberate planned arrangement for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy of procedure in the case of this research. This involves collecting data which can be analyzed using statistical tools and techniques.

3.6 Data Analysis and presentation techniques

Field data for the study were analyzed using Microsoft spread sheets and Statistical Package for Social Science (SPSS, v16). The data were coded and analyzed using frequencies and percentages. These were presented mostly in table form and charts. The data analysis was based on the information received from the respondents.

CHAPTER FOUR

DATA ANALYSIS AND RESULT DISCUSSIONS

4.1 Introduction

This chapter takes a look at the presentation, analysis and interpretation of data collected for the study. Research findings constitute very imperative stage of the research exercise. It is a basic part of the survey and it is pretentious by its overall eminence. The results are normally reported with respect to furnishing substantiation for each objective stated to aid the study. Descriptive statistics was used in presenting the data. This fragment gives details in sequence on the results of the study and detailed dialogue on responses obtained from the various questions posed to the respondents as well as the analysis of the findings.

4.2 Background of Respondents

Samples were selected based on embattled units using the non-probability sampling technique of purposive sampling. This method ensured that representative samples of all known elements of the population occur in the sample. In all, twenty (20) people were interviewed, which comprises staff of the Procurement Department, Works Department and Chairmen and members of the evaluation panel of KNUST.

4.3 Assessment of the capacity of the tender evaluation panel set up at KNUST

4.3.1 Level of education of respondents

The level of education, in this case was in reference to the academic level of education attained by the respondent. The responses to the level of education attained, as were provided, are presented in Table 4.1.The findings show that 45% of the respondents indicated that their highest attained level was Master's Degree, 25% indicated Bachelor's Degree, and 25% indicated PhD level, while those with professional and other certificates constituted 10% each. This implied that most persons of the respondents had attained a high level of education that could have favourable influences in the execution of their functions.

Table 4.1. Education level of respondents

Response	Frequency	Percentage
Doctorate degree (PhD)	2	10
Master degree	9	45
First degree	5	25
Professional certificate	2	10
Others	2	10
Total	**20**	**100**

Source: Author's own Field Survey, August, 2014.

4.3.2 Respondent's years of serving on the evaluation panel

Table 4.2 shows the estimated number of years that respondents have served on the evaluation panel. The findings show that half (50%) of the respondents have served between one (1) – four (4) years. It was also established that 43% of the respondents had served for a period of four (4) to six (6) years while 7% have been on the panel for less than one (1) year. This implied that the various actors in the Evaluation Panel of the KNUST have been working there for about six years which indicates high level of experience in the field of procurement or being active in procurement activities of the University. However, according to the Act (Act 663 of 2003), the evaluation panel should be an ad-hoc committee which consist of at least three or five persons with the relevant skills in the area of technical, financial management and auditing, procurement and contracting skills.

Table 4.2. Number of years served at the evaluation panel

Response	Frequency	Percentage
4 – 6yrs	6	43
1 – 4yrs	7	50
Less than 1 year	1	7
Total	14	100

Source: Author's Own Field Survey, August, 2014

4.3.3 Composition of the evaluation panel – Works

Table 4.3 shows the background representation of the respondents who form the evaluation panel for works at the University (in the past 5yrs). The results show that the panel is mainly dominated by members with backgrounds in quantity surveying. The other representations in the panel include a professional procurement expert and another member with expertise in human resource management.

Table 4.3. Designation and professional background of respondents

Designation	Professional Background
Chairman	Quantity surveyor
Member	Quantity surveyor
Member	Quantity surveyor
Member	Professional procurement
Member	Human Resource
Member	Quantity surveyor
Member	Quantity surveyor
Member	Human Resource

Source: Author's Own Field Survey, August, 2014

4.3.4 Skills required by an individual who is a member of the evaluation panel

Table 4.4 presents the skills required by the evaluation panel. The results indicate that while some members of the panel have the relevant technical skills as well as skills in procurement and contracting, all of them indicated some level of knowledge in financial management and auditing.

Table 4.4. Skills required by the evaluation panel members

Skills required	Number of member
Relevant technical skills	3
Financial management and auditing	9
Procurement and contracting	6

Source: Author's own Field Survey, August, 2014

It is noted that, all of them indicated some knowledge in financial management and auditing but they don't apply this knowledge in their daily activities and this has accounted for the panel not using financial ratios to interpret the financial statement to determine the financial capacity of the suppliers. There is a lack of adequate representation of members with the requisite skills in forming the evaluation panel for works because the manual to the Act 663 specify the required skills needed in forming the evaluation panel as in Table 4.4.

4.3.5 Composition of the evaluation panel – Goods

Table 4.5 shows the background representation of the members who form the evaluation panel for goods at the University (in the past 5yrs). The results (Table 4.5) reveal that the panel has members with varying expertise in different sectors.

Table 4.5. Designation and professional background of respondent

Designation	Professional Background
Chairman	Accountant
Member	Quantity surveyor
Member	I.C.T
Member	Auditor
Member	Registry
Member	Legal office
Member	Procurement
Former Chairman	Accountant
Member	Registry

Source: Author's own Field Survey August, 2014

4.3.6 Skills required by an individual who is a member of the evaluation panel

Table 4.6 presents the skills required by the evaluation panel and the number of members of the panel who possess such skills. The results indicate that at least two members of the panel have the relevant skills required by the panel. The result implies that, unlike the panel for works, there appears to be adequate representation of members with the requisite skills required in forming the evaluation panel for goods at the university.

Table 4.6. Skills required by the evaluation panel members

Skills required	Number of members with skill
Relevant technical skills	4
Financial management and auditing	3
Procurement and contracting	2

Source: Author's own Field Survey August, 2014

4.4 Frequency of request for audited financial statements for procurement needs

The frequency with which audited financial statements are requested by the KNUST procurement unit evaluation panel during procurement was assessed and the results are presented in Figure 4.1. Majority of the respondents (70%) established that audited financial records are requested from suppliers as part of the procurement process while 20% indicated that these documents are only requested sometimes. Ten percent were not sure whether audited financial statements are requested. Even though majority of the respondents agreed that they do request for financial statements all the time, they are rarely used in determining the financial capacity of the suppliers.

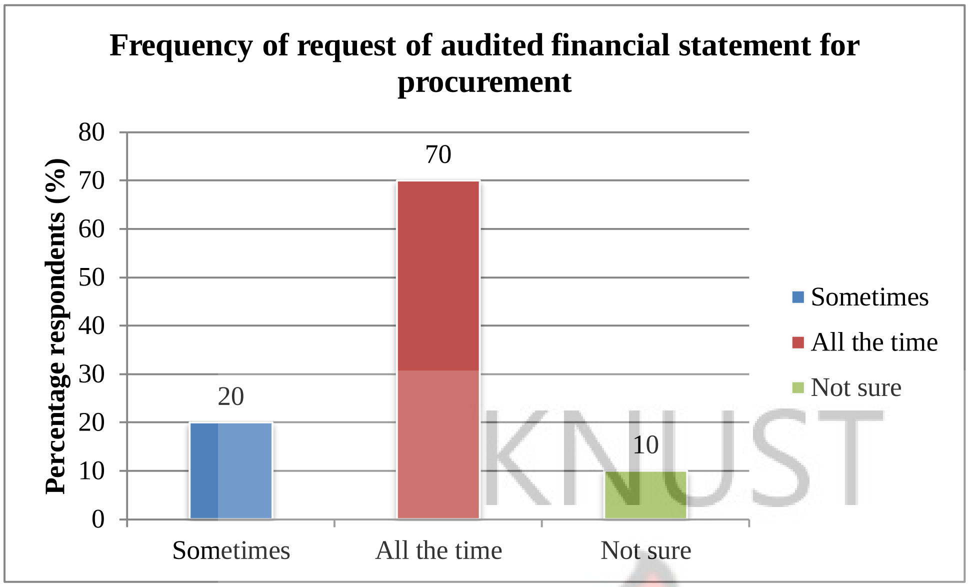

Figure 4.1: Level of frequency with which audited financial statement are requested

Source: Author's Own Field Survey August, 2014

4.5 Methods used in analyzing audited financial statements

According to the respondents, there is no laid down procedure or method for analysis of financial statements. The study found that liquidity ratios were the only methods used in analyzing audited financial statements that were requested from suppliers. It was noted that, liquidity ratios were only used by the evaluation panel for goods in their procurement processes while the evaluation panel for works adopted other measures such as the determination of annual work turnover, which is calculated as average total certified payments received for contract in progress or completed within the last 5 years.

4.6 Perception of the level of importance of audited financial statements

All the respondents from both the works and procurement unit were of the view that audited financial statements are important in the process of evaluating suppliers. But some of the respondents also argue that at times due to the project or situation at hand it becomes necessary to allow the same contractor who has done a similar job and has experience in that field to undertake the project instead of advertising for other contractors to come in. This situation arises when the entity wants to use single sourcing as a method of procurement.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the conclusion of the study and the recommendations put forward. The study sought to establish the process and method adopted by the procurement unit of KNUST in the assessment of the financial capability of suppliers in using audited financial statements.

5.2 Summary of findings

The research was carried out to establish the processes and methods adopted by the procurement unit of KNUST in the assessment of the financial capacity of suppliers using audited financial statements. This included the level of frequency with which audited financial statements are requested for procurement needs, the details of proceedings and methods used in analyzing such financial statements to know the financial capacity of suppliers, an assessment of the capability of tender evaluation panel to undertake analysis of the audited financial statements as well as the perception of the level of importance of audited financial statements to the procurement unit of KNUST during tender evaluation. The research was based on the use of interviews and both primary and secondary data were used in carrying out the research. The population of this study included staff from the departments of procurement Unit including works department, finance, and key personnel of KNUST.

After conducting the interviews and performing the analysis, the following findings were made:

i. The study showed that most of panel members for tender evaluation at KNUST are quite experienced with most members having served on the evaluation panel between 4 and 6yrs. This level of experience combined with the high education level of the members provides a convincing representation in terms of capabilities in various functions.

ii. The study revealed that audited financial statements are required from suppliers almost all the time as part of the tender evaluation process.

iii. In establishing how the financial statements are analyzed, the study found that liquidity ratios were the main financial ratios used for the assessment of supplier for goods. The panel for works on the other hand relies on the determination of annual work turnover of suppliers. The panel members for works indicated their knowledge of financial management and auditing but it appears that these are rarely applied in terms of using financial ratios in supplier assessment. This may be presumably due to the absence of a panel member whose expertise is solely in financial management and auditing.

iv. Interestingly, all the respondents in this study underscore the importance of audited financial statements in tender evaluation.

5.3 Conclusion

In order to ensure transparency, fairness and value for money in the procurement processes and the distribution of projects, the public procurement Act (Act 663) was introduced. This study sought to ascertain the processes and methods adopted by the procurement unit of KNUST in the assessment of the financial capability of suppliers using audited financial statements. The study found out that audited financial statements from suppliers are regarded as very important in tender evaluation and such it is requested from suppliers almost all the time in order to assess their financial capabilities. However, in subjecting the audited financial statements to analysis, the study found that only liquidity ratios were used in the assessments while in some instances the audited financial statements are not used. This might most likely be due to the absence of financial management and auditing experts on some of the evaluation panels. Hence the composition of the tender evaluation panels should pay attention to the requirements as specified in the manual to the procurement Act (Act 633). Rigorous analyses of audited financial statements are considered necessary in order to ensure that suppliers who are contracted are of sound financial capability in order to ensure value for money.

5.3 Recommendations

The study first of all seeks to establish the level of frequency with which audited financial statements are requested and the process and methods used in analyzing audited financial statement of suppliers for financial capability. The study found out almost all the time, they do request for the financial statement but it is interesting to note that only the evaluation panel for goods subject them to financial ratios analysis but even that they use only liquidity ratio to determine the financial capacity of the supplier which is not enough. The researcher wants to recommend the use of other ratios such as profitability and efficient ratios which portrays how efficient management utilized the resources of the business to generate income.

The study also found out that members serving on both goods and works have the capability and know-how to be part of the evaluation panels. The study found out that the panel for works uses annual work turnover, within the last five years, in selecting a qualified supplier or contractor. The researcher wants to recommend that the evaluation panel for works should have a professional accountant or a member who has a deep knowledge in financial ratios analysis so that they can subject audited financial statement into ratio analysis in addition to the methods that they use in selecting a qualified a supplier.

Even though the procurement Act (Act 663) indicates that the evaluation panel should be an ad-hoc committee, the study found out that some members of the panels have served for more than four (4) years which goes contrary to the procurement Act, Act 663 of 2003. It is therefore recommended that the panels should be an ad-hoc committee.

The researcher also found out that the procurement Act, Act 663, and the corresponding manual does not specify the type of ratios to use in determining the financial capability of the suppliers. This tends to create a gap in decision making which gives the panels the opportunity to select their own type of ratios based on their discretion. The researcher recommends that the procurement Act should be reviewed to cater for this gap.

REFERENCES

Atrill, P., & McLaney, E. (2013). *Accounting and Finance for Non-Specialists* (8 ed.). Pearson.

Barrett, P. (2000). Balancing Accountability and Efficiency in a more Competitive Public Sector Environment. *Australian Journal of Public Administration, 59*(3).

Bouma, G., & Atkinson, G. (1995). *A Handbook of Social Science Research: A Comprehensive and Practical Guide for Students.* Oxford University Press.

Catherine, G. (2007). *Financial Accounting for Non-Specialized* (2 ed.). Australia.

Cole, A. (2007). *Procurement Definition.* Retrieved from Ezine Articles: EzineArticles.com

Cummings, G., & Qiao, Y. (2003). The Use of Qualification-Based Selection in Public Procurement: A Survey Research. *Journal of Public Procurement, 3*(2), 512 - 226.

Erridge, A., Fee, R., & Mcllroy, J. (1999). An Assessment of Competitive Tendering Using Transaction Cost Aanalysis. *Public Money and Management, 19*(3), 37 42.

Government of Ghana. (2003). *Public Procurement Act, 2003 (Act 663).* Ghana.

Institute of Chartered Accountants (ICA-Ghana). (2011). *Financial Reporting.* Accra: Black Mask Limited.

Lysons, K. (1996). *Purchasing* (10 ed.). London: Pitman Publishing.

Ministry of Finance. (2001). *Procurement Reform Proposal. A component of the Public Financial Management and Reform Programme (PURFMARP).* Accra, Ghana: Mininstry of Finance.

Naoum, S. (1998). *Dissertation Research and Writing for construction students.* Oxord : Elsevier Butterworth-Heineman Publication.

Osei-Tutu, E., Badu, E., & Owusu-Manu, D. (2010). Exploring Corruption Practices in Public Procurement of Infrastructural projects in Ghana. *International Journal of Managing Projects in Business, 3*(2), 236 - 256.

Osei-Tutu, E., Mensah, S., & Ameyaw, C. (2011). The level of compliance with the Public Procurement Act (ACT 663) in Ghana. *Management and Inoovation for a Sustainable Built Environment*.

Saunders, M., Lewis, P., & Thornhill, A. (2007). *Research Methods for Business Students* (4 ed.). Harlow: Prentice Hall.

Soreide, T. (2002). *Corruption in Public Procurement: Causes, Consequences and cures (Report R 2002:1)*. Norway: Chr. Michelsen Institute.

Vitez. (2004). *What are Financial Disclosures?* Retrieved August 2014, 25, from ehow: www.ehow.com

Williams, S., Jay, J., & George, R. (2002). *Forensic Accounting and Fraud Examination* (6 ed.). Mc Graw Hill.

World Bank. (1985). *Ghana 1985 Country Procurement Assessment Report.* Washington, D.C: The World Bank.

World Bank. (1996). *Ghana 1996 Country Procurement Assessment Report* . Washington,D.C: The World Bank.

World Bank. (1997). *Ghana 1997 Country Procurement Assessment Report.* Washington, D.C: The World Bank.

World Bank. (2003). *Ghana 2003 Country Procurement Assessment Report.* Washington, D.C: The World Bank.

APPENDIX II

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF BUILDING TECHNOLOGY

INTERVIEW GUIDE

The interview guide is part of a project required by Kwame Nkrumah University of Science and Technology for the award of MSc in Procurement Management Degree. It is meant to solicit your views on the RELEVANCE OF AUDITED FINANCIAL STATEMENT IN TENDER EVALUATION A CASE OF KNUST. All information provided shall be used strictly for academic purpose and shall be treated with outmost confidentiality.

Background Data

1. Your Gender? Male ☐ Female ☐
2. What is your level of education?
   HND / Equivalence ☐ 1st Degree ☐
   Master's Degree ☐ Other Post – Graduate Degree (PHd) ☐
   Other, Specify ………………………………………………………………
3. For how long have you been working with this institution?
   Less than a year ☐ 1 – 2 years ☐ 2 – 4 years ☐ 5 years and above ☐
4. Position………………………………………………………………………………………
5. For how long have been at the evaluation panel
   Less than a year ☐ 1 – 2 years ☐ 2 – 4 years ☐ 5 years and above ☐
6. Which Department (Evaluation Panel) do you belong
   Goods ☐ Works ☐
7. What is your Area of specialization?
   Procurement ☐ Quantity Surveyor ☐ Accounting ☐
   Supply Chain Management ☐
8. Other, Specify……………………………………………………………………………
9. How often do you request for Audited Financial Statement for your Procurement Needs?
   Sometimes ☐ All the time ☐ Not sure ☐

10. Do the panel subject the Audited Financial Statement to ratios analysis to determine the The financial capability of the suppliers / contractors?

Yes ☐ No ☐

11. If yes, which type of ratios do you used in determining the financial capability of the suppliers/ contractors? ....

12. Do you have any challenge with respect to which type of ratios to chose or apply?

Yes ☐ No ☐

13. Who does the ratio analysis? ....

14. Does the evaluation panel have other method apart from the ratio analysis in determining the financial capability of suppliers / contractors?

Yes ☐ No ☐

15. If yes, Specify…………………………………………………………………………..

16, Does the Audited financial statement have any influence in determining the financial capability of suppliers / contractors?

Yes ☐ No ☐

17. What is the level of importance of Audited financial statement in determining the financial Capability of suppliers contractors?..

18. Which is the commonly used tendering procedure in the procurement process in this University?...

19. How will you describe or assess the evaluation process you have been participating in?

……………………………………………………………………………………………..