

# Financial Assessment

## Objectives

- Partners and field staff will understand when and why to conduct a financial assessment
- Partners will better incorporate findings from the financial assessment into the project work plan
- Partners and field staff will more accurately assess grantee financial systems
- Planned financial systems improvements will be better documented and communicated between the grantee, partner, and ADF

## Course Content

### 1. What is a Financial Assessment?

Financial Assessment is a review of the grantee's financial systems to diagnose whether they have minimal requirements in place to receive ADF funds and to identify improvements that need to be made.

A. Building robust financial systems is a process that starts with **assessment** to identify strengths and weaknesses, followed by **training** grantees how to address the weaknesses, followed by **implementation** where the improvements are put into practice. For any one grant you will likely **repeat** this process several times because changes will be incremental.

B. The **Financial Assessment Review Questionnaire** is the primary assessment tool used by ADF.

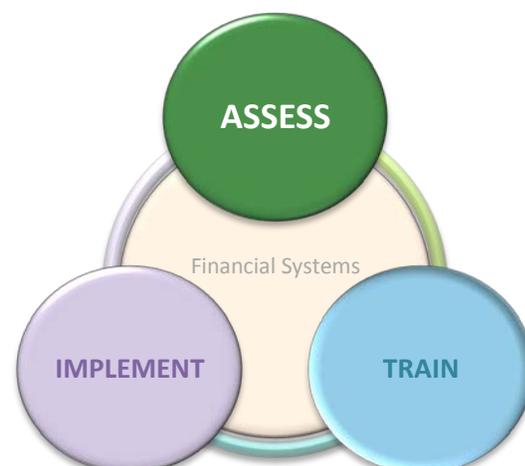
C. Financial assessment looks at the grantee's ability to handle 4 important cash functions:

- (1) Cash and check receipts
- (2) Cash and check disbursements
- (3) Petty cash
- (4) Payroll

### 2. When is Assessment Done?

A. Project Development

- **EEl:** The Financial Assessment Review Questionnaire is required in the project proposal. It should be completed as early as possible in the project



development cycle and results should be incorporated in the work plan.

- **EDI:** The one page Preliminary Financial Assessment is required in the project proposal. The form is part of the Initial Site Visit Report. It is assumed that the preliminary assessment demonstrates such low financial capacity that the longer assessment will not be useful.
- B. Grant Startup
- **Grants with preliminary financial certification:** the Financial Assessment Review Questionnaire must be resubmitted after the identified weaknesses are resolved and within the timeline stated on the provisional certification. In most cases the follow-up assessment can focus on the areas where weaknesses were previously identified without redoing the entire assessment.
- C. Implementation (optional)
- **EDIs that are ending:** Financial Certification will be required for a follow-on EEI. It is most useful to do the assessment a few months before the end of the EDI so that resources and time are still available to correct any weaknesses.
  - **EEIs with 40% disbursed:** Every grant is subject to an audit sometime after 40%

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of the grant budget has been disbursed. To facilitate a clean and easy audit process, it may be useful to reassess the grantee prior to the audit so that any weaknesses can be resolved ahead of time.

- **Staff Turnover:** It may also be useful to reassess the financial systems if there is turnover in management or financial staff. The review can help ensure that the systems are still in place and are sustainable longer term.
- Financial Assessment is not required at any time after full certification has been given- though it is always available as a project management tool.

### 3. Who's Involved with Assessment?

- A. ADF Field Staff
  - Conducts the Preliminary Financial Assessment during the initial project screening site visit
  - Verifies (or conducts\*) the Financial Assessment Review Questionnaire process *\*varies by country*
- B. Partner
  - Conducts (or observes\*) the Financial Assessment Review Questionnaire process *\*varies by country*
- C. Grantee

The following staff should participate in the financial assessment:

  - CEO/Manager
  - Accountant
  - Sales Manager
  - Cashier/Bookkeeper
  - Production Manager

### 4. What are the Results?

#### A. Full Certification

No or only minor changes recommended.  
The grantee has a comprehensive

financial system and can handle ADF funds appropriately.

#### B. Partial Certification

Some recommended changes are required for the applicant to receive full certification. The ADFW certifier will provide a timeframe for making improvements and resubmitting the assessment.

#### C. No Certification

The Preliminary Financial Assessment used for EDIs does not have sufficient information to provide any certification. The grantee lacks any substantial financial systems and needs to create and implement them.

### 5. Tips To Conduct the Financial Assessment Questionnaire

- A. Schedule the visit with the Grantee and let them know the following:
  - you are coming to fulfill the grant application requirement of assessing their financial systems
  - you need to have the relevant staff present and available to answer questions (as listed in 3.C above)
  - you will need access to the following records and documents:
    - (1) audited financials from the last 3 years (if available)
    - (2) organizational chart
    - (3) written policies
    - (4) bank statements and reconciliations
    - (5) ledgers
    - (6) receipts, vouchers, invoices, cancelled checks, deposit slips, and other support documentation
    - (7) payroll and attendance records
  - they should allow at least one full day for the assessment

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- the assessment is to identify the needs for the grant and will not disqualify them from funding
- B. Before you go, reread the Financial Assessment Questionnaire and make sure you are well aware of the information you'll need to gather. Fill in the general information on the coversheet and the project description question A.1.
- C. When you arrive, work through the Financial Assessment section by section.
- D. For each section work with the staff member who handles that function. Don't allow the CEO or manager to explain the process because knowing the correct process is very different than implementing it.
- E. For each section collect copies of supporting documents or take pictures that demonstrate your findings and can be submitted to ADFW with the questionnaire.

For more information see: *Financial Training Course* 

## 6. Financial Assessment as a Management Tool

- A. Project Development
  - **Grant type?** The financial assessment can help determine whether the grant should be an EDI or an EEI.
  - **Work plan?** The final stage of the assessment is to identify a plan of action to address any weakness in the financial systems. These should be incorporated into the work plan for the overall project and incorporated into the Appendix A.
  - **Timing?** The financial assessment also helps to assess the overall capacity of the grantee and can be used to better understand what a realistic pace is for completing project activities. For

example, if a grantee receives provisional certification the first few months of the grant may need to be focused entirely on capacity building.

- **Budget?** All planned financial system improvements need to be provided for in the budget whether it be funds for trainings, software, technical assistance, or an internal audit.
  - **Communication?** The process of talking through the financial assessment will provide a good opportunity to meet the various grantee staff and get to understand their areas of expertise.
- B. Implementation
    - **Quarterly Reports?** Good knowledge of the grantee financial systems will make reviewing their quarterly reports easier because you will know what problems to look out for, who has the knowledge to provide missing information, and what limitations the grantee is in the process of resolving.
    - **Resource Planning?** The outcome of the financial assessment provides a basis for planning the amount of partner staff time and travel required to implement the grant.

## 7. Advice from the Experts

- Good communication and trust are critical. People are naturally nervous about trusting others with their financial information. Be careful to set a supportive tone focusing on the fact that you are there to help rather than criticize them.
- Assure the grantee that any information provided will be kept confidential and only shared with relevant ADF and Partner staff.

## Handouts

Financial Assessment Review Questionnaire  
Preliminary Financial Assessment from the Initial Site Visit Report  
Sample Complete Coffee Project Financial Assessment Review Questionnaire