



# **General Guidelines**

## **For Accounting and Auditing of Grants Channelled through Multilateral Organisations**

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## Introduction

1. These General Guidelines for accounting, auditing and reporting apply to multilateral organisations receiving official grants from the government of Denmark through the Ministry of Foreign Affairs/DANIDA (in the following referred to as DANIDA) for the financing of development projects or activities with similar aims.
2. Multilateral organisations are defined (OECD/DAC) as international institutions with governmental membership. They include multilateral banks (e.g. World Bank, regional development banks), United Nations agencies, and regional groupings (e.g. certain European Union and Arab agencies).
3. These guidelines are applicable only to agencies of which the Government of Denmark is a member or contributor with governance influence.
4. The guidelines cover grant assistance, consisting of contributions for full or partial financing of activities, on which the Government of Denmark and the organisation have agreed, through mutually signed agreements, exchange of notes, or other procedures.

## The grant and its disbursement

5. Multilateral aid can be given either as general (core) contributions or as earmarked support for a specific activity. In both cases the amount of the grant is approved and committed in the currency of Danish Kroner (DKK).
6. A general contribution is primarily intended to cover the operational expenses of an organisation in a given financial year. Therefore, such funds must not be used to accumulate assets. Normally, the grant will be paid annually and it may be disbursed in two or more instalments, if this is deemed appropriate by the Desk Officer with a view to the cash flow to the recipient.
7. Earmarked contributions consist of funding for a specific activity, for which a separate agreement is signed between the organisation and DANIDA. The agreement specifies the amount of the Danish grant, its designated use and the expected timeframe for its disbursement. The agreement must reflect the total grant in DKK and should also contain a schedule for the transfer of the grant, keeping in mind that funds should not be used to accumulate assets in the organisation. A rule of thumb gives that funds disbursed should not cover for more than six months of activities.
8. Each disbursement request must state the bank account to which the grant should be transferred. Immediately after incoming funds are deposited, the organisation must forward a receipt to DANIDA, indicating the value of the transfer in the currency in which it has been received.
9. The conditions for the transfer of funds is that previously paid instalments have been spent in accordance with the agreement, that satisfactory financial reporting on previous periods has been submitted according to agreed schedule, and that no other financial matters remain unsettled. Documentation to this effect may also be required if disbursement is being requested ahead of the date specified in the agreement.

10. Unused grants shall be repaid to DANIDA or, after prior agreement with DANIDA, be credited against subsequent grants that may be authorized under any future extension of the same agreement.

11. Spending in excess of the allocated budget for the activity – even when the excess spending has been caused by an increase in costs – cannot be covered by the Danish grant, unless provisions for this have been explicitly agreed upon in advance.

## **Interests**

12. The disbursement rate of funds to a recipient or beneficiary institution shall be structured in such a way that it avoids the accumulation assets.

13. Interest income accrued on funds from a Danish grant must be specified in the bi-annual/ annual financial statements and returned to DANIDA. Exceptions to this provision are as follows:

13.1 Funding granted for the operation of an organisation (core funding) is usually not subject to the requirement of repayment. The grant donor should, however, ensure that no major accumulation of assets takes place in the organisation.

13.2 In the case of contributions to multi-donor trust funds and other multi-donor financing, it will usually not be possible to calculate the interest accruals attributable specifically to the Danish contribution, as opposed to the interests accrued on funding from other donors, unless a special administrative set-up is arranged for the Danish contribution. DANIDA participates actively in the international effort towards harmonising procedures and rules among donors with a view to simplifying aid administration for developing countries. In multi-donor trust funds and other multi-donor financing, in which multiple donors cooperate with the recipient organisation on a specific activity, setting up separate accounts for the contribution, including special accounting as regards the interests accrued, would contradict the Danish wish for increased harmonisation. Therefore, the requirement to repay interests may be disregarded in connection with multi-donor trust funds and other multi-donor financing. However, the unit that grants the funding shall, as in all other cases, be responsible for structuring the disbursement rate to match liquidity needs in the best possible manner.

13.3 When contributions are made to a Single Donor Trust Fund or organisation where it follows from a board decision, or otherwise established practice (i.e. the adopted financial regulations), that interest income shall not be specified or repaid. Also in this case the unit in DANIDA responsible for the grant should ensure that no major accumulation of assets takes place in the organisation.

13.4 As the requirement to repay interests originates from a wish not to allow the recipient to leave funds inactive in an account, it shall not apply where such interest accruals are an integral part of the purpose of the activity (for instance micro credits), and this has been considered in the text of the project document.

## **Spending of the grant and reporting procedures**

14. The Danish grant shall be spent solely on the objectives specified in the agreement. The organisation is expected to do everything within its power to ensure maximum adherence to the timetable set for the implementation of the activities, and to see to it that the grant is spent in accordance with approved budgets.

15. Budget changes or reallocation in excess of 10% of the grant can be made only after prior agreement with DANIDA.

16. It is the responsibility of the organisation to open negotiations with DANIDA in response to changes in activities not envisaged by the provisions of the agreement. This also applies when the scheduled progress of activities is delayed, or in the case of any other essential deviations from the original conditions substantiating the grant.

17. Once a year, or at the frequency specified in the agreement, the organisation must report on the overall progress of activities. These reports shall include facts and figures on the results achieved.

18. When activities have been completed, the organisation is responsible for issuing a final report, which is to be forwarded to DANIDA together with the audited financial statements.

19. DANIDA is entitled to request from the organisation all information relevant to the implementation and progress of activities and has the right to carry out audit inspections at any time during the period covered by the agreement.

20. In case the contributions are made to UN entities subject to the single audit principle, DANIDA will rely on the single audit principle consistent with DANIDA/Denmark's active engagement in the international efforts towards harmonising procedures and rules among donors with a view to simplifying aid administration.

21. In case the contributions are made to Multi Donor Trust Funds in the World Bank DANIDA does not uphold the right to carry out audit inspections.

22. In case of contributions made to a Single Donor Trust Fund in the World Bank DANIDA must uphold the right to carry out audit inspections.

## **Administrative overheads**

23. DANIDA instruction<sup>1</sup> issued in November 2005 states that 7 per cent is the norm to cover indirect costs. Only when Denmark has committed<sup>2</sup> to another levy (as is currently the case for the UN Secretariat, as opposed to UN funds and programmes) or in ex-

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<sup>1</sup> Issued November 22, 2005 by the Head of Multilateral Affairs.

<sup>2</sup> Those commitments have been made in Board decisions where Denmark has been a board member and has voted in favour of the rules. This applies to the following entities: IFAD, ILO, WTO, ITC, UNHCR, OHCHR, UNAIDS, WHO and UNOG.

traordinary situations can an exemption be made from this rule. Under such circumstances the organisation should bring forward pertinent arguments for the exemption.

23.1 Under this exemption UNDP levies 1 percent and the World Bank 2 percent as an administrative agent's fee for administering reception of funds, distribution to other agencies and service of accounting and reporting for the expenditure of funds.

24. For UN organisations participating in UNDG the standards for a Memorandum of Understanding regarding Multi Donor Trust Funds is a levy of 7 per cent to cover indirect costs.

## **Accounting**

25. It is the responsibility of the organisation to ensure that the use of the Danish grant is appropriately accounted for in accordance with rules and procedures set by the competent intergovernmental body of each organisation. DANIDA thus expects that:

25.1 The Danish grant is entered into the official financial statement as income and the Danish grant can be identified in the financial statement of the organisation. If the annual official financial statements of the organisation do not specify individual donors, a statement from the Chief Financial Officer or Comptroller of the organisation must certify the grant received from DANIDA and its spending.

25.2 Expenditure of support earmarked for a particular activity is specified in statements extracted from the accounting system with at least the same degree of detail as in the budget for the activity. If the annual audited accounts or the financial statement signed by the Chief Financial Officer or Comptroller of the organisation, list only one item of expenditure for an activity, a detailed expenditure statement should be provided, if requested by DANIDA.

26. Once a year, with the frequency specified in the agreement, the authority of the organisation shall submit audited accounts / certified statements in respect of implemented activities. The rendering of accounts/statements may follow the fiscal year of the recipient organisation and should be submitted no later than six months after the end of the fiscal year under review unless specified otherwise in the agreement. This can also be done through mechanisms provided for under the single audit principle.

27. Upon completion of activities unspent parts of earmarked support, must be returned to DANIDA.

28. Where the agreement, at its expiry, provides for a transfer of equipment, fixtures or buildings funded through the Danish grant, the organisation and its subcontractor is required to prepare a list of the items concerned and their value. This list shall be included in a transfer document.

## **Audit**

29. All accounts rendered by the organisation, whether it be the annual accounts of the organisation or final accounts for specific activities shall be appropriately audited according to the existing audit procedures and standards of the organisation.

30. The auditor's endorsement shall appear on the accounts, accompanied by the comments in the auditor's records, if any. However, in the case of organisations providing only biannual audited accounts, DANIDA can accept an annual financial statement from the Chief Financial Officer or Comptroller of the organisation.

31. In the case of Single Donor Trust Fund, the organisation shall, upon request, allow the Danish Auditor General access to all accounting information and material relevant to the Danish grant. This requirement shall be waived in case the contribution is made to a UN entity subject to the single audit principle whether it is granted as an earmarked or a core contribution.

