

Financial Management Handbook for Mi-MBAs

Citi Foundation



**Financial Management
Handbook for Mi-MBAs**
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Association of the Philippines, Inc.

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For information and other concerns with regards to this manual, please get in touch with the RIMANSI secretariat or visit our website <https://rimansi.org>.

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INTRODUCTION

This Financial Management Manual was prepared to support the Micro-insurance MBA Association of the Philippines Inc. (Mi-MAP) in its role of providing technical assistance to mutual benefit associations (MBAs) in the field of financial management.

The manual aims to lay down the basic concepts that must be in place to achieve good practice in financial management. Included as part of good business practice are the following: protection of assets, effective coordination with financial partners in the collection of member dues and disbursement of members' benefit payments, prudent investment management, and establishment of appropriate authorization levels for expenses and capital expenditures. One of the main practices of good financial management is the implementation of financial and internal controls to ensure accuracy, timeliness and completeness of financial data.

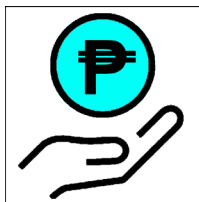
However, since MBAs differ in size, management expertise, length of existence, overall governance capability and practices of its Board of Trustees (BOT), recruitment of members and administrative support provided by the MBA's financial partners, it is recommended that the MBA define its own financial policies and procedures, given the examples in this manual. The objective is to develop a basic financial management reference to guide the members of the Board of Trustees and MBA management/staff in the discharge of their respective financial management responsibilities.

FINANCIAL MANAGEMENT

WHAT IS FINANCIAL MANAGEMENT?

According to a popular website on the subject, **Financial Management** – in the context of a mutual benefit association – involves managing all of the assets, liabilities, and members' equity of the MBA, as well as all of its operational financing items such as revenues, expenses, and cash flow consisting mainly of premium dues and benefit payments, under the overall goal of ensuring the association's long-term financial viability.

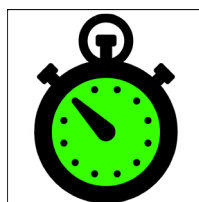
As a non-stock and not-for-profit entity that is imbued with public interest, an MBA may be considered as a fiduciary institution. Meaning, it holds assets (cash, investments, other properties) as well as members' confidential information for the benefit of its members and their beneficiaries. As a fiduciary, the MBA must comply with the statutory regulations and must meet the following principal obligations:



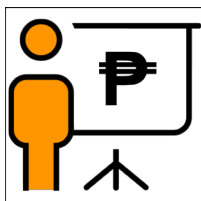
Viable pricing of its life insurance policies as well as its other financial products such as hospitalization and burial assistance, retirement fund, and other benefits;



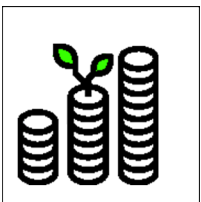
Prudent valuation of liabilities, reserves and claims payables;



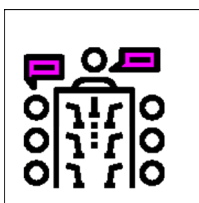
Timely delivery and accurate payment of members' benefits;



Ensuring efficient and effective operations by minimizing administrative costs and expenses in delivering services within pre-defined service levels;



Preservation of the equity value of its members while generating prudent returns on the investments that comprise the equity value; and

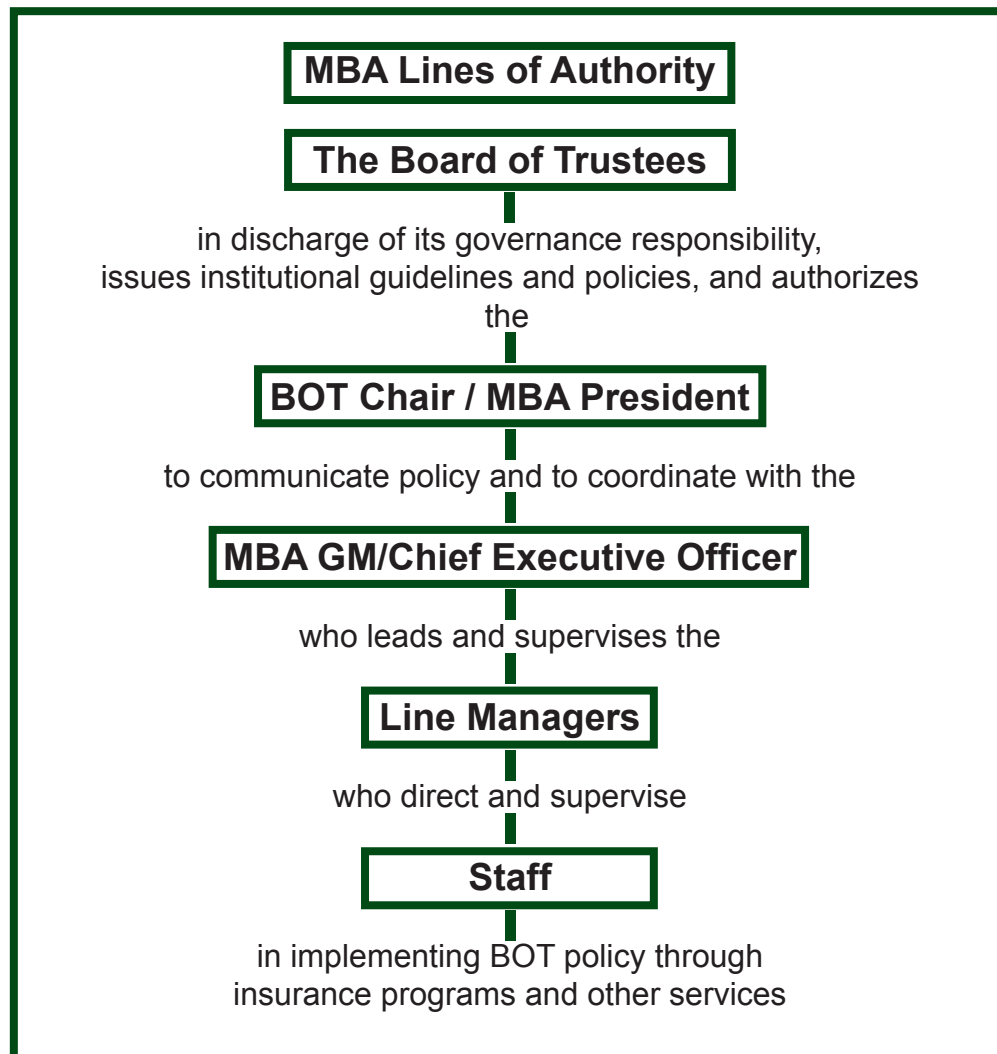


Ensuring the MBA's long-term financial viability.

In the more technical aspect of the association's operations such as product development, pricing, valuation of reserves and insurance liabilities, reinsurance, experience reviews and actuarial expertise should be sought by the MBA. To be clear, this manual does not delve into these actuarial-related items as the focus is more on matters directly related to finance and accounting.

Financial Management Role of the Board of Trustees

The Board of Trustees is responsible for the overall financial integrity of the MBA, consistent with the MBA's vision, mission and strategic plan. The BOT is accountable to the Insurance Commission and to its members in ensuring appropriate governance and prudent use of funds and the efficient running of the association's operations by the Management, with respect to lines of authority, outlined as follows:



Sample Statement of BOT's Financial Management Responsibilities

MBA is organized as a non-stock, not-for-profit corporation, and licensed by the Insurance Commission to do business as a mutual benefit association. MBA's Articles of Incorporation lists the primary and secondary purposes of the corporation, its legal powers, composition of the BOT (number of member-trustees and independent trustees), qualifications of BOT candidates, conduct of elections and general meetings, membership qualifications, etc. A copy of the Articles of Incorporation is filed in the MBA head office and is available to all members, management, and staff of the MBA.



The roles of the BOT in governance and policy issues involving financial management are:

- a. Defining MBA business priorities, including the authority and responsibility of the GM/CEO for follow through and implementation of MBA policies;
- b. Monitoring Management's compliance with policies and evaluating Management's performance against agreed standards;
- c. Defining limitations on executive authority; and
- d. Approving Management's recommendations on business plans, budgets, opening/closing of bank accounts, and investment mix and strategy.

Policy issues on financial management that are brought to the BOT's attention fall into one of the following categories:

- a. **Matters for decision-making by the BOT** – These are the strategic, high-level and important financial management issues where BOT involvement is indispensable, e.g. industry level issues, compliance and regulatory issues;
- b. **Matters proposed by Management for approval or confirmation by the BOT** – These are the annual business plan, financial budgets and other operational matters that need BOT approval/confirmation;



c. Matters involving internal and external audit - These include giving approval to audited financial statements, directing Management to take action on audit findings from both the internal and the external auditor including the external auditor's Management Letter;

d. Matters for information only – These are intended to keep the BOT abreast of Management's implementation of Board directives related to financial matters; and

e. Issues for discussion – These are intended to provide guidance or direction for future policy work by management and staff.



Both the Management and BOT members shall identify issues that should be brought formally to the BOT. The GM/CEO shall be informed of the issues raised for it to be included in the meeting agenda.

The following areas should be covered by written policies and be approved by the BOT:

a. Controls on Expenditure – who can spend what and under whose authority;

b. Controls on Collections – parties from both the MFI side and MBA side who are responsible for ensuring completeness of collections made by the MFI on behalf of the MBA; timely deposit of collections; and reconciliation of collection reports against due amounts;

c. Controls on Financial Accounting – who records the checks received, who transacts on the banks, who prepares bank reconciliation and who reviews them;

d. Budgetary Control – what expenditures are allowed and what needs special permission or approval from the Board, especially for large ticket items; and

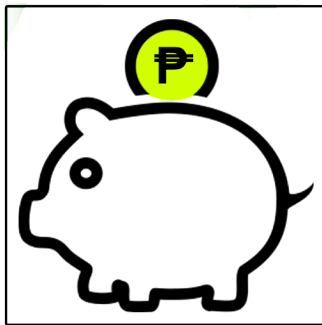
e. Physical Assets Control – who can authorize the sale, purchase, rent of equipment, and offices/buildings/staff house, including securing insurance coverage for properties.



Sample of the BOT's Statement on Financial Management Policy and Executive Limitations

The Board of Trustees is responsible for the overall financial integrity of the MBA, consistent with the MBA's vision and mission. Its primary responsibility is to safeguard the funds entrusted by the members. In addition, the BOT recognizes that the management of the MBA and implementation of MBA policies is a responsibility of the GM/CEO. Furthermore, the Insurance Commission has established reporting requirements concerning financial management of the MBAs in which the BOT ensures to comply.

The following limitations are intended to provide the Management of the MBA with policy guidelines on financial matters



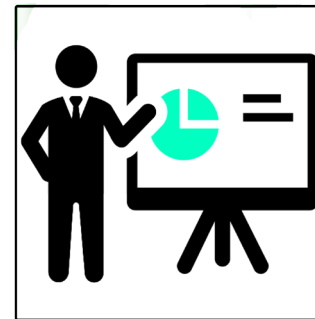
FINANCIAL PLANNING

A

The GM/CEO shall develop an Annual Operational Plan that includes operational projections for the coming year (consistent with the Strategic Plan – if there is any);

B

The Operational Plan shall be submitted to the BOT for approval not later than (MONTH) of each year.



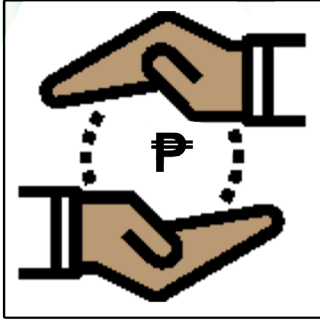
FINANCIAL REPORTING

A

The GM/CEO shall submit monthly or bi-monthly financial reports to the BOT showing current performance, year-to-date performance and a comparative report with previous year;

B

The GM/CEO shall submit the Annual Statement, including a copy of the Audited Financial Statements for BOT approval prior to submission to regulatory agencies



FINANCIAL MANAGEMENT

A

The GM/CEO shall safeguard the funds the MBA receives by exercising due diligence to satisfy her/himself of the financial soundness of the banking and investment institutions that the MBA uses;

B

The BOT shall approve an investment policy to guide the MBA's investment activities. The BOT shall review and approve monthly the investment performance report.

C

The GM/CEO shall ensure that the funds which are not required for immediate use are invested in a manner which minimizes risk exposure and provides a reasonable rate of return for the MBA

The GM/CEO shall ensure that the MBA assets are secured, protected and adequately maintained, by:

- i. Ensuring the MBA has appropriate financial controls and procedures;
- ii. Ensuring that purchases, including services, are made in accordance with sound purchasing practices and policies; and
- iii. The GM/CEO shall:
 1. Obtain prior formal approval of the BOT by resolution for the purchase or sale of the MBA real property and/or facilities;
 2. Utilize the proceeds from the sale of the MBA property in a manner consistent with policy directives.



Asset Management and Real Property Transactions



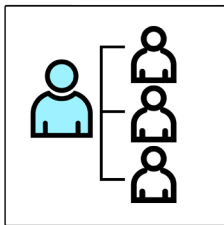
MONITORING

GM/CEO or CFO shall annually provide a signed statement that the MBA follows relevant audit, tax, insurance and other statutory requirements;

As earlier mentioned, the BOT must delegate the tactical and operational aspects of financial management to the Management. And while the BOT has fiduciary responsibility to establish appropriate financial management policies, the BOT may delegate limited authority over its financial affairs to the Treasurer, or to the GM/CEO who will then delegate some financial authority to the appropriate MBA staff, e.g. Finance/Accounting Manager, Claims Manager. Still, the BOT will retain its full responsibility and fiscal authority.

There are two kinds of delegation of authority over financial responsibilities:

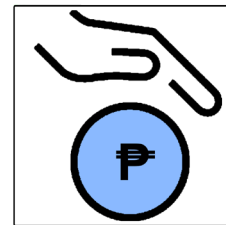
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Business activity

delegation – this gives authority to take action or to approve business matters on behalf of the MBA.

2



Financial delegation – this gives authority to review, evaluate or approve expenditure up to a certain amount.

Delegation of Authority over Financial Responsibilities

Position	Business Activity Delegation	Financial Delegation
BOT Chair or President	<p>Authority to enter into contracts (e.g. lease agreements, engagement of consultants/external auditor, purchase of fixed asset, etc.)</p> <p>Authority to represent the MBA in official functions</p> <p>Authority to sign official correspondence</p> <p>Membership in the MBA committees (e.g. Treasury/Investment Committee, Audit, Product Development, etc.)</p> <p>Together with the BOT Treasurer, reviews proposed opening of bank accounts and designation of check signatories prior to BOT approval, etc.</p>	<p>Authority to sign checks on behalf of the MBA, etc.</p>

BOT Treasurer	Authority to act as chairperson or member in Treasury/Investment Committee	Reviews major expenditures of the MBA before the BOT ratification
	Authority to act as chairperson or member in Audit Committee	Reviews investment actions of the MBA before BOT ratification
	Together with the BOT Chair/President, reviews proposed opening of bank accounts and designation of check signatories prior to BOT approval, etc.	Reviews periodically the bank reconciliation activity
General Manager/CEO	Together with the BOT Chair/President, authority to represent the MBA in official functions	Approves Finance / Administration / Investment reports prior to submission to the BOT for confirmation/ratification
	Authority to execute certain BOT policies and directives	Approves budget variations
	Authority to negotiate on behalf of the MBA's specific business transactions (e.g. audit fees, consultancy engagements, etc.) Authority to organize departments/hire staff, etc.	
Finance/ Accounting Manager		Authority to sign checks and fund transfers Manages bank accounts Prepares and approves financial reports Approves expenditure up to Php_____
		Authority to overspend up to ___% of the budget, etc.
Other Managers		Provides information for the budget
		Approves expenditure up to a set peso limit, etc.

FINANCIAL MANAGEMENT INTERNAL CONTROL

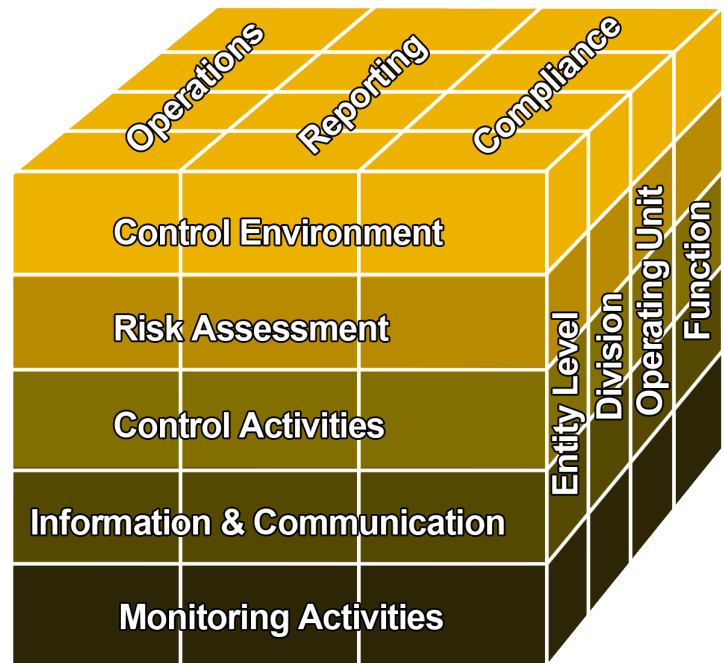
What is Internal Control ?

It is a set of process designed to provide reasonable assurance that:

- Business is conducted prudently;
- Risks are identified and sensibly managed;
- Operations are executed effectively and efficiently;
- Financial and non-financial information are produced reliably; and
- Laws and regulation are complied with.

It is composed of structures, methods, and procedures implemented to provide for the orderly and effective conduct of its business activities.

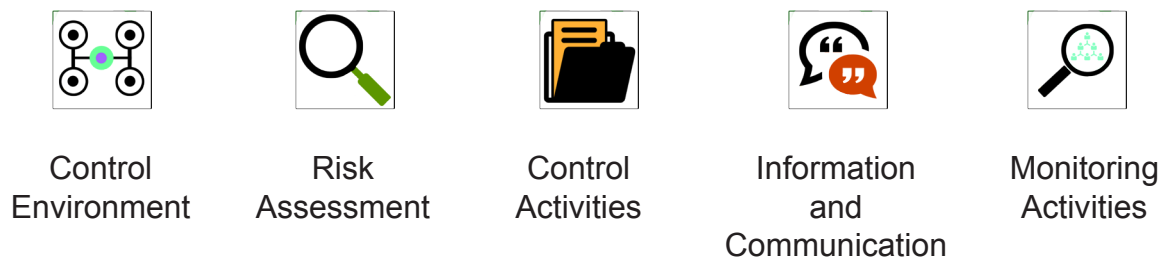
DIMENSIONS OF INTERNAL CONTROL:



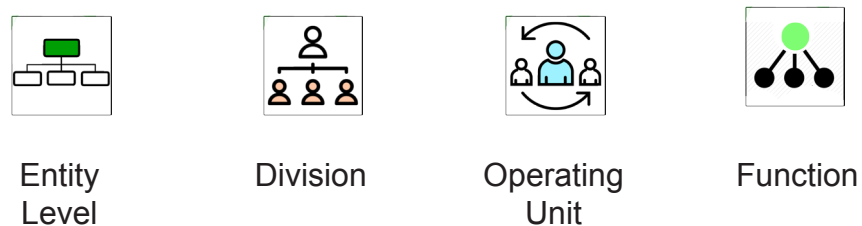
Management's Objectives



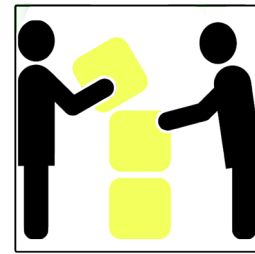
Control Components



Organizational Structure



Who is responsible for Internal Control?



Board of Trustees

- exercises oversight of the development and implementation of the IC process

Management

- defines organizational structure, authorities and responsibilities

Management and staff

- executes day-to-day internal control activities

Objectives of Internal Control:

Operational – provide reasonable assurance of:

- * Prudent business conduct;
- * Sensible management of business risk; and
- * Properly authorized transactions and protection of assets.

Examples of Operational Objectives:

a. Liquidity and Solvency

- Safe and secure investments with reasonable yields
- Proper matching of investments and liabilities

b. Claims and Benefits

- Claims settled within 1-3-5 framework
- Benefits paid to designated beneficiaries

c. Expenses and Capital Expenditures

- Capital expenditures justified by cost-benefit
- Expenses are kept within budgets

Reporting – provide reasonable assurance that accounting, financial reports and reports from Operations, Support Services provide complete, accurate and timely information

Examples of Reporting Objectives:

a. Accurate and timely recording of transactions

- Revenue and collections
- Expenditure and disbursements
- Variance analysis

b. Interim and year-end external and internal financial reports

- Financial statements compliant with applicable financial reporting framework

c. Non-financial reports

- General information sheet
- Sustainability reports

d. Data gathering, recording, and summarizing process

e. Periodic reports

f. Monitoring of financial status

- Aging
- Maturity profile of financial instruments
- Bank reconciliation

Compliance – provide reasonable assurance that the MBA complies with laws and regulations and internal policies and procedures.

Examples of Compliance Objectives:

a. Taxation Laws

- NIRC, BIR Revenue Regulations
- Local Government Code

b. Insurance Commission

- MBA and life insurance regulations

c. Corporation and security laws

- Batas Pambansa Blg. 68
- SEC Regulations

d. Other laws

- AMLA, Labor, etc

Components of Internal Control

CONTROL ENVIRONMENT

It is the set of standards, processes, and structures that serve as basis for internal control. The BOT and Management establish the tone at the top regarding the importance of internal control and expected standards of conduct.

Guiding Principles:

- A.MBA shows commitment to integrity and ethical values.
- B.BOT shows its independence and performs its oversight responsibility.
- C.Management, with BOT oversight, establishes structure, authority and responsibility.
- D.MBA recruits and retains competent staff.
- E.MBA holds individuals accountable for internal control responsibilities.

INTEGRITY AND ETHICAL VALUES

- Management actions to remove or reduce incentives that tempt personnel to engage in dishonest, illegal and unethical acts.
- Communication of entity values and internal culture to personnel through policy statements, codes of conduct and others

MANAGEMENT PHILOSOPHY AND OPERATING STYLE

- Reflects management's attitudes and actions in running the MBA
- Management's stance in setting financial targets
- Reflects suitable corporate strategy and policies
- Management's stance in recognizing revenue and preparing financial statements

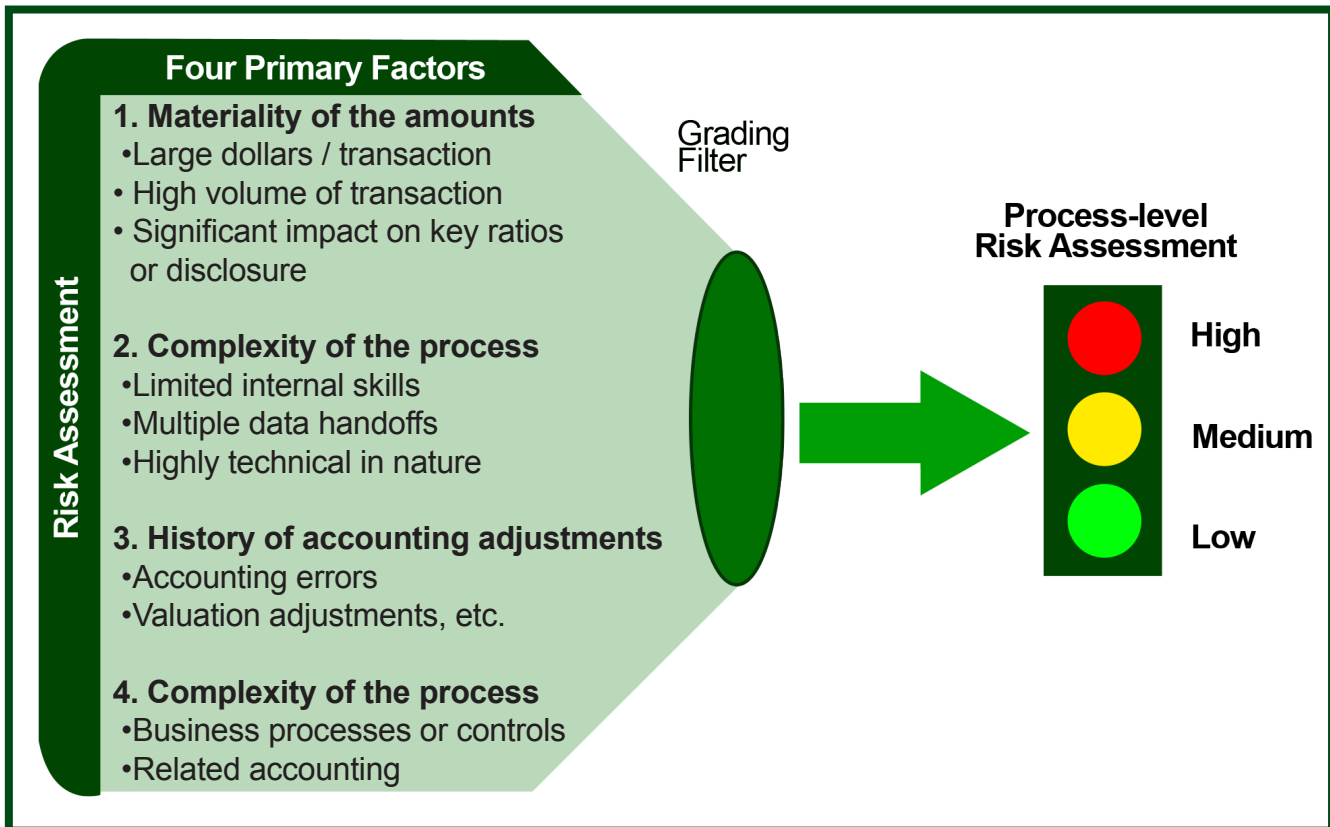
RISK ASSESSMENT

It involves a dynamic and iterative process of identifying and analyzing risks to achieve the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may hinder its ability to achieve objectives.

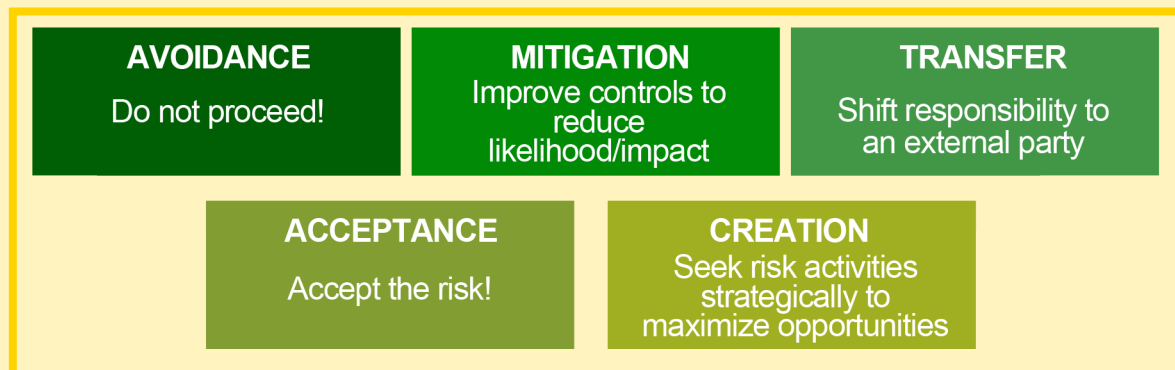
Guiding Principles:

- A.MBA establishes clear business objectives.
- B.MBA identifies and analyzes relevant risks to determine how to manage such risks.
- C.MBA assesses potential for fraud.
- D.MBA identifies changes that could impact internal control.

HOW TO ASSESS RISKS?



RISK RESPONSES:

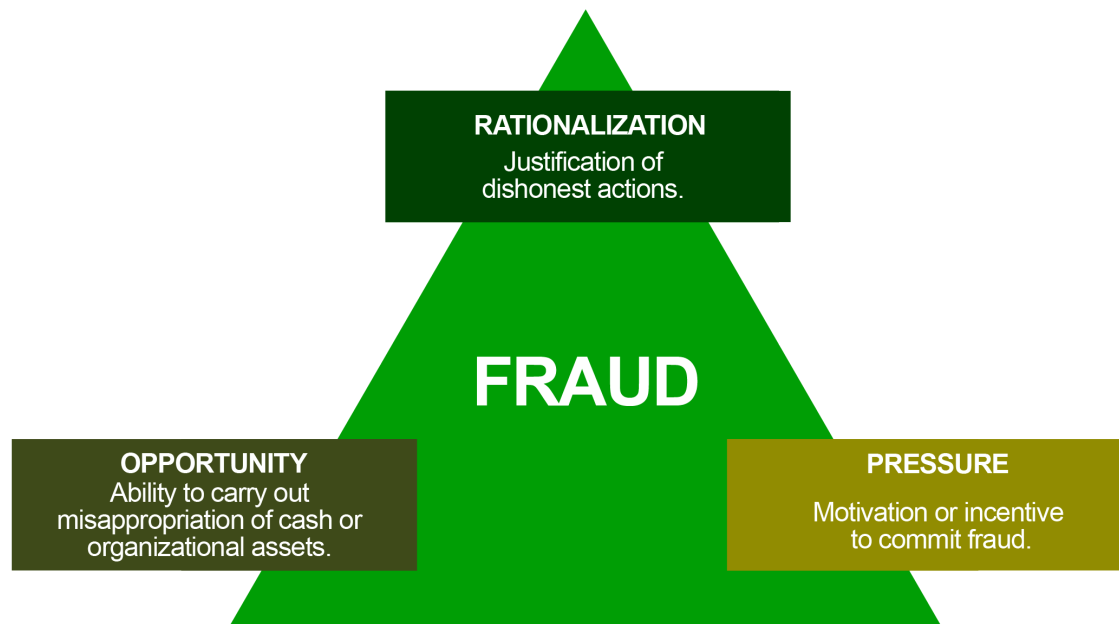


Risk Assessment includes assessing potential for fraud.

Point of Focus:

- Considers various types of fraud
- Assesses incentive and pressures
- Assesses opportunities
- Assesses attitudes and rationalization

The Fraud Triangle



Risk Event:

Collections deposited by MFI in the bank are regularly short vs collection reports. However, MBA is still liable for any claim.

Risk Drivers:

Member (client) fraudulent activity
MFI staff fraudulent activity
Errors and inefficiencies in counting small coins and small bills

Prioritize Risks:

High frequency, low impact per incident but high impact over time

Strategy:

Transfer the risk to another party
MFI staff?
Or MBA member?

RESPONSES TO FRAUD:

- What action will the MBA take against the perpetrator (i.e., termination, barangay/police, legal proceedings, recover losses)?
- What approach will the MBA take with members who were victimized?
- What approach will the MBA take with other members who may think this is an opportunity to stop contributions, or become unsure of the MBA's reliability?
(Members talk to one another ["chismis"], and a small incident can have much larger effect in the community than anticipated)
- How can the MBA turn this PR nightmare into something positive?
- What changes to the internal control policies need to be made to prevent this from occurring again?

CONTROL ACTIVITIES

These are the policies and procedures defined by Management to mitigate risks. Control Activities are performed at all levels of the MBA and at various stages within business processes, and over the technology environment.

Guiding Principles:

A.MBA develops control activities to mitigate relevant risks to acceptable levels.

B.MBA develops general control activities over technology.

C.MBA deploys control activities through policies and procedures.

Types of Control Activities:

1.Preventive, detective and corrective
Preventive control prevents the occurrence of a negative event in a proactive manner. Detective control, on the other hand, detects the occurrence of a negative event after the fact in a reactive manner.

2.Compensating

3.Manual and automated

Examples of Control Activities:

- Approvals and authorizations
- Embedded verifications
- Reconciliations
- Independent reviews
- Asset security
- Segregation of duties

Examples of Controls

- Authorizations
- Approvals

- Comparisons
- Physical counts
- Reconciliations
- Supervisory controls
- System privileges and access controls to applications and databases
- Use of chart and standard accounts
- Use of pre-numbered forms
- Access to records limited to authorized persons
- Mandatory vacation leaves for employees with accountabilities
- Job rotation
- Separation of record-keeping from custodianship
- Bonding of employees handling assets
- Conflict of interest policy
- Record retention policy

Typical Controls for Cash

- Daily deposit of collections and in exact amounts
- Use of cash registers
- Sequential use of official receipts
- Detailed listing of collections and daily cash collection reports
- Comparison of cash book with deposit slips
- Bank accounts are duly authorized
- Monthly bank reconciliation statements
- Surprise audits of cash
- Analysis of customer remittance advice
- Pre-numbered checks
- Accounting for all checks used
- Use of check vouchers prior to check preparation
- Authorized check signers
- No signing of blank checks
- Detailed listing of checks
- Mutilation of voided checks
- Specific approval for unusually large checks
- Control over signature machines
- Check listing compared with cash book entries
- Control over inter-bank transfers
- Checks should not be payable to cash

- Physical control over unused checks
- Cancellation of supporting documents
- Control and analysis of long outstanding checks
- Independence of person reconciling the bank statement
- Three-way matching

Typical Controls for Supplies and Inventory

- Physical controls over inventory
- Periodic inventory counts
- Control over count tags
- Use of perpetual inventory records when appropriate
- Periodic comparison of GL and perpetual records and physical count
- Control over in-transit goods
- Preparation of receiving reports
- Independence of inventory custodian from record-keeping
- Adequacy of insurance
- Proper authorization for inventory purchases
- Pre-numbering of purchase orders
- Use of inventory requisitions
- Use of standard costing when appropriate

Typical Controls for Fixed Assets

- Detailed property records
- Periodic comparison of property records with physical assets
- Proper authorization for acquisitions of fixed assets
- Control over expenditures for self-constructed fixed assets
- Use of property identification numbers
- Authorization for sale of fixed assets
- Authorization for retirement of fixed assets
- Physical safeguards
- Capitalization policies
- Detailed property records
- Periodic comparison of property records with physical assets
- Proper authorization for acquisitions of fixed assets

- Control over expenditures for self-constructed fixed assets
- Use of property identification numbers
- Authorization for sale of fixed assets
- Authorization for retirement of fixed assets
- Adequacy of insurance
- Procedures for depreciation
- Fixing of accountable persons for properties
- Control over fully depreciated assets
- Control over scrap sales

Typical Controls for Accounts Payable and Accrued Expenses

- Independence of AP processing from purchasing and receiving functions
- Control over purchase returns
- Matching of purchase orders, receiving report and vendor invoice
- Reconciliation of vendor statements with AP details
- Review of unmatched receiving reports
- Mutilation of supporting documents at payment
- Review of discounts
- Bidding process
- Proper authorization for payment of accrued expenses
- Verification of invoices
- Supporting documentation prior to payment
- Independence of GL and cashier functions
- Detailed records for accrued expenses
- Periodic comparison with budgets

Typical Controls for Payroll

- Use of time clock/DTR/biometrics
- Review of time cards
- Comparison of time card data with payroll
- Compliance with labor regulations
- Distribution/Deposit of salaries to personnel bank accounts
- Control over unclaimed wages
- Timely removal of terminated/resigned employees from payroll

SEGREGATION OF DUTIES FOR SMALL ENTITIES

The goals targeted in the “segregation of duties” principle may be achieved through practices other than segregation.

Examples:

- Rotation of duties
- External reviews on regular basis (e.g., by RIMANSI)
- Unannounced verifications (e.g., by MFI Internal Audit)

INFORMATION AND COMMUNICATION

These are necessary so that internal control responsibilities are carried out.

Communication is both internal and external. Communication enables staff to understand internal control responsibilities and their importance to the achievement of objectives. Information, on the other hand, is necessary to carry out internal control responsibilities to support achievement of objectives.

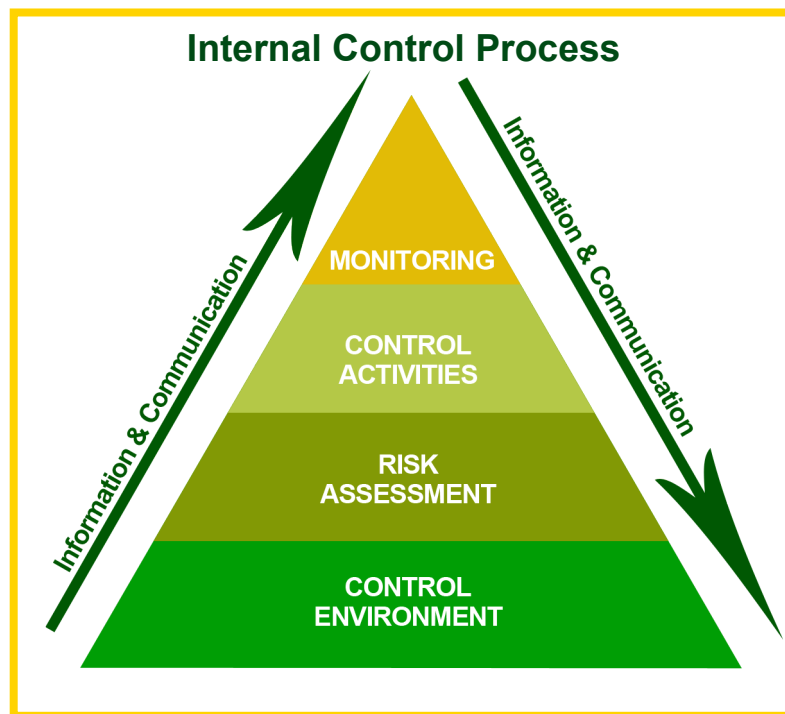
Guiding Principles:

- A.MBA generates relevant, quality information.
- B.MBA internally communicates information, objectives and responsibilities.
- C.MBA communicates with external parties on internal control matters. Assertions in Financial Reporting:

- Existence
- Occurrence
- Completeness
- Valuation
- Rights and Obligations
- Presentation and Disclosure

Qualities of good accounting information systems:

- Identify and record all valid transactions
- Classify the transactions for financial reporting
- Measure the value of the transactions
- Record the transactions at the proper time periods
- Reliably present and disclose the transactions in the financials



MONITORING

It is the ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. It provides feedback on the operating effectiveness of the components of internal control overtime. Findings are evaluated and deficiencies are communicated in a timely manner. Critical matters are reported to Management and to the BOT.

Ongoing evaluations:

- Built into business processes
- Provide timely information

Separate evaluations:

- Conducted periodically
- Vary in scope and frequency
- Dependent on assessment of risks, effectiveness of ongoing evaluations, other management considerations

POINT OF FOCUS:

- Identifies information requirements
- Captures internal and external sources of data
- Processes relevant data into information
- Maintains quality throughout processing
- Considers costs and benefits
- Communicates internal control information
- Communicates with the Board of Directors
- Provides separate communication lines
- Selects relevant method of communication

“ FINAL THOUGHTS ON INTERNAL CONTROL ”

- The maintenance of an adequate internal control structure is Management's responsibility.
- Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.
- Controls seen as working now may later be found deficient due to performance (or non-performance) reasons.
- There is no assurance that existing controls will be adequate in the future as changes take place in the MBA and in the business environment.

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