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Dear Accounting Officer

DAO(GEN) 12/03

12 September 2003

GUIDANCE TO DEPARTMENTS ON REPORTING ON GRANTS AND THE FUNDING RELATIONSHIP WITH VOLUNTARY AND COMMUNITY BODIES

Summary and Purpose

This letter advises departments and their sponsored bodies on two sets of guidance issued this month on:

- improving funding relationships with voluntary and community sector bodies, and
- Public Sector Special Reporting Engagements.

Both sets of guidance have the aim of clarifying the roles and responsibilities of the parties involved in funding relationships. In particular the guidance on funding relationships clarifies and confirms the requirements of chapter 16 of *Government Accounting 2000*¹ when departments make advance and interim payments to voluntary and community sector bodies.

Action and Contacts

2. Accounting Officers are asked to,
 - a. note the contents of this letter;
 - b. to draw it to the attention of staff in his or her department where they deal with voluntary and community organisations and with grant claims;
 - c. to draw it to the attention of their sponsored bodies.;

¹ www.government-accounting.gov.uk



- d. to note the following Treasury contacts:
- o general questions on the links between both sets of guidance and *Government Accounting 2000* requirements: Debbie Edwards in the Treasury Officer of Accounts: address as above; telephone 020 7270 5363; email debbie.edwards@hm-treasury.gov.uk;
 - o general questions on voluntary and community organisations: Dan Micklethwaite; VCS unit; telephone 020 7270 4583; email daniel.micklthwaite@hm-treasury.gov.uk;
 - o public sector special reporting engagements and internal audit issues: Chris Butler in the Audit, Control and Risk team; telephone 020 7270 5784; email chris.butler@hm-treasury.gov.uk.

Background

Funding Relationships with Voluntary and Community Organisations

3. The Treasury has published guidance entitled “*Guidance to Funders - Improving funding relationships for voluntary and community organisations*”², following up recommendations in the cross-cutting review of the *Role of the Voluntary and Community Service in Service Delivery*, published in September 2002³.

4. Findings from the cross-cutting review indicated that there is a lack of consistent application of the guidance in *Government Accounting-2000* (principally the guidance in chapter 16) on making advance and interim payments to Voluntary and Community Sector (VCS) bodies when they are paid to provide services through contract or grant. In addition, there is a widespread perception that the requirements of *GA-2000* (and its predecessors) are too inflexible leading to the tendency to pay for services in arrears even where doing so would create funding problems to VCS bodies. The funding guidance recently issued therefore is to advise departments and NDPBs on the principles in *Government Accounting-2000* and to advise them that its existing requirements are less restrictive than they are often perceived to be. The guiding principle contained in both *Government Accounting-2000* and the VCS Funding Guidance is that payment systems should help achieve value for money for public service delivery whilst at the same time minimising the risk of making nugatory expenditure.

5. The guidance on funding relationships also advises departments that the next edition of *Government Accounting-2000* (due to be issued at the end of this year) will make the existing flexibility more apparent. Departments are also advised to note that paragraph 2.15 of the VCS funding guidance gives criteria for departments to use when considering making advance payments

² http://www.hm-treasury.gov.uk/media/EF718/CCR_Guidance%20to%20Funders_080903.pdf

³ http://www.hm-treasury.gov.uk/Spending_Review/spend_ccr/spend_ccr_voluntary/spend_ccr_voluntary.cfm

to VCS bodies. It also gives criteria to be used when considering making interim payments (see paragraph 2.20). The purposes of both sets of criteria is to help funders think thinking carefully about their policy on timing of payments against the following:

- o the balance of risk that advance or interim funding would create;
- o the incentives to ensure delivery of specified level of outputs.

6. Such consideration should then achieve best value for money. It is therefore vital for the funder to work collaboratively with the VCS body receiving funding as opposed to imposing funding arrangements.

Public Sector Special Reporting Engagements - Grant Claims Technical Release Audit 3/03

7. On 5th September, the Institute for Chartered Accountants in England and Wales (ICAEW) published a Technical Release (Audit 3/03) on "Public Sector Special Reporting Engagements - Grant Claims"⁴. Audit 3/03 has been developed in line with the principles and guidance set out in the ICAEW's Technical Release Audit 1/01 on "Reporting to Third Parties"⁵ and also been subject to consultation with government departments and audit bodies. It is also consistent with the general principle set out in paragraph 9.3.2 of Government Accounting-2000, that donor organisations should ensure that grants are used by recipients for the specific services for which the grants are authorised. Audit 3/03 applies from September 2003.

8. The aim of Audit 3/03 is provide guidance to accountants when they enter into special reporting arrangements for certain public sector grants. Therefore it is not mandatory, nor is it an auditing standard. The ICAEW also advises accountants that they should use their professional judgement when applying it.

9. Audit 3/03 also reflects good practice for grant-paying bodies or any sponsoring bodies (defined as bodies providing the initial allocation of funding to a grant paying bodit to distribute). It therefore can be used by public sector bodies when requiring grant recipients to obtain special reports providing assurance on their eligibility for the grant and its application. In particular, grant-paying bodies are advised to consider at the outset the degree of assurance they want to obtain, and which of the models in Audit 3/03 could be used to give that degree of assurance.

10. Because of the nature of the relationship between grant-paying bodies, grant recipients and those providing special reports, the ICAEW has consulted extensively in producing this guidance, including representatives from:

⁴ <http://www.icaew.co.uk/publicassets/00/00/05/64/0000056446.PDF>

⁵ <http://www.icaew.co.uk/publicassets/00/00/04/69/0000046998.PDF>

- o *audit agencies*: including the National Audit Office, the Audit Commission, and Audit Scotland;
- o *Government departments*: the Department for Education and Skills, the Department for Environment, Food and Rural Affairs, the Department of Trade and Industry, the Department for Works and Pensions, HM Treasury, the Office of the Deputy Prime Minister; and the National Assembly for Wales; and
- o the *accountancy profession*: including the ACCA, CIPFA, ICAEW, ICAS.

11. In addition, the Treasury consulted all departments about the guidance in draft under cover of a letter dated 28 April from Debbie Edwards to all Principal Finance Officers in main and small departments (reference MS PFO(03)22).

12. Departments should note that Audit 3/03 does not apply to all grants: for example the following are *outside* its scope:

- o Grants falling within the remit of the Audit Commission;
- o Grants in aid;
- o Arrangements governed by a statutory framework (other than the wording of the reports where they should be applied as consistently as possible through the public sector subject to legislative requirements) in aid; or
- o Statutory audit engagements.

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