FINANCIAL MANAGEMENT MATURITY MODEL

National Audit Office

Definition: Financial management is the system by which the resources of an organisation's business are planned, directed, monitored and controlled to enable the organisation's goals to be achieved.

Guidance for users:

The model looks at the practice and awareness of financial management and relates that to the outcomes that organisations might expect. The model uses a series of descriptors to help readers understand how the organisation currently operates and the scope for improvement. As a result, the model contains a mixture of practice, awareness and outcome descriptions to help users consider a rounded view of the organisation.

Within the model, financial management practice is assessed by asking 16 key questions grouped under 5 aspects:

- Financial governance and leadership
- Financial planning
- Finance for decision making
- Financial monitoring and forecasting
- Financial and performance reporting

Organisational behaviours are then set out at 5 levels of maturity with 1 being the lowest level and 5 the highest. The levels are not additive in that the requirements of the previous levels do not need to have been met in order to score a higher level. That said, many of the categories will tend to have an additive element since more complex and sophisticated financial management tends to follow from getting the basics right. For other categories, there will be a gradual development in the complexity and range of activities across the levels, therefore as the levels increase, the number of requirements may stay the same but the depth of content and sophistication of techniques will develop.

It is quite possible that a body will display characteristics across more than one level within a single question, in some cases there may be evidence across two or more scores. As the model is intended for use as a tool for continuous improvement, it is important not to 'force' the organisation to fit into a certain category. The user should choose the description which is the 'best fit'.

It might not be appropriate or necessary for every organisation to strive for level 5 performance. In some cases, performing at level 5 may not be cost-effective, the effort required may be disproportional to the potential outcome, and it may not be necessary for the organisation's needs. When applying the model, it will be important to consider the unique circumstances of each organisation and what 'good' would look, sound and feel like for each organisation, as it may vary widely between bodies.

The model includes measures such as timescales and percentage coverage. These are as a guide and users will also need to apply their own judgement when using these guidelines as a direct causal relationship between measures and performance may not always exist. An example would be the percentage of qualified CCAB finance staff whereby some organisations may have a low proportion of formally qualified staff under the model's definition but may possess a good level of financial management experience and expertise, perhaps because some functions have been outsourced.

If you have any queries, please contact z5-fmgp@nao.gsi.gov.uk

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Overall assessment

	Practice	Awareness	Outcome
Level Five	The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.	The organisation places an emphasis on continually striving for excellence in financial management and seeks opportunities to improve which are inventive and might sometimes be radical.	The organisation anticipates and responds to the challenge of changing circumstances and looks ahead to anticipate significant events. It delivers programmes to time, cost and planned level of quality, with very few exceptions. It seeks efficiencies and improves the services it delivers while minimising potential increases in costs. There is a sophisticated understanding of the organisation's cost base in terms of understanding the key drivers of different services and products.
Level Four	The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.	The organisation continually reviews its financial management processes and makes improvements to build upon and develop the current methods.	The organisation responds to challenge in good time and looks ahead to anticipate most significant impacts. Most programmes are delivered to time, cost and planned level of quality. It understands the impact of change on the costs and performance of different programmes and is able to deliver cost efficiency programmes.
Level Three	The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.	The organisation will try to improve financial management as a result of responding to the need for change as opposed to engaging in a continued drive for improvement. It may be shocked into significant change by crisis.	The organisation manages well when the environment is familiar and stable. It may be significantly challenged by unforeseen events, or by machinery of government changes or new initiatives. Programmes are not always delivered to time, cost and planned level of quality due to difficulties in anticipating and responding to risks in a timely manner. The organisation will achieve cost reduction through a combination of efficiency programmes and budget cutting.
Level Two	The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.	The organisation has some awareness that it needs to improve its financial management but does not actively do so. Improvements are rarely made.	The organisation is aware of a number of issues with the current financial management processes, which have been highlighted by sources such as external and internal audit. It becomes aware of potential overspends too late to be able to bring them back into line. Some of the major projects are regularly over time and cost and are of less than expected quality. The organisation reacts to reductions in funding by budget cutting due to a lack of understanding of the impact of changes on the costs and performance of programmes.
Level One	The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.	The organisation has little awareness of the need to improve financial management and makes very little effort to make changes.	The organisation receives funding and spends it with little awareness of how to drive improvements in efficiency or of the results it may obtain from the expenditure. Budgets are frequently over-spent with limited understanding of the causal factors and no remedial action planned. Projects frequently overrun in costs and time and the intended benefits (if they are defined) are often not delivered. It may have major project failures, and is at risk of suffering from fraud.

The five aspects of financial management and the lower level questions which assess financial management practice

Financial governance and leadership

1. What emphasis do the Board and Executive Team place on both their own responsibility and of a culture of collective responsibility for financial matters?
2. How do the systems of internal control, governance arrangements and risk management processes operate?
3. What financial management capabilities have the Board and Executive Team, the finance department, and staff working outside finance?
4. What training and continuous professional development in financial management is provided to staff both within and outside the finance team?

Financial planning

5. How is financial planning and monitoring integrated with the organisation's strategic and corporate planning processes?
6. How robust and streamlined are the systems for financial planning?
7. How does the financial planning cover the elements needed to support the business: for example annual financial plans, integrating current expenditure plans and investment programmes, treasury management, cashflow and balance sheet projections?

Finance for decision making

8. What understanding does the organisation have of its expenditure and cost drivers, and those of its major partners in the sector in order to understand the impact of costs on its programmes?
9. What understanding does the organisation have of its income streams and the way in which it sets prices, as well as the income streams and pricing mechanisms of its partners?
10. How are investment appraisal and project management processes used to evaluate costs and benefits and to inform all key policy, operational and investment decisions?

Financial monitoring and forecasting

11. What is the quality, accuracy and timeliness of the organisation's financial management and forecasting information, including information on income, expenditure, cash flow, and working capital?
12. How are appropriate financial and non-financial indicators covered within the monitoring and forecasting reports such as operational reports, Board reports, management accounts, external accounts and business plans?
13. What is the quality of the financial management, and operational performance management systems, including the transactional processing systems?

Financial and performance reporting

14. How are the reports of financial and performance information tailored to the needs of the user, both internal and external?
15. How timely are the reports that are presented to internal and external users?
16. How open, clear and concise are reports for internal and external users?

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The practices that exemplify the financial management practice at each level of maturity

The tables in this section set out the behaviours that organisations exhibit at each level of maturity.

	Practice				
Financial governance and leadership	**Level 1** **The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.**	**Level 2** **The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.**	**Level 3** **The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.**	**Level 4** **The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.**	**Level 5** **The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.**
1. What emphasis do the Board and Executive Team place on both their own responsibility and of a culture of collective responsibility for financial matters?	The Board and Executive Team do not act collectively to engage in financial matters. They receive financial information infrequently, for example on a six monthly basis. There is limited communication of financial information to staff.	The Board and Executive Team tend not to act collectively. Instead each member tends to represent their own areas of responsibility. Non-executive members challenge infrequently and tend only to question executive members within the confines of each executive's area of responsibility. Financial information is received on a quarterly or bi-monthly basis and is unlikely to enable regular financial scrutiny. Engagement in financial management tends to increase when prompted by the threat of a serious or externally embarrassing financial situation. There is some communication of high level financial information to staff; however no information is provided as to its relevance.	The Board and Executive Team act collectively by discussing performance as a team, across individual spheres of responsibility. Non-executive members actively engage in challenge. They receive financial information with a frequency appropriate to the organisation's needs – for example, bi-monthly or monthly. The Board and Executive Team monitor both financial and performance information. However while they discuss performance regularly, they are slow to take action unless spurred into action by a crisis. Financial information is communicated to staff within their area of responsibility with an indication as to its relevance.	The Board and Executive Team act collectively by making strategic decisions as a team about the direction of the organisation and its activities. Non-executive members frequently challenge the Board as a whole. The Board and Executive Team receive financial information frequently, e.g., monthly. They use integrated financial and performance information to collectively challenge senior staff when required. They take action promptly and make strategic decisions about whether or not to engage in areas of activity. Key financial information is regularly communicated to staff and its relevance is clear.	The Board and Executive Team act collectively by making decisions as a team regarding strategic and complex issues such as the uptake of potential business opportunities. Non-executive members are actively engaged in influencing the actions and behaviour of the executives. Executives challenge one another in a professional manner. The Board and Executive Team receive financial information with a frequency which ensures they are continually sighted on financial matters. They also request and review bespoke pieces of financial analyses as necessary. The Board examine the link between investment, costs and service delivery. They emphasise the importance of financial information throughout the organisation by routinely and productively challenging staff. They create opportunities and incentives for staff to drive continuous improvement.
2. How do the systems of internal control, governance arrangements and risk management processes operate?	There are few policies and procedures in place and those that are in place do not clearly define the operations and workings of the business, resulting in poor control and exposure to risk. A significant number of staff do not follow the policies and procedures that are in place and little enforcement occurs. A risk register may be in place but its content is generic and is not tailored to the organisation's circumstances	The system of internal control is basic with some policies and procedures in place. They are not updated regularly with developments in business processes meaning that not all risks are addressed with adequate controls. Staff often fail to comply with processes and procedures in place. Monitoring of compliance does occur but it tends to be very high level and does not address reasons for non-compliance. The risk register includes some of the key risks to which the organisation is likely to be exposed but it is not monitored or reviewed.	A fit for purpose system of internal control is in place supported by governance arrangements which ensure that controls are implemented and exposure to risk is minimised. The importance of these controls is communicated to staff, who in the main comply with the processes and procedures. Adherence to the controls is monitored and non-compliance is acted upon and redressed. The systems are reviewed and updated on a planned cycle covering three or four years, or more frequently if prompted by significant events. The risk register considers a wide range of internal and external risks to which the organisation is exposed. It is reviewed bi-annually as a minimum.	A robust system of internal control is in place. Internal control and governance processes are clearly set out and their importance is emphasised to staff. Non-compliance with policies and procedures is rare. Lessons learnt from non-compliance are used to drive changes and improvements in the processes. The policies and procedures are regularly reviewed and updates made every two or three years to ensure that they reflect the workings of the business and minimise exposure to risk. The overall risk register for the organisation is aligned to the risk registers for individual departments. The overall register includes details of the controls in place to mitigate each risk. It is reviewed on an annual basis.	A highly effective system of internal control is in place. The Board, senior management, junior management and staff routinely demonstrate their knowledge and adherence to the controls in place. Non-compliance with policies is extremely rare and would tend to occur on an exception basis in relation to specific issues which are then acted upon. Feedback is sought routinely so as to update and improve systems. Challenge to the processes is welcomed to introduce improvements. The overall risk register for the organisation and the departmental risk registers contain an assessment of the extent to which key controls mitigate risks and identify any additional controls which may be required. The organisation is selective in its application of processes and procedures and actively removes those which may be ineffective or redundant as the organisation develops. The organisation strives to adopt controls and procedures which are lean, streamlined and value added, avoiding overly bureaucratic or time consuming processes.

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3. What financial management capability have the: ▪ Board and Executive Team, including the Audit Committee, ▪ the finance department, and ▪ staff working outside finance ?	There is no financial expertise in the Board and Executive Team. The finance department consists of a significant number of unqualified staff, perhaps as high as 70% unqualified. Operational managers outside of finance have little or no understanding of financial management.	There is little financial expertise within the Board and Executive Team. The Finance Director is qualified but may not necessarily sit on the Board. The Audit Committee does not have appropriately experienced non-executive directors. The majority of staff in the finance department are unqualified (perhaps between 50% to 70%). Some operational managers outside of the finance department may have a basic understanding of the need for financial management but there is little technical expertise.	Some members of the Board and Executive Team have appropriate training and expertise in financial management (perhaps two to three members).The senior executive responsible for finance is professionally qualified and sits on the Board. A Non-Executive Director chairs the Audit Committee which has sufficiently experienced non-executive directors. The majority of finance staff are qualified (perhaps between 70% to 80%). The majority of operational managers outside of the finance department have a good understanding of the need for financial management and a basic level of expertise. They are able to review their budgets and identify the reasons for variances.	There is a good representation of finance skills and experience on the Board and Executive team (perhaps three to five members). The Senior Executive responsible for finance is professionally qualified, sits on the Board, and acts as a champion for financial management. A Non-Executive Director with financial experience chairs the Audit Committee. Most staff within the finance team have qualifications and experience appropriate to their role and grade, with only a few exceptions Operational managers have objectives for financial management contained within their performance appraisals.	There is a good representation of financial skills and expertise within the Board and Executive team, tailored to the needs of the organisation, for example, a mixture of investment expertise, audit experience and treasury management. However, the composition of the Board does not focus on finance skills at the expense of service development. The Board, Executive Team and staff at all levels maintain and demonstrate the financial management expertise they need for their roles. The senior executive on the Board responsible for finance is a qualified accountant and acts as a champion for financial management. A financially qualified Non-Executive Director chairs the Audit Committee. The job descriptions of the finance team are regularly reviewed to ensure that all staff have the relevant qualifications or are undergoing training appropriate to their role. Operational managers are appraised against appropriate personal objectives for financial management.
4. What training and continuous professional development in financial management is provided to staff both within and outside the finance team?	There is no corporate programme for training or continuous professional development in financial management. Staff are free to make their own arrangements.	There is a training programme for staff within the finance team which meets basic needs. It does not constitute a programme of continuous professional development. No training is provided to operational managers outside of the finance team wishing to increase their expertise in financial matters.	There is both a training programme and a programme of continuous professional development for staff within the finance function. Support is provided to finance staff who wish to gain further qualifications in finance, if agreed as part of a business case. There is optional training for managers outside of the finance function in basic finance skills. The organisation encourages take up of these courses but few managers have done so.	There are competency frameworks, professional training and continuous professional development in place. The organisational culture encourages both professional and personal development and recognises the need for investment in people. Expertise in financial management is seen as important for career progression and support is provided for staff to gain further qualifications as appropriate. All operational managers must complete a course in basic finance skills, tailored to their role.	A robust corporate training and continuous professional development programme is in place. A ‘learning organisation’ culture is apparent, meaning that the organisation invests appropriately in the development of all staff as a means to achieve business excellence. Expertise in financial management is seen as a prerequisite for career progression in many roles. There is both mandatory and additional optional training for operational managers who wish to develop their financial expertise.

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Financial planning	Practice				
	Level 1 **The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.**	**Level 2** **The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.**	**Level 3** **The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.**	**Level 4** **The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.**	**Level 5** **The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.**
5. How is financial planning and monitoring integrated with the organisation's strategic and corporate planning processes?	The strategic, corporate and financial planning processes are not co-ordinated. There is an annual process to secure public sector funding from Treasury or a sponsor Department for the next financial year. Plans are prepared just in time for this process and are not used subsequently; meaning that there is no review of performance against what was intended. Within the plans, there is no involvement of or consideration given to other bodies who may work with the main organisation.	There is a basic level of alignment between the strategic, corporate and financial planning processes. Significant manual work is required by staff to align the plans at a high level due the use of separate systems which are not integrated. The plans cover the next financial year and often need to be updated mid-year due to changes in resource requirements rendering the plan out of date. The systems do not have the capability to automatically upload new information into the plans. As a consequence the Board are unable to assess whether money is being spent as intended and whether desired outcomes are achieved. The plans include an attempt to reflect relationships with other stakeholders, but there is little management information available on which to base projections.	There is some integration of planning systems for the most sensitive areas of the business. A strategic plan is in place supported by a basic financial model which is capable of being automatically updated for key changes during the year. The plans are produced for the next two to three years. There is involvement of operational managers in producing both the strategic and financial plans for the most sensitive areas of the business. The views of external stakeholders are considered, and internal information on the working arrangements is used to inform plans. There is no active consultation to seek partners' views.	Senior management is clear about the strategic direction of the organisation over the next three years. Financial and operational plans are aligned with the strategic direction. The plans are produced for the next three years, and occasionally longer for some aspects of the business where there are longer term plans. Financial planning produces timely information so that budgets and forecasts are readily updated in response to changes and used to help manage the organisation. There is some consultation with external stakeholders in the development of the plans.	Senior management is clear about the strategic direction of the organisation in the short, medium and longer term (where appropriate). Financial and operational plans are fully aligned to the strategy at all levels. The Board ensures that it is able to focus on the longer term strategic imperatives. Plans include forecasts over 5 to 10 years (or more if the business requires it) so that longer term changes in the environment can be factored into plans. Financial planning produces timely information so that budgets and forecasts are routinely updated and highlight emerging changes so that remedial action can be taken. Planning processes include active co-ordination with external stakeholders such as partnership members, in order to co-ordinate effort, remove duplication and deliver economies.
6. How robust and streamlined are the systems for financial planning?	There are few systems in place and senior management do not look to improve them, Financial planning is carried out annually by the Finance Director and finance staff, largely in isolation of operational staff and using limited planning tools. The plans are not updated during the year. There is a lack of understanding of the importance of financial planning due to failure to involve staff in the process and outline their responsibilities. The lack of accountability lines means that staff are not encouraged to declare surplus budgets or make efficiency savings.	There are some systems in place however these are inefficient and cumbersome. Significant resources are required to prepare plans and budgets. Additional supporting spreadsheets are required to reconcile the systems. Financial planning is performed and updated by the Finance Director and finance staff. There is some consultation with operational managers. While staff are asked to declare surpluses, there is little scrutiny or challenge of staff who fail to declare a surplus but report one at the year end. There is a regular review of the processes, but little action is taken to improve them.	There are a number of processes in place for financial planning which include basic sensitivity analysis and scenario planning around areas which are known to be volatile. The processes are clearly set out so that they are simple to follow and easily understood. The mechanics of the budget preparation are straightforward and readily understood. While the Finance Director and finance staff co-ordinate and manage the financial planning process, there is significant consultation with operational staff. Staff are asked to produce efficiency savings and declare surpluses. There is a degree of challenge of those areas which historically produce surpluses and of staff who do not adjust their plans or who over bid each year.	The processes include sensitivity analysis and scenario planning around significant variations in assumptions in the short to medium term. Operational management are responsible for producing the financial plans with finance staff supporting them. In this way, the plans are driven by the business, with support, expertise and co-ordination provided by the finance team. Staff are incentivised to budget, through challenges made to budget requests, and declare surpluses or areas where efficiency improvements can be achieved. There is transparency regarding deficits which may have been offset by funding from another area. All staff receive feedback on the results of the planning process. The organisation reviews its processes every three to five years and uses feedback to improve them.	Sensitivity analysis and scenario planning is performed for all significant areas which may impact on both the short and long-term plans of the organisation. Operational managers own the process with the finance team operating as an effective support function. The planning processes include input from external partnerships and stakeholders so that the planning takes account of their perspectives. Staff routinely scrutinise budgets and declare surpluses and suggest any areas where efficiency improvements can be achieved. Staff are encouraged to develop 'invest to save' projects. Objectives for financial planning and monitoring are built into operational managers' objectives. Strategies and plans are clearly communicated to staff (who are consulted about them as well) The Executive Team regularly review the outcomes of the process, and the process itself, to identify areas for improvement. Non-valued added or bureaucratic stages in the planning process have been stripped out.

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7. How does the financial planning cover the elements needed to support the business: for example annual financial plans, integrating current expenditure plans and investment programmes, treasury management, cashflow and balance sheet projections?	Financial planning covers only a few of the aspects that support the business. While the financial aspects of some initiatives may be recognised, there is little or no organisational investment control.	Financial plans cover some elements of the business but there are some significant omissions. The organisation tends to focus on income and expenditure projections and is unlikely to produce balance sheets forecasts or investment statements throughout the year. There are some processes in place for investment management but plans are often produced independently of each other and organisational priorities are not established.	Financial planning covers the key aspects of the business over the next financial year as a minimum. There are established standards for the investment management process. These standards are followed and failure to provide sufficient information is identified during the process. Most significant investment plans are aligned to organisational priorities. There is some consideration of the organisation's cashflow and of treasury management but there is no contingency planning.	Financial planning covers all areas of the business to an appropriate level. For some areas, planning may be linked to longer term objectives rather than only those for the next year or two. The financial plan includes a clear assessment of the organisation's cash flow requirements, its treasury management requirements and how it will meet them over the planning period, including contingency measures. The organisation has effective and robust financial control of its investment decisions and the approval and monitoring of initiatives. Income and expenditure, balance sheet, cashflow and investment forecasts are produced throughout the year (at least quarterly).	Financial planning covers all the areas of the business and is linked to the organisation's longer term objectives. Some of the plans, at a more strategic level, may cover 5 to 10 years ahead. The need for such planning will be dependent on the individual organisation's circumstances. The financial planning includes modelling of different scenarios including identification and scoping of expected financial pressures and profiling of costs and cashflow over time.

Finance for decision making	Practice				
	Level 1 **The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.**	**Level 2** **The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.**	**Level 3** **The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.**	**Level 4** **The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.**	**Level 5** **The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.**
8. What understanding does the organisation have of its expenditure and cost drivers, and those of its major partners in the sector in order to understand the impact of costs on its programmes?	Managers know many of the costs of their activities but they are unaware of the drivers of cost and the implications of operational changes in cost on their activities, programmes and outcomes. Additionally there is no understanding of the impact of operational changes on costs.	Managers know many of the costs of their activities. They are aware of some of the drivers of cost, particularly in the short-term, and some of the implications of changes in cost on their activities, programmes and outcomes. There is little understanding of the impact of operational changes on costs. No benchmarking of costs of other organisations is performed which limits the organisation's ability to understand the cost drivers.	Senior managers have an understanding of the drivers of costs of their business. Operational managers know the costs of their outputs and activities. Costs are updated annually and summarised information is presented to the Board. They are alerted to in year changes in costs and the implications of any changes on their ability to deliver programmes and outcomes. Managers understand the different ways in which costs may be measured, and some benchmarking is performed in areas where comparisons are readily available.	Managers and staff can demonstrate their understanding of costs, different ways in which costs can be measured, and the ways in which costs can change when discussing current business and forward plans. They are aware of the costs of outcomes and programmes and the impact of changes on those costs. Cost analyses are regularly updated in year and summarised information is used by the Board. Summaries contain information on partners' activities and benchmarks. There is an effort to benchmark across the business but there is little effort to look for benchmarks outside of the direct comparator group.	Managers and staff have an understanding of different costing methods. They draw on their understanding of the costs of long-term outcomes and programmes when discussing current business and forward plans. They are aware when costs change and understand the reasons for variations. The Board routinely uses summarised current and forecast cost analyses. They understand which costs can be influenced and controlled. The summaries contain information on partners and competitors' activities, not just those of their own organisation. The organisation is inventive in seeking benchmarks outside of their industry group in order to drive continuous improvement. Cost estimation techniques are continually reviewed in terms of actual versus estimate comparisons to improve the techniques.
9. What understanding does the organisation have of its income streams and the way in which it sets prices, as well as the income streams and pricing mechanisms of its partners?	Managers understand how most of the income or revenues are derived but are unaware of how streams can be affected by changing customer or funder behaviour. There is no appreciation of the potential impact of activities of other organisations on customer behaviour	Managers understand how the income or revenues are derived and have an appreciation that their income/revenue streams are likely to be affected by changing customer or funder behaviour or the activities of other organisations. However, the organisation has no intelligence on how these factors affect income streams in practice and makes no effort to understand the impact.	Managers understand how the income/revenues are derived and appreciate how changes in key factors such as customer behaviour, funding streams and competitor actions might affect their income streams. However, there is limited management information regarding how these factors affect income streams in practice. The organisation monitors the relationship between costs and income to check that all direct costs are covered as a minimum.	Managers have a useful level of intelligence regarding the key factors which impact on revenue/income streams. They monitor the behaviour of customers, funders and competitors in order to forecast future streams and adjust service offerings or pricing structures. Managers understand the extent to which full costs are being recovered and the impact of changing demand volumes. They have an understanding of different methods for maximising their income streams, for example debt recovery.	Managers have a sophisticated level of intelligence on the factors which influence income/revenue streams which enables them to make strategic decisions in pursuit of revenue and income optimisation. The costing methodologies applied ensure that managers understand the costs being recovered and the contribution to sunk costs. Managers are proactive and innovative in managing demand for services and assessing ways of maximising the income they receive, for example by providing new services or products.

10. How are investment appraisal and project management processes used to evaluate costs and benefits and to inform all key policy, operational and investment decisions?	Projects are rarely subjected to investment appraisal. There is limited project planning or project management. There are few financial controls at project level or aggregated to programme level. There is a lack of accountability and monitoring of expenditure. Staff outside of the finance function have little understanding of financial appraisal or project management techniques.	A few major projects are subjected to rigorous investment appraisal but very few projects have fully costed options to support the decision making process and the majority of plans are created retrospectively. The overall costs and benefits of programmes are not fully considered. Significant projects may have project plans with risk management arrangements and timetables for delivery. However, the use of project plans is inconsistent and there is no aggregation of project plans at programme level. Staff outside finance have some understanding of financial appraisal and project management techniques, but regard them as an administrative process rather than a tool to help deliver projects to time, cost and planned level of quality.	The organisation has established clear standards for the preparation of business cases which are consistently applied. This includes a centrally managed and standardised approach to financial management, including costed options, and cost assessments that tracked throughout the programme life cycle. Business cases and project plans are submitted to the Board for approval who consider the key factors and impact on the business in the short to medium term. The quality of the investment appraisals and project plans tends to vary between projects due to varying levels of staff expertise. This means that the Board will sometimes need to ask for further information in order to make key decisions. Processes are in place to ensure that projects are monitored in accordance with robust investment appraisal and risk management guidelines. Staff use financial appraisal and project management techniques to help them deliver projects and programmes to time, cost and planned level of quality	The organisation has a rigorous approach for investment appraisal and project management. All plans are produced to an acceptable level of quality. The business case, programme and project management processes are meaningful and add value to the organisation. The Board considers the impact of the programmes and projects on financial performance and financial statements over the medium term. All significant programmes and projects are reviewed by the Executive Team / Board (or a delegated sub-committee). who consider the investment appraisal, risk management and project plan. The organisation gives consideration to the availability of funds and other resources when reviewing investment opportunities. It evaluates business cases and investment decisions using available information which may include cost models and sensitivity analyses The organisation flexes programme life cycles to manage availability of funds, without incurring additional future costs. Progress against plans is monitored and significant variations cause projects to be reappraised. Project and programme financial controls are largely integrated with those of the organisation.	The Board considers the longer term impact of the programmes and projects on the financial performance and financial statements. Projects are considered by the Executive Team / Board (or a delegated sub-committee) where appropriate This includes consideration of an investment appraisal, risk management and project plan. The Board prioritises investment opportunities effectively in relation to the availability of funds and other resources. It evaluates business cases and investment decisions by routinely using cost models and sensitivity analyses to assess the efficacy of projects. The organisation flexes programme life cycles to manage the availability of funds, without incurring additional future costs. There is effective decision making, with consideration of financial evidence. Progress against plans is monitored and significant variances cause both programmes and projects to be reappraised; significant issues will be anticipated in good time. The organisation operates a programme management approach to ensure that all programmes and projects are co-ordinated and aligned to the organisation's strategy. Project and programme financial controls are fully integrated with those of the organisation. The organisation routinely uses post project review to improve its processes.

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	Practice				
Financial monitoring and forecasting	**Level 1** **The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.**	**Level 2** **The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.**	**Level 3** **The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.**	**Level 4** **The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.**	**Level 5** **The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.**
11. What is the quality, accuracy and timeliness of the organisation's financial management and forecasting information, including information on income, expenditure, cash flow, and working capital?	Budgeting setting processes are underdeveloped. The Board, Executive Team and managers are unable to place reliance on the monitoring and forecasting information. This may be due to the timing and/or quality of the information supplied. It is likely to be manually produced and may be difficult to reconcile. The monitoring information includes little or no forecasting of current information into the future.	Budgets are finalised after the start of the financial year. Financial monitoring information is not available to managers until three or four weeks after the period end meaning that it is often out of date. Some limited forecasting information is also made available. Monitoring information is not provided to senior management and the Board until the second half of the financial year and contains little forecast information.	Budgets are set just before the start of the financial year. Financial monitoring and forecasting information becomes available to managers two or three weeks after the period end. It is timely enough to ensure that financial control can be exercised but the identification of key issues could be quicker. The first monitoring and forecasting return takes place at the end of the first quarter. The Board take an increasing interest in financial information in the second half of the financial year.	Budgets are agreed at least a month before the start of the financial year and managers are fully aware of the levels of budget to expect. Operational managers have accrual based financial and performance information available to them which is only one or two days old. Financial monitoring and forecasting packs are made available to senior management and the Board within seven working days after the period end and include accurate accruals based information and a set of financial statements to date. The Board take an active interest in the financial forecasts from month 1 onwards.	Budgets are approved one to two months before the start of the financial year as a result of a well organised planning process and are updated to reflect any significant events close to year end. Real time financial and performance information is available to managers via the appropriate systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'. Financial monitoring and forecasting packs are made available to senior management and the Board four to seven working days after the period end and includes accruals based information, recognition of commitments and a set of financial statements with forecast outturn for the year ahead.
12. How are appropriate financial and non-financial indicators covered within the monitoring and forecasting reports such as operational reports, Board reports, management accounts, external accounts and business plans?	A very limited level of financial and operational performance information is produced. They are reported separately and the formats are incompatible. They are often reported at different times and use different metrics meaning that it is not possible to assess a single activity or output from both a financial and operational perspective The information is not aligned to the strategic objectives of the organisation and is not made available to external sources.	Some financial and operational performance information is reported to management, however it is not integrated. The Board frequently need to review two reports at the same time in order to obtain an indication of financial and operational performance. Some performance measures exist, providing an indication of expected outcomes, outputs and inputs. However, their application is inconsistent across departments and areas. The lack of co-ordination between financial and operational information means that it is time consuming and cumbersome for the Board and senior team to assess performance. Published information provides some measures of how the organisation is progressing towards achieving strategic objectives.	Reports to management contain both financial management and operational performance information produced on consistent bases. This enables the senior team and the Board to review the performance of key areas from both a financial and operational performance perspective within the same report. The performance framework is structured around objectives and provides an overview of the whole organisation's performance. There are more detailed objectives for individual departments and areas. Most departments produce a mixture of financial and operational performance metrics to enable the review of performance. Some of these metrics need to be produced manually. Published financial information and operational performance information is linked to published objectives.	A set of operational performance metrics for each segment of the business are reported jointly with financial information and are aligned to the strategic objectives of the organisation. The organisation produces KPIs which contain both financial and operational elements, e.g., cost per unit of performance. The organisation has developed the performance system to enable the production of key metrics on a regular basis. Key operational performance and financial information is reported consistently in management accounts, external accounts and business plans. This material is linked to the published objectives. The performance framework is integrated within the organisation so that business unit, team and individual performance measures are connected to the corporate performance measurement framework.	A comprehensive set of operational performance metrics for each segment of the business are reported jointly with financial information and are aligned to the shared strategic objectives of the organisation and its partners. There is a focus on measures which demonstrate value for money and customer satisfaction. There is real time reporting available to managers of the key operational performance and financial information. The key information is reported consistently in management accounts, external accounts and business plans. Financial information is reported against the published objectives. Organisations use KPIs and other measures to benchmark themselves against others in a bid to continually improve performance.

13. What is the quality of the financial management, operational performance management systems, including the transactional processing systems?	The financial and operational performance systems are basic. There are limited facilities to produce tailored information. The IT systems may be slow to operate and may break down frequently. Budget holders tend to use their own spreadsheets for budget monitoring in preference to the financial systems, leading to significant manual work and duplication of monitoring. There is a distinct lack of automated processes and most monitoring is paper based. No time or investment is made in maximising the system's current potential or developing its potential through new software and updates.	Budget holders are unable to access monitoring information online and in a format that allows them to monitor or forecast information easily. The central finance team post adjustments to the information at the year end meaning that budget holders are unable to effectively use the management information systems available to them. No in year information is provided on accruals. Staff find it difficult to use the information produced and place little reliance on it. Reports generated by the system are often manipulated in Excel spreadsheets so that managers better understand the information. The organisation's different systems produce contradictory internal monitoring information; the year end statutory accounts are difficult to reconcile to management information. Little investment is made in IT by management.	Budget holders are able to access monitoring information online and in a format that allows them to forecast information easily. There is little need for budget managers to manipulate the monitoring information in their own spreadsheets but they do use them routinely for forecasting. While there are different sources of management information produced by various systems, the year end statutory accounts and management information can be reconciled and are synchronised during the financial year. Data entered into the systems is regularly validated. The IT systems are generally reliable, are tested regularly.	Budgets holders and operational managers can access the reports and monitoring information easily. There is a clear and visible trail from the regular management accounts to the end of year financial statements. Managers are able to use the financial systems to produce accurate, timely forecasts. There are reliable IT systems that link across all primary financial statements, and which can be accessed remotely by managers. The different systems are integrated to minimise duplication of information and maximise interface possibilities. Key data is validated independently. Full business continuity arrangements are in place.	Managers routinely use the financial systems to produce accurate, timely forecasts. Managers actively seek out new information to manage their business efficiently which the system enables them to do. Systems are regularly reviewed to maintain quality and performance. Real time data is trusted and data is held in only one place within the systems, available to managers whenever they need it. There is one data warehouse holding all primary financial data. Data entered into the data warehouse is from trusted sources and is assured as accurate and timely.

FINANCIAL MANAGEMENT MATURITY MODEL

Financial and performance reporting	Practice				
	Level 1 **The organisation has some financial management practices in place but they are inadequate in that there are many gaps which affect the day to day running of the organisation.**	**Level 2** **The organisation has in place financial management practices that are basic and allow it to function on a day to day basis but do not support the organisation to develop.**	**Level 3** **The organisation has in place financial management practices that are adequate in supporting the business under stable circumstances, and enable it to develop but will not be sufficient in challenging times.**	**Level 4** **The organisation has in place professional financial management practices which enable it to cope effectively in challenging times and will identify some opportunities to improve its performance.**	**Level 5** **The organisation has in place financial management practices that are leading edge and allow it to anticipate both challenges and key opportunities, in order to optimise its performance.**
14. How are the reports of financial and performance information tailored to the needs of the user, both internal and external?	Users find that the reports that they receive do not give them the information that they need. The organisation has no awareness of the needs of the different users, both internal and external.	The organisation makes some attempt to tailor the reports to its perception of the needs of users. Users find reports difficult to understand, unless they are qualified finance professionals or experts.	Reports can be understood by all users, and some effort is made to make the financial data easily understood by the lay reader. There are a range of different reports produced to meet the requirements of different users such as the Board, senior operational managers and budget managers. The reports have been tailored to the perceived needs of users. Internal users have been consulted for their views. External reports of financial statements are fully compliant with mandatory reporting requirements.	The organisation has considered the needs of different internal and external users and has produced a suite of tailored reports. Reports have been tailored to take account of both the information needs of each user group as well as their financial expertise. The format, content, and language is tailored. External reports include appropriate information presented in a way that is relevant and useful to external stakeholders, Both internal and external stakeholders have been consulted about the information that they need and want to receive and the reports have been designed to meet those needs. The commentary accompanying reports to the Board and senior managers covers the key factors on which they base their decisions. Emerging risks and opportunities are highlighted. External reports of financial statements are fully compliant with mandatory reporting requirements.	A comprehensive suite of tailored reports is available for internal use. The level of detail cascades appropriately and it is easy to see how key reports reconcile. The systems enable additional drill down of reports as necessary and the creation of bespoke reports for specific needs. The organisation routinely reviews the ongoing relevance of the suite of reports to ensure that any redundant or unused information is removed. The organisation ensures that the effort employed in report production is proportionate to levels of need and outcomes. Both internal and external stakeholders are regularly consulted about the information that they want to receive, they have been involved in designing the way in which the information is presented. The commentary accompanying reports to the Board and senior management includes benchmarking information and highlights emerging risks and opportunities. External reports of financial statements are seen as best practice examples of financial and corporate reporting.
15. How timely are the reports that are presented to internal and external users?	Reports for internal managers are produced too late to be useful and as a consequence are disregarded by management. External reports are publicly available significantly after the year end (5 months or more) meaning that stakeholders are unable to obtain an indication of the true financial position.	Internal reports are produced up to three to four weeks after the period end meaning that managers are not able to take action to mitigate the impact, for example, addressing increased expenditure on the budget. External reports are publicly available up to 4 months after the period end giving rise to the risk that external stakeholders may be misled about in-year performance and the true financial position.	Reports are produced some time after the period end, for example within two to three weeks for internal reports. This enables the running of the organisation but does not allow managers to be as responsive to issues and risks as would be preferable. Most significant issues tend to be identified in sufficient time. External reports are publicly available within 3 months of period end	Reports are produced on a timely basis for internal managers. (this may be weekly or fortnightly depending on the organisation's needs). The Board receive information within seven working days of period end. This enables the identification of issues and challenges in good time to enable remedial action to take place. Audited external financial statements are publicly available within two to three months of the year end. Other external reports are publicly available within two months of the relevant period end.	Data and reports are produced in real time for decision makers as and when needed. Reports are produced within four to seven days after period end, and enable the Board and senior management team to exercise financial scrutiny in more or less real time. Audited external financial statements are publicly available within one month of the year end. Other external reports are also produced within one month of the relevant period end.

16. How open, clear and concise are reports for internal and external users?	Reports contain confusing, incomplete or misleading information which may lead to poor decision making. Reports for non-finance staff contain financial material without any commentary. External reports do not openly discuss the financial and operational performance, for example performance may be only reported against targets that have been met.	Reports are complete but not presented in clear, understandable format for all readers. Commentary is limited and difficult for non-finance staff to interpret. External reports openly report financial and operational performance information, but the presentation is likely to be unclear and there is no significant commentary for non-finance professionals giving rise to the risk that users will fail to understand the impact of the information	Some effort has been made to tailors financial data for non-finance staff. Reports to the Board and Executive Team summarise key, relevant data necessary for decision making avoiding large volumes of unnecessary data. External reports contain transparent information on both over and under performance and include some concise commentary to make the key messages clear to the non-professional reader.	Reports to senior management allow readers to drill down to lower level data from the higher summary level when this is required. The monthly reporting packs to senior management and the Board contain key financial and performance data needed to understand the business Reports highlight risks and sensitivities and provide full transparent commentaries without prompting the direction of decision making. External reports contain concise commentary to make the key messages clear to the reader. Underperformance is openly recognised and the organisation outlines their plans for improvement.	Electronic reports to senior management allow the reader to drill down to lower level data when this is required. The monthly reporting packs to senior management and the Board contain the key financial and performance data needed to understand the business together with incisive commentary. Senior management are committed to using published financial and non-financial information to report performance as clearly and concisely as possible. They routinely look for ways to improve their reporting. External reports contain information tailored to users' needs which is developed in collaboration with key external groups and partners. The organisation provides external information on its performance throughout the year, in addition to the annual report.