

Financial Guidance: Principles of Reporting

Introduction

This document presents the basic guidelines for financial reporting covering the Department for International Development's (DFID) UK Aid Direct fund. Grant holders may complete their own financial management according to their own finance manual; however, all financial reporting, forecasting and budgeting under UK Aid Direct must comply with these rules.

DFID's policy is to allow grant holders flexibility where possible in their own financial management, and places responsibility for the policies adopted on the grant holders themselves. However, budgeting and reporting must be on a consistent basis across the fund. This guidance informs grant holders on what that basis is, and provides worked examples based on past experience of where confusion may arise.

Financial obligations of the grant holder

As set out in grant arrangements, grant holders must fulfill their responsibilities to DFID in order to remain eligible to receive UK Aid Direct funds. Grant holders' obligations are set out below:

- Ensure that the project funds are properly accounted for
- Ensure proper financial accountability, through adequate financial management (including, but not limited to, adequate controls, accountability structures and procedures to ensure transparency) in accordance with the financial policy
- Retain all invoices, receipts and accounting records and other relevant documents relating to the project funds for a period of five years after the expiry of the grant arrangements. Such records should be made available at the Fund Manager's reasonable request for audit purposes during the lifetime of the grant arrangements.
- Keep the Fund Manager regularly informed of forecast spend during lifetime of the grant arrangement
- Ensure that the project funds are not used in violation of any relevant UN conventions, resolutions of the UN Security Council or any law or otherwise
- Comply with all terms of the grant arrangement.

Timing of transactions

UK Aid Direct grants are recorded on the basis of cash accounting. Many grant holders will be required to report their organisations financial statements on an accruals basis, but all reporting under UK Aid Direct will be on a cash basis.

The cash basis requires that grant holders recognise transactions and events only when cash (or cash equivalents) are received or paid by the entity.

Timing of the recording of transactions will match the cash received or paid when entering or leaving the control of the reporting entity. In most cases this will be clear but can cause confusion in the case of advances paid to staff. For example:

Grant Holder A is planning a field trip to a project site. The individual responsible for completing this trip is Staff Member B. In order to cover expenses incurred on the trip A pays an advance to B totaling £1,000 this payment leaves the grant holder's bank account on 1 June 2016. B proceeds to complete the site visit and spends £500 on 2 June and £400 on 3 June. On 5 June the unspent balance of £100 is returned to the bank account of A. All of these transactions are reported to Grant Holder A on 5 June alongside an expense report. When reporting this expenditure to DFID the only transactions which should be shown are £500 on 2 June and £400 on 3 June as these are the only points where the cash leaves the control of Grant Holder A.

Transactions with partners

The budget, and all reporting and claims on the budget, is to be based on the expenditure of the project not the spending of the grant holder.

In many cases, UK Aid Direct grants are based on a grant holder (often UK-based) working with local implementing partners. When reporting, it is essential that grant holders record the final spending on the activities of the project rather than just recording transfer made to the grant holder. For example:

Grant Holder A is working with Implementing Partner B to deliver a project in Zimbabwe. During Q1 2016/17, Grant Holder A transfers a lump sum payment of £100k to Implementing Partner B, of which Implementing Partner B spends a total of £80k. When reporting to DFID, Grant Holder A should report spending of £80k on the project. This may be different to the recording within their own internal accounts.

There can be uncertainty of what counts as the end use of funds on a project particularly in reference to sub-contracting. Where a grant holder makes a payment for services over a period of years to a local provider who is integral to the project then the substance of the relationship may be similar to a partnership. In this situation what gets recorded, the payment to the subcontractor or the expenditure of the subcontractor?

The answer to this question should depend on how the project was originally designed. In the original proposal and in grant arrangements each project has a prime grant holder and list of named partners on the project. The expenditure of partners should be recorded as:

- Payments and transfer of funding to named downstream delivery/implementing partners on the project are not recorded as project expenditure. The actual expenditure of the partners should be recorded against budgets.
- Payments to sub-contractors or service providers who are not named should be recorded against the budget.

For this reason, it is important to consider at the project design stage who should be considered implementing partners on a grant.

Financial years/Reporting years

The DFID financial year runs from 1 April to 31 March. The UK Aid Direct financial year follows these same periods, and all budgets are aligned with April to March recording. Grant holders will commence reporting based on the start date of their individual grant and budgets, and carryovers, must be maintained on the basis of the April to March period.

Classification of budget

Under UK Aid Direct, budgets are split between five standardised budget headings/subheadings: Capital Expenditure, Project Activities, Staff Costs, Other Administrative Expenditure, Monitoring, Evaluation and Lesson Learning. Within each of these headings, grant holders must define their own budget lines which are specific to the project.

IATI requirements

Under the terms of the DFID Accountable Grant Arrangement, all organisations down to the third tier in the delivery chain are required to publish according to the IATI standard <https://www.bond.org.uk/strengthen/iati-ngos>. The tiers in the delivery chain will be treated as follows:

- Tier 1: Fund Manager
- Tier 2: Lead grant holder
- Tier 3: Implementing/Downstream partners

These rules apply to all grants signed after January 2017. All organisations down to Tier 3 will need to complete all relevant fields (up to 41 of the required fields). Where organisations do not publish against a field they will have to be able to explain why the field is not relevant. Lead grant holders will be responsible for ensuring compliance by their implementing partners.

When preparing budgets, grant holders should allow sufficient staff resources to meet these requirements.