**Jersey Charity**

**Financial Health Check**

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| **Organisation** |  |
| **Project Title** |  |
| **Date of Completion** |  |

**Purpose**

The Financial Health Check can help you assess the health of your organisation’s financial management. It is designed as a self-assessment tool so that you can identify the areas where you need to improve.

The Financial Health Check is a set of statements of good practice. They cover all the key areas of NGO financial management. For each statement, you need to consider how well your own organisation is in line with good practice. By the end of the Financial Health Check you will be able to tell if the financial management in your organisation is healthy, or whether you need support to improve practices.

You may like to run the Financial Health Check again after a year or two, to assess and monitor your progress.

**Limitations**

Every organisation is different and financial management systems must reflect this. A ‘one size fits all’ approach cannot work. But the key aspects of good practice are the same for most organisations most of the time. The Financial Health Check focuses on those key aspects. They are the foundation stones of good practice.

Mango’s Financial Health Check only provides a general indication of the health of your organisation’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 are relevant in every situation.

**Guidelines**

The Financial Health Check can be run by any responsible person or a trustee. You do not need specialist financial skills to complete it. It includes explanations of each section and a glossary of the financial terms used.

The most useful way to use this tool is to complete it collectively, with input from other individuals in your organisation, especially the Treasurer and any other individuals responsible for finances.

Agree on a score based on what **actually** happens, not what is supposed to happen. The scores available are 5,4,1 and 0 only.

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| **Explanation** | **Score** |
| Our practice is totally in accordance with the statement | 5 |
| Close to 5, but not quite there | 4 |
| Close to 0, but not that poor | 1 |
| This is not in place, or is not true or does not happen | 0 |

1. **Planning & Budgeting**

Budgeting is about working out how much your planned activities are likely to cost. Both the individuals implementing a project and any designated person responsible for finance should be involved in setting budgets, to create a foundation for good cooperation and coordination during spending and budget monitoring.

Budgets have a crucial role to play in strong financial management. Budgets should be approved by the Board of Trustees (or equivalent), to check they reflect the planned strategic direction of the organisation.

A cash flow forecast is as important as a budget. It constantly looks 3-6 months into the future, starting with the actual cash available now. It helps you to prioritise the timing and scale of planned activities and to spot cash flow problems in good time.

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| **Ref** | **Statement of best practice** | **Score** | | | |
| 1.1 | Budgets are prepared in good time for all the costs related to the organisation | 5 | 4 | 1 | 0 |
| 1.2 | Project budgets are based on the costs of planned activities | 5 | 4 | 1 | 0 |
| 1.3 | Budgets are clear and include explanatory notes, where necessary | 5 | 4 | 1 | 0 |
| 1.4 | Organisational budgets are approved by the Board of Trustees (or equivalent) | 5 | 4 | 1 | 0 |
| 1.5 | All planned operational costs are adequately funded | 5 | 4 | 1 | 0 |
| Total score for planning & budgeting | | | |  | |

1. **Basic Accounting Systems**

Every financial transaction should be backed up by a ‘supporting document’, e.g. a receipt, invoice or sign sheet (e.g. for many travel reimbursements). This is the evidence that a specific transaction has taken place.

Every transaction involving paying out or receiving money should be written down. It can be kept in a physical cashbook or petty cashbook, on an Excel spreadsheet or as part of a computerised accounting package. Every entry should be referenced back to the relevant supporting document.

It is important to check the accuracy of the accounting books at the end of each month by carrying out two essential ‘reconciliations’.

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| **Ref** | **Statement of best practice** | **Score** | | | |
| 2.1 | Every payment made has a supporting document providing evidence | 5 | 4 | 1 | 0 |
| 2.2 | All payments and receipts are recorded (date, description, amount) | 5 | 4 | 1 | 0 |
| 2.3 | Every payment entry is cross referenced to a supporting document | 5 | 4 | 1 | 0 |
| 2.4 | A bank reconciliation is done each month, for every bank account | 5 | 4 | 1 | 0 |
| 2.5 | The organisation keeps track of amounts owed to others (e.g. suppliers) and owed by others (e.g. staff) | 5 | 4 | 1 | 0 |
| Total score for basic accounting systems | | | |  | |

1. **Financial Reporting**

The Board of Trustees (or equivalent) need financial reports to oversee the finances of the organisation. Responsible persons need up-to-date figures to monitor projects and make decisions. Donor agencies need reports to check the use of their money, and often as a condition for further funding.

Financial reports should include an Income and Expenditure report showing money coming into the organisation and how it was spent. If the report compares the amount spent against budget, it is called a Budget Monitoring Report. The budget is supposed to be a tool not a straight-jacket. Financial reports should be used to help make decisions so that the money is used efficiently and effectively to achieve desired outcomes.

It is also important to report on balances held at the end of each month or quarter. Balances includes the amount of money held (cash and bank), as well as amounts owed to the organisation.

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| **Ref** | **Statement of best practice** | **Score** | | | |
| 3.1 | The board (or equivalent) reviews financial reports every quarter | 5 | 4 | 1 | 0 |
| 3.2 | Responsible persons receive budget monitoring reports for each project every month | 5 | 4 | 1 | 0 |
| 3.3 | Budget monitoring reports include explanations and comments about differences | 5 | 4 | 1 | 0 |
| 3.4 | Financial reports are used to help make decisions | 5 | 4 | 1 | 0 |
| 3.5 | Annual audits are up-to-date (signed within 6 months of the year end) | 5 | 4 | 1 | 0 |
| Total score for reporting | | | |  | |

1. **Internal Controls**

NGOs use a lot of different internal controls to make sure that:

* Assets are safeguarded
* Accounting records are accurate and up to date
* Fraud and errors are prevented and detected
* Staff are protected

Note: the other sections of the Health Check also include important controls. For instance, cash and bank reconciliations are important for checking accuracy of accounting records and identifying fraud.

Where the practice is not applicable, score 5.

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| **Ref** | **Statement of best practice** | **Score** | | | |
| 4.1 | Cash is kept safely in a locked cashbox or safe, in the custody of one individual *(if no cash, score 5)* | 5 | 4 | 1 | 0 |
| 4.2 | All cheques are signed by at least two authorised signatories | 5 | 4 | 1 | 0 |
| 4.3 | Cheques are signed only when all the details have been properly filled in (ie no signatories ever sign blank cheques) | 5 | 4 | 1 | 0 |
| 4.4 | Bank reconciliations are checked by someone who did not prepare them | 5 | 4 | 1 | 0 |
| 4.5 | There is a written policy detailing who can authorise expenditure of different types or value | 5 | 4 | 1 | 0 |
| 4.6 | All transactions are properly authorised | 5 | 4 | 1 | 0 |
| 4.7 | Cash payments are authorised by someone other than the cashier | 5 | 4 | 1 | 0 |
| 4.8 | Different steps in the procurement process, (e.g. ordering, receiving and paying) are shared among different people. | 5 | 4 | 1 | 0 |
| 4.9 | All fixed assets (e.g. vehicles, computers, equipment) owned by the organisation are insured and controlled using a fixed assets register | 5 | 4 | 1 | 0 |
| 4.10 | There are approved policies and procedures in place that are relevant to the organisation, and known by relevant individuals | 5 | 4 | 1 | 0 |
| 4.11 | A properly registered audit firm is selected by the trustees | 5 | 4 | 1 | 0 |
| Total score for internal controls | | | |  | |

1. **Grant Management**

Most organisations get at least some of their funding as grants from donors. It is important to have a grant agreement in place that outlines the amounts and timings of funds to be transferred.

Donors tend to fund specific projects with specific budgets which form part of the agreement.

The grant agreement may also contain a number of grant conditions, including procurement rules and reporting requirements. Organisations and their partners need to work together to ensure consistency between the narrative and financial reports about the same project.

It is very bad practice to ‘borrow’ money received from a donor for a specific project for another purpose.

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| --- | --- | --- | --- | --- | --- |
| **Ref** | **Statement of best practice** | **Score** | | | |
| 5.1 | There is a signed grant agreement in place for each grant | 5 | 4 | 1 | 0 |
| 5.2 | An appropriate person checks the grant conditions are reasonable before signing agreements | 5 | 4 | 1 | 0 |
| 5.3 | Grant conditions on procurement are known by appropriate individuals (including partners) | 5 | 4 | 1 | 0 |
| 5.4 | There is compliance with the terms and conditions in grant agreements | 5 | 4 | 1 | 0 |
| 5.5 | Donors receive financial reports on time | 5 | 4 | 1 | 0 |
| 5.6 | Donor financial and narrative reports are consistent and clearly linked to each other | 5 | 4 | 1 | 0 |
| 5.7 | Donor funds are kept for the activities they are meant for and never ‘borrowed’ for other activities | 5 | 4 | 1 | 0 |
| Total score for grant management | | | |  | |

1. **Responsible Persons**

Good financial management is dependent on persons with the right skills, support, and attitude to carry out their responsibilities. Everyone has a role to play in financial management.

Good indicators are the timeliness of reports, the neatness of files and records, and auditor’s comments or recommendations.

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| **Ref** | **Statement of best practice** | **Score** | | | |
| 6.1 | The board (or equivalent) includes someone with the skills needed to oversee all financial activities | 5 | 4 | 1 | 0 |
| 6.2 | Responsible persons have the skills (and qualifications) needed to carry out all financial activities and feel confident that they can carry out their financial management responsibilities | 5 | 4 | 1 | 0 |
| 6.3 | Responsible persons have the financial skills they need to manage budgets and implement controls | 5 | 4 | 1 | 0 |
| 6.4 | Different roles within finance are clearly defined, known and followed | 5 | 4 | 1 | 0 |
| **Total score for Responsible Persons** | | | |  | |

**Interpreting Your Score**

Record your score for each section in this table. Then compare it to the columns on the right and ring or shade the appropriate risk assessment for each section. Finally add up your total score and see the advice below.

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| --- | --- | --- | --- | --- | --- |
| **Section** | **Your Score** |  | **High**  **Risk** | **Medium**  **Risk** | **Low**  **Risk** |
| 1. Planning and budgeting |  |  | 0 – 12 | 13 – 19 | 20 – 25 |
| 2. Basic Accounting Systems |  |  | 0 – 12 | 13 – 19 | 20 – 25 |
| 3. Financial reporting |  |  | 0 – 13 | 14 – 21 | 22 – 25 |
| 4. Internal controls |  |  | 0 – 28 | 29 – 43 | 44 – 55 |
| 5. Grant management |  |  | 0 – 15 | 16 – 25 | 26 – 35 |
| 6. Responsible Persons |  |  | 0 – 10 | 11 – 14 | 15 – 20 |
| **Total Score** |  |  | **0 – 92** | **93 – 147** | **148 – 185** |

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| Your score is over 148 |
| **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 do also consider the risk assessment in each section: effective financial management requires strength in all six areas. Use this opportunity to make improvements and further reduce your financial risk. |
| Your score is between 93 and 147 |
| **Not bad!** There is clearly some good financial practice in place, but still plenty of room for improvement. There is a risk that financial problems will prevent you from doing your work. Low scoring sections require immediate attention from managers. |
| Your score is less than 92 |
| **Work to be done!** 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, or donors may withdraw their financial support. 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. |

**Appendix 1**

**Glossary**

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| **Bank reconciliation** | Comparing the month end balance on the bank statement to the month end balance in the cashbook and identifying any differences. |
| **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 |
| **Cashbook** | A book or spreadsheet that lists all of the receipts and payments made in to and out of a particular bank or cash account. |
| **Cash flow forecast** | A report that shows the expected timing of receipts and payments for the next 3-6 months (or longer). |
| **Fixed asset** | An item of high value owned by the organisation for use over a long period. Normally office equipment, vehicles and property. |
| **Petty cashbook** | The cashbook where cash transactions are recorded, and the supporting documents relating to each transaction. |
| **Procurement** | The process of purchasing goods and services. Steps in the process may include requesting, authorising, selecting suppliers, ordering, receiving and paying. |
| **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 may include, receipts, invoices, delivery notes, sign sheets etc |
| **Transaction** | Any exchange of goods, services or money in return for other goods, services or money. Most commonly receipts and payments. |
| **Trustee** | A member of an NGO’s most senior governing body, who shares overall responsibility for the NGOs work. |