

4. FINANCIAL MANAGEMENT

The objective of this section is to assess the quality of the organization's financial systems, policies and procedures and the staff's knowledge of the system.

► **Subsections under FINANCIAL MANAGEMENT:**

- 4.1 Financial Policies and Procedures
- 4.2 Internal Controls
- 4.3 Financial Documentation and Reporting
- 4.4 Financial Planning and Sustainability

► **Resources you may wish to refer to in this section:**

- financial manual;
- accounting journals;
- chart of accounts;
- payment vouchers;
- staff training plan;
- signatory policy/authority matrix;
- budget;
- budget tracking sheet;
- financial reports; and
- strategic plan.

4.1 Financial Policies and Procedures

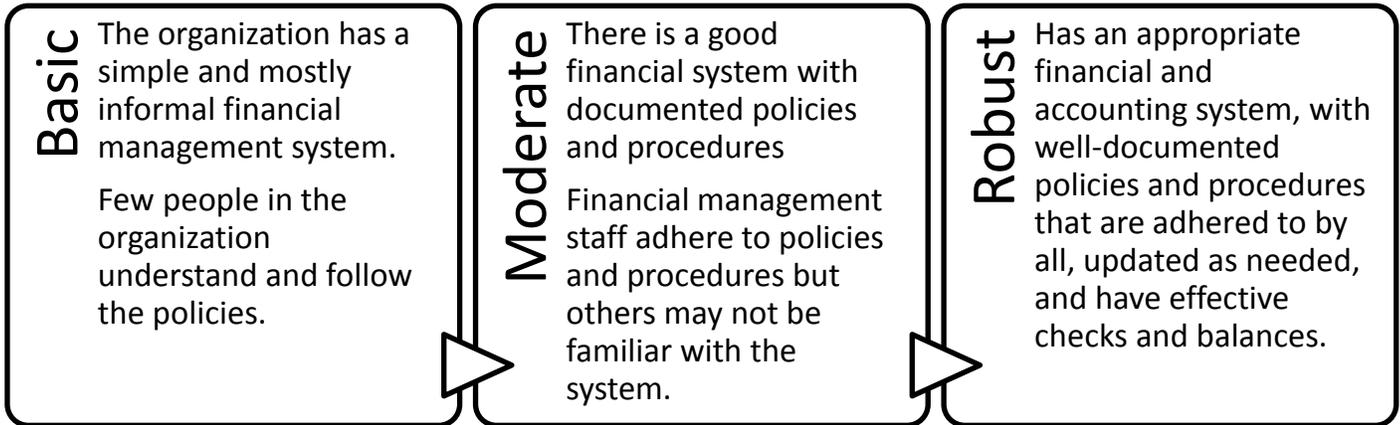
Importance: Having clear, well-documented policies and procedures for financial management that are understood and used by staff members allows an organization to function transparently, and promotes integrity and accountability.

➤ **Discuss some or all of the following questions:**

- ❑ What type of accounting system does the organization use? How is the system implemented? Is the organization using accounting software?
- ❑ Which financial procedures are documented? How are financial procedures developed and approved? How often are the financial procedures formally reviewed/updated? What is included in the financial policies and procedures? Do they include:
 - Managing petty cash (who can spend, types of items, limit)?
 - A signatory/authority matrix (who can do what)?
 - Does it include authorization limits?
 - Who are the organization's check signatories?
 - Budgeting and reporting requirements?
- Policies regarding receipts (definition, recording)?
Monthly reconciliation of all cash accounts?
- Requirements for documenting expenses/payments and income/receipts (supporting documentation and retention period)?
- Managing bank accounts in the organization's name?
- Policies and procedures for handling potential fraud?

- How are staff members oriented/trained in the procedures? How often?
- Does the organization have separate accounts for separate programs? Does the organization use codes to assign transactions to a specific project/donor?
- Is there cashbook (or bank journal) completed in ink used for each bank account?
- How are account balances kept? Are all payments and receipts recorded in the organization's bookkeeping system? How are transactions in the accounting system linked to supporting documentation?
- What systems ensure compliance with financial procedures? At end of the fiscal year how are accruals recorded?

➤ **Come to consensus: Where does the organization fall on this spectrum?**



Indicate where you approximate your organization to be in this category on a scale of 1 to 5.

Basic		Moderate		Robust	N/A
1	2	3	4	5	

Discussion Notes/Rationale for rating.

On the above scale of 1 – 5, where would you like to see your organization in 12 months? _____

Brainstorm briefly: how could the organization get to where it wants to be?

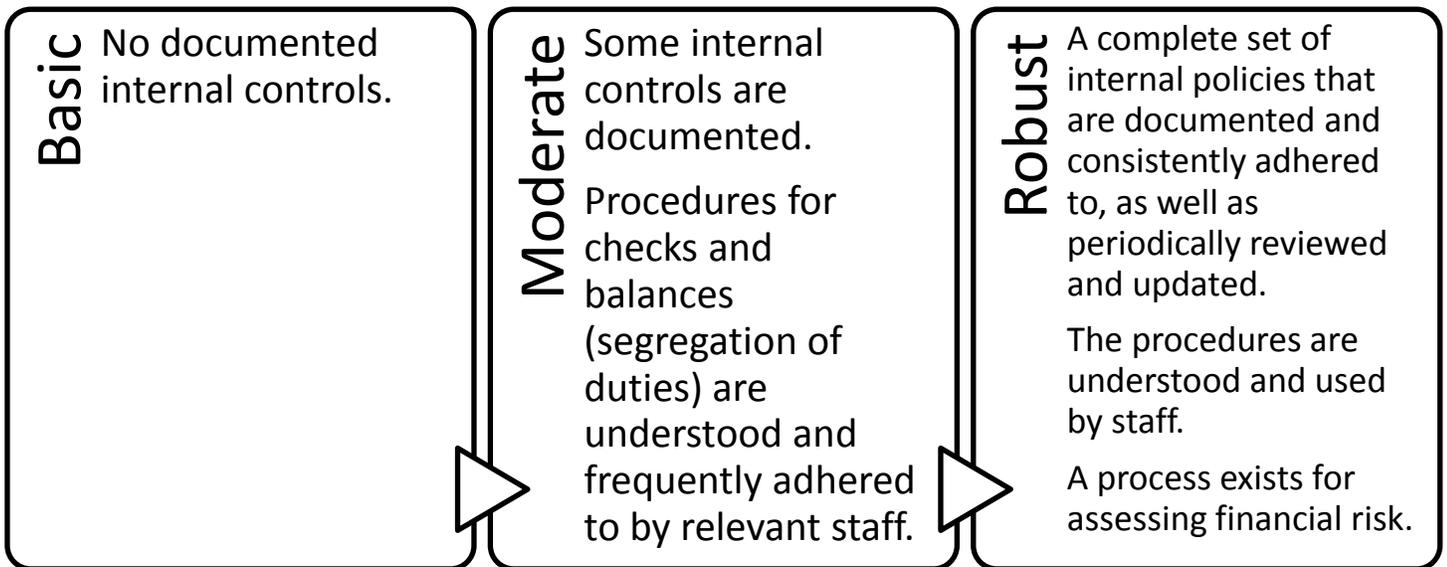
4.2 Internal Controls

Importance: Strong internal controls help an organization safeguard its assets, manage internal risks, and ensure accurate and reliable financial accounting and reporting.

➤ **Discuss some or all of the following questions:**

- Are there written policies on internal controls that are regularly reviewed and updated, and staff are trained on?
- Do the controls guide the segregation of duties among staff involved in financial management?
- Do multiple people review and approve payments and financial reports?
- How is petty cash managed?
- Is there a safe or other secure location for storing cash and checkbooks? Are there a limited and known set of people who can access the contents?
- How does the organization periodically assess its financial risks?
- Is there a documented procedure for handling possible instances of fraud or theft?

➤ **Come to consensus: Where does the organization fall on this spectrum?**



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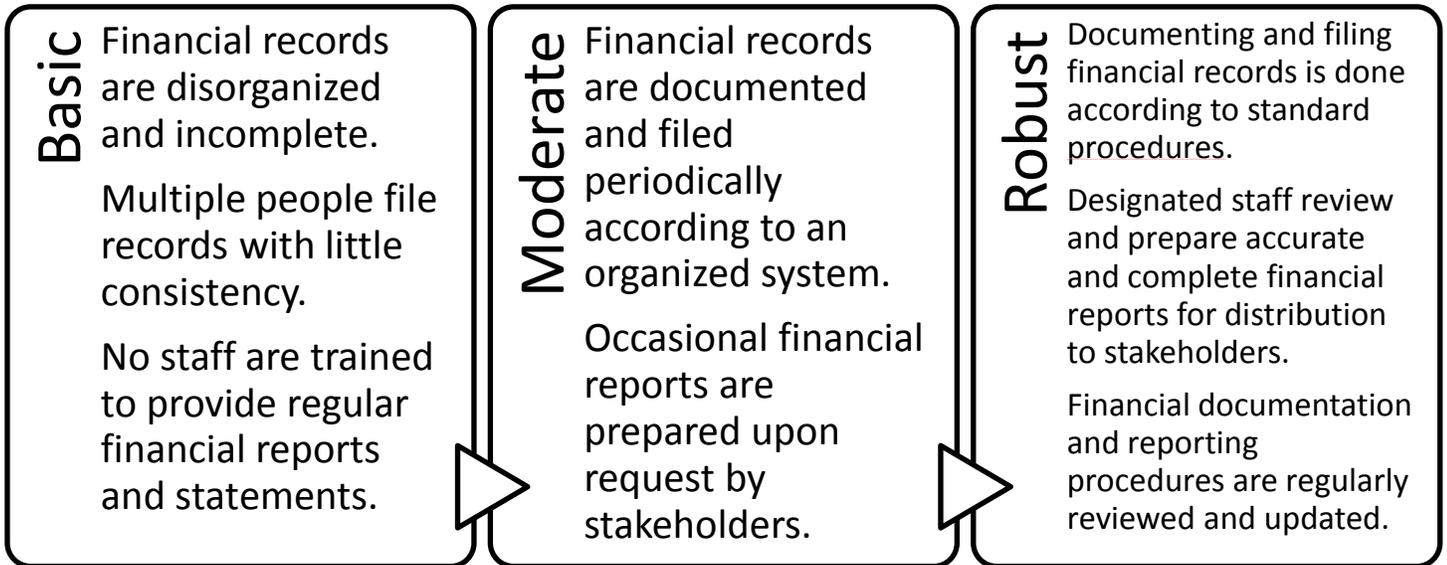
4.3 Financial Documentation and Reporting

Importance: Keeping accurate and up-to-date financial records enables an organization to track resources, monitor its financial status, and prepare accurate financial reports for donors, stakeholders, and auditors in a timely fashion.

➤ **Discuss some or all of the following questions:**

- Are there written guidelines and procedures for documenting all types of financial transactions?
- How often are these guidelines reviewed and updated? What is the process for this?
- Is the organization’s financial documentation up-to-date?
- Are financial files kept neat, organized, and secure?
- Are there procedures for preparing and disseminating financial reports?
- Does the organization adhere to relevant legal requirements on financial reporting, such as audits?
- Who in the organization prepares, reviews, and approves financial reports that are shared with donors and other stakeholders?

➤ **Come to consensus: Where does the organization fall on this spectrum?**



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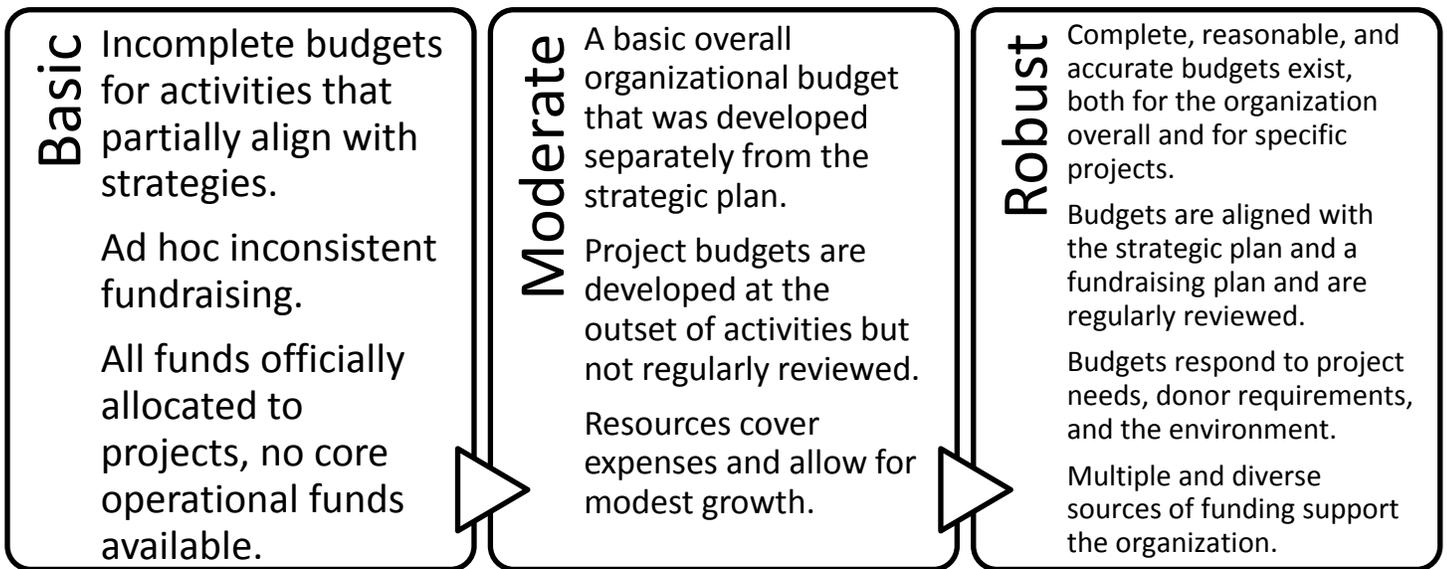
4.4 Financial Planning and Sustainability

Importance: Financial planning and monitoring that aligns with program planning and monitoring enables an organization to implement planned activities and demonstrate accountability to resource providers, which builds their confidence in the organization and makes them more likely to continue supporting the organization.

➤ **Discuss some or all of the following questions:**

- Does the organization have a master budget that includes operating and overhead costs as well as project activities? How is it developed? How are budgets reviewed and approved? Are they frequently updated?
- Are project budgets developed during activity planning?
- Does the organization have a documented resource mobilization strategy? How does it relate to the strategic plan?
- Does the organization have income-generating activities or other sources of unrestricted funding?
- Does the organization have a cash flow that allows it to meet its financial obligations? Is the organization in debt?

➤ **Come to consensus: Where does the organization fall on this spectrum?**



Indicate where you approximate your organization to be in this category on a scale of 1 to 5.

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Helpful Resources: Financial Management

- [National Council of Nonprofits: *Financial Management*](#)
The National Council of Nonprofits has a myriad of helpful resources for nonprofits who are trying to improve their financial management skills, including a Financial Management Self-Assessment tool as well as financial policy guidelines.