## Financial monitoring - Checklist

When monitoring the Southern partner, it is important that you review the financial aspects of the project. We recommend involving both project and accounting staff in the finance review.

As a minimum, your financial monitoring should cover:

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| **What to review** | **How to review it (suggestions)** |
| **Bank reconciliation**  A bank reconciliation is a comparison of the bank transaction entries in the accounts and the original bank statements received from the bank.   * Review of the bank reconciliation. Does the accounting reflect reality and the actual expenses? * Are the bank statements correct? * Are the bank statements and the financial statements in agreement? | Is there proof of monthly bank reconciliations? Relevant documentation typically consists of monthly bank statements, details of account entries from the past month and an overview of pending transactions, e.g. checks that have been issued but not cashed in.  If the bank statements and the financial statements are in agreement, it indicates that all income and expenses are included in the accounts.  You can e.g. access the online banking with the Southern partner to verify the accuracy of the bank statements.  You can check random samples by comparing specific amounts on the bank statement with the corresponding amount in the accounts.  Track a voucher transaction in the accounting, from the cost is incurred to final accounting and approval (see more under ‘Approval procedure’). |
| **Cash reconciliation**  A cash reconciliation is a comparison of the cash balance recorded in the accounts and the actual cash holdings.   * Are the cash holdings stored safely? Who has access to the cash? * Review signed documentation of cash counts. | In principle, a cash count is carried out by counting the number of each currency denomination, e.g. 1 krone coins, 2 kroner coins, etc., and calculating the total value. The total cash holdings are compared with the cash amount registered in the accounts. This ‘count versus accounts’ procedure is documented with signature and date, ensuring you know when it took place and who conducted it.  Review the documentation of previous cash counts that should be filed in the accounting department. You do this to check how often the Southern partner counts the cash holdings – does it happen on a regular basis or only before external monitoring.  The cash holdings deserve special attention; although the amounts are small, they can tempt weak souls. |
| **Approval procedure**   * Compliance with the two-person rule – do at least two people approve any project decisions regarding activities as well as payments? | You can request that the Southern partner explains the process used for a randomly selected purchase or activity expense, from the time of planning to the time of completion. What was the approval process? Can you see the two sign-offs or any other type of documented approval?  Ideally, the registration and executive functions should be separate – i.e. the person who registers the payment should be different from the person who executes it. Often this is not possible because of the organisation’s limited number of staff. In such cases, a check can be introduced by allowing a signatory (typically a manager) to authorise both the activity and the expense payment.  Example: When a project coordinator approves an expense e.g. in relation to a workshop, his or her manager will also approve the activity expense. When the meeting room payment needs to be processed, the project coordinator approves the expense, as does the manager, and based on these two approvals a finance employee executes the payment, approved by the manager. |
| **Bookkeeping**   * Review of entries in the accounts – is the Southern partner up to date with the project bookkeeping? * Bookkeeping procedures – is the Southern partner on top of documentation and filing of receipts and vouchers? | If the accounts have not been updated recently, it indicates that the Southern partner is not on top of their bookkeeping. If a long time has passed since the last reconciliation of bank (and cash) holdings, income and expenditure, there is an increased risk of oversight.  At the same time, updates to the accounts can affect the budget variance analysis. The accounts provide a picture of the Southern partner's internal management of project funds and of the link between activity implementation and the finances.  In some developing countries, it might be necessary to make cash payments. All cash payments must be documented with a receipt with full details, stating clearly the amount, what the money was spent on, who received it and a signature of the supplier or the person who received the money. The Southern partner’s procedure should include having an authorised signatory to review and authorise all cash payments, in addition to the responsible person’s approval of a specific payment.  To review cash payments, it is useful to contact the supplier and alternative suppliers for independent price checks of random samples.  If an advance payment is made e.g. to implement an activity, check that the advance is settled within a reasonable time after the activity is completed, e.g. 14 days. |
| **Budget variance analysis**   * How are the variances distributed across the different budget lines? * Are these deviations on variable or fixed costs? * What is the balance between organisational costs and activity costs? | The purpose is partly to get a feel for the coherence between project and finances, and partly to monitor whether project expenses follow the budget plan as agreed for the period.  E.g. consider the balance between salary and activity costs. Any deviations, especially for salaries, will need to be corrected before the end of the project. |
| **Inventory list**  Investments, or assets, such as buildings, vehicles, equipment and furniture are used for daily project operations, but not ‘consumed’ when used.   * Review all inventory lists, e.g. of cars or IT equipment. Have all purchases been recorded and is the inventory list up-to-date? | See if you can find the items purchased on the inventory list and whether they are labelled in such a way that they are easy to identify based on the list.  Are they in a good/usable condition? Do the investments match the corresponding budget items?  If you have purchased a vehicle, ask to see the logbook and check that the trips made are relevant to the intervention/project. Is it used for other purposes, and if so, are there procedures for compensation? Read about the inventory list earlier in this chapter, section 3.2.3. |

Suggestion: Settlement of an advance payment for an activity or the purchase of a computer or similar are convenient cases to review, as they require approvals, obtaining several quotes, etc. Additionally, the advance payment must be settled within a short period of time in order for it to not become a loan.