

**MINISTRY OF FOREIGN AFFAIRS OF DENMARK**  
Danida

Quality Assurance of Development Assistance



**GENERAL GUIDELINES**

**FOR ACCOUNTING AND AUDITING OF**

**GRANTS CHANNELLED THROUGH**

**GOVERNMENTAL, PARASTATAL AND**

**INTERNATIONAL ORGANISATIONS**

August 2007

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## **1. Introduction**

These General Guidelines for accounting, auditing and reporting apply to central and local authorities, official and semi-official institutions, international organisations and others 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 Denmark and the recipient have agreed through written government agreements, exchange of notes, or other procedures.

## **2. The grant and its disbursement**

The total 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 Ministry of Foreign Affairs or Danish Embassy (the Danish Authorities) by the Ministry of Finance, other competent central authority of the recipient, or the competent authority of the international organisation.

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 Authorities, 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 Authorities or or, after prior agreement with the same, 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 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.

## **3. Interests**

Bank interests gained on accumulated funds must be returned to the Danish Authorities unless otherwise agreed. However, the disbursement rate of funds to

the recipient organisation shall be structured so as to avoid the accumulation of unspent funds.

Interests income accrued on funds from a Danish grant must be specified in the annual accounts/statements and returned to the Ministry of Foreign Affairs. 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 organisation on a specific activity, setting up separate accounts for the Danish 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.
- 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 authority of 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 reallocations in excess of 10% of the total grant can be made only after prior agreement with the Danish Authorities.

It is the responsibility of the organisation to open negotiations with the Danish Authorities 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 authority of 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 country or international organisation will normally be required to forward building certificates at regular intervals to the Danish Authorities. This procedure is usually 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 authorities of the recipient country or international organisation to discuss with the Danish Authorities the procedure for and scope of the final report, which is to be filed along with the accounts.

The Danish Authorities are entitled to request from the organisation 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**

It is the responsibility of the authority of the recipient to see to it that the use of the Danish grant is appropriately accounted for. The Danish Authorities thus normally expect that:

- The Danish grant be entered into the accounts as income
- Expenditures be specified in the accounts with at least the same amount of detail as in the budget for activities
- Expenditures to be financed by the Danish grant be documented by original receipts
- Accounts at all times show proof of disbursed, albeit still unused, portions of the Danish grant
- A list be kept of major Danish-funded purchases of equipments and fixtures
- Accounts (and inventory lists, if any) be signed by the authority responsible for the activities as well by the auditors, cf. Section 5.

Once a year, or with the frequency specified in the agreement, the authority of the recipient shall submit accounts in respect of implemented activities. The rendering of accounts may follow the fiscal year of the recipient country, and should in all circumstances be submitted no later than six months after the end of the fiscal year under review.

When warranted, the Danish Authorities may request separate, itemized accounts for individual activities that are part of the agreement (for example, for building and construction projects.)

As soon as possible, and no later than six months after the completion of activities or expiry of the agreement, the authorities of the recipient are

responsible for submitting the final accounts. These accounts must present a final balance for the total grant paid out in accordance with the agreement. At the same time, any balance in favour of Denmark must be repaid to the Danish Authorities, cf. Section 2.

When the agreement, at its expiry, provides for de facto transfer of equipments, fixtures or buildings funded through the Danish grant, the two parties are required to prepare a list of the items concerned and their value. This list shall be included in the transfer documents.

### **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.

## **6. Audit**

### **Objective**

Annual accounts and final accounts for Danish grants rendered by the recipient organisation 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 the competent central authority of the recipient country or by an international recognized chartered accountant using international standards of accounting (i.e. INTOSAI or ISA).

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

The authority of the recipient shall assist the auditors as required during the period covered by the agreement. As will be agreed with the authority of the recipient, the Danish auditors shall be allowed access to all relevant accounting material, incl. 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
- Is in conformity with sound auditing principles, comprising whatever initiatives the auditor may deem necessary
- The recipient's procedures, registration routines, and internal control procedures governing Danish grants comply with these guidelines, including sound bookkeeping practices and accounting principles, and shall constitute 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 direct grant recipient shall make sure that the auditors of other implementing entities:

- Are competent, not under any disability, and independent
- Have performed the audit work deemed necessary by the Danish Authorities.

The Danish Authorities may prepare audit and report instructions for the auditors of the recipient.

### **The Audit report**

The report shall comprise:

- Identification of the recipient, 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.

### **Conclusion and statement**

The conclusion concerning the accounts is the result of the independent auditor's audit of the accounts of the recipient organisation.

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
- All expenditure has 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 the implementing organisations, as well as the information provided in the recipient's accounting report.



