

# Financial Monitoring of a Development Project by FMSF - A Concept Note

## Section 1

## About Monitoring

### 1.1 What is Monitoring?

*Monitoring is....  
To check that things are going as per plan.*

Monitoring is the systematic and continuous process for assessment of the progress of the activities over a period of time. It is a basic and universal management tool for identifying strengths and weakness in a programme. Its purpose is to help all the partner organizations involved make appropriate and timely decision that will improve the quality of intervention.

### 1.2 Scope of Monitoring

Monitoring covers a wide variety of techniques and methods. The scope and extent of monitoring depends upon the nature, type, size and location of the organization. The larger the organization, the greater will be the extent of monitoring and vice versa.

The scope of monitoring extends from management of finance to the management of programme activities. Some of the areas that can be identified for monitoring may be:

- ✦ Activities undertaken vis-à-vis the plan
- ✦ Actual expenditure vis-à-vis budgeted expenditure
- ✦ Cash and Bank Balances control
- ✦ Fixed Assets control
- ✦ Investments control
- ✦ Human resources control
- ✦ Compliance to laws of the land
- ✦ Compliance to the requirements of the funding agency etc

### 1.3 Monitoring System- For whom

A monitoring system is designed to meet specified needs of the various stakeholders. The system of monitoring varies according to the nature and objectives, organizational structures of the organizations, government(s) involved, and specific requirement of donors. While designing a monitoring system, it is necessary to identify the purposes and the stakeholders for whom the monitoring will be done.

Monitoring system commonly addresses the needs of following stakeholders:

- ✦ Governing Board
- ✦ Management
- ✦ Donors

- Staff
- Government
- Community

## 1.4 Monitoring - By Whom

As already discussed, there are various stakeholders who are interested in monitoring of a project. The needs and requirements of all the stakeholders vary as per their functions. The Governing Board of the organization is concerned that the organization is working towards attaining the vision and mission of the organization, whereas the donors are concerned about the effective utilization of their resources and achievement of objectives of the project.

Accordingly, the systems are designed for monitoring of the project.

### Internal Parties that can be involved in Monitoring

Monitoring by Governing Board  
Monitoring by Management  
Monitoring by Staff

### External Parties that can be involved in Monitoring

Monitoring by an external agency  
Monitoring by community  
Monitoring by Government Agency  
Monitoring by Donor Agency

## Section 2

## Financial Management Service Foundation

### 2.1 Role of Financial Management Service Foundation

Financial Management Service Foundation (FMSF) is a resource organization based in India. The purpose of its establishment was to have a facilitating body in India which can assist the voluntary organizations to improve their accounting and reporting requirements and build upon their capacities in terms of financial management.

Since its establishment, FMSF has been involved in the financial monitoring of the development projects of the voluntary organizations supported by donors abroad.

### 2.2 Monitoring Functions of FMSF

- Ensuring agreements between the donor, partner organization and auditors are duly signed.
- Ensure regular and timely submission of financial and progress reports by the partner organizations of donors.
- Analysis of periodical Financial and Progress Reports
- Facilitate timely and regular transfer of funds to the projects.

- Develop systems/ procedures to ensure timely closure of projects.

### 2.3 Monitoring Tools of FMSF

The set of monitoring tools depends upon the requirements of the donor agencies. Some of the tools being used by FMSF are:

#### During Implementation

**Reports:** Reports are important tools for monitoring during implementation of a programme/ project. A few types of reports are:

- Periodical Audited Financial Statement
- Periodical Activity Report
- Local Contribution Report
- Construction Reports

Correspondence with the partner organization.

Accompaniment Process.

Sharing of handouts for specific issues on reporting requirements of donors. FMSF has prepared various handouts clarifying the procedures and requirements of donors such as reporting of interest, specific requirements for submission of the final reports, treatment of cost over-runs, utilization and reporting of reserve etc. These handouts are shared with partners at times to ensure that the requirements of the donors are complied with.

Regular visits to the project area and meetings with the project partner.

In case of unsatisfactory progress or travel reports, an intermediate visit.

Mid-term evaluation by a mixed group of internal or external persons on the suggestion and recommendation of donors or partner organizations.

Preparation and periodical updation of Monitoring Sheet. Analysis and conclusions made during studying of above reports and visits are recorded in a Project Monitoring Sheet. A format of the Monitoring sheet has been provided as Annexure –I to this paper.

#### After Completion of Project Period

Preparation of final report ensuring compliance of the donor's requirements.

## Section 3

## Monitoring Process at FMSF

### 3.1 Monitoring Process at FMSF

The process of monitoring at FMSF is elaborated below as per the various stages of the project period and the steps followed by FMSF.

#### Start of the Project

##### Step 1 : Opening of Project File

FMSF takes over the project monitoring function after the approval of the project by the internal screening committee of the donor agency. For every project a new project file is opened containing following sections:

- Basic Paper section
- Narrative reports section
- Financial reports section
- Request for the transfer of funds including the acknowledgement of receipts
- Correspondence section
- Notes and Remarks section

##### Step 2 : Receipt and Verification of Basic Project Documents

The donor agency shares the following documents with FMSF.

Copies of relevant papers from the pre-approval stage relevant for regular monitoring of the project. These papers give the background information on the project.

Copy of the synopsis of the proposal. The synopsis provides the understanding on the background of the partner organization, its activities and planned actions under the relevant project.

Copy of the letter from donor agency to the partner organization intimating submission of project proposal to the internal screening committee of donor agency and the proposed cost and finance plan.

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Copy of the synopsis of the proposal. The synopsis provides the understanding on the background of the partner organization, its activities and planned actions under the relevant project.

Copy of the letter from donor agency to the partner organization intimating submission of project proposal to the internal screening committee of donor agency and the proposed cost and finance plan.

Copy of the letter to the partner from donor agency informing the administrative and financial procedures of donor agency.

Copy of the letter of approval from the donor agency to the partner organization indicating the amount of grant approved (in both foreign and national currency), project duration and the approved cost and sources of finance plan.

Copy of the duly signed project agreement between the donor and partner organization. The project agreement confirms that the partner has agreed upon the terms and the conditions relevant while implementing the project.

Copy of the duly signed audit agreement. This agreement can be between partner organization and auditor. Depending upon the requirements of donor agency, the donor can also be a party of this agreement. If there is no requirement from the donor to sign an audit agreement, a copy of the appointment letter of auditors or any other engagement document is obtained by FMSF. On receipt of the copy of the audit agreement or appointment letter, FMSF verifies it with regard to the credentials of the auditor and the respective fees charged by them.

After receipt of the above papers, FMSF scrutinizes them with regard to the following aspects:

- Any specific reporting requirements expected from the partner organization by the donor
- The project and audit agreements are duly signed by all the parties concerned.
- Arithmetical accuracy of the budgeted sources of funds and expenditure as per the letter of approval.
- Provision for inflation and unbudgeted and unexpected expenditure has been provided in the budgeted line of expenditures.

### **Step 3 : Preparation of Project Monitoring Sheet**

Analysis and conclusions made during studying of above papers are recorded in a Project Monitoring Sheet. A format of the Monitoring sheet has been provided as Annexure –I to this paper.

### **During Implementation of the Project**

#### **Step 4 : Facilitate Timely Transfer of Funds to Partner Organization**

To facilitate timely transfer of funds to the partner organization, the donor agency has directed all the partner organizations in Indian sub continent to submit their request for transfer of funds to FMSF. The donor agency has also provided online connection to FMSF with their computer programme which enables FMSF to access all project related information available in their computer programme. In addition, FMSF can directly process the request for transfer of funds in India and feed the respective data in the computer programme of donor.

When partner organization submits request for transfer of funds in the prescribed format to FMSF, it is scrutinized with regard to the following aspects:

#### **General**

The project and audit agreement or auditors appointment letter have been received before processing the first

request for transfer of funds.

The partner organization has obtained regular registration or prior permission under the Foreign Contribution (Regulation) Act, 1976 to receive foreign funds.

### **Format of Request for Transfer of Funds**

- The request for transfer of funds is in the prescribed format and signed by the authorized signatory.
- The columns of the format of the request for transfer of funds have been properly filled up.  
The bank name, account number, address, route of transfer, currency in which the transfer is to be made is correctly mentioned in the format as compared to the details given originally by the partner organization. It enables FMSF to confirm that the funds are transferred to the correct bank account finally. In case there is a discrepancy, the partner is contacted.
- The period for which the amount is requested is as per the requirements of the donor e.g. funds are transferred on quarterly basis, half yearly basis, yearly basis etc.

### **Expenditure and Income Estimated**

- The amount budgeted for the request period is not over or under estimated. This is done by comparing it with the expenditure so far incurred.
- The break-down of the estimated expenditure has been provided as per the approved cost items. This enables FMSF to confirm that funds requested are for the approved project measures only.
- If the expenditure is estimated against Reserve, the detail of such expenditure has been provided. Also, for utilization of Reserve amount, approval of donor has been obtained.
- The information about the other means raised till date and to be raised during the request period has been provided and the same is not under or over estimated. In case of expected shortfall in other means, the partner has provided reasons for the same.

### **Balance Available with partner organization**

The amount of the cash and the bank balance of the project funds available with the partner organization on the date of preparation of the request format are not unreasonably high. This helps FMSF to confirm that the funds are not kept unutilized for an unreasonable period.

### **Last Request for Transfer of Funds**

In case the request received during the final stages of the project, FMSF ensures that a minimum balance of grant is kept as per the regulation of the donor which can be processed on the submission of the final reports and outstanding clarifications.

After verification and processing of the request for transfer of funds, the information related to expenditure already incurred and estimated to be incurred, the amount requested by partner organization are entered in the common online computer programme of the donor agency and accordingly, the amount to be released is recommended in the

same.

Analysis and conclusions made during the study of request for transfer of funds are recorded in a Project Monitoring Sheet.

### **Step 5 : Ensuring receipt of the acknowledgement of receipt**

After the funds have been transferred to the partner organization, FMSF ensures that the partner organization submits the acknowledgement for receipt of funds in the prescribed format and within reasonable time. If donor agency requires, a copy of the bank credit advice is also asked for alongwith the acknowledgement of receipt.

This enables FMSF to know the amount of bank charges incurred by the partner organization and to ensure that the same are rightly booked under the project administration cost. Further, it also enables to ascertain that the bank charges incurred are reasonable.

On receipt of the format, the date of credit into the bank account of partner organization and the amount received in national currency is entered into the computer programme of donor.

### **Step 6 : Verification of Audited Financial Statements**

The financial statements are submitted by the partner organization to the donor agencies to inform the purposes and activities for which the funds transferred by latter have been utilized. It also reflects the status of fund utilization of each project. The financial statements are verified by the auditors to ensure that the funds have been utilized as per the budget line items approved by donor and while incurring the expenditure, the conditions of the agreement between the partner organization and the donor have been met with. This is the most widely used method of monitoring by a donor agency.

The process of monitoring by FMSF includes receipt of one set of the original audited financial statement by the partner organization. The purpose of receipt is to ensure that the financial statements comply the donor requirements. This includes ensuring that the financial statements:

- The financial statements are submitted within prescribed time to FMSF.
- The financial statements are submitted for the prescribed reporting period e.g. six months, one year etc.
- The partner organization maintains the regular reporting cycle.

After receipt of the audited financial statements at FMSF, following verifications are undertaken:

#### **General**

- The financial statements are in the prescribed format of donor agency.
- The financial statements are signed by the authorized person.

#### **Audit / Auditors**

- The financial statements are duly audited and the Auditor's Report is attached.

- The auditors are the ones who have signed the audit agreement or are approved by the donor agency.

- Whether the Auditors' have provided any adverse observations in the Auditors' Report and if the partner organization has clarified those observations. This helps to ensure that the funds of donors have been utilized according to the approved purposes and reported adequately and accurately.

### **Project Income and Project Expenditure**

- The financial statements are prepared as per the approved income and expenditure budget heads.

- The income/ receipts from donor reported in the audited financial statement is similar to the amount acknowledged by the partner organization.

- The reported share of funding is as per the approved budget of sources of funding especially the ratio of other means of contribution by the partner organization. The shortfall in the other means of contribution is pointed out to partner organization for making up in the future. In case the partner organization finds it difficult to raise funds from other sources, the reasons are shared with FMSF. Accordingly, FMSF suggests donor agencies for review of the ratio of funding.

- The arithmetic calculations are checked to ensure accuracy.

- Whether the partner organization has reported the bank interest earned on donor funds.

- The reported cumulative expenditure is compared with the approved budgeted amount to ensure that the actual expenditure has not exceeded the permissible limit of over expenditure prescribed by the donor agency.

- Whether the statements are in concurrence to the previous financial statement in terms of reported income and expenditure.

### **Comparisons with Narrative Report and Request for Transfer of Funds**

- A comparison of the actual expenditure and actual income especially other means contribution is done vis-à-vis the projected expenditure and the projected income for the reporting period. It helps FMSF verify that the expenditure and income estimates provided while requesting funds were realistic.

- The financial statements are compared with the narrative report for the corresponding period for reasonable conformity of the expenditure incurred. This helps to ensure if commensurate results against costs incurred have been reported.

### **Sale and Purchase of Assets**

- If the partner organization has purchased any asset, it is checked whether the same is as per the approved budget of the project or separately approved by the donor.

- If the partner organization has sold any asset or any asset has been damaged, the sale proceeds and insurance recoveries are reported as the project income. Also the utilization details of the sale proceeds and insurance recoveries are provided. This enables FMSF to avoid the possible diversion of the project funds/assets for other activities.

- In case of sale of assets purchased during the previous project of the donor agency, FMSF ensures that necessary approval is obtained and the sale proceeds are utilized for the approved purposes.

- The outstanding advances are verified to ensure that they are not outstanding for an unreasonable period of time.

After verification, the income and expenditure incurred during the reporting period are entered into the computer programme of donor agency.

Analysis and conclusions made during studying of financial statements are recorded in a Project Monitoring Sheet.

### **Step 7 : Verification of Narrative Reports**

The narrative or activity report containing the details of the activities undertaken during the reporting period is usually submitted directly to the donor. However, since finance can not be isolated from the program, FMSF ensures that a copy of the progress report is submitted to FMSF alongwith a copy to the donor.

On receipt of the narrative report, following checks are carried out at FMSF:

- A copy of the narrative report has been submitted to the donor agency.
- The reporting period concurs with the audited financial statements.
- The narrative reports are compared with the financial statements to understand/measure the activities undertaken with amount spent.
- The specific reporting requirements, if any, of the donor agency have been met with in the narrative report.
- The report has been prepared as per the suggestions and recommendations of the donor agency.
- In case of a building construction project, adequate photographs depicting the progress of construction have been received.

FMSF has prepared a format for monitoring of the progress report. The format is enclosed herewith as Annexure-II

### **Completion of the Project**

#### **Step 8: Preparation of Final Reports**

On completion of the project, FMSF sends a reminder letter to the partner organization for submission of the final financial and progress report within the prescribed time and format. The letter lists down the specific requirements that the partner organization should keep in mind before submission of the final reports.

After receipt of the final reports, FMSF makes following verification in addition to the verifications done on receipt of interim financial and progress reports as listed above.

- The project account does not have surplus balance left with them beyond the limit prescribed by the donor.
- In case the surplus balance is to be carried forward to the next phase, it is ensured that the concurrence of the donor agency is obtained.
- The activities of the project are completed.

- ✦ All the outstanding queries have been resolved and clarified.

The final stage involves preparation of final report for the donor agency which indicates that all the reporting requirements of the donor as listed above in various stages have been complied with.

After the closure of a project file, the relevant papers such as audited financial statements, request for transfer of funds, acknowledgement of receipt, correspondences submitted by the partner organization to FMSF alongwith the final closure report are submitted to the donor agency.

After intimation of the closure of project by the donor agency, the records are maintained for the stipulated number of years at FMSF.

### **3.2 Additional Tasks Undertaken by FMSF**

#### **1. Preparation of yearly cash flow plan and monthly review**

FMSF prepares cash flow projection of the funds that may be required for various projects. This is prepared on yearly basis and reviewed every month. The purpose is to ensure that the budget allocated to donor by their back donors for the year does not remain under spent or goes over spent.

#### **2. Preparation of plan for submission of final reports and monthly review**

Similarly, FMSF also prepares a plan for submission of final reports to the donor. This helps donors to be ready beforehand for closure of the project and take decisions for next phase.

#### **3. Coordinating cash flow of partner organization**

In case many consortium donors are involved in the project, FMSF is entrusted with the task of coordinating the flow of funds to the partner organization from various donors. In such cases, FMSF obtains the estimated yearly expenditure statement from the project partner. On the basis of this statement, a cash flow statement is prepared in concurrence with the donors which projects the estimated time of transfer of funds from each of the consortium donor.

#### **4. Assisting partners for revision of the project budget**

If there is a need for revision of the original budget due to over or under expenditure under certain cost heads, FMSF assist partners in preparation of the revise budget. At the same time, it verifies the application from the partner organization and suggests the donor accordingly.

## **Section 4**

## **Reports to Donor Agencies by FMSF**

### **4.1 Reports to Donor Agencies by FMSF**

#### **1. Narrative Reports**

FMSF submits narrative report on six monthly basis to the donor agency which indicates the various problems faced and resolved or under resolution during the reporting period. The report also provides information about the various

travels and field visits made by the FMSF staff to the partner organizations.

The number of requests for transfer of funds processed, financial statements and narrative reports verified, number of project closed and reasons for delay in closure of project during the reporting period are also informed to the donor.

**2. Baseline Survey**

In addition to the narrative report, FMSF also prepares a baseline survey on a yearly basis for the donor agency. This baseline contains the list of problems faced and communicated to the partner organizations with respect to the reporting requirements of the donors. The purpose of preparation of baseline is to enable analysis of the intensity of the problems faced during the year. The said list also serves as baseline to make a comparison of problems with the previous year, review the monitoring process and adopt suitable methodologies to overcome the same.

**3. Preparation of Project Monitoring Sheets**

As already said FMSF prepares a Project Monitoring Sheet on regular basis to enable review of the project aspects and ensure regular follow up of pending issues. The monitoring sheets are shared with the donor, if required. A format of the Project Monitoring Sheet is provided as Annexure-I

*Annexure I*

**Financial Management Service Foundation  
Project Monitoring Sheet**

**1. Project No.:** .....

**2. Project Title:** .....  
.....

**3. Partner Organisation:** .....

**4. Main Aim and Objectives:** .....  
.....  
.....

**5. Finance Plan :**

Source	EUR	Indian Rupees	%
Donor.....			
Donor.....			
Donor.....			
<b>Own Means Contribution</b>			
<b>Total</b>			100

**6. Project Start Date:** ..... **Expected Close Date :** .....

7. Early Initiation Date : ..... approved as per.....ltr. dt. ....

8. Extension of the project close date, if any, approved as per.....ltr. dt.....

9. Basic Documents:

Basic Documents	Donor A	Donor B	Donor C
Project Synopsis			
Letter of Submission			
Administrative letter			
Letter of Approval			
Project Agreement			
Audit Agreement			

10. Specific Reporting Requirements :

.....  
.....  
.....

11. Funds Remitted by Donor A (Processed by Donor)

Request period	Amt in Euro	Date of Credit	INR as acknowledged by partner	Bal. of Grant

Remarks.....  
.....  
.....

12. Funds Remitted by Donor B ( Processed at FMSF )

Request period	Date of Receipt of Request	Date of processing of Request	Amount Processed/ Released	Date of Release	INR as acknowledged by partner	Balance Grant	Action Taken / Follow up
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**13. Progress Report:**

Reporting Period	Date of receipt	Whether copy sent to	Own means reporting (outside finance plan)	Observations	Follow up
		Donor A: Donor B : Donor C: Any other:			
		Donor A: Donor B : Donor C: Any other:			
		Donor A: Donor B : Donor C: Any other:			

**14. Financial Reports**

Period	Date of receipt	Under/Over Exp. in cost item heads in %	Observations	Action taken/ Point for Follow up
			One Page Audit Report: Yes/No Own means reporting: Yes/No Interest reporting: Yes/No Others:	
			One Page Audit Report: Yes/No Own means reporting: Yes/No Interest reporting: Yes/No Others:	
			One Page Audit Report: Yes/No Own means reporting: Yes/No Interest reporting: Yes/No Others:	

**15.1 Details of assets purchased/sold, if any, as per approval from donor:**

.....  
.....  
.....

**15.2 Details of Reserve & approval from donor agency:**

.....  
.....  
.....

**15.3 Details of Debit Notes:**

Debit Note No.	Amount in EUR	Amount in Rupees	Cost Item	Reporting in Financial statement

**16. Points for follow-up**

Refer to ltr. dt.	Points for follow up with the partner

**17. Any other remarks:**

.....  
.....  
.....  
.....

**18.**

Person monitoring the project	Period for which it was monitored

## Progress Report Monitoring Sheet

Project No. \_\_\_\_\_

Organisation: \_\_\_\_\_

Reporting period: \_\_\_\_\_

Received in FMSF on : \_\_\_\_\_

### A. Basic Verification:

1. Are the Basic Requirements complied with?

(Whether the project name, period, project no., title etc. are appearing in the reports)

Particulars	Yes	No
• Name of the organisation		
• Period has been mentioned		
• Project number is stated		
• Title of the project is there		
• Signature of the authorized person is there		
• Whether a copy of the reports has been sent to donor		
• Is the report analytical		
• Is the report prepared component-wise		

In case of any special observation on any one of the above points, please state it below:

2. What is the size of the report (No.of pages) \_\_\_\_\_

### B. Verification of Contents:

Particulars	Yes	No
• Whether the deviations from the targets explained?		
• Whether achievements / results analysed?		
• Whether the information on constraints/lessons learnt is given in the progress report?		

• Are the future plans for activities given?		
• Are the beneficiary's reactions shared?		
• Whether gender specific information given?		
• Are meaningful photos, press clippings attached to the report?		
• Whether Planned vs Actual reporting done?		
• Whether the Own Means outside cost/ finance plan has been reported?		
• Whether unforeseen/ unplanned measures undertaken by the partner organisation have been reported and whether the approval of donor received?		

• Whether the specific reporting requirement in respect of the following have been complied or not?

a. Revolving/Credit Funds \_\_\_\_\_

b. Construction Projects \_\_\_\_\_

c. Special Reporting Requirements, if any, as per the Letter of Submission \_\_\_\_\_

d. Any other remarks \_\_\_\_\_

• What self-reliance efforts have been made especially during last phase? \_\_\_\_\_

• Whether overall impact assessment on the project activities provided?  
\_\_\_\_\_

• The follow-up action taken by us with the partner in regard to the matters arising from our study of the progress report  
\_\_\_\_\_

**Dated:**

**Signature:**