

MODULE 6 - CASH AND BANK MANAGEMENT

Real life story

Our NGO, “Green Cross”, was based in the UK and managed several projects funded by EU grants. One of our projects ran in several Latin American countries with the help of local partners. In addition to the EU funding, the project was co-financed by us and by the “American Blue Cross”, a US-based charitable organisation (a regular partner of our UK NGO) as well as by our local partners.

According to the usual practice of our organisation, the euro funds received from the Contracting Authority were converted immediately to GBP. Depending on the requirements of the local partners, we then forwarded the necessary funds to our US partner, which converted them to USD and re-forwarded them in USD to our Latin American partners, together with its own contribution.

Each local partner prepared a financial report in its own national currency, which was submitted to us. Our accounting department in London then consolidated these into an overall project financial report in GBP, presented along with the euro equivalents.

What happened: In an audit of our project launched by the Contracting Authority, our finance department was unable to provide an exact amount for the interest generated by the EU advances. It was also unable to reconcile the advances paid by the Contracting Authority, the contributions of our US partner, our local partners, and our NGO with the project expenses stated in our final financial report. It was also impossible to reconcile the intervening currency exchange differences.

Consequently, the auditors raised exceptions in their audit report to the Contracting Authority.

Lesson learnt: These problems would have been avoided if we had used more disciplined banking techniques, as described in this module.



WHY IS CASH AND BANK MANAGEMENT A KEY FINANCIAL MANAGEMENT AREA?

Key Message:

Cash must be kept safe and banks used properly.

Otherwise, the entire project may be at risk.

This module is particularly relevant to projects managed by means of programme estimates and grants.

Such projects depend on the funds contributed by the Contracting Authority and might have to close without them.

Good management of financial resources is critical for these projects.

The Contracting Authority will generally want to know how its funds have been employed.



Content of this module



- ▶ Minimum contractual conditions.
- ▶ What could go wrong? Key control measures.
- ▶ Basic tips.
- ▶ Tools and templates.



MINIMUM CONTRACTUAL CONDITIONS

The following summarises the main contractual requirements for cash and bank management in EU-funded external actions managed through grants, service contracts and programme estimates.

- **Designation of a bank account**  All Contracts generally require the Recipient, at the beginning of the contract, to designate the bank account into which payments by the Contracting Authority will be made.
- **Dedicated project bank accounts**  For projects managed through programme estimates, the technical and administrative provisions annexed to the financing agreement generally require one or more bank accounts to be opened for the sole purpose of managing the project's funds. Further details are given in the Practical Guide for Programme Estimates, under "Bank accounts" - Section 3.3.7.

The technical and administrative provisions lay down rules for these bank accounts (for example, the currency they must use, how to make transfers between them, and the bank account to which project expenditure must be debited).
- **Petty Cash**  For projects managed through programme estimates, the Practical Guide for Programme Estimates states that the petty cash balance should be kept to a strict minimum and kept secure (Practical Guide for Programme Estimates, under "Petty Cash" - Section 3.3.8).
- **Cash flow reconciliation and bank reconciliation**  For projects managed by means of programme estimates, Annexes 9 and 10 of the Practical Guide for Programme Estimates provide sample formats for cash flow reconciliation and the cash reconciliation to be presented in replenishment requests and in records of expenditure.

WHAT COULD GO WRONG? KEY CONTROL MEASURES.

What could go wrong?

- The funds paid by the Contracting Authority may not reach the project's implementing unit in time for implementation.



Key control measures

- Ensure that the funds are channelled as directly as possible, without intermediary steps.
- Draft replenishment requests in good time (in the case of programme estimates).

- The funds paid by the Contracting Authority may be used to finance activities other than the project.



- Use project-dedicated, specific bank accounts even if it is not required.
- Reconcile cash flow.

This can occur, for example, if the implementing entity experiences cash shortages and uses funds intended for the project to cover other pressing cash needs.

- Unauthorised payment vouchers may be drafted.



- Segregate the duties of payment preparation, payment authorisation and payment signature.
- Segregate accounting and cash custody duties.
- Check payment documents against the supporting documents.
- Use double signatures on bank accounts.

- Cash may be misappropriated.
- The funds may not be received by the designated payee.



- Perform frequent bank reconciliations and petty cash counts.
- Make payments by bank transfer, preferably.
- Ensure that the bank/cash reconciliations are performed by people who do not have custody of the bank/cash funds.

- Funds in other currencies may not be converted at the correct exchange rates.



- Make sure the currency rules in the Contractual Conditions are obeyed. Further details are provided in Module 7 (Accounting) under Basic Tips.



BASIC TIPS

Key Message:

Always make sure the funds follow the most direct route.

If the arrangements for channeling the funds to the project are ineffective, many problems can occur:

- ▶ the funds may take too long to reach the project's implementing unites), hampering implementation;
- ▶ part of the funds may be diverted by intermediaries;
- ▶ in multi-country/multi-currency projects, unexplained currency losses may occur;
- ▶ it may become impossible to say how much interest the EU funds generated.

Arrange for the funds to be forwarded to the project implementing unit by the most direct route.

For example:

- ▶ Avoid sending funds through intermediary entities or currencies (e.g. from Europe to Latin America via the US or the USD).
- ▶ Consider using the imprest technique, whereby a fixed amount is forwarded to the implementing unit and is replenished for the exact amount of the actual expenditure proven by that implementing unit.
- ▶ Consider opening dedicated project bank accounts even if it is not required. Dedicated accounts are mandatory only for projects managed by means of programme estimates. However they can also be useful for grants as they allow project funds to be segregated from other funds.



BASIC TIPS (continued)

Key Message:

Open dedicated bank accounts for the project if possible.

Dedicated bank accounts bring all funding for the project together in one or more bank accounts used exclusively for the project.

This is a very effective way of managing the project's cash. It has many advantages:

- ▶ it allows the funds to be traced clearly from their source to their use;
- ▶ it makes checks and reconciliation easier;
- ▶ it minimises the risk that funds intended to finance the project may be used to finance other activities;
- ▶ it helps minimise the risk of double financing;
- ▶ if the Contractual Conditions stipulates contributions from several parties (co-financing), it helps to show that all the parties have made the financial contribution stipulated and that these contributions have been used for the project.

For programme estimates, dedicated bank accounts are usually required by the relevant technical and administrative provisions.

For grants, the use of dedicated bank accounts is not mandatory.

However, because of their advantages, Recipients are urged to consider using them.

BASIC TIPS (continued)

Key Message:

Frequently reconcile and verify.

Cash is easy to misappropriate, so strict control measures are required. Here are some examples:

- ▶ **Reconcile/check balances:** Count petty cash regularly. Check that the cash count matches the accounting records and the cash book.

Frequently check that the balances given in bank statements tally with the accounting records.

- ▶ **Reconcile cash-flow:** Perform frequent cash-flow reconciliations to ensure that cash/bank transactions tally with the bank balances.

- ▶ **Ensure proper segregation of duties:** Arrange as much as possible to segregate:

- people with access to cash (e.g. those preparing the bank transfers / those signing the bank transfers / those with custody of petty cash) from people responsible for bookkeeping;
- people with access to cash and bank resources from people who performing checks and reconciliations.

- ▶ **Require two signatures:** Ensure that two signatures are required for bank payments.



BASIC TIPS (continued)

Key Message:

Minimise petty cash floats and transactions.

Cash can be easily stolen, for example by falsifying receipts.

Keep payment in cash to a minimum, and limit the petty cash float.

Key Message:

Pay by bank transfer wherever possible.

Bank transfers have several advantages over other methods of payment:

- ▶ they allow duplicate signature control;
- ▶ they limit the risk of theft;
- ▶ they ensure that the payment reaches the intended payee if the bank account number has been properly checked;
- ▶ they ensure that the funds can be traced using bank statements.

These advantages explain why bank transfer is much safer than payment in cash.

Bank transfer is also safer than payment by cheque. Cheques can be lost or may remain uncashed for some time.

They may also make it difficult to prove payment, as the payee's name does not usually appear on the bank statement.



BASIC TIPS (continued)

Key Message:

Do not make inter-project loans.

EU funds may only be used for the action covered by the relevant agreement.

Recipients should not provide temporary advances or loans from the project's funds to other projects, including other EU funded projects.

If, for programme estimates, a Recipient intends to make temporary advances from the project's funds to another EU-funded project, he should obtain the prior approval of the relevant EU Delegation.

Key Message:

Use only safe solutions to shelter project funds.

It would be imprudent to take risks to maximise the project's financial income.

Recipients should use only safe financial arrangements that will not put project funds at risk.

Recipients are advised to:

- ▶ open bank accounts for the project only with reputable financial institutions that offer a sufficient guarantee of financial solidity;
- ▶ abstain from keeping project funds in currencies other than that of the contract or that in which the funds are spent;
- ▶ abstain from investing project funds in aggressive financial products or financial instruments that pose a counterparty risk.

TOOLS AND TEMPLATES

MODULE 6

CASH AND BANK

MANAGEMENT

The following tool can be downloaded from the EuropeAid website at:

http://ec.europa.eu/europeaid/financial_management_toolkit/

FMT - MODULE 6 - BANK RECONCILIATION TEMPLATE

FMT - MODULE 6 - CASH FLOWS RECONCILIATION TEMPLATE

FMT - MODULE 6 - PETTY CASH TEMPLATES

(2 templates included)

These templates are indicative, non-compulsory examples which Recipients may adapt as they see fit.

