

Partners Worldwide Financial Health Check

Introduction

This Financial Health Check will help you gauge how healthy the financial management is in your affiliate.

Money is the lifeblood of any organisation. Business groups can not achieve much without it: they have to look after their money carefully. That means working with good financial management.

The Health Check involves answering a simple set of questions. They cover all the key areas of affiliate financial management. By the end of the Health Check you will be able to tell if the financial management in your affiliate is healthy or sick - and whether you need to call a doctor!

A word of caution

The Financial Health Check only provides a general indication of the health of your affiliate's financial management. It is not an exhaustive list of all aspects of financial management. It is not an audit and it does not describe a standard set of procedures which will always be completely relevant in every situation.

Using the Financial Health Check

The Health Check is a series of fifty simple statements. Just discuss the statements with the relevant members of staff and record whether each one is "always true", "mostly true", "sometimes true" or "never true" in your organisation.

The responses are explained and given a score as follows:

Explanation	Score
True 100% of the time	5
True more than 80% of the time	4
True between 20% and 80% of the time	1
True less than 20% of the time	0

The scores are written out alongside each statement. Circle your score for each statement on the Health Check. Then add up your scores for each section. That's it! Then by comparing your scores to the table on the 'interpreting your score' page you will be able to tell how healthy your financial management is.

You will probably need to involve other members of your affiliate in the process of completing the Health Check.

Section 1: Basic Systems

A) Supporting Documents

Every financial transaction should be backed up by a ‘supporting document’, e.g. a bill, invoice or receipt. This is the evidence that a specific transaction has taken place.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.1	A supporting document is available for every expenditure transaction for the current financial year.	5	4	1	0
1.2	A supporting document is available for every income transaction for the current financial year.	5	4	1	0
1.3	Supporting documents are neatly filed, so that it is easy to find any document when it is needed.	5	4	1	0
1.4	The bank statements for each bank account are neatly filed.	5	4	1	0
1.5	Supporting documents and bank statements are kept for the previous seven years.	5	4	1	0

B) Cashbooks

Every transaction should be written down in a cashbook. A cashbook is just a list of the money that an organisation has spent and received. It can be kept on paper or on a computer.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.6	The date, description and amount of every transaction are recorded in a cashbook.	5	4	1	0
1.7	All cashbooks are updated at least once per month.	5	4	1	0
1.8	A separate cashbook is kept for each bank account.	5	4	1	0

C) Accounts Codes

Accounting works by assigning codes to the transactions entered in the cashbooks. The codes allow transactions to be added together and summary reports to be produced. The set of accounting codes that an organisation uses is called its “Chart of Accounts”. Another set of codes can be used to assign transactions to a specific project or activity. These are often called “cost center” codes.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
1.9	A standard Chart of Accounts is used to code all the financial transactions in the cashbooks.	5	4	1	0
1.10	The same Chart of Accounts is used to write budgets and financial reports.	5	4	1	0
1.11	Transactions are also classified by project or activity using a standard list of ‘cost centers’.	5	4	1	0

Total score for basic systems	
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Section 2: Internal Controls

Affiliates use a lot of different internal controls to make sure that funds are used properly and that they can achieve their objectives. This list sets out a selection of controls. It is not a complete list – there are bound to be other controls which are very important to the smooth running of your organisation. But, this list includes a control for all of the key areas of financial management.

Note: the other sections of the Health Check are also important controls. For instance, supporting documents prove that a transaction has happened. Reviewing financial reports is a crucial control for managers to ensure that expenditure stays on track.

		<i>Always</i>	<i>Mostly</i>	<i>Sometimes</i>	<i>Never</i>
2.1	All cash kept in the office is kept in a locked cash box or safe.	5	4	1	0
2.2	All bank accounts are held in the name of the affiliate, not in the name of individuals.	5	4	1	0
2.3	There is a written policy setting out which members of staff can authorize an expenditure.	5	4	1	0
2.4	Each transaction is authorised by the appropriate member(s) of staff.	5	4	1	0
2.5	Staff checks that goods and services bought by the affiliate have been received before bills are paid.	5	4	1	0
2.6	Checks are not signed before details (including ‘payee’ and ‘amount’) are written in and supporting documents checked.	5	4	1	0
2.7	Staff salaries (including advances and loans) are checked by a senior manager or trustee every month.	5	4	1	0
2.8	Financial duties are split between different members of staff.	5	4	1	0
2.9	Petty cash records are checked every month by a different person from the person who writes them up.	5	4	1	0
2.10	The balance in the cashbook is reconciled to the balance on the bank statement every month for every bank account.	5	4	1	0
2.11	The balance in the cashbook is reconciled to the physical amount of cash in the office every month for every cash account.	5	4	1	0
2.12	All reconciliations are checked by a senior manager or trustee every month.	5	4	1	0
2.13	All assets owned by the affiliate are recorded in an Asset Register.	5	4	1	0
2.14	An audit is carried out of every office once per year, by a qualified external auditor.	5	4	1	0
2.15	Every year, auditors are selected by trustees (not staff).	5	4	1	0

Total score for internal controls	
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Section 3: Planning

A) Budgets

Budgets have a crucial role to play in strong financial management. For budgets to be useful, they must be accurate and complete. That means that they have to be based on a realistic assessment of the activities that you expect to carry out and of how you expect to pay for them.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
3.1	Budgets are prepared for all of the costs of running the organisation, every year.	5	4	1	0
3.2	Budgets are prepared for every project before the project starts.	5	4	1	0
3.3	Budgets are prepared by calculating the cost of pre-determined activities, which fit in to overall objectives.	5	4	1	0
3.4	Budgets include enough income to pay for all planned expenditures.	5	4	1	0
3.5	Budgets are approved by the Board of Trustees.	5	4	1	0

B) Cashflow forecast

A cashflow forecast is as important as a budget. The cashflow forecast tells you when receipts and payments will happen. Even if you know that you will receive \$10,000 for a project, you can not start spending money on the project before you have received the cash!

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
3.6	Each month a cash flow forecast is prepared, for the next six month period	5	4	1	0

C) Partners

Partners like to fund specific projects with specific budgets. But often affiliates work with several different partners at the same time. It is very important to keep track of which person or group is funding which project (or part of a project). It is very bad practice to 'lend' money received from one partner for one project to another project. In fact, this is often illegal. Accepting money from two different partners for precisely the same project or costs is also illegal.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
3.7	A report is prepared showing which partner is funding which costs.	5	4	1	0
3.8	There are enough funds to cover all the expenditures necessary to run the organisation and projects.	5	4	1	0
3.9	Different partners are not funding the same costs on the same project (known as 'double funding').	5	4	1	0
3.10	The organisation can continue to operate even if any single partner stops providing funding.	5	4	1	0

Total score for planning	
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Section 4: Reporting

Managers, trustees and partners rely on financial reports to understand an organisation's financial position.

Managers need accurate internal reports to know where money has been spent and whether they have enough funds to pay the salaries and bills in the coming months. Partners need reports to monitor your use of their funding - they may cut their funding if they do not receive reports! The government also often sets legal requirements for NGOs to submit financial reports to them.

As a minimum, the monthly financial statements should include a report of all income and expenditures made during the month and the amount of money held in cash and the bank. Other important financial reports include: a report of actual expenditures compared to the budget; a cashflow forecast; and a report showing the use of funds received from each partner.

		<i>Always</i>	<i>Mostly</i>	<i>Some-times</i>	<i>Never</i>
4.1	Every month senior managers review and approve the financial statements.	5	4	1	0
4.2	Managers receive accurate budget monitoring reports within two weeks of the end of each month.	5	4	1	0
4.3	Actual expenditure on each budget line is within 10% of the budget.	5	4	1	0
4.4	The board reviews financial reports every six months.	5	4	1	0
4.5	Managers (as well as finance staff) understand what reports they have to submit to partners.	5	4	1	0
4.6	Financial reports are submitted to partners in the right format and on time.	5	4	1	0
4.7	Financial reports are submitted to the right government agency in the right format and on time.	5	4	1	0
4.8	Internal management reports are reconciled to partner reports and reports sent to government.	5	4	1	0

Total score for reporting	
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Section 5: Staff

Good financial management relies on good staff. Staff need to have the right skills and support to carry out the responsibilities described above. This means that program managers need to know about financial management as well as finance staff.

		<i>Always</i>	<i>Mostly</i>	<i>Some- times</i>	<i>Never</i>
5.1	The board includes someone who has the skills needed to oversee all financial activities.	5	4	1	0
5.2	The finance staff have the skills (and qualifications) needed to carry out all financial activities.	5	4	1	0
5.3	There are enough finance staff to carry out all of the financial activities.	5	4	1	0
5.4	Managers and other staff have the financial skills they need to implement controls and to manage budgets.	5	4	1	0
5.5	Every job description includes a clear statement of the job's financial management responsibilities.	5	4	1	0
5.6	All staff receive the training and support they need to carry out their financial management responsibilities.	5	4	1	0

Total score for staff	
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Reminder

The responses are:

Response	Explanation	Score
Always true	True 100% of the time	5
Mostly true	True over 80% of the time	4
Sometimes true	True between 20% and 80% of the time	1
Never true	True less than 20% of the time	0

Interpreting your score

Record your score for each section in this table. Then compare it to the columns on the right to gauge how much risk you are facing.

Section	Your Score	High Risk	Medium Risk	Low Risk
1. Basic systems		0 - 35	35 - 45	45 - 55
2. Internal control		0 - 45	45 - 60	60 - 75
3. Planning		0 - 30	30 - 40	40 - 50
4. Reporting		0 - 20	20 - 30	30 - 40
5. Staff		0 - 20	20 - 25	25 - 30
Total Score		0 - 150	150 - 200	200 - 250

Total score is over 200

If your total score is over 200 then well done! Your financial management is in good shape. The risks of not being able to complete your work because of financial problems are low. But, you cannot afford to relax. Every affiliate should aim for a score of 250 points!

Total score is between 150 and 200

If your total score is between 150 and 200 then your financial management is not too bad but not too good either. There is a medium level of risk that financial problems will prevent you from carrying out your work. This is a cause for concern. Low scoring areas require immediate attention from managers.

Total score is less than 150

If your total score is lower than 150 then you have serious problems. Your financial management is not in good health. There is a high risk that you will face financial problems in the near future: funds may be misused, donors may withdraw their financial support or you may not have enough money to pay salaries next month.

Managers and trustees should meet urgently to discuss how the situation can be improved. You should consider calling in assistance as soon as possible. This must be dealt with right now.

Note: a low score in any one of the sections indicates a serious risk, even if your total score is good. All of the sections are crucial for financial management.

Glossary

Account code	A code for a specific type of transaction. Transactions are given a code which describes what type of income or expenditure they are - e.g. transport costs, office rent etc.
Asset	Any item that keeps its value is known as an asset. For NGOs, these are normally stocks of goods, office equipment, vehicles and property.
Asset register	A register (list) of the assets owned by the organisation, including details such as: asset reference number, date bought, purchase price, supplier and location.
Bank reconciliation	This means reconciling (comparing) the cashbook to the bank statement. It is a fundamental internal control, demonstrating that the basic accounting records are right.
Bank statement	A report produced by the bank, listing all the receipts and payments made out of or in to a bank account.
Book-keeping	The process of recording the basic details of each transaction.
Budget	The best possible estimate of the cost of a set of activities over a given period of time, and of how you are going to pay for those activities
Cash advance	A sum of money entrusted to someone for a general purpose when precise costs are not known in advance.
Cashbook	A book or spreadsheet that lists all of the transactions made in to and out of a single account.
Cashflow forecast	A report that shows the expected timing of receipts and payments over a period of time.
Chart of accounts	A list of all account codes, including a description of each code.
Cost center	A label for a group of costs which are looked at together. For instance, different projects are often treated as different cost centers.
Reconciliation	The process of comparing information held in two sets of records that describe the same transactions.
Supporting document	The original documents that describe each transaction. These include receipts, invoices and authorising documents.
Transaction	Any exchange of goods, services or money in return for other goods, services or money.
Trustee	A member of an NGO's most senior governing body, who shares overall responsibility for the NGOs work.

Date of Visit _____

FINANCIAL HEALTH CHECK ACTION PLAN

COUNTRY:

AFFILIATE:

TEAM MEMBERS:

Item Number	Identification of deficiency (specific findings)	Steps and goals for corrective activities, including timetables and individual responsibilities for actions	Targeted completion Date

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Comments:

Corrective Action Plan Developed	STATUS: Achieved, Revised, Continued
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Signature (Date)	Signature (Date)