

Complementary instructions to the conditions for project support

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1. Principles of project support

The Ministry for Foreign Affairs (MFA) grants state support to Finnish civil society organisations (CSO) and municipalities for time-limited and geographically limited development cooperation projects. The supported projects must be in line with Finnish development policy. The objective of the projects is to achieve permanent changes. Project support does not entail permanent funding, but rather a temporary additional allocation in order to develop the capacity of civil society or local government in developing countries. Project support is granted for new and continuing development cooperation projects.

The granting and use of state support are governed by the Act on Discretionary Government Transfers (688/2001). Project support applicants must also familiarise themselves with the general conditions for state support granted by the MFA as well as the additional conditions for project support.

These instructions must be read together with the conditions concerning project support.

1.1. What is required of an applicant and its partner?

The following things are required of the support applicant and its partner:

- The applicant must be a non-profit organisation or foundation that has, at the time of application, been registered in Finland for no less than two years, or a Finnish municipality, local authority or the Association of Finnish Local and Regional Authorities.
- The application must present the required self-financing arrangements (monetary and any possible shares consisting of voluntary work or item and service donations).
- The applicant has a local implementation partner with which the applicant prepares a memorandum of understanding for the implementation of the project.

As a general rule, the partner must be a locally registered body. In justified cases, the partner can be a clearly delineated corporation or group of citizens that has, at the time of submitting the application, operated in the target country for at least a year. The partner can also be an international organisation operating in the partner country or an organisation representing the local government. For example, sufficient justification may be found in the case of a minority that is in a sensitive position in the partner country in terms of human rights issues. Prior to filing the project support application, the partners must sign a memorandum of understanding, which must be attached to the project support application. After being awarded state support, the recipient must deliver the signed cooperation agreement through the e-service as a complementary information notice or in conjunction with the first annual report, at the latest. See also section 'Cooperation agreement.'

In the assessment of the state support applications, the applicant and its partner are also scrutinised based on the following criteria:

- The applicant must by means of a basic information form, a project application and possible earlier project experience demonstrate that it possesses sufficient personnel, administrative and financial resources to complete and administer the project. The applicant must also have the capacity to cover the project's self-financing. See also section 'Basic information form.'
- The applicant has special expertise in the field of the project. The applicant either possesses the expertise itself or it is procured from a third party.
- The applicant must have comprehensive knowledge about the local partner's background, activities, competence and resources.
- The project involves justified and planned value-adding partnerships between various actors, such as other organisations, municipalities, companies or educational institutions.

Partnerships refer to both joint projects as well as less official forms of cooperation. In the context of cooperation with companies, the applicant must take into account section 7(1)(4) of the Act on Discretionary Government Transfers (688/2001), which sets forth

the following requirement for granting state support: “*granting a transfer is judged to cause only minor distortion to competition and the market in a state belonging to the European Economic Area.*”

1.2. What is required of a development cooperation project?

The following is required of a project plan:

- The project is implemented in a developing country as defined by the OECD Development Assistance Committee (DAC).
- The project promotes at least one priority area of the Finnish development policy as presented in the Government report. See the Government’s report on Development Policy (4 February 2016) on the <http://formin.finland.fi> website.
- The project is, at the very least, human rights-sensitive – i.e. takes human rights into account – as defined in the Human Rights-Based Approach in Finland’s Development Cooperation guidance note (2015). The note is available in English on the <http://formin.finland.fi> website: Human Rights-Based Approach in Finland’s Development Cooperation, Guidance Note 2015.

The project plan is also examined based on the following criteria:

- The project promotes the main goals of Finnish development policy as presented in the Government report (4 February 2016), including underlying principles and sustainable values.
- The project develops the capacity of the local civil society, or the capacity of local government in projects involving municipal actors. The project plan must indicate how the project will strengthen the local partner as well as the local civil society or public administration on a broader scale.
- The project’s human rights based approach. See the aforementioned Guidance note on Human Rights Based Approach in Finland’s Development Cooperation on the <http://formin.finland.fi> website. Page 8 features explanations of the various levels of human rights consideration.
- Justification of the selected beneficiaries and their participation in and ownership of the project.
- The project plan clearly indicates the change that is aimed through the project. The project has a logical result chain and indicators that measure the result objectives. See the Results Based Management (RBM) in Finland’s Development Cooperation guidance note on the <http://formin.finland.fi> website.
- A baseline study has been conducted for the project or at least a plan has been prepared on performing the study.
- Coverage of the project’s risk analysis and risk management plan.

- Monitoring and evaluation plans for the project.
- Sustainability of project results and preliminary exit plan.
- Feasibility of the project schedule and budget.
- Innovative qualities of the project in terms of operating methods and partnerships, for example.
- The project plan gives due consideration to the operations of other actors in the same sector and indicates any possible confluence and complementarity between them.
- The project is targeted at the poorest countries (LDC countries defined by the OECD's DAC) or fragile states.
- The applicant demonstrates knowledge of the objectives of the target country's own development strategies.
- In cases where the projects are conducted in Finland's bilateral partner countries, the applicant takes into account other activities supported with Finnish development cooperation funds.

As regards continuation project applications, the following matters are also assessed:

- Justifications for the necessity of the continuation project.
- Results of the preceding phase of the continuation project and the utilisation of the experience and lessons learned in the continuation plan.

2. The application and decision process for project support

2.1. Basic information form – information on the applicant/beneficiary

Beneficiaries must submit a basic information form, including appendices, each year during the validity of the project. A deadline has not been determined for submitting the basic information form, but it should be prepared after the annual meeting of the organisation, for example, once the annual report, financial statement and auditor's report have been approved.

However, when applying for project support, the applicant must submit the basic information form well before the call for project support applications closes. In order to submit applications during application periods, the applicant requires the user ID mentioned in the acknowledgement of receipt of the basic information form. The basic information form is only submitted once even if the applicant is applying for state support multiple times in the same year. The same user ID provided in the acknowledgement of receipt can be used to submit multiple applications.

The basic information form is to be filed via the e-service using the electronic form provided on the website of the Ministry for Foreign Affairs. The basic information form and appended

documents can be supplemented after submission by using the complementary information form.

2.2. Applying for project support

The Ministry arranges a call for project support applications every other year. The application period usually begins in the spring and lasts for about two months. The application notice is published on the MFA website at <http://formin.finland.fi>. The notice provides more specific information concerning the application process, including deadlines for each application period.

The project support conditions, instructions and application forms can be downloaded from the MFA website at <http://formin.finland.fi> > Services and financial support > All services and financial support A–Z > Development Cooperation support for Finnish CSOs > Development Cooperation: Project support.

State support can be applied for new projects or continuation projects. The applications are to be submitted via the e-service using the MFA's forms by the deadline specified in the application notice.

The support application form must contain all information necessary with regard to the support being applied for and the planned project. The applicant may provide supplementary information in the appendices to the form. The grant decision for the project will be made based on the information provided in the project application, the applicant's basic information form and the appendices to these documents.

2.3. The processing of and decisions on the project support applications

It takes approximately six months for the Ministry to process the applications. Once the decision on the provision of project support funds have been made, the Ministry will send the state support decision and pertaining justifications to the applicants. Applicants will receive the decision electronically on their e-service accounts. Support can be granted for 1–4 years at a time.

The beneficiary commits to receiving the state support under the terms prescribed in the state support decision by submitting a commitment concerning the decision within 30 days of receiving the support decision. The commitment form can be downloaded on the Ministry for Foreign Affairs website at <http://formin.finland.fi> > Services and financial support > All services and financial support A–Z > Development Cooperation support for Finnish CSOs > Development Cooperation: Project support.

3. Project implementation and reporting

3.1. Cooperation agreement

After being awarded state support, the beneficiary must sign a cooperation agreement with its partner. The following matters must be considered when preparing the cooperation contract:

- The Finnish beneficiary and local partner must draft a written cooperation agreement in which they specify at least the purpose and objectives of the cooperation, the roles and

responsibilities, authorised representatives as well as the length of the agreement and the terms of notice.

- Since the Finnish beneficiary is fully liable to the Ministry for Foreign Affairs for the use of the state support, the agreement must oblige the local partner to the following actions:
 - Expend the funds in accordance with the decision to grant state support.
 - Make the local partner's finances and activities available to representatives of the Finnish beneficiary during inspections.
- The agreement must state that since the project is being financed by the MFA under the Act on Discretionary Government Transfers, the Ministry for Foreign Affairs has the right to inspect the activities and finances of the local partner. Additionally, it is important to specify at which stage the implementation of the project transfers to the local partner in full.
- If the project is a joint initiative involving multiple actors, the cooperation agreement must clearly determine the relevant roles and responsibilities. The recipient of the state support decision is responsible to the MFA for the use of the state support.

3.2. Disbursement of project support

The payment request form can be downloaded on the Ministry for Foreign Affairs website at <http://formin.finland.fi> > Services and financial support > All services and financial support A–Z > Development Cooperation support for Finnish CSOs > Development Cooperation: Project support.

See section 'Disbursement of state support' in the additional conditions for project support.

3.3. Change of use of appropriated funds

The change of use application form can be downloaded from the MFA website at <http://formin.finland.fi> > Services and financial support > All services and financial support A–Z > Development Cooperation support for Finnish CSOs > Development Cooperation: Project support.

The change of use application form is used for requesting changes to the use of appropriated funds and applying for transfer of unused state support (withdrawn and not withdrawn) to the next year.

3.4. Self-financing of the project

The monetary share of the self-financing must be entered into the beneficiary's bookkeeping. In addition to this, the MFA recommends entering voluntary work, services received and item donations in the beneficiary's bookkeeping, so that they are recorded as income and expenditure.

In order to determine the value of voluntary work one must use a reasonable gross salary for comparable work in the country in which the voluntary work is conducted.

The value of service and item donations is calculated based on the going rate. The going rate is the normal market price of items or services at the time. The estimated value must be documented and presented in the project's financial report. If the donation is especially high in value, or is a special item, experts should be used in appraising its value. The expert's written estimate must be appended to the financial report.

3.5. Project reports and audits

The annual report form can be downloaded from the MFA website at <http://formin.finland.fi> > Services and financial support > All services and financial support A–Z > Development Cooperation support for Finnish CSOs > Development Cooperation: Project support.

The audit instructions can be found in the appendices of this instruction document.

The annual report compares the approved project plan and last dated budget with the actual outcome. Any delay or neglect to report will lead to suspension of disbursements and a possible denial of continued support.

The final annual report of the project must examine the results and impact generated during the project as well as the experiences gained and their applicability. **The final report** should especially analyse the following issues:

- Project's impacts: Did the project achieve its result objectives? How did it impact the beneficiaries? Did the project have any other positive or possibly even negative effects, whom did they impact? How did the project affect the position of the most vulnerable groups of people? Has an evaluation on the project's effects been prepared (If so, please append it to the report)?
- Project challenges: Did the project fail to achieve some objectives, if so, why? What other challenges were encountered during the project?
- Sustainability: Are the project's results sustainable? What are the main risks related to sustainability? What was done to ensure sustainability in the project's exit phase? Provide concrete examples.
- Wider applicability of the results: How can the results and/or methods be applied in other projects? How will these experiences be used in the future and shared?

You can prepare a separate free-form document to append to the annual report form.

The MFA will process the final report within two months of receipt. However, approval will be contingent on the need for any additional clarifications and whether or not they are provided.

Appendix 1. Audit instructions

Auditing the use of development cooperation support granted by the Ministry for Foreign Affairs to CSOs and municipalities (beneficiary)

Instructions to the auditor conducting the audit

Beneficiary's obligation to have the project audited

The beneficiary is always ultimately responsible for the implementation of projects and must be able to demonstrate to the Ministry for Foreign Affairs (MFA) that it uses the support in accordance with the general and additional conditions for project support, the supplementary project support instructions as well as the provisions of the Act on Discretionary Government Transfers (688/2001).

As per the additional conditions, beneficiaries have to report annually by the end of April on their activities and use of funds during the previous calendar year. By means of the annual report, the Ministry's Unit for Civil Society wants to make sure that the progress and the use of funds within the project correspond to the state support decision and the approved project plan and that the conditions for state support and the pertaining instructions and provisions have been observed. The auditor has to provide a statement on the project's reported use of the funds in full. The auditor's report is appended to the beneficiary's annual report delivered to the MFA. Irrespective of the progress of the project, the beneficiary has to always submit an annual report to the Ministry, including appendices, by the due date.

If local expenses are entered into the partner's bookkeeping in the target country they must be locally audited. Local auditors must meet the requirements set by the authorities of the country in question. Auditors in the country of operation have to submit a separate report on expenditures recorded in the country as well as on the local partner's activities. A copy of the audit report by the local auditor must be attached to the annual report delivered to the MFA.

At the end of these instructions, there is an auditing report (Appendix A) in the required format and separate instructions (Appendix B) for the auditor in the country of operation.

NB: The beneficiary's financial statement documents must also be provided as appendices to the basic information form in accordance with the additional conditions for project support.

General qualifications of an auditor and the organisation's obligation to choose an authorised auditor

The auditor must have sufficient expertise and experience in accounting, financial and legal matters and auditing as is necessary in light of the nature and scope of the activities of the organisation or foundation. A person who is bankrupt, under guardianship or barred from

conducting business cannot be selected to be the auditor. The same applies to a natural person whose legal capacity has been restricted. (Auditing Act 1141/2015, sections 6(2) and 6(3))

If state support exceeds EUR 10,000 / project, one of the auditors must be a chartered auditor (KHT, HT or JHTT) or firm approved by the Central Chamber of Commerce (KHT), Chamber of Commerce (HT) or a chartered public finance auditor of the Finnish Board for Chartered Public Finance Auditors (JHTT board). Pursuant to the Associations Act (503/1987) small projects can also employ other persons selected by the organisation as auditors. However, it is advisable to use the services of authorised auditors even in smaller projects.

If bookkeeping and auditing, with respect to local costs, takes place in the target country, the beneficiary has to make sure that the hired auditor fulfils the requirements of the public authorities of the country in question. In the country where the audit is conducted, it is advisable to use the services of authorised auditors or auditors who belong to a well-known international auditing network.

Scope and content of the audit

In carrying out their duties, the auditors must observe good auditing practices. A beneficiary that receives development cooperation support has to make sure that the auditing of the use of support has been duly organised both in Finland and the target country. The beneficiary's Finnish auditor's report is based on the organisation's own audit of its bookkeeping in Finland (the beneficiary's project costs in Finland as well as funds remitted to the organisation in the target country and reports on their use). Correspondingly, reports produced by the partner's auditors in the target country are based on local expenses and on the accounts prepared by partner organisations.

The beneficiary must supplement the annual report with the following appendices:

- * A standard format auditor's report (Appendix A)
- * The project auditor's brief, free-form summary of the findings and suggestions for improvement related to the use of project support, if such a summary has been provided by the auditor.

In addition to what is required by good auditing practices, auditors have to ensure that the use of the project support complies with the general conditions for the use of state support granted by the MFA, the additional conditions for project support, the supplementary project support instructions of project support, provisions concerning state support and the Act on Discretionary Government Transfers (688/2001). The following must also be checked during the audit:

1. The beneficiary has signed written cooperation contracts with the partners that will be given a part of the support for project-related activities.
2. The expenses of the financial report can be derived from the beneficiary's bookkeeping and that the expenses are based on appropriate receipts and itemisations.

3. The financial section of the annual report corresponds to the Ministry's state support decision, commitment and approved project plan. Significant budgetary overruns and/or undercuts have to be duly accounted for in the annual report and they must include references to the Ministry's approval.
4. Activities described in the annual report correspond to the expenses of the financial report (to be verified as far as possible).
5. The beneficiary's self-financing has been realised in the way recorded in the annual report and in accordance with additional conditions for project support. The monetary portion of the self-financing is based on the beneficiary's bookkeeping, and the voluntary work reported as self-financing has been accounted for in the appropriate manner.
6. The administrative expenses set out in the project's annual report comply with the additional conditions for project support.
7. Interest and foreign currency items and other possible profits accrued from the support (if relevant) are duly reported and used for the purposes of the project.
8. The beneficiary has made appropriate arrangements for the audit in the target country. The beneficiary has organised appropriate monitoring of possible findings and recommendations generated by the audit.
9. Withdrawn but unused support in the accounting period is duly recorded in the annual report and in the beneficiary's bookkeeping.

Auditing the project can, naturally, also include other measures.

A standard format auditor's report (to the Finnish auditor)

Auditor's Report

For AAA (beneficiary)

I have audited the expenses of the development cooperation project **name of project** conducted by AAA between **day month year and day month year**. The reported total expenses of the project stand at EUR **XX XXX**. The annual report has been compiled by the programme coordinator of this project, **name of programme coordinator**.

The audit has been conducted in accordance with the auditing instructions concerning development cooperation support granted to CSOs and municipalities by the Ministry for Foreign Affairs and, as appropriate, international auditing standards. According to the recommendations, an audit is planned and conducted in order to reach sufficient certainty of whether the annual report and its specifications which are audited include any essential mistakes or shortcomings. The audit concentrates on the examination of the material on which the figures and other information presented in the report, including itemised costs, are based. The audit also assesses the principles of preparing the annual report and itemised costs as well as the manner of presentation.

It is my understanding that the bookkeeping and the part of the annual report concerning the use of funds, including itemised costs, essentially comply with the general and additional conditions for project support, the supplementary project support guidelines as well as the provisions of the Act on Discretionary Government Transfers (688/2001). I pronounce that the annual report to the Unit for Non-Governmental Organisations of the Ministry for Foreign Affairs can be approved.

Alternatively use

Fundamental mistakes or shortcomings were detected during the audit. The matters that are contrary to the essential terms and conditions are listed below or in a separate clarification.

.....
Place and date

.....
Auditor's signature

.....
Printed name and authorisation

Audit instructions to the project's auditor in the target country

The instructions have been prepared in English in order to facilitate cooperation with partners. The scope and content of the target country audit must cover at least the auditing measures listed in these instructions.

Audit Instructions for a Development Co-operation Project whose financial support is channelled through a non-governmental organisation or municipality in Finland

SCOPE

We ask you to conduct a Special Purpose Audit concerning the Development Cooperation Project [Name of project] of [Organisation].

According to the Ministry for Foreign Affairs of Finland's general conditions regarding support to non-governmental organisations and municipalities, the receiving organisation must observe principles related to good governance and anti-corruption activities. State support shall be used only to cover expenses considered to be necessary and reasonable in carrying out the project activities. The support-receiving organisation shall in its accounting follow the generally accepted national accounting principles (GAAP). The audit should be carried out in accordance with International Standards on Auditing as applicable, including relevant national legislation and standards.

The nature of a Development Cooperation Project is as follows:

- A project is not a legal entity but an accounting subject
- It can include transactions in more than one legal entity (e.g. Partner or Subsidiary)
- It does not prepare statutory Financial Statements
- The statements under audit are the Financial Project Report and the List of Fixed Assets
- Fixed Assets are not capitalized but recorded as cost when purchased
- The Materiality Level in each audit finding is the equivalent of 200 Euros.

REPORTING

We ask you to further send the Auditor's Report to the cooperation partner in Finland both by email and by regular mail. The report has to be in English and include the following items:

- Project number and name
- Implementing organisation
- Date of the co-operation agreement
- Reporting period and currency
- Exchange rate used in the Financial Project Report
- Total amount of budgeted income and expenditures (including balance from previous year)
- Total amount of actual income and expenditures (including balance from previous year)
- Closing balance (including cash, bank and other assets like advance payments and outstanding checks)
- Auditor's name, position, address, phone, fax and e-mail
- Date, auditor's signature and authorization
- Opinion on the issues below

OPINION

The Auditor's Report offers an opinion on the following areas:

- Does the Financial Project Report match with the Bookkeeping?
- Does the Financial Project Report correspond with the co-operation agreement?
- Do the received funds match with the Bookkeeping?
- Does the Bookkeeping match with the Vouchers?
- Are there proper Vouchers for the transactions?
- Is there an adequate Bookkeeping, including Journal and General Ledger?
- Do the changes in the List of Fixed Assets match with the Vouchers?
- Does the Bookkeeping match with the Official Bank Account Statements and Cash Book?
- Does the opening balance of funds correspond with the audit report of last year?
- Is the approved Financial Project Report free of material misstatement?
- Are the received, unused funds properly recorded as a liability in the balance sheet and included in the ending balance of the Financial Project Report?
- Are the recorded expenses in the Financial Project Report in line with the approved original budget and activity plan? The report should contain explanations of deviations larger than 15 per cent.
- Is the internal control system of the organisation in place? Are there any material weaknesses that the organisation should improve?
- Do the salaries of the project personnel match with existing properly signed employment contracts and does time recording exist?
- Have social security expenses including pensions and taxes been recorded and paid to relevant authorities in accordance with the national legislation?
- Does the organisation have copies of all valid essential contracts (government, trading, rental, lease, service agreement)?