

## Appendix B | Review of financial systems

### Notes on using the review

This review helps you to assess your organisation's financial systems and identify its strengths and weaknesses. A minimum standard is given for each question. The review is a way of identifying improvements that can be made to strengthen your financial and management capacity, rather than a way of judging the organisation.

- If you score many 1s and 2s, you are likely to need some urgent action, and possibly to call on outside help.
- If you score mostly 4s and 5s, you have good financial systems, but there may still be some matters needing attention.

The best person to complete the review is someone who knows the organisation well. He or she can offer comments on most questions, or at least know where to find the information. Some questions will need to be answered by a senior person who understands the management committee. It is important that answers are as honest as possible, telling what actually happens, rather than what you think should happen.

It works best if someone inside the organisation conducts the review, rather than someone from outside. However, an external facilitator who is helping to build capacity can introduce it, as long as there is enough trust between them and the organisation.

Not every question is appropriate for every organisation, and you can add your own questions at the end. Small voluntary community-based organisations, for example, may not need all the systems covered in the review.

As you go along, write down comments in the column headed 'Any action needed'. When you have finished the review, write down the action points as a checklist, with a date by which you want to achieve them. Send a copy to all concerned.

A downloadable copy of this review is available at [www.johncammack.net](http://www.johncammack.net) (click on 'Resources').

## Review of financial systems

For each question, circle the number that most closely matches the present situation.

1 = Never, or don't know   2 = Rarely   3 = Occasionally   4 = Sometimes   5 = Always

Compare the response with the 'minimum standard' and write down 'any action needed'.

Technical terms are **highlighted** and explained in the Glossary towards the end of this book.

Question	Rating	Minimum standard	Any action needed
<b>A. PLANNING AND BUDGETING</b>			
1. Is an annual budget prepared and approved by the management committee?	1   2   3   4   5	The budget is prepared after talking with staff/other stakeholders. The management committee approves it, and checks that confirmed income covers expenditure.	
2. Is the budget based on current objectives?	1   2   3   4   5	The budget is based on current objectives.	
3. Do all relevant staff/volunteers discuss the budget details?	1   2   3   4   5	Relevant staff/volunteers are consulted about and/or contribute to budget discussions. Smaller organisations may include all their staff/volunteers.	
4. Are budgets finalised before the start of the financial year/project period?	1   2   3   4   5	The process is started early enough for it to be ready before the year/project starts.	

Question	Rating					Minimum standard	Any action needed
5. Are notes added to the budget, justifying items and showing calculations?	1	2	3	4	5	The person responsible for the budget adds notes.	
6. Does the budget avoid having more expenditure than income, unless this is planned?	1	2	3	4	5	If the budget shows that a deficit is likely, budgeted expenditure is reduced until more income is raised.	
7. Is a <b>cash-flow forecast</b> prepared, especially when there is not enough money?	1	2	3	4	5	A forecast is prepared regularly, and every time funds may run out. Best practice is to prepare a forecast which is updated each month.	
8. Do the management committee and leader regularly review a summary of the <b>budget and actual statement</b> ?	1	2	3	4	5	Management committee regularly review the budget and actual statement. They ask questions about large differences between budget and actual figures.	
9. Do managers regularly review their expenditure/income against budget?	1	2	3	4	5	Managers review the budget and actual statement monthly/quarterly to make sure they are spending within budget.	
10. Are explanations for large differences between budget and actual noted on the budget and actual statement?	1	2	3	4	5	The person managing the budget writes notes on the budget and actual statement to explain large differences.	

11. Are budget and actual reports produced quickly after the period-end?	1	2	3	4	5	Budget and actual statements are produced within two weeks of the period-end. The management committee/ leader/manager can then act quickly.
12. Are meetings held between finance people and managers to discuss the contents of the budget and actual report?	1	2	3	4	5	Meetings, either one-to-one or in a group, are held immediately after the information is produced.
<b>B. ACCOUNTS RECORD-KEEPING</b>						
1. Is the record of transactions (the <b>cash/bank book</b> ) updated regularly?	1	2	3	4	5	The cash/bank book is updated daily, or whenever money is paid in or out. An up-to-date balance can always be calculated.
2. Is every cash/bank book entry supported by, for example, an invoice or receipt?	1	2	3	4	5	Documents are kept and filed. If there is no external document, a <b>payment voucher</b> is written, showing the details, which a more senior person approves.
3. Are financial documents filed in order?	1	2	3	4	5	Separate files are kept for money received and money paid. Documents are cross-referenced to the cash/bank book.
4. Is money received banked as soon as possible?	1	2	3	4	5	Money is banked as often as possible, depending on how much and how close the bank is.

Question	Rating	Minimum standard	Any action needed
5. Is a separate register kept, listing money given as a <b>cash advance</b> or as a loan to staff?	1   2   3   4   5	A <b>cash advances/loans register</b> lists all advances/loans and records when they are issued, accounted for, and repaid. It can easily show amounts outstanding, to be followed up. Loan repayments are deducted from salaries.	
6. Do the accounting records show donor funds given for a particular purpose?	1   2   3   4   5	Accounting records clearly show if funds are restricted. If funding is complicated and/or there are several donors, an extra system makes sure that <b>restricted funds</b> are monitored accurately.	
7. Is there a record to make sure that money due is all received and is on time?	1   2   3   4   5	Extra accounting records show money due and when it is paid, even if only in a notebook.	
8. Is a list of budget codes used to prepare the budget, and charge expenditure correctly?	1   2   3   4   5	The list of codes may be given by a computerised accounting package or by a donor. It may need to be customised.	
9. Is cash kept securely?	1   2   3   4   5	There is a safe or locked cupboard. No more cash is kept than is needed.	
10. Is the cash balance monitored?	1   2   3   4   5	Someone takes action when the cash balance becomes too low.	

11. Is a pre-numbered receipt issued for cash received?	1	2	3	4	5	Receipts are pre-numbered and show the organisation's name. The original is given to the person paying in the cash, and a copy is kept.
12. Does someone other than the cashier authorise payments?	1	2	3	4	5	The cashier only pays with authorised documents.
13. Does a senior person count the cash regularly?	1	2	3	4	5	A senior person agrees the cash balance with the cash/bank book at least weekly (on a different day each week).
14. Are bank accounts registered in the organisation's name?	1	2	3	4	5	All accounts are in the name of the organisation/ project.
15. Is there a separate cash/bank book for each bank account?	1	2	3	4	5	There is a <b>cash/bank book</b> for each bank account.
16. Has each bank account at least two signatories?	1	2	3	4	5	Each account has at least two people to sign cheques. If they are sometimes unavailable, more people will be needed.
17. Are cheques and payment instructions signed by two people?	1	2	3	4	5	Two people sign each cheque/payment instruction. This prevents errors and theft.
18. Are cheques signed after the details are entered?	1	2	3	4	5	'Blank' cheques should never be signed.

Question	Rating					Minimum standard	Any action needed
19. Is a <b>bank reconciliation</b> prepared every time a statement is received or the pass book updated?	1	2	3	4	5	A bank reconciliation is completed regularly, to agree the bank statement with the cash/bank book.	
20. Does the leader/manager approve the bank reconciliation?	1	2	3	4	5	The leader or a manager approves the bank reconciliation.	
21. Are cheques used as often as possible?	1	2	3	4	5	Cheques, not cash, are used whenever possible.	
22. Are cheque books kept securely?	1	2	3	4	5	Cheque books are kept in a safe or locked cupboard.	
23. Do cancelled cheques have 'cancelled' written on them, and are they kept for audit?	1	2	3	4	5	Cheques are cancelled when necessary, kept, and filed.	
24. Is there a list of all paid staff?	1	2	3	4	5	A staff list is kept up to date.	
25. Are staff taken off the payroll as soon as they leave?	1	2	3	4	5	There is a procedure for making sure no one can be paid after they have left. Someone other than the person responsible for paying the salaries checks this.	
26. Do staff sign for salaries received in cash?	1	2	3	4	5	Staff always sign a receipt when they receive a salary in cash.	

27. Are legal deductions calculated and paid to the appropriate authorities promptly?	1	2	3	4	5	Deductions required by law are made and paid when salaries are paid.
28. Are extra accounting records kept, for example ledger, journal, sales and purchase records, if needed?	1	2	3	4	5	Larger organisations need extra records, appropriate for their size/activities.
<b>C. FINANCIAL REPORTING</b>						
1. Are annual <b>accounting statements</b> prepared, and do they show <b>restricted and unrestricted funds</b> ?	1	2	3	4	5	Annual summaries of income and expenditure are produced. Larger organisations also have more detailed statements. They both show which funds are restricted for a particular use.
2. Do the management committee review and approve the annual accounting statements?	1	2	3	4	5	The management committee review and approve annual statements.
3. Can the accounting system produce donor reports in the required format?	1	2	3	4	5	Accounting systems produce donor reports in the required format.
4. Are donor reports always prepared on time?	1	2	3	4	5	Donor reports are prepared and sent on time.
5. Do donors receive a copy of the annual accounting statements?	1	2	3	4	5	There is a list of donors, and annual accounting statements are sent to donors and other stakeholders.
6. Are financial information and reports used to plan for the future?	1	2	3	4	5	Financial reports are used to plan future programmes.

Question	Rating					Minimum standard	Any action needed
<b>D. FINANCIAL CONTROLS</b>							
1. Are financial tasks separated?	1	2	3	4	5	No one person does the whole of any one financial transaction. This is to prevent errors and theft.	
2. Is expenditure authorised by a senior staff member (or the leader)?	1	2	3	4	5	Expenditure is approved before it is paid. Someone asks 'Where is it in the budget?'	
3. Are there limits on how much expenditure staff can authorise?	1	2	3	4	5	There are limits, and all staff, especially finance staff, know them.	
4. Do different people authorise payments and sign cheques for those payments?	1	2	3	4	5	No one person can authorise a payment and sign a cheque for the same transaction.	
5. Is there a list of authorised signatories, including their level of authorisation?	1	2	3	4	5	A signatories list is available.	
6. Are payments made only with an original invoice?	1	2	3	4	5	There is a system to avoid duplicate payments.	
7. Is the invoice checked against the original order, to help prevent double payment?	1	2	3	4	5	Purchase orders are attached to invoices, or a similar system is in place.	

8. Are several quotes asked for when making large purchases of goods or services?	1	2	3	4	5	Three quotes are required for goods or services (possibly only for items above a certain amount).
9. Does someone check that goods and services are received and in good condition before they are paid for?	1	2	3	4	5	The invoice is signed to show that the goods/services have been received and are of acceptable quality.
10. Is a record of what is owned ( <b>fixed assets</b> ) kept up to date and reviewed regularly?	1	2	3	4	5	A <b>fixed-asset register</b> is kept for details of items owned. This includes the date of purchase, the value, and where they were bought and are kept. This is agreed annually with the actual items.
11. Is there enough insurance to cover the current value of what is owned and for other risks?	1	2	3	4	5	Items owned are fully insured. Other risks (for example public liability, fire and theft, and cash in transit) should also be covered, if this is possible in the country where you work.
12. Can items be replaced easily when they wear out?	1	2	3	4	5	There is/will be funding to replace essential items.
13. Is everything owned kept securely?	1	2	3	4	5	Valuable items are locked or kept in locked rooms.
14. Is financial stationery numbered, named, and held securely?	1	2	3	4	5	All financial stationery is kept in a safe or locked cupboard.

Question	Rating					Minimum standard	Any action needed
15. Are the entrances to the premises and stores secured?	1	2	3	4	5	Premises should be locked and (if necessary) guarded.	
16. Is there a log book to record mileage for each vehicle?	1	2	3	4	5	Drivers should complete the vehicle log book each time a journey is made.	
17. Do staff pay for personal use of telephones and photocopiers?	1	2	3	4	5	Staff know the organisational policy and how to pay for use.	
18. Are a stock register and records kept?	1	2	3	4	5	There is a basic system of stock control, for example for drugs.	
19. Is stock counted regularly, and agreed with the stock register?	1	2	3	4	5	Stock counts are carried out by an independent person at least every three months.	
<b>E. EXTERNAL AUDIT ASSESSMENT</b>						Appointing the auditors is on the management committee's agenda each year.	
1. Do the management committee select the auditors yearly?	1	2	3	4	5	A yearly financial audit is conducted by an independent person/auditing firm.	
2. Does a <b>financial audit</b> /examination take place each year?	1	2	3	4	5	The auditor firm, or the individual responsible within a firm, is replaced every four to five years.	
3. Is the audit firm (or individual auditors within the same firm) changed every four or five years?	1	2	3	4	5		

4. Does the auditor provide a letter giving recommendations?	1	2	3	4	5	The auditor makes recommendations (the 'management letter') to the management committee at the end of the audit.
5. Does the management committee see the auditor's recommendations and take the necessary action?	1	2	3	4	5	Recommendations are implemented and followed up.
6. Does the auditor provide a management (or systems) audit?	1	2	3	4	5	The auditor looks at financial and management systems and the use of management information.
<b>F. MANAGEMENT COMMITTEE</b>						
1. Does one member of the management committee take the lead on financial issues?	1	2	3	4	5	One member of the management committee is responsible for financial issues.
2. Can members of the management committee understand basic financial information, or are they being trained?	1	2	3	4	5	At least one other person, besides the lead finance person, is competent to ask questions about financial information at meetings.
<b>G. FINANCE STAFF</b>						
1. Are finance staff competent?	1	2	3	4	5	Finance staff have suitable training and/or experience.
2. Are job descriptions available for all finance staff?	1	2	3	4	5	All staff have job descriptions.

Question	Rating					Minimum standard	Any action needed
3. Are qualifications and references checked before new staff are appointed?	1	2	3	4	5	References and qualifications are always checked.	
4. Do interviewees take a practical test of their financial skills?	1	2	3	4	5	Tests are used to assess skills when candidates are interviewed for finance posts.	
5. Are staff encouraged to take further training?	1	2	3	4	5	Someone is responsible for encouraging staff development.	
6. Is the number/level of staff enough for the organisation's activities?	1	2	3	4	5	There are enough staff, especially when extra-large funding is received.	
7. Are some staff able to communicate effectively to a non-financial audience?	1	2	3	4	5	At least one person can explain financial information and its impact on the organisation.	
8. Is there continuity of staff?	1	2	3	4	5	There is enough continuity. If high turnover is due to low salaries, the leadership team should consider other ways of valuing/keeping staff.	
<b>H. FINANCIAL INFORMATION</b>	1	2	3	4	5		
1. Is the information given to the management committee, leader, and managers up to date?						Information is available within two weeks of the period-end.	

2. Is information presented in a user-friendly format?	1	2	3	4	5	The management committee receive a summary of the budget and actual statement; managers have a more detailed version.
3. Are financial policies and procedures put in writing?	1	2	3	4	5	Except for very small organisations, written procedures are available.
<b>I. CULTURE</b>						
1. Do the management committee prioritise financial matters at their meetings?	1	2	3	4	5	The management committee/senior staff receive regular financial reports at their meetings.
2. Does the leader prioritise finance and encourage everyone else to do the same?	1	2	3	4	5	Staff and volunteers know that high standards of financial management are expected.
3. Does the leader submit his/her financial forms quickly?	1	2	3	4	5	The leader sets an example.
4. Are programme staff and other staff aware of financial issues?	1	2	3	4	5	Staff are confident to do the financial tasks in their job description.
5. Is there a numerical test at interviews for non-finance staff who have financial responsibilities in their job description?	1	2	3	4	5	Numerical tests should be used to assess existing skills and/or show what training is needed.

Question	Rating					Minimum standard	Any action needed
<b>J. EXTERNAL RELATIONSHIPS</b> 1. Do the management committee and the leader consider external risks?	1	2	3	4	5	Time to consider what could go wrong is included in the yearly planning process.	
2. Is there a strong, transparent relationship with beneficiaries, donors, and other stakeholders?	1	2	3	4	5	The organisation, its beneficiaries, and donors can all obtain answers to their financial/general questions, in an open and friendly way.	
3. Do stakeholders trust the financial management?	1	2	3	4	5	Stakeholders trust the organisation's financial systems and staff.	
4. Do stakeholders (including beneficiaries) receive regular financial reports in a suitable format?	1	2	3	4	5	All stakeholders, including beneficiaries, receive appropriate information about financial aspects of the work.	
5. Do finance staff meet with beneficiaries to discuss financial matters?	1	2	3	4	5	Depending on the size and style of the organisation, finance staff and beneficiaries can talk with each other about financial matters.	
<b>K. OTHER QUESTIONS</b> 1. Is there a fund-raising plan?	1	2	3	4	5	A fund-raising plan has been adopted and implemented.	
2. Has the organisation got several sources of funds?	1	2	3	4	5	The organisation relies on more than one funding source.	

3. If donor funding were to stop immediately, could the organisation continue until new funds were raised?	1	2	3	4	5	Enough funds are available to pay essential costs until new sources of income can be identified and money received.
4. Are donors' funds used only in accordance with their wishes?	1	2	3	4	5	A system for accounting for <b>restricted funds</b> is in place (see also question B6).
5. Has the organisation considered whether it needs a <b>reserves fund</b> and policy?	1	2	3	4	5	Reserves funds have been discussed. If they are needed, there are plans and a policy for establishing and maintaining them.
6. Is there a policy for funding <b>core costs</b> ?	1	2	3	4	5	The management committee have considered this, although it may be difficult to find an ideal solution.
<b>Your own questions</b>						
	1	2	3	4	5	
	1	2	3	4	5	
	1	2	3	4	5	

**Action points**

**Date of review of action points** .....

Signed ..... Date .....

Signed ..... Date .....