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Pre-grant due diligence guidance

KPMG pre-grant due diligence guidance
for DFID Global Poverty Action Fund

February 2012

What is pre-grant due diligence?

Introduction

The Department for International Development (DFID) has engaged KPMG to undertake 'pre-grant due diligence assessments' on Civil Society Organisations (CSOs) selected for Global Poverty Action Fund (GPAF) grants.

This document is intended to provide an overview of the due diligence process and guidance to CSOs to help them prepare for due diligence assessments. KPMG will be in touch with you to arrange a kick-off call. During this call we will discuss the information included in this document and give you the opportunity to ask any questions about the process. In addition, as CSOs vary in size and structure, we will discuss the most appropriate people for us to meet during our site visit and the documentation we need to review.

What is the purpose of pre-grant due diligence?

Pre-grant due diligence is the process used to assess the appropriateness of potential or intended recipients of a grant. Increasingly, donors are incorporating pre-grant due diligence into their grant making processes and organisations such as the Charity Commission for England and Wales are promoting the importance of due diligence to protect charities when making grants or other payments to third parties (see http://www.charity-commission.gov.uk/Our_regulatory_activity/Counter_terrorism_work/protecting_charities_landing.aspx).

Pre-grant due diligence is an important part of effective and responsible grant making. Robust due diligence procedures aim to ensure long term value for money from grant expenditure by identifying potential weaknesses and risks and considering opportunities to enhance capacity before grants begin, when changes become much more difficult. They reduce the risk of funding being diverted from agreed development objectives, which inevitably reduces the desired impact. They also aim to reduce misunderstanding and establish an environment of accountability and transparency.

DFID encourages its grant recipients to assess and transparently demonstrate their performance and contribution to poverty reduction, and to work to implement the International Aid Transparency Initiative (IATI) standard as quickly as possible.

How does due diligence fit into the GPAF process?

Pre-grant due diligence is a requirement for all successful GPAF applicants, prior to making any payments, as part of DFID's processes to ensure public money is spent appropriately. It is not used to short-list grantees, but to ensure that CSOs selected to receive GPAF grants are legitimate organisations and have appropriate systems and processes to manage grant funds appropriately. In certain circumstances findings may be used to tailor Memorandum of Understandings entered into under the GPAF grant to ensure these are tailored to the applicant.

We appreciate that management will want visibility of findings made through the due diligence process and as such we will arrange to hold a closing meeting at the end of our visit in which we will discuss our findings with you and any outstanding items. Subsequent to the site visit reports and findings are moderated before being reported to DFID. If additional findings come to light during this moderation process we will seek to hold a follow up call with management to outline these findings. Findings formally communicated to DFID at the end the due diligence review will be shared by DFID with applicants.

What is KPMG's role?

KPMG is independent from the GPAF fund management functions that are contracted by DFID to Triple Line Consulting/Crown Agents.

KPMG has been engaged by DFID and, as such, all the services provided by KPMG in respect to due diligence are at the direction of, and for the benefit of, DFID only. DFID makes all decisions relating to grants, including whether grants will be made to each CSO, the amounts of such funding, and the purposes for which grant funds can be used.

All reports and other communications between DFID and KPMG are confidential. KPMG will not provide copies of such communications to the CSO, unless instructed to do so by DFID.

As we are engaged only by DFID, KPMG is not liable to the CSO with respect to any services it provides to DFID, any information about the CSO that it discloses to DFID or any assistance it provides to the CSO at the direction and expense of DFID, including any recommendations discussed with the CSO.

KPMG has conflict of interests policies to address potential conflicts of interest, either actual or perceived, in relation to our role in this due diligence process.

This document and all other communication with you in relation to this engagement is intended for your guidance only and should not be relied upon as advice from KPMG. In addition, this document and all other communication should not be shared with, or relied upon, by any other party without written permission from KPMG. KPMG will also keep any documentation or communication you provide us confidential and will not share it with any other party other than DFID.

Overview of our pre-grant due diligence process

What are the next steps?

The due diligence assessments consist of the following steps:

1. **Kick-off call.** During this call we will discuss the information included in this document and give you the opportunity to ask any questions about the process. In addition, as CSOs vary in size and structure, we will discuss the most appropriate people for us to meet during our site visit and the documentation we need to review. We will also confirm site visit dates.
2. **Background review.** Prior to our site visit, we will conduct a background review based on information provided to us by the Fund Manager and certain publicly available information. This contributes to an efficient assessment and reduces disruption to you. This will also help identify key areas to discuss further with you during the site visit. No input is required from you for this step.
3. **Site visit.** The assessment typically consists of a two-day site visit to your head office, or other relevant location, which will be conducted by two of our team. Depending on the number of people we interview, the complexity of the organisation and grant, and the availability of documentation, site visits may take less time. In some cases, more time may be required, but we aim to complete the process remotely. Wherever possible we will seek to complete our work and to hold discussions with key individuals during your normal office hours.

We follow a standard programme during the site visit:

- Opening meeting with key individuals to discuss our review and key aspects of the grant application.
- Discussions with key individuals and documentation review.
- Closing meeting in which we will discuss our findings with you and any outstanding items

We understand your investment of time in this process and aim to conduct the site visit as efficiently as possible; you can contribute to this by having documentation ready for our visit. While we are reviewing documentation, we will not require you to be present, but do ask that a contact individual is available to assist us with any questions that arise during the visit.

4. **Reporting.** Following the site visit, we will prepare a factual report, based on our findings, which we will provide to DFID for consideration. Prior to reporting to DFID all reports undergo a central moderation process to ensure findings are consistently applied across applicants. Should additional findings come up through this process we will seek to hold a follow up call with management to outline these. DFID may wish to follow up on certain areas with you prior to finalising their grant offer to you. In some circumstances, DFID may decide that further assessments are required or to withdraw the grant offer due to adverse findings or lack of available information.

What documentation do you want for the site visit and who will you need to interview?

Our requirements will vary depending on CSO size and structure and we will discuss and agree this with you during the kick-off call. If you do not have any of the information, or have similar information in a different form, we will also discuss the most relevant documentation and we may wish to discuss further during our site visit. Where information is publicly available through your website or alternative medium, or where information has already been shared with DFID or the Fund Manager please let us know during the kick-off call as we will be able to source this documentation independently.

Outline of what we will cover, who we would like to meet and the types of documents we will need to review is set out on the following pages

Who can I contact with any questions or feedback?

Our kick-off call is intended to give you the opportunity to discuss any aspects of the due diligence process about which you require further clarification.

However, if you do have any questions, or feedback, about the pre-grant due diligence assessment, please do not hesitate to contact the KPMG due diligence management team on:

- **Lasharna Kellar** – by email: lasharna.kellar@KPMG.co.uk; or phone +44 207 311 3706
- **Nabila Jiwaji** – by email: nabila.jiwaji@kpmg.co.uk; or phone +44 207 311 1848, or
- **Stephen Blakeley** – by email: stephen.blakeley@kpmg.co.uk; or phone +44 207 694 6414

If you have any questions relating to any other aspect of the grant application or management process, please get in touch with Triple Line Consulting/Crown Agents at gpafenquiries@tripleline.com; or phone +44 208 788 4680.

Overview of our pre-grant due diligence process (cont.)

What will the due diligence assessment cover?	Who will KPMG want to meet with?	What documentation will be reviewed?
<p>Governance: assessment of the organisation's operational status, structure, purpose and objectives</p>	<p>CEO/ Board member with risk management responsibility/ Financial Controller/ Company Secretary</p> <p><i>(the people we need to meet will depend on the size and structure of the organisation; we will agree the most appropriate people during the kick-off call)</i></p>	<ul style="list-style-type: none"> Articles of Incorporation, bylaws, or other organisational documents, including registration with the Charity Commission for England and Wales and/or the Office of the Scottish Charity Regulator (OSCR). Brochures, reports or other materials describing the organisation and its activities. (Please list any commercial or political activities carried out, if applicable); Curriculum vitae for trustees, and key employees; Payroll by employee for last month; Tiered pay scale and policies and procedures for review and exceptions; Board of Trustees, Executive, and Financial Committee meeting minutes, from the past year, or similar documents or reports which include operating plans and information on GPAF funding and maintenance and organisational accomplishments; Governance policies, including code of conduct/ethics, conflict of interest, and anti-bribery; Related party listing at last financial year end; Legal register and details of any legal action, pending or resolved in the last 12 months; Organisation risk framework and risk policy; Risk assessment for the proposed GPAF grant activities.
<p>Financial: assessment of the financial status, viability, and capacity to manage the grant</p>	<p>Finance Director</p> <p>Finance staff with relevant responsibilities</p>	<ul style="list-style-type: none"> Three most recent annual reports, financial statements and regulatory reports (audited, if available); Budget for 2011 financial year; Compensation levels; List of Bank Accounts; Bank Statements from last month and bank reconciliations for the same month; Finance Manual; Expenditure policies and procedures, including access to expenditure records; Accounting manual and list of authorisation levels and controls to ensure sound financial management ; Foreign exchange policy; Organisation chart; Budget management policies and procedures; Investment Management Policies and Procedures; List of all operating and finance contracts material to the organisation; List of all operational contracts e.g. rent, insurance, outsource arrangements fundamental to the ongoing operation of the organisation; Access to fund accounting systems and evidence of existing fund accounting, where available; Budgets and forecasts for the GPAF grant; Status of matching funds, including evidence of committed funds and forecasts.

Overview of our pre-grant due diligence process (cont.)

What will the due diligence assessment cover?	Who will KPMG want to meet with?	What documentation will be reviewed?
<p>Programmatic: review of the capacity, technical skills and relevant experience to manage activities funded by the grant</p>	<p>HR manager/ Divisional leads/</p> <p><i>(to be agreed during the kick-off call)</i></p>	<ul style="list-style-type: none"> CVs/credentials individuals charged with delivery of the grant; HR policies; Staff performance management policy.
<p>Systems and Processes: assessment of the robustness of the organisation's operational and commercial systems, processes and procedures, including relating to compliance with policies, laws and regulations</p>	<p>Financial staff</p> <p>Internal Audit Officer</p> <p>IT staff responsible for key IT systems and controls (e.g. data storage and backup, access controls, user accounts)</p>	<ul style="list-style-type: none"> List of access controls and users for any key IT systems (e.g. those used for financial accounting or programme management and impact measurement); IT policy; Summary of internal audit reports and findings for the last 12 months; Summary of external audit reports/reviews and findings; Child/vulnerable adult protection policies and procedures. Equal opportunities policy
<p>Environmental Risk Management: review of the organisation's procedures for managing environmental risks, impacts and opportunities</p>	<p>Environmental Officer</p>	<ul style="list-style-type: none"> Environment policy and any risk management plans, and implementation plan for any environmental objectives; List of any environmental awards or certifications (e.g. ISO14001) with supporting certification and/or reports; Legal register for environment-related issues (i.e. list of all environmental regulation with which the organisation is required to comply); Assessment of environmental risks or impacts associated with the GPAF grant (if applicable).
<p>Value for Money: review of procurement processes and costs, use of contractors, partnering or sub-granting arrangements, indirect costs, staffing arrangements and travel and admin costs</p>	<p>Procurement Officer</p>	<ul style="list-style-type: none"> Key value for money measures for the GPAF grant and overall value for money strategy, if available; Partner policies and any agreements in place that may affect the grant; Sub-grantee policies and any major contracts associated with the GPAF grant; Travel and expenses policy; Procurement policy; Sub-granting, contracting or other tendering policies, including evaluation methodology.
<p>Results and Impact: review of the current systems, processes and methodologies, including data availability, to measure and report results and impacts, and any changes that would be needed to measure the DFID grant.</p>	<p>Monitoring & Evaluation lead/ Internal Audit Officer</p>	<ul style="list-style-type: none"> Methodology for monitoring progress and impact, including any monitoring and evaluation manual/guidelines, GPAF-specific tools/approaches, responsibilities and data sources; Logical Framework for the GPAF, if available; Reporting guidelines for impact measurement (e.g. assumptions used to deal with attribution challenges, use of control groups to assess impact, re-baselining approach); Benchmarking (e.g. control group) and/or baseline data used for impact/outcomes measurement and reporting of the grant; Evidence of any action taken in response to identification of poor performance on existing activities.