

CLARITY FIRST

---

# Financial Health Check

---

A free assessment tool designed for small and medium sized companies to help establish an easy process to keep them in good financial health.



---

# Foreword

CLARITY FIRST is a UK based company which provides accountancy and bookkeeping support for small and medium organisations, sole traders and individuals.

These materials may be freely used and copied by anyone looking to establish internal accounting processes.

These materials are not designed to be reproduced for commercial gain.

If you would like to discuss the details with a member of staff, please contact us:

Phone: 0845 163 0169

Email: [lizzie@clarityfirst.co.uk](mailto:lizzie@clarityfirst.co.uk)

Website: [www.clarityfirst.co.uk](http://www.clarityfirst.co.uk)

Registered company no. 10252261

CLARITY FIRST welcomes comments on its tools.

Please send any comments or suggestions you might have on the Health Check to Lizzie, [lizzie@clarityfirst.co.uk](mailto:lizzie@clarityfirst.co.uk)

# What can Financial Health Check do for you?

## WHAT YOU'LL GAIN?

1. **A thorough assessment of your financial management**
2. **Establish areas that are efficient or inefficient**
3. **Identify areas for improvement**
4. **Score against standards**

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.

It is a set of statements of good practice which cover all the key areas of 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 is healthy or inefficient and whether you need to call for help!

Every organisation is different and financial management systems must reflect that, therefore CLARITY FIRST 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.

# How does it work?



The Health Check can be run by any staff member. You don't need specialist financial skills to complete it. It includes explanations of each section and a glossary of the financial terms used at the end.

The most useful way to use this tool is to complete it in a 2-3 hour workshop meeting with input from a number of finance staff and non-finance staff.

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 - Our practice is in a complete agreement with the statement

4 - Close to 5, but not quite there

3 or 2 - if appropriate

1 - Close to 0, but not that poor

0 - This is not in place, or is not true or does not happen

Enter your score for each statement. See your total in the score summary sheet, then interpret the score using the guidance given.

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



---

# Planning and Budgeting

*Budgeting is about working out how much your planned activities are likely to cost. It pays to involve the budget holders if we want to create a solid foundation for good cooperation and teamwork when it comes to spending and budget monitoring.*

*Budgets have a crucial role to play in strong financial management and should be checked on a regular basis to see whether they reflect the strategic direction of the organisation. A well designed budget helps control spending and ensures money is used in a manner it was planned for.*

*A cashflow 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 to prioritise the timing and scale of planned activities and to spot cash flow problems in good time.*

<b>Statement of Best Practice</b>		
1.1	Key people affected by the budget are included in setting the budget	
1.2	Budget worksheets include explanatory notes and clear calculations	
1.3	Budgets are approved in due time by the relevant persons	
1.4	A named person (budget holder) is responsible for implementing and managing each budget	
1.5	Assumptions made while setting up a budget are challenged regularly	
1.6	A regular comparison is made for the budgeted and actual figures	
1.7	All variances between budgeted and actual figures are supported by sufficient explanatory notes	
1.8	A suitable cashflow forecasting model is in use (based on seasonality, cyclical patterns, trends, short, medium and long term forecasts)	
1.9	Information is integrated into the cash flow forecast as soon as it comes in and projections are made frequently	
1.10	The cash management system is evaluated frequently for improvements in performance and to eliminate risk factors that may affect it	
<b>Total score for Planning and Budgeting</b>		<b>0</b>

## Planning and Budgeting

---

# Basic Accounting Systems

*An accounting system is the system used to manage the income, expenses and other financial activities of a business. Today, the system used is generally automated and computer-based, using specialised software and/or cloud based services.*

*An accounting system allows a business to keep track of all types of financial transactions including purchases, sales, liabilities etc and is capable of generating comprehensive statistical reports that provide management and interested parties with a clear set of data to aid in the decision making process.*

*Every financial transaction should be backed up by a supporting document, such as a receipt, invoice or a signed sheet (e.g. a claim form). This is the evidence that a specific transaction has taken place.*

	<b>Statement of Best Practice</b>	
<b>2.1</b>	Every business transaction is entered into a general ledger and has a supporting document which provides evidence and audit trail	
<b>2.2</b>	Cash deposits are recorded and banked daily/frequently	
<b>2.3</b>	All payments and receipts are recorded in accounting system or in Excel and backed up regularly	
<b>2.4</b>	A clear description is used to code each transaction	
<b>2.5</b>	All staff using an accounting system are sufficiently trained on the system and a financial manual is available	
<b>2.6</b>	Where possible, transactions are automated to avoid errors	
<b>2.7</b>	Accounts payable, accounts receivable and cash flow reports are produced weekly	
<b>2.8</b>	A reconciliation report or trial balance is done on a regular basis	
<b>2.9</b>	A monthly reminder statement is sent out to clients or customers	
<b>2.10</b>	All policies and procedures are included in a finance manual	
	<b>Total score for Basic Accounting Systems</b>	<b>0</b>

# Basic Accounting Systems



---

# Financial Reporting

*Financial analysis and reporting is the process of evaluating the performance of the business and its growth sustainability. The analysis focuses on the income statement, balance sheet and cash flow statement. It examines the business from a variety of perspectives (operating and financial performance) in order to fully understand the financial situation and determine best ways to strengthen the business.*

*Financial Reports are necessary to enable those at the top to oversee the finances of the organisation, monitor projects and make informed decisions. Reports should show a relevant level of detail, have a suitable format and be user friendly.*

*Reports are nowadays more commonly used to increase accountability and build public confidence. An annual external audit verifies the accuracy of the financial statements.*

	<b>Statement of Best Practice</b>	
<b>3.1</b>	The information needs that the financial reporting can provide are clearly identified	
<b>3.2</b>	Financial Reports are produced every month	
<b>3.3</b>	A balanced scorecard is included as part of reporting process (financial, learning and growth, customer and internal business processes)	
<b>3.4</b>	Financial Reports include explanations and comments about variances	
<b>3.5</b>	Financial Reports are used to help make major financial decisions	
<b>3.6</b>	A summary of key issues is highlighted	
<b>3.7</b>	Financial review insights are communicated with relevant decision makers	
<b>3.8</b>	Financial Reports provide accurate and reliable information	
<b>3.9</b>	Senior managers discuss the report results including trends, KPIs and variances each month	
<b>3.10</b>	Annual (external or internal) audit is in place	
	<b>Total score for Financial Reporting</b>	<b>0</b>

# Financial Reporting

---

# Internal Controls

*Accuracy and reliability are paramount in the accounting world. Without accurate accounting records, checks and balances, managers cannot make fully informed financial decisions, and financial reports can contain errors.*

*Internal controls are necessary to ensure that assets are safeguarded, accounting records are accurate and up to date, there is a system to prevent and detect fraud and errors and staff members are protected.*

*Internal controls are simply a set of systems and procedures designed to ensure that all employees perform their duties ethically and honestly.*

	<b>Statement of Best Practice</b>	
4.1	Only authorised persons have access to cash storage, original accounting documentation and sensitive information.	
4.2	Larger transactions are authorised by at least two authorised signatories	
4.3	There is a written policy detailing who can authorise expenditure of different levels of value	
4.4	There is a segregation of duties for authorisation and transaction recording and processing	
4.5	All fixed assets are insured and controlled using an asset register which is maintained regularly	
4.6	Expenses claims are checked and authorised by relevant persons. No-one can authorise an expense claim for themselves.	
4.7	There is an approved policies and procedures manual in place and is accessible by all staff	
4.8	The organisational culture, philosophy and procedures support ethical behaviour	
4.9	The company risk appetite is reviewed on a regular basis	
4.10	Roles and responsibilities are clearly defined	
	<b>Total score for Internal Controls</b>	<b>0</b>

## Internal Controls



---

# Bank Loans

*Most companies get a loan or a grant at some point to fund their operations. It is important to have a clear understanding that borrowed funds have on the business operations such as the amounts and timing of the principal and interest to be repaid.*

*An excessive debt can lead to financial difficulties and shortages of cash hence a great deal of leverage (using debt to pay for the continuing operations) may be a cause of concern. Interest and capital repayments are legal obligations and must be met if the company is to avoid insolvency.*

*Generally, a lower gearing ratio (total debt to equity) means greater financial stability. However, not all debt is bad debt.*

	<b>Statement of Best Practice</b>	
5.1	Senior managers check the loan terms are reasonable before signing the agreement (such as rates are within weighted average cost of capital)	
5.2	Capital requirements (amount of investment needed) are reviewed regularly	
5.3	The loan is reviewed for risks throughout the loan's life	
5.4	There is a clear business case for servicing each loan	
5.5	The company credit score is reviewed regularly and efforts are being made to improve it	
5.6	The gearing ratio (total debt to equity) forms part of the measurement metrics	
5.7	Impact of the loan interest payments on the net income is reviewed frequently	
	<b>Total score for Bank Loans and Funding</b>	<b>0</b>

## Bank Loans

---

# Talent management

*Good financial management is dependent on staff with the right skills, expertise and attitude to carry out their responsibilities. All staff have a role to play in financial management. Integrating good financial management involves budget holders, finance staff and non-finance staff working hand in hand through all the stages of the financial cycle (plan-do-review).*

*On the other hand as an employer you need to provide safe and healthy working environment and opportunities for staff development. This will ensure that you attract and recruit the right people, improve work processes and retain the talent.*

	<b>Statement of Best Practice</b>	
6.1	The finance staff have the skills (and qualifications) needed to carry out all financial activities	
6.2	Managers have skills needed to manage budgets and implement controls	
6.3	Finance and non-finance staff work together well in payments processing and budget monitoring	
6.4	Different roles within the office function are clearly defined and laid out	
6.5	Senior staff lead by example in following control procedures	
6.6	All staff receive training and support they need to carry out their financial duties	
6.7	There is a clear integration procedure for all new employees	
6.8	There is an appraisal process in place whereby employees can give feedback, share suggestions and reflect on their performance	
6.9	The risk to health or injury is limited through regular risk assessments	
6.10	The company is proactive in identifying conflicts, bullying or any other unreasonable behaviour and act quickly to resolve any issues	
	<b>Total score for Talent Management</b>	<b>0</b>

## Talent management



# Additional resources

## Interim Finance Business Partner

An Interim Finance Business Partner can help you make sense of the numbers, support the right decision making and transform your company.

### When do you need them?

In the times of constant uncertainty, sudden change in circumstances or periods of no growth.

### Why should you engage with them?

If you continue doing what you've been doing so far, nothing will change or improve.

### What will you gain?

A Finance Business Partner can perform a thorough review of your systems, review your business model, pricing policy, and culture. Additionally you will up-skill your team and refresh how things are being done.

## Why CLARITY FIRST?

CLARITY FIRST can offer Business Partnering on a fixed term basis with clearly defined objectives, and fixed fees.

Extreme productivity is just a set of skills. Skills that most of us can acquire and use.

As we work with you, we train your staff. The more effective the people become, the more effective the business is.

As a result, you will get your basics right, establish workable structure, improve your cash flow and profitability. You will become more open to new business possibilities, and use your financials to plan for your future, not just re-work the numbers.



Would you like to find out more? email us at:

[lizzie@clarityfirst.co.uk](mailto:lizzie@clarityfirst.co.uk)

# Score

Calculate your score here:

	Statement of Best Practice	
1	Planning and Budgeting	0
2	Basic Accounting Systems	0
3	Financial Reporting	0
4	Internal Controls	0
5	Bank Loans	0
6	Staffing	0
	<b>YOUR TOTAL SCORE</b>	<b>0</b>

And match it against the standards:

High risk	Medium risk	Low risk
0 - 25	26 - 40	41 - 50
0 - 25	26 - 40	41 - 50
0 - 25	26 - 40	41 - 50
0 - 25	26 - 40	41 - 50
0 - 15	16 - 25	26 - 35
0 - 25	26 - 40	41 - 50
0 - 140	141 - 225	226 - 285

# Results

Your score is over 225

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 also consider the risk assessment in each session: 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 141 and 225

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 140

There is work to be done! Your financial management is not in good health. There is a high risk that you will face financial problems in the near future. The team 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 as soon as possible.



---

# Would you like to connect?

---

Successful businesses are built on strong relationships.

Email me if you are curious to find out more..

[lizzie@clarityfirst.co.uk](mailto:lizzie@clarityfirst.co.uk)

0845 163 0169

CLARITY FIRST

[www.clarityfirst.co.uk](http://www.clarityfirst.co.uk)