mango

Mango's Health Check

How healthy is financial management in your
not-for-profit organisation?

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Mango is a UK-based charity which provides training and technical support in financial management for not-for-profit organisations working in the developing world.

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About Mango

Mango is a UK based charity which exists to strengthen the financial management of not-for-profit organisations, including NGOs. Mango publishes freely available tools, like this one, as well as running training courses and providing finance staff to work with NGOs. See www.mango.org.uk for more details.

What can Mango's Health Check do?

Mango's 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 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 Health Check you will be able to tell if the financial management in your organisation is healthy or sick - and whether you need to call a doctor!

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

What can Mango's Health Check NOT do?

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 Health Check focuses on those key aspects. They are the foundation stones of good practice.

Mango's Health Check

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.

In the context of a donor assessing a partner's financial systems, it would be tempting to set a 'pass rate' that qualifying partners should achieve. The Health Check is not designed for this purpose. That approach would influence the way in which organisations score themselves, and may be too arbitrary.   It is similarly inappropriate to compare scores of two organisations and make conclusions about differences between them.

Who is Mango's Financial Health Check designed for?

It has been particularly designed for small and medium sized not-for-profit organisations (or field offices). This may include Non Governmental Organisations, schools, medical centres, churches etc. It is not designed for the head offices of international organisations.

How to use Mango's Health Check

The Health Check can be run by any member of staff 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 in a 2-3 hour workshop meeting, with input from the Treasurer, Chief Executive Officer, Senior Managers, and a selection of budget holders, finance staff and field staff (ideally 5- 7 people).

Taking each statement of best practice in turn, discuss whether it is true, or is in place, or happens in your organisation. Agree on a score based on what **actually** happens, not what is supposed to happen, or what is documented in your finance manual. The scores available are 5,4,1 and 0 only.

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

Clearly a degree of judgement is required to decide between '4' or '1', and it is not an exact science. If you cannot give yourselves a clear cut 5 or 0, you need to decide which one you are closer to.

Often the real value in this exercise is not the score itself so much as the conversations and the details of issues discussed.
Make good notes and keep a list of action points as they come up.

Ring the score for each statement. Add up the total for each section and transfer it to page 9 to get a total. Then interpret the score using the guidance given.

Comments

Mango welcomes comments on its tools. Please send any comments or suggestions you might have on the Health Check to Terry Lewis, tlewis@mango.org.uk. Thank you!

Section 1	Planning & budgeting

Budgeting is about working out how much your planned activities are likely to cost. Both programme and finance staff 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, to check they reflect the planned strategic direction of the organisation. Project managers can use a budget to guide implementation and check on progress. Overhead costs that are shared by many projects also need to be carefully controlled by an assigned budget holder.

The codes used for your budget lines need to correspond to the codes used in your accounting system. Otherwise it will be difficult to track actual spending against expected spending in your budget monitoring reports.

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.

Ref	Statement of best practice	Score			
1.1	Budgets are prepared in good time for all the costs of running the organisation	5	4	1	0
1.2	Both finance and programme staff are involved in setting budgets	5	4	1	0
1.3	Project budgets are based on the costs of planned activities	5	4	1	0
1.4	Budget worksheets include explanatory notes and clear calculations	5	4	1	0
1.5	A separate budget is prepared for core costs (overheads)	5	4	1	0
1.6	Organisational budgets are approved by the Board of Trustees	5	4	1	0
1.7	A named individual (budget holder) is responsible for implementing and managing each budget	5	4	1	0
1.8	Budget codes match (or correspond to) accounting codes	5	4	1	0
1.9	All planned operational costs are adequately funded	5	4	1	0
1.10	A cash flow forecast is prepared every month	5	4	1	0
Total score for planning & budgeting					

Section 2	Basic accounting systems

Every financial transaction should be backed up by a 'supporting document', e.g. a receipt, invoice or sign sheet (eg 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 in a cashbook. 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 in the cashbooks 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'. The bank statement balance is compared to the bank cashbook closing balance. A physical cash count is done to check the closing balance in the petty cash book.

Accounting works by assigning codes to each transaction entered in the cashbooks. The unique list 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 donor. These are called 'cost centre' codes.

Ref	Statement of best practice	Score			
2.1	Every payment made has a supporting document providing evidence	5	4	1	0
2.2	All cash or cheques received are recorded on pre-numbered carbon copy receipts (*if NGO does not receive cash or cheques score 5*)	5	4	1	0
2.3	All payments and receipts are recorded in cashbooks (date, description, amount)	5	4	1	0
2.4	There is a separate cashbook for each bank and cash account	5	4	1	0
2.5	Every entry in the cashbooks is cross referenced to a supporting document	5	4	1	0
2.6	All cashbooks are updated at least once per month	5	4	1	0
2.7	All cashbooks are written neatly in permanent ink or on computer	5	4	1	0
2.8	A standard Chart of Accounts is used to code (or classify) each transaction in the cashbooks	5	4	1	0
2.9	Transactions are also classified by project or donor using a standard list of 'cost centres'	5	4	1	0
2.10	A bank reconciliation is done each month, for every bank account	5	4	1	0
2.11	A cash count reconciliation is witnessed and recorded each month	5	4	1	0
2.12	The organisation keeps track of amounts owed to others (eg suppliers) and owed by others (eg staff)	5	4	1	0
Total score for basic accounting systems					

Section 3	Financial reporting

The Board of Trustees need financial reports to oversee the finances of the organisation. Managers 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. Increasingly, organisations are sharing financial information with beneficiaries to increase accountability and build confidence. An annual external audit verifies the accuracy of the financial statements.

The monthly 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. Project managers should use financial reports 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 <u>to</u> the organisation (such as unaccounted working advances) and owed <u>by</u> the organisation (eg to suppliers / tax authorities).

Reports should be produced showing the relevant level of detail according to their use (eg for a single project or donor) or consolidated. Reports should also have the right format for their use, eg donor formats as per grant agreements, standard formats for annual audited accounts, accessible formats for beneficiaries, user friendly formats for managers.

NB: Donor reports are considered in **Section 5: Grant Management.**

Ref	Statement of best practice	Score			
3.1	The board reviews financial reports every quarter	5	4	1	0
3.2	Senior managers discuss financial reports at least once every three months	5	4	1	0
3.3	Reports include details of cash and bank balances, amounts due (eg from staff) and owed (eg to suppliers)	5	4	1	0
3.4	Budget holders receive budget monitoring reports every month	5	4	1	0
3.5	Budget monitoring reports include explanations and comments about differences	5	4	1	0
3.6	Financial reports are used to help make decisions	5	4	1	0
3.7	Financial information is shared with beneficiaries at least once per year, in an accessible way	5	4	1	0
3.8	Annual audits are up-to-date (signed within 6 months of the year end)	5	4	1	0
Total score for reporting					

Section 4	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.

Ref	Statement of best practice	Score			
4.1	Cash is kept safely in a locked cashbox or safe, in the custody of one individual	5	4	1	0
4.2	All cash received is banked intact, ie without any being spent *(if no cash is received, score 5)*	5	4	1	0
4.3	All cheques are signed by at least two authorised signatories	5	4	1	0
4.4	Cheques are signed only when all the details have been properly filled in (ie no signatories ever sign blank cheques)	5	4	1	0
4.5	Bank reconciliations are checked by someone who did not prepare them	5	4	1	0
4.6	There is a written policy detailing who can authorise expenditure of different types or value	5	4	1	0
4.7	All transactions are properly authorised	5	4	1	0
4.8	Cash payments are authorised by someone other than the cashier	5	4	1	0
4.9	Different steps in the procurement process, (eg ordering, receiving and paying) are shared among different people.	5	4	1	0
4.10	Expenses claims for staff advances are checked by the same person who authorised the advance	5	4	1	0
4.11	Staff salaries (including advances and loans deductions) are checked each month by a senior manager	5	4	1	0
4.12	Statutory deductions (eg payroll taxes) are properly made and paid on time	5	4	1	0
4.13	All fixed assets (eg vehicles, computers, equipment) owned by the NGO are insured and controlled using a fixed assets register	5	4	1	0
4.14	There is an approved policies and procedures manual in place which is relevant to the organisation, and known by staff	5	4	1	0
4.15	A properly registered audit firm is selected by the trustees	5	4	1	0
Total score for internal controls					

Section 5	Grant management

Most NGOs get at least some of their funding as grants from donor partners. 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. Programme and Finance staff need to work together to ensure consistency between the narrative and financial reports about the same project.

Often NGOs work with several different donors at the same time. It is very important to keep track of which donor is funding which project (or part of a project). It is very bad practice to 'borrow' money received from a donor for a specific project for another purpose.

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	Senior Managers check the grant conditions are reasonable before signing agreements	5	4	1	0
5.3	Grant conditions on procurement are known by finance staff, budget holders and procurement officer(s)	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 in the right format and 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					

Section 6	Staffing

Good financial management is dependent on staff with the right skills, support, and attitude to carry out their responsibilities. All staff have a role to play in financial management. The accounting staff are part of a wider team including the Executive Director, Programme Managers and the Board. Integrating good financial management into programmes involves budget holders and finance staff working hand in hand through all the stages of the financial cycle (plan-do-review).

It may be difficult to assess the technical competence of accounting staff. Good indicators are the timeliness of reports, the neatness of files and records in the accounts office, and auditor's comments or recommendations.

Ref	Statement of best practice	Score			
6.1	The board includes someone with the skills needed to oversee all financial activities	5	4	1	0
6.2	The finance staff have the skills (and qualifications) needed to carry out all financial activities	5	4	1	0
6.3	Managers and programme staff have the financial skills they need to manage budgets and implement controls	5	4	1	0
6.4	Finance staff and budget holders work together well in payments processing and budget monitoring	5	4	1	0
6.5	Different roles within the finance function are clearly defined, known and followed	5	4	1	0
6.6	Senior staff lead by example in following control procedures	5	4	1	0
6.7	Finance staff are recruited freely and fairly on the basis of merit only	5	4	1	0
6.8	All staff receive the training and support they need to carry out their financial management responsibilities	5	4	1	0
Total score for staffing					

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.

Section	Your Score
1. Planning and budgeting	
2. Basic Accounting Systems	
3. Financial reporting	
4. Internal controls	
5. Grant management	
6. Staffing	
Total Score	

High Risk	Medium Risk	Low Risk
0 - 25	26 - 40	41 - 50
0 - 30	31 - 50	51 - 60
0 - 20	21 - 35	36 - 40
0 - 40	41 - 60	61 - 75
0 - 15	16 - 25	26 – 35
0 - 20	21 - 30	31 - 40
0 - 150	**151 - 240**	**241 - 300**

Your score is over 240

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 151 and 240

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 150

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.

Additional Resources

Your auditor or other NGOs may be able to help you identify how you can improve your financial management. You may also find the following Mango resources helpful.

1 Mango's Guide to Financial Management for NGOs

Mango's free Guide to Financial Management for NGOs is available from www.mango.org.uk. It is like an online reference book and includes a comprehensive introduction to:

- What NGOs do and what this means for managing them
- Key financial responsibilities of NGO trustees, managers and staff
- Financial management basics:
  - budgeting, bookkeeping, reporting and controls
- Financial management advanced issues including:
  - assessing and achieving financial sustainability
  - giving and receiving grants
  - accountability to beneficiaries
  - accounting software
  - finance manual
  - fraud.

It is packed with free material to download, practical tools and case studies. Free downloadable materials include the Course Handbook for the FM1 training course (see below), a simple Excel based bookkeeping system suitable for field offices, standard forms for you to tailor to your own organisation, and sample job descriptions for you to edit.

2 Training courses

Mango runs training courses on NGO financial management in regional centres around the world, including:

FM1 - Practical Financial Management for NGOs - Getting the basics right (5 days)
FM2 - Strategic Financial Management for NGOs (3 days)
FM3 - Financial Management for Effective Programmes: A Programme Officer's Survival Course (2 days)
FM9 - Assessing and Building Partners' Financial Management Capacity (1 day)
TFT1 - Training for Finance Trainers: How to Take the Fear Out of Finance (4 days)

See www.mango.org.uk or contact the training team on training@mango.org.uk or by phone on +44 (0) 1865 423818 for more details.

3 Capacity building support

Mango recruits finance professionals for NGOs all round the world. We help NGOs find support staff who have strong capacity building skills as well as technical skills. They work with NGOs for anything from two weeks (reviewing systems) to months (developing systems and training staff) or years (managing systems and staff).

See www.mango.org.uk or contact the recruitment team on financestaff@mango.org.uk or by phone on +44 (0) 1865 433 342 for more details.

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. 5050 Transport costs, 5600 Office rent etc.
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 reconciliation	Comparing the month end physical cash counted to the expected month end balance in the petty cashbook.
Cash flow forecast	A report that shows the expected timing of receipts and payments for the next 3-6 months (or longer).
Chart of accounts	A list of all account codes, including a description of each code.
Core costs	Costs shared by many projects. Also called overheads or indirect costs.
Cost centre	A label for a group of costs which are looked at together. For instance, different projects are often treated as different cost centres.
External audit	A review of the year-end financial statements carried out by a professionally qualified and legally registered auditor resulting in an opinion about whether they give a true and fair view.
Fixed asset	An item of high value owned by the organisation for use over a long period. Normally office equipment, vehicles and property.
Fixed asset register	A register (list) of the assets owned by the organisation, including details such as: reference number, date bought, purchase price, and location.
Payment voucher	An internal document raised for each payment. It provides a unique reference number and evidence of authorisation. Supporting documents are attached to it.
Petty cash records	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.
Receipt book register	A register (list) of receipt books as they come from the printers showing dates when each one is issued, finished and returned.
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
Statutory deductions	Amounts which must be taken from an employee's pay before they receive it, such as income tax or national insurance contributions.
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.
Working advance	A sum of money entrusted to someone to spend on behalf of the organisation, which needs to be accounted for.