**Annex 20: Guidance-note for due diligence actions**

**Financial Management capacity assessment**

**1. Purpose**

It is the responsibilities of the Administrative Partner to ensure that the necessary professional and administrative capacity to administer the grant in a financially sound and professional manner is in place. This includes undertaking due diligence of DGBP partners (sub-grantees) in the partnership. This Guidance note provides suggestive minimum requirements for the capacity assessment / due diligence undertaken. The guidance note is designed for the capacity assessment of non-commercial partners, however there are elements included below which may guide the assessment of the viability and solidity of commercial partners.

**2. Methodology**

When conducting the due diligence actions, the administrative partner shall ensure that the actions are performed in such a way they are;

* Timely
* Documented
* Continuously reassessed (through monitoring actions)

The Administrative Partner shall promptly inform the DMFA and partners of any condition (including changes to any partner’s financial viability), which interferes or threatens to interfere with the successful implementation of the project – both during preparation and implementation phases.

Weaknesses identified during the due diligence process may feed into the project risk assessment /risk matrix and shall inform relevant mitigative measures, capacity development or other technical support to safeguard the partnership and project implementation.

**3. Suggested minimum requirements**

The following table includes some general requirements which are relevant to consider during the due diligence /partner assessment process.

**Table 1: Scope for DGBP due diligence / financial management capacity self-assessment tool**

|  |  |  |  |
| --- | --- | --- | --- |
|  **#**  | **Minimum requirements** | **Y/N**  | **Comments** **/actions** |
| **Accounting**  |
| *Basic accounting system*  |
| 1.
 | A standardized electronic/computerized accounting system is in place and used  |   |   |
| 1.
 | The accounting system can deliver relevant data for reporting purposes, for instance through extracts of raw data to Excel for analysis and reporting.  |   |   |
| 1.
 | The accounting system only allows access for authorized users.  |   |   |
| 1.
 | The accounting system logs all entries.  |   |   |
| 1.
 | The accounting system has a reliable and regular back-up system.  |   |   |
| *Accounting practices*  |
| 1.
 | Every payment made has supporting documentation providing evidence.  |   |   |
| 1.
 | Original vouchers, original invoices and original signed receipts document all expenditures.  |   |   |
| 1.
 | All accounting and supporting documents are retained and kept safe for ten (10) years after project end date.  |   |   |
| 1.
 | All cash received is recorded (preferably in electronic accounting system or alternatively on pre numbered carbon copy receipts) and deposited in bank.  |   |   |
| 1.
 | All payments and receipts are recorded (in the electronic accounting system or alternatively in cashbooks).  |   |   |
| 1.
 | A standard chart of accounts is used to classify each transaction.  |   |   |
| 1.
 | Transactions are also classified by project or donor using a standard list of cost centres, a designated ledger account or other accounting system dimensions.  |   |   |
| 1.
 | The funds received from DMFA are to be kept in a designated bank account or alternatively the designated ledger account must be established.  |   |   |
| 1.
 | A bank reconciliation is prepared each month.  |   |   |
| 1.
 | A cash reconciliation is witnessed by senior staff and recorded each month.  |   |   |
| 1.
 | Petty cash records are checked every month, must be checked by a different person than the one who keeps them.  |   |   |
| 1.
 | An accounting manual/policy is used and maintained specifying accounting procedures, roles, and segregation of duties.  |   |   |
| 1.
 | Accounting practices follow local legislation or international standards.  |   |   |
|  | Allocation of shared costs (e.g. programme support cost) to the project apply a transparent cost allocation mechanism. |  |  |
|  | A transparent procedure for VAT reclaim is in place and followed. |  |  |
| **Internal Controls**  |
|  | Segregation of duties is implemented and adhered to  (segregation of duties means that e.g. money handling duties are separated from the record keeping duties, purchasing duties are separated from payment etc.).  |   |   |
|  | All fixed assets are controlled using a fixed assets register stating at least asset tagging code, purchase price, location, and book value.  |   |   |
|  | Periodic physical inventories of assets or stocks are carried out against fixed asset list or inventories.  |   |   |
|  | There is a written policy detailing who can authorise expenditure of different types or value.  |   |   |
|  | All transactions are properly authorised by signatures.  |   |   |
|  | All expenses are properly signed and documented with the application of purpose and participants.  |   |   |
|  | Assets are sufficiently insured given a cost/benefit evaluation   |   |   |
|  *Cash management* |
|  | Cash is kept safely, e.g. in a locked cashbox or a safe, and is in the custody of authorized individuals.  |   |   |
|  | All cheques are signed by at least two signatories and no blank cheques are ever signed.  |   |   |
|  | Proper controls are built into banking arrangements, e.g. authorization of disbursements and payments, double signatures on checks and transfers, conduct of regular bank reconciliations etc.  |   |   |
|  | Appropriate controls over management of cash are in place, including limits to the amount of cash held OR no cash is held.  |   |   |
| *Staff expenses*  |
|  | Staff and payroll records such as contracts, salary statements, etc. are in place.  |   |   |
|  | Staff salaries are checked each month by a senior manager.  |   |   |
|  | Statutory deductions (e.g. payroll taxes) are properly made and paid on time.  |   |   |
|  | Expenses claims for staff advances are checked by the same person who authorized the advance.  |   |   |
|  | Time sheets are used to document hours.  |   |   |
|  | Staff costs (hourly staff rate calculations) covered directly by the project are included at cost price (personnel emoluments / number of hours for full time equivalent staff per year). |  |  |
| *Procurement*    |
|  | A procurement manual covering request, authorization, selection of suppliers, order, receipt, and payment when purchasing goods and services is used and maintained.  |   |   |
|  | Different steps of the procurement process (e.g. order, receipt, and payment) are shared among different staff members.   |   |   |
|  | A description/manual on different methods of procurement and tendering and when these are to be used is in place.  |   |   |
|  | A code of conduct exists to avoid occurrence or perceptions of conflicts of interest – also in relation to procurement and tendering.  |   |   |
| **Governance and staff**  |
|  | A written procedure manual covering finance, procurement and HR is in place, used and regularly updated.  |   |   |
|  | The organisation is financially viable and sustainable.  |   |   |
|  | Staff roles are clearly defined, and the staff members are aware of their roles and responsibilities and of the organisation’s policies and procedures.  |   |   |
|  | Management is involved in the financial management of the organisation/projects or programmes.  |   |   |
|  | The partner has adequate policies and procedures in place to guide personnel activities and assure staff accountability.  |   |   |
|  | Different roles in the finance function are clearly defined, known, and followed.  |   |   |
|  | The organisation has the necessary registration, authorization, and mandate to undertake planned activities.  |   |   |
|  | An anti-corruption policy including a section on handling and protection of whistle-blowers is in place, used, and regularly updated and shared with staff.  |   |   |
| *Staff Skills*  |
| 1.
 | Key financial positions are held by qualified and competent personnel. Qualifications and competences are documented and match the size and complexity of the organisation.  |   |   |
| 1.
 | The finance staff have the specific skills and qualifications needed to carry out all financial activities. Skills and qualifications are documented and match the size and complexity of the organisation.  |   |   |
| 1.
 | A person with ultimate responsibility for the financial management, including for the DMFA grant, is clearly identified and this person has the appropriate skills, experience, and qualifications.  |   |   |
| 1.
 | Managers and technical/programme staff have the relevant skills to manage budgets and budget monitoring. This includes training in budgeting and experience with budgeting and monitoring.  |   |   |
| *Sub-Grantees*  |
| 1.
 | The organisation has procedures in place to assure transparency and accountability where funds are transferred to sub-partners.  |   |   |
| 1.
 | The organisation has mechanisms for assessing the financial capacity of sub-partners.   |   |   |
| 1.
 | The organisation has previous experience with grants/disbursements to sub-partners.   |   |   |
| **Financial reporting**  |
| 1.
 | Senior management discuss financial reports at least once every three months.  |   |   |
| 1.
 | Donors and/or management receive financial reports in the right format and on time.  |   |   |
| 1.
 | The organisation meets statutory reporting requirements.  |   |   |
| 1.
 | Financial reports include details on income and expenditure, actuals and budget and deviations between actuals and budget.  |   |   |
| 1.
 | Financial reports are accrued into quarters or less.  |   |   |
| 1.
 | Financial reports include details on cash and bank balances, amounts due and owed.  |   |   |
| 1.
 | Project management discuss financial reports monthly.  |   |   |
| 1.
 | Financial reports show the relevant level of detail according to their use/the need of their intended audience.  |   |   |
| 1.
 | Financial reports include explanations and comments about deviations made by project responsible staff.  |   |   |
| **Auditing**  |
| 1.
 | The organisation is subject to regular audits.  |   |   |
| 1.
 | A properly registered and independent external auditor/audit firm is selected and used.  |   |   |
| 1.
 | Annual accounts are audited according to appropriate international auditing standards, i.e. IASs and ISSAIs.  |   |   |
| 1.
 | Annual audited accounts show positive results and are without material misstatements.  |   |   |
| 1.
 | The organisation is deemed a going concern by the auditor.  |   |   |
| 1.
 | Annual audits are up to date (signed within six months of the financial year-end).  |   |   |
| 1.
 | The organisation reacts on auditor’s reports, comments and recommendations and implements relevant changes.  |   |   |
| 1.
 | Major issues in management letters from the auditor are subsequently followed up and addressed by management.  |   |   |