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06 March 2014

From: Financial Secretary

To: Supervising Officers-in-Charge of Ministries/Departments and Accounting Officers

FINANCIAL MANAGEMENT KIT (FM KIT)

Financial Instructions No 2 of 2014

Administration of Government Grants

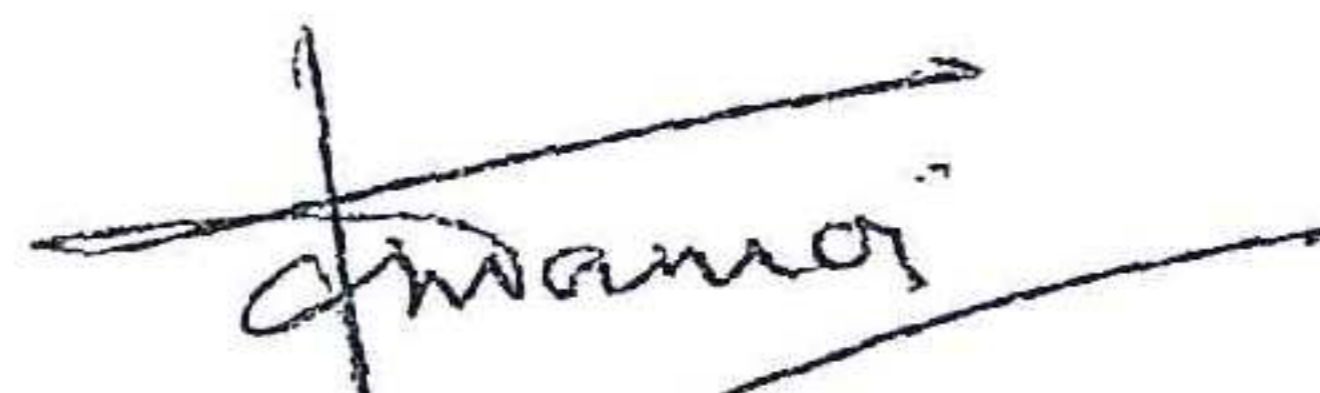
The purpose of this circular is to inform you of the newly developed procedures governing the administration of grants, both at the level of Government and the grant recipients, with a view to ensuring that expected benefits and value for money are obtained in the delivery of services.

2. Pending the complete review of the Financial Management Manual (FMM), the Financial Management Review Committee (FMRC) has developed Financial Instructions-Administration of Government Grants. In administering approved grants, spending agencies must comply with the overarching obligation to make efficient, effective and ethical use of public funds. All applications for funds throughout the fiscal year shall be supported by relevant documents including both financial and non-financial data, such as:

- (a) bank statements showing bank balances in respect of all bank accounts held by the recipient organization; and
- (b) a progress report on delivery of outputs/services.

3. You may wish to note that these instructions have been finalized after consultation with the Director of Audit and necessary clearance has also been sought from the State Law Office. These instructions will replace the existing corresponding provisions contained in the Financial Management Manual of 1990 and they will eventually be included in the Financial Management Kit Volume II – General Financial Procedures.

4. You are requested to ensure compliance with the enclosed Financial Instructions - Administration of Government Grants.



D. D. Manraj
Financial Secretary

Copy to:

- (i) Secretary to Cabinet and Head of the Civil Service
- (ii) Director of Audit
- (iii) Accountant-General
- (iv) Directors, Economic and Finance, MOFED
- (v) Director, Financial Operations
- (vi) Director, Procurement & Supply
- (vii) Director, Internal Control
- (viii) Officers-in-Charge of Financial Operations Unit, Procurement & Supply Unit and Internal Control Unit in Ministries/Departments
- (ix) Group Managers, MOFED
- (x) Cluster Leaders and Team members, MOFED

Administration of Government Grants

1. A *grant* may be defined as an arrangement for the provision of financial assistance by the Government under which public money is to be paid to a recipient (hereinafter referred to as 'grant recipient'):-
 - (a) which is intended to assist the grant recipient achieve its goals;
 - (b) which is intended to help address one or more of Government's policy objectives; and
 - (c) under which the grant recipient may be required to act in accordance with specified terms or conditions.
2. In IMF's GFS Manual of 2001, grants are defined as non-compulsory current or capital transfers from one government unit to another government unit or an international organization. Grants are classified first by the type of unit receiving the grant and then by whether the grant is current or capital.
3. Three types of recipients of grants are recognized in the GFS system:
 - (a) grants to foreign governments (expenditure category 261);
 - (b) grants to international organizations(expenditure category 262); and
 - (c) grants to other general government units (expenditure category 263).

Other general government units include Local Authorities, RRA and Extra Budgetary Units (EBUs). A complete list of EBUs currently benefitting from government grants can be found in the COA Guide at mof.gov.mu.

4. Current grants are those made for purposes of current expense and are not linked to or conditional on the acquisition of an asset by the grant recipient. Current grants to local authorities are normally referred to as Grant- in Aid.
5. Capital grants involve the acquisition of assets by the recipient and may consist of—
 - (a) a transfer of cash that the grant recipient is expected or required to use to acquire an asset or assets (other than inventories), including an intangible asset such as software developed or purchased;

- (b) the transfer of an asset (other than inventories and cash);
- (c) the cancellation of a liability by mutual agreement between the creditor and debtor; or
- (d) the assumption of another unit's debt.

Administering approved grants

6. The expectation is that government grants will be approved on the basis that they will contribute to achieving the relevant programme/sub-programme's stated objectives. Accordingly, it is important that approved grants are administered in a manner that will promote cost-effective and accountable achievement of those objectives. The approach taken to administering approved grants is instrumental to achieving the expected benefits and value for money on which the approval was based, and in ensuring there is appropriate accountability for the outcomes achieved through the expenditure of the public money involved. In administering approved grants, spending agencies must comply with the overarching obligation to make efficient, effective and ethical use of public funds.

Approval of grants

7. Accounting Officers should determine whether an organization is entitled to a Government grant, and the amount thereof, after taking into consideration the following:-
- (a) the objectives of the organization which should be in line with government's policy objectives;
 - (b) the organization's budget for the relevant fiscal year and forecast budget deficit, if any;
 - (c) the organization's financial assets and liabilities, and its cash flow requirements; and
 - (d) the services to be delivered (output) and service standards (indicators).

8. When assessing grant eligibility, the Accounting Officer should also ascertain whether the organization has been compliant with-
- (a) relevant legislation (including the Statutory Bodies (Accounts and Audit) Act where applicable) with respect to the preparation and submission of statutory accounts; and
 - (b) previous grant terms and conditions, including achievement of stated objectives and delivery of expected outputs.

Establishing and managing funding agreements

9. In order for a payment of Government funding to be subject to the government's grants policy framework, the grant recipient must be required to act in accordance with terms or conditions specified in the arrangement. The document setting out the terms and conditions on which a grant is provided is commonly described as a 'funding agreement' or 'Grant Memorandum'. The funding agreement provides the mechanism for identifying the outputs/outcomes expected to result from an approved grant and the governance arrangements that will apply.
10. Accordingly, before disbursement of approved grants, Accounting Officers should ensure that an annual Grant Memorandum (as per format at annex I) is duly completed and signed in respect of each grant recipient. A copy of the Grant Memorandum should be submitted to the Financial Secretary, the Accountant General and the Director of Audit.

Paying approved grants to recipients

11. Effective planning of the strategy to be used in paying approved funds to grant recipients helps to ensure that relevant budgetary factors are taken into account and that there is appropriate observance of the obligation to make proper use of the public money involved. Care needs to be taken to ensure that the strategy adopted for the payment of approved funds appropriately safeguards the public money and promotes achievement of the Department's obligation to make proper use of financial resources.
12. The timing and structure of grant payments needs to appropriately reflect:
- (a) the cash flow required by the grant recipient;

- (b) the risk of non-performance of obligations, or non-compliance with the terms of the grant; and
 - (c) the cost to Government, through interest foregone, of payment of grant funds earlier than needed to achieve program objectives.
13. The Department should determine the frequency at which grants shall be released to grant recipients on the basis of the cash flows of the organisations and other relevant information. Grants released to grant recipients should not remain idle in the organisations' bank accounts.
14. The provision of an amount in the PBB does not construe that the amount should be released in toto. Departments should therefore thoroughly examine the financial position of the grant recipients when determining the quantum of grants to be released.
15. Accordingly, the Accounting Officer should ensure that any amount of the approved grant which will not be released to the grant recipient is properly reflected in the revised estimates submitted to MOFED.
16. All applications for disbursement of grants should be made on the standard application form (Annex II).
17. All amounts disbursed to grant recipients should be credited to their bank accounts. To this end, all grant recipients should be requested to provide their bank accounts details. Payments by cheques should be avoided.

Monitoring compliance with terms and conditions

18. Once the appropriate form of funding agreement for a grant has been determined and executed, it is important for Departments to be careful to ensure that the government's rights and obligations under the agreement are appropriately observed and maintained. This will require timely and pro-active monitoring of compliance with the terms of the agreement.
19. An on-going monitoring regime to ensure grant recipients are meeting agreed milestones and other key requirements of their funding agreements are integral to the success of a grant program. Grant monitoring encompasses a range of techniques that

can be applied by Departments in order to obtain assurance that grant funding is being appropriately applied. These include:

- (a) requiring grant recipients to submit regular progress reports,
- (b) monitoring the timely provision of required reports and taking corrective action as necessary; and
- (c) analysing progress reports and other available information for the purpose of verifying the achievement of milestones to support the payment of grant.

20. The extent and timing of monitoring can be a challenge, particularly for smaller grant programs with limited resources, and for programs funding a large number of relatively low-value grants. Consistent with the principle of proportionality, cost-effective administration of a grant program will be supported by Departments adopting a risk-based approach to defining the extent, timing and frequency of monitoring, including:

- (a) the frequency and level of detail of the reporting requirements that are to be imposed on grant recipients; and
- (b) the methodology to be applied in scrutinising reports received from grant recipients and otherwise verifying project progress.

Reporting for grants

21. Effective disclosure and reporting arrangements for grants administration is essential for reasons of transparency and public accountability. Reliable and timely information on grants awarded is a precondition for public and parliamentary confidence in the quality and integrity of grants administration.

22. All organisations receiving Government grants for the purpose of financing other organisations should be required to publish, on their websites, information on grants received together with the list of organisations, projects or activities which have been financed therefrom.

23. Grants information must be retained on grants recipients' website for at least two financial years. Where it is not practicable to do so (for example, due to the exceptional volume of grants needing to be maintained on the website) agencies *must*

retain appropriate records, consistent with their accountability obligations, and ensure the records are available on request.

24. Accounting Officers should also ensure that annual reports of grant recipients appropriately disclose grants received from Government and the application thereof.

GRANT MEMORANDUM

FISCAL YEAR

1. Name of Grant Recipient:

.....

2. Amount of grant (Approved):¹

3. Programme/Sub-Programme under which amount is provided:

Department :

Programme/Sub-programme :

4. Purpose of grant:

Grants in aid of Administration or in aid of administration

combined with disbursement for charitable purposes Grants for specific capital expenditure projects Grants for specific recurrent expenditure projects 5. Services to be delivered (output) and Service standards (Indicators)² :

Output 1

Indicator 1

Output 2

Indicator 2

6. Financial Assets at start of fiscal year:

Cash/Deposits with Banks³

Account

Balance (Rs)

Account

Balance (foot note)

Other financial Investments

Description of Investment

Amount

¹The provision of an amount in the PBB does not construe that the amount will be released in toto.²Department may insert additional output/service standard³Department may insert additional cash/deposit with banks

7. Conditions of grant:

- (a) The recipient organization shall furnish to the Accounting Officer of parent Ministry such information with respect to its activities as the Accounting Officer may require. In this regard, proper books of accounts shall be maintained and made available to the Accounting Officer or his authorised representative.
- (b) Any recipient organization falling under the purview of the Statutory Bodies (Accounts & Audit) Act shall submit its accounts together with the Annual Report to the Minister within the period specified in the Act.
- (c) All applications for funds throughout the fiscal year shall be supported by relevant documents including both financial and non-financial data, such as-
 - (i) a revised estimate of expenditure and revenue for the fiscal year;
 - (ii) cash flow statement for last 12 months
 - (iii) cash flow forecast for the period to the end of the fiscal year;
 - (iv) bank statements showing bank balances in respect of all bank accounts held by the recipient organization; and
 - (v) a progress report on delivery of outputs/services referred to at paragraph 5.

8. Name of Auditor:

For Grant Recipient

For Ministry/Department

Name:

Name :

Designation:

Designation:

Signature:

Signature:

Date:

Date:

APPLICATION FOR DISBURSEMENT OF GRANTS

FISCAL YEAR

1. Name of recipient organisation:
.....
2. Ministry/Department providing Grant:
.....
3. Disbursement Schedule as per Grant Memorandum (tick as appropriate):
 Monthly Quarterly Half-yearly Yearly Other (Please Specify):
4. Total amount of Grant approved for fiscal year
.....
5. Total amount of grant released as at date of application
.....
6. Amount of Grant applied for:
.....
7. Bank details (for transfer of grant applied for):
 - Bank Name:
 - Bank A/C No. :

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8. The following documents are herewith submitted.
 - a) A revised estimate of expenditure and revenue for the fiscal year
 - b) Cash flow statement for last 12 months
 - c) Cash flow forecast for period to the end of the fiscal year
 - d) Copy of bank statement(s)*
 - e) A Progress report on delivery of outputs/services

*Applicant should produce copies of bank statements showing bank balances in respect of all bank accounts held.

I certify that all expenditure incurred to date in respect of the grant received from Government has been spent in accordance with the purpose for which it was disbursed.

Signature: Name:

Date: Designation:

FOR DEPARTMENTAL USE

1. Relevant documents mentioned at Section 8 above have been produced.
2. An amount of Rs is recommended for approval.
 Signature (OIC Finance): Date:
3. **Disbursement approved**
 Signature (Accounting Officer): Date: