



GENERAL GUIDELINES

FOR ACCOUNTING AND AUDITING OF

GRANTS CHANNELLED THROUGH

NATIONAL NGOS

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1. Introduction

These General Guidelines for accounting, documentation, auditing and reporting apply to national NGOs in countries receiving official grants from Denmark on a bilateral basis for the financing of development projects or activities with similar aims.

The guidelines cover grant assistance, consisting of contributions for full or partial financing of described activities, on which the Danish Embassy and the recipient NGO have agreed through written agreements, exchange of notes or other procedures.

2. The grant and its disbursement

The Danish grant amount is approved in DKK, and its designated use and planned disbursements are specified in the agreement. As a rule, the agreement includes a budget broken down into major items, and a timetable for the disbursement of the grant.

Payment of a Danish grant in accordance with an existing agreement is effected in response to disbursement requests addressed to the Danish Embassy.

Each request must state the bank account to which the disbursement should be transferred. Immediately after receiving the funds, the recipient must forward a receipt to the Danish Embassy, indicating the value of the transfer in the currency in which it has been received.

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, and that no other accounts remain unsettled. Documentation to this effect may also be required if disbursement is being requested ahead of the date specified in the agreement.

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

Spending in excess of the allocated budget for the activity – even when such 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.

3. Interests

Bank interests gained on accumulated funds, must be returned to the Danish Embassy unless otherwise agreed. However, the disbursement rate of funds to the recipient NGO shall be structured so as to avoid the accumulation of unspent funds.

Exceptions to this provision are as follows:

- 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.
- In the case of contributions to multi-donor trust funds and other multi-donor financing, it may not be possible to calculate the interest accruals attributable specifically to the Danish input, as opposed to the interests accrued on funding from other donors, unless a special administrative set-up is arranged for the Danish contribution. Denmark 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 NGO on a specific activity, setting up separate accounts for the Danish contribution, including special accounting as regards the interests accrued, would contradict the 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.
- 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.

4. Spending of the grant and reporting procedures

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

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

It is the responsibility of the recipient to open negotiations with the Danish Embassy 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.

Once a year, or at the frequency specified in the agreement, the recipient must report on the overall progress of activities. These reports shall include facts and figures on the results achieved. Where activities include building or other construction projects, the authorities of the recipient NGO will normally be required to forward building certificates at regular intervals to the Danish Embassy. This procedure is a requirement for the disbursement of grant instalments, cf. Section 2.

When activities have been completed or an agreement has expired, it is the responsibility of the recipient NGO to discuss with the Danish Embassy the procedure for and scope of the Project Completion Report, which is to be filed along with the accounts.

The Danish Embassy is entitled to request from the NGO all information relevant to the implementation and progress of activities, and has the right to carry out inspection at any time during the period covered by the agreement.

5. Accounting

Objectives

It is incumbent on the NGO management to prepare and submit to the Danish Embassy, audited annual accounts for each grant no later than 6 months after the expiry of the financial year, and final accounts no later than 6 months after the project completion. The accounts shall specify individual grants and total disbursements towards each one of them.

The annual accounts shall outline the use of the funds received for the financial year in question.

For these purposes, the financial year shall coincide with that of the NGO.

Bookkeeping and administration of grants

It is incumbent on the NGO to keep accounts for grants received in accordance with sound bookkeeping and accounting principles.

It is incumbent on the NGO to prepare internal guidelines so as to ensure that the funds are administered adequately and used in accordance with the objectives of the grant. The NGO shall also prepare guidelines for implementing organisations so that these, as a minimum, observe the same guidelines as the NGO.

The NGO shall keep accounting records in accordance with these guidelines. The records shall be kept for five years after completion of the project eligible for support.

Accounting records shall be available for control by the Danish Embassy, by a representative appointed by the Danish Embassy, or by the Danish Auditor General.

Grants received shall be deposited into a separate bank account. In case of multi-donor agreements, one common bank account for all donor contributions can be used. Funds may be drawn from this account for disbursements as needed in accordance with the objectives of the authorised grant.

It is incumbent on the NGO to ensure that funds transferred to implementing organizations are administered according to the same guidelines.

Grants shall not be reallocated to other projects without the prior written consent of the Danish Embassy.

Where the Danish Embassy has approved the utilization of funds for investment in fixed assets, the final accounts shall contain a list of such assets, indicating actual and budget prices.

In order to revise a budget, approval must be obtained from the Danish Embassy, and the accounting report shall bear an endorsement to this effect, referring to the relevant exchange of correspondence.

Multi-donor funding

As regards Danish grants to multi-donor funded projects where the Danish grant contributes to financing the total budget, separate accounts for the utilization of the Danish grant are not required. However, annual /final audited accounts must specify all donor contributions as well as total expenditures funded by the grants.

If the final audited accounts record an unspent balance, the calculated Danish share of the remaining unspent funds must be repaid to the Danish Ministry of Foreign Affairs.

Core Funding

If the Danish Grant is a contribution to cover core funding, the utilization may not be specified in the accounts. In this case, a certification of the use of the Danish fund must be forwarded instead.

Annual accounts

Contents

The layout of the accounts shall be well structured and in accordance with these General Guidelines. The annual accounts shall also include any information necessary for their comprehension.

They shall outline the NGO's utilization of grants in the accounting year concerned and specify unspent funds and interest income, if any.

The annual accounts shall contain the following:

- Identification
- The management's endorsement
- Audit report
- Statement of income, expenses, assets and liabilities
- List of assets
- Notes

Identification of the accounts shall clearly state the name of the NGO, the name of the project/grant, including the file number, and the accounting period.

The NGO management who, by way of their signatures, vouch for their contents shall endorse the overall annual accounts.

Final accounts Contents

The layout of the final accounts shall be well structured and in accordance with these General Guidelines. They shall also include any information necessary for their comprehension.

In the final accounts, the NGO shall substantiate that the grant has been used in accordance with the objectives of the authorized grant approved by the Danish Embassy.

The final accounts shall contain the following:

- Identification
- The management's endorsement
- Accounting report
- Audit report
- Accounting principles applied
- Statement of income, expenses, assets and liabilities
- List of assets
- Notes
- Appendices, if relevant

Identification of the accounts shall clearly state the name of the NGO, the name of the project/grant, including the file number, and the accounting period.

The NGO's management who by way of their signatures, vouch for their contents shall endorse the overall final accounts.

The accounting report is an independent statement produced from the accounting. Thus, it is not part of the Project Completion Report, which contains an evaluation of the project in the light of the objectives of the grant.

The Project Completion Report shall mention special circumstances of importance to the accounting and inter alia, contain the following:

- Summary of anticipated results as approved by the Danish Embassy
- Based on the indicators stated in the approved budget, statement as to whether the objectives of the grant have been met
- Statement on the quality of the documentation available to substantiate that the funds have been utilized in accordance with the objectives, including information about shortcomings, insufficient or misrepresented documentation, if any
- Specification of any remaining unspent funds. Statement of repayment of interests accrued on bank accounts
- Statement of discrepancies, if any, between actual disbursements and those considered in the grant budget.

6. Audit

Objectives

Annual accounts and final accounts for Danish grants rendered by the NGO management must be audited with the objective of attaching an audit report to the accounts.

Compliance audit can be included if requested.

The audit must be carried out by an international recognized chartered accountant, using international audit standards (i.e. INTOSAI/ISA).

The auditor's endorsement shall appear on the accounts, accompanied by the comments in the auditor's records, if any.

The management of the NGO shall assist the auditors as required during the period covered by the agreement. As will be agreed with the NGO, the Danish Embassy shall be allowed to study reports, accounts, inventory lists, and other pertinent material in keeping with the agreement and these General Guidelines.

Scope and performance

The auditor shall prepare and carry out the audit with a view to ascertaining whether:

- The accounts contain essential misrepresentations or shortcomings
- As in conformity with sound auditing principles, comprising whatever
- Initiatives the auditor may deem necessary
- The NGO's procedures, registration routines, and internal control
- Procedures governing the grant approved by the Danish Embassy comply with these guidelines, including sound bookkeeping practice and accounting principles, and constitutes a reliable basis for the preparation of accounts
- The accounts prepared meet the accounting guidelines.

Where part of or the entire project activity is being implemented by other organisations, the auditor shall ensure that all implementing organisations have submitted their accounts, audited by a chartered accountant.

While carrying out the audit, the auditor of the recipient NGO shall ensure that the auditors of other implementing organisations are competent, not under any disability, and independent.

The audit report

The audit report shall comprise:

- Identification of the recipient NGO, project/appropriation and accounting period
- Confirmation that the accounts have been audited
- Statement of the nature and scope of the audit
- Assessment of and information about any misrepresentations in the recipient's internal control procedures, bookkeeping and accounting practice
- Conclusion and statement concerning the audit.

Where the auditor has been unable to audit part of or all the accounts, a statement to this effect must be issued, indicating the reason.

Accounting principles applied

The paragraph about applied accounting principles shall confirm that the accounts have been prepared in accordance with these General Guidelines.

The paragraph shall also give an account of the method applied for the conversion of received funds into foreign currency.

Furthermore, under this paragraph, the NGO shall state how it has dealt with those accounting-related matters pertaining to the project that have not been covered by these General Guidelines.

Income and expense statement

The Income and Expense statement shall specify the financial transactions pertaining to the project. To facilitate comparison between implementation and planning, the figures of the approved grant budget shall be cited too.

Receipts

The approved grants shall appear as receipts in the accounts of the project concerned together with contributions from other donors, including the NGO's own contribution.

Expenditure

Items of expenditure shall be entered individually in the income and expenditure statement, or be specified in the notes thereto. The expenditures entered in the report shall, as a minimum, be as detailed as the approved budget.

Funds earmarked for the NGO's administration costs shall be entered in the report as expenditure.

All expenditure shall:

- Pertain to the project, i.e. be covered by the authorized grant and be relevant to the project
- Relate to the project period as defined in the authorized grant
- Be eligible for support
- Be correctly entered under the individual items in the approved grant budget
- Have been paid out.

Notes

The location and contents of the notes must be clear, and reference shall be made to relevant items in the accounts. The final accounts shall contain the following notes:

- Specification of receipts. Contributions from the individual donors shall appear from the note individually
- The NGO's own contribution and the calculation thereof shall appear from the note
- Specification of disbursements made to other implementing organisations. Where funds have been paid to several organisations, the note shall specify the payment to each one of them. The note shall mention the transfer date, currency and exchange rate, if relevant

- Specification for each implementing agency of the grants awarded, and of their corresponding total disbursements. The specification shall be in local currency, or in other transferred currency if relevant
- Statement and specification of overheads under the authorized grant
- List of assets
- Specification of interest accrued on the grants
- Specification of unspent funds.

Where the NGO has established one overall bank account for funds approved by the Danish Embassy, and additional grants are being deposited into this bank account, interest accrued on the individual grant shall not be specified. Interest repayment shall be settled with the Danish Embassy separately.

Where the Danish Embassy has approved the utilization of funds for investment in fixed assets, the final accounts shall contain a list of such assets, indicating actual and budget prices.

Appendices to final accounts

The final accounts shall refer to the appendices, which are to be attached. The NGO shall also attach the appendices deemed necessary for the comprehension of the accounts. Where specifications of the implementing organisations' accounts are not directly included in the final accounts, these shall be appended. The relationship between the implementing organisations' accounts and the final accounts for the grant shall be clear.

Unspent funds in respect of the approved grants shall provide the information indicated in the list below, and be included in the accounts.

	Unspent funds at the beginning of the financial year
+	Grants received during the financial year
+	Bank interests
-	Disbursements under the grant
=	Unspent funds at the end of the financial year/project end
	Specified as:
	Unspent fund from the grant
	Bank interests

Conclusion and statement

The conclusion concerning the accounts is the result of the independent audit of the accounts of the recipient NGO.

The auditor's statement shall comprise information to the effect that:

- The auditor is not under any disability
- During the audit, the auditor has been provided with all requested information
- In the auditor's opinion the bookkeeping is in conformity with sound accounting principles, including a statement to this effect
- The accounts match the recipient's bookkeeping

- The grant has been used in accordance with the objectives of the authorized grant, and all expenditures have been paid.

The formulation of the auditor's conclusion and statement shall be unambiguous, clear and comprehensible. Where the auditor makes a qualification, it shall be done so clearly. When preparing the conclusion and statement the auditor shall be conversant with and appropriately take into consideration the comments and statements made in the accounts of implementing organisations, as well as the information provided in the recipient's accounting report.

