## Standard requirements for financial management capacity

During the identification and formulation phase, a capacity assessment of possible partners’ financial management should take place to determine whether the potential partners have the necessary financial management capacity to ensure the successful implementation of the activities, and if training, external assistance or other supporting measures may be used to strengthen the capacity.

The scope and depth of the assessment will depend on the size and complexity of the activity, the nature of the partner and its history of prior cooperation with Danida or other donors.

It is the responsibility of the unit that the assessment is carried out. The potential partner organisation should be part of the process, and if the assessment requires external assistance, included in the elaboration of terms of reference and other relevant parts of the process.

Insofar as possible, the assessment should build on existing information. If the information is insufficient, it may be supplemented by further work. This could be an assessment conducted by the unit itself, such as a visit to the partner, or more comprehensive exercises such as a systems-based audit or using external consultants.

If the proposed activity includes the transfer of funds to sub partners, the capacity of these sub partners should be a consideration.

The capacity assessment should identify whether the following minimum requirements are met

* The organisation is financially viable and sustainable
* There are established procedures for financial management and administration, which are regularly updated.
* The accounting procedures meet the requirement of international accounting standards
* There are clearly defined staff roles, and the staff members are aware of their roles and responsibilities and of the organisations policies and procedures
* Key financial positions are held by qualified personnel
* The financial system can deliver relevant and up-to-date information to the management
* Appropriate internal controls are in place, such the separation of duties and monthly reconciliations
* Management is involved in the financial management
* The organisation is subject to regular audits, and the recommendations of the auditor are addressed.