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# Humentum's Finance Health Check

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How healthy is financial management in your  
political party?

Mongolia version  
2019

# Humentum's Finance Health Check for Political Parties

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Based on 2009 version  
2014

Updated and tailormade for political parties in Myanmar in cooperation with DIPD ([www.dipd.dk](http://www.dipd.dk)) and now used for political parties in Mongolia

Humentum is a global charity which provides training and technical support in financial management for not-for-profit organizations working in the developing world.

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### About Humentum

Humentum is a global charity which exists to strengthen the financial management of not-for-profit organizations, including political parties. Humentum publishes freely available tools, like this one, as well as running training courses. See [www.Humentum.org.uk](http://www.Humentum.org.uk) for more details. Upon the request of the Danish Institute for Parties and Democracy, this tailor made and customized version of the health check was produced together with DIPD.

### What can Humentum's Health Check do?

Humentum's Financial Health Check can help you assess the health of your party'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 political party financial management. For each statement, you need to consider how well your own party 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 party organization 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 Humentum's Health Check NOT do?

Every party organization 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 organizations most of the time. The Health Check focuses on those key aspects. They are the foundation stones of good practice.

Humentum's Financial Health Check only provides a general indication of the health of your party organization'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.

### Who is Humentum's Financial Health Check designed for?

Originally, it was designed for small and medium sized not-for-profit organizations (or field offices). These include Non-Governmental Organizations, schools, medical centers, churches etc. It is not designed for the head offices of international organizations. This version of Humentum's Financial Health Check has been requested by and specially developed for political parties. They need to show voters that they are economically responsible, accountable and transparent in order to be trusted with the national budget and government.

### How to use Humentum'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 other 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 organization. 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 8 to get a total. Then interpret the score using the guidance given.

<b>Section 1</b>	<b>Planning &amp; budgeting</b>
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Budgeting is about working out how much your planned activities are likely to cost. Both political 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 party organization. Political staff can use a budget to guide implementation of the political activities and check on progress. Overhead costs that are shared by a lot of different political activities 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 prioritize the timing and scale of planned activities and to spot cash flow problems in good time.

Ref	Statement of best practice	Score			
		5	4	1	0
1.1	Budgets are prepared in good time for all the costs of running the party organization	5	4	1	0
1.2	Both finance and political staff are involved in setting budgets	5	4	1	0
1.3	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	Organizational 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
<b>Total score for planning &amp; budgeting</b>					

<b>Section 2</b>	<b>Basic accounting systems</b>
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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 in a cashbook. It can be kept in a physical cashbook or petty cashbook, on an Excel spreadsheet or as part of a computerized 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 a party organization 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 center' codes.

Ref	Statement of best practice	Score			
		5	4	1	0
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 ( <i>if the political party does not receive cash or cheques score 5</i> )	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 centers'	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 organization keeps track of amounts owed to others (e.g. suppliers) and owed by others (e.g. staff)	5	4	1	0
<b>Total score for basic accounting systems</b>					

<b>Section 3</b>	<b>Financial reporting</b>
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The Board of Trustees need financial reports to oversee the finances of the organization. Managers need up-to-date figures to monitor activities and make decisions. Funders need reports to check the use of their money, and often as a condition for further funding. 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 organization 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. Political staff 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 to the organization (such as unaccounted working advances) and owed by the organization (e.g. to suppliers / tax authorities).

Reports should be produced showing the relevant level of detail according to their use (e.g. for a single project or funder) or consolidated. Reports should also have the right format for their use, e.g. funder formats, standard formats for annual audited accounts and user friendly formats for managers.

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 (e.g. from staff) and owed (e.g. 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
<b>Total score for reporting</b>					

<b>Section 4</b>	<b>Internal controls</b>
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Political parties 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			
		5	4	1	0
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, i.e. 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 authorized signatories	5	4	1	0
4.4	Cheques are signed only when all the details have been properly filled in (i.e. 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 authorize expenditure of different types or value	5	4	1	0
4.7	All transactions are properly authorized	5	4	1	0
4.8	Cash payments are authorized by someone other than the cashier	5	4	1	0
4.9	Different steps in the procurement process, (e.g. 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 authorized 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 (e.g. payroll taxes) are properly made and paid on time	5	4	1	0
4.13	All fixed assets (e.g. vehicles, computers, equipment) owned by the party 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 organization, and known by staff	5	4	1	0
4.15	A properly registered audit firm is selected by the trustees	5	4	1	0
<b>Total score for internal controls</b>					



<b>Section 5</b>	<b>Staffing</b>
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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, Program Managers and the Board. Integrating good financial management into political activities 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			
5.1	The board includes someone with 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	Managers and political staff have the financial skills they need to manage budgets and implement controls	5	4	1	0
5.4	Finance staff and budget holders work together well in payments processing and budget monitoring	5	4	1	0
5.5	Different roles within the finance function are clearly defined, known and followed	5	4	1	0
5.6	Senior staff lead by example in following control procedures	5	4	1	0
5.7	Finance staff are recruited freely and fairly on the basis of merit only	5	4	1	0
5.8	All staff receive the training and support they need to carry out their financial management responsibilities	5	4	1	0
<b>Total score for staffing</b>					

## 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	High Risk	Medium Risk	Low Risk
1. Planning and budgeting		0 - 25	26 - 40	41 - 50
2. Basic Accounting Systems		0 - 30	31 - 50	51 - 60
3. Financial reporting		0 - 20	21 - 35	36 - 40
4. Internal controls		0 - 40	41 - 60	61 - 75
5. Staffing		0 - 20	21 - 30	31 - 40
<b>Total Score</b>		<b>0 - 135</b>	<b>135 - 215</b>	<b>215 - 265</b>

### Your score is over 215

**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 135 and 215

**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 135

**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 funders and members 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.

## 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 center	A label for a group of costs which are looked at together. For instance, different projects are often treated as different cost centers.
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 organization for use over a long period. Normally office equipment, vehicles and property.
Fixed asset register	A register (list) of the assets owned by the organization, 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 authorization. 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, authorizing, 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 a political party's governing body, who shares overall responsibility for the party's work.
Working advance	A sum of money entrusted to someone to spend on behalf of the organization, which needs to be accounted for.