

GLA Financial Due Diligence Guidance

Definition and Purpose

Definition

1. The term organisation is used within this guidance to refer to private companies, charities, colleges, higher education institutions, training organisations, local authorities and employers who are applying to be awarded by GLA funding.

Purpose

2. This document sets out the GLA's approach to financial due diligence in respect of organisations who have been recommended to be awarded GLA funding.
3. Financial due diligence is undertaken to understand an organisations financial health and the degree of risk to the GLA in awarding funding to them, to ensure any risk to either the success of the programme and project objectives, or to the funding itself, has been considered and deemed acceptable.

Overview and Due Diligence Assessment

Overview

4. The financial due diligence process will be a risk-based assessment and potential project partners will have to submit their financial due diligence information as part of the application process and the GLA will undertake the financial due diligence assessment on potential project partners that have been recommended for a GLA funding award following the application evaluation process.

Due Diligence Assessment

5. The financial due diligence will comprise of the following checks:
 - Potential grant award as % of turnover
 - Liquidity
 - Profitability
 - Return on Capital Employed
 - Debtors & Creditors cycle
 - Gearing
 - The review of credit reports
 - Standard Companies House and Charity Commission checks (where applicable).
6. Any risks highlighted from the assessment will be provided to the project board to take into consideration, when determining the award of funding.
7. The GLA reserves the right to award grant funding to whom it deems appropriate, in line with the objectives of the programme (with the financial risk considered and deemed acceptable).

Financial Information

8. To facilitate the financial due diligence assessment, organisations must supply the following documentation as part of the application (wherever applicable):

- Audited accounts for the past 2 years, or accounts for the past 2 years signed by an independent qualified accountant if your organisation is exempt from audit.

Accounts must include the following information:

- A full set of notes.
- A Director's report.
- A balance Sheet.
- A Profit & Loss Account / Income & Expenditure Statement.
- Cashflow Statement.

9. If your organisation, due to its legal form, is not required to produce statutory financial statements, you must submit accounts in the format used for producing annual accounts. These must include the same minimum elements noted in paragraph 8.

10. If your organisation is unable to supply statutory financial statements because it has not traded for a sufficient period, you must supply management accounts to date, showing actual activity, along with forecast figures for the remaining accounting period. The management accounts must consist of:

- A profit and loss account covering a 12-month period.
- An end of period forecast balance sheet.
- A 12 month rolling cash flow statement.
- A detailed narrative supporting assumptions made for both management accounts and forecast information.

11. If any of the required financial information is missing, we will not be able to carry out the financial due diligence, due to insufficient information available for assessment and your application will not be considered for funding.

Parent Companies

12. An organisation or a group of organisations applying for funding may rely on the capacities of a third party to demonstrate financial health (e.g. a parent or group company) of potential grant recipients. In such circumstances, the third party being relied upon must provide the financial information and satisfy the requirements set out in this guidance and provide a guarantee or otherwise confirm it will be jointly liable for the execution of the funding agreement if the application for funding is successful. The financial due diligence will be undertaken upon the third party being relied upon.

Subcontractors

13. If you are applying to deliver with subcontractors, it will be your responsibility to check the financial health of your subcontractors. The GLA's financial health assessment will only apply to your organisation, as the provider with whom the GLA will have the funding

agreement relationship. We do, however, request a copy of your framework for due diligence to satisfy ourselves that financial health of your subcontractors is being considered and a robust framework is being used for assessment.

Exemptions

14. Local authorities are not subject to the standard GLA financial due diligence checks as they are well established bodies, supported by Government funding and Local Government legislation, whose Section 151 Officers (Chief Finance Officers) are in the position to guarantee their financial standing and honour their financial commitments.

Moderation

15. As noted in paragraph 7, the GLA reserves the right to award grant funding to whom it deems appropriate, in line with the objectives of the programme (with the financial risk considered and deemed acceptable) and can moderate findings of the financial health assessment if adverse findings become apparent. Moderation and adverse findings include, **but are not limited** to the following:
 - Where auditors have given the financial statements a qualified or adverse opinion.
 - If your organisation is in liquidation, insolvency, a Company Voluntary Arrangement, or has become dormant.
16. It should be noted that this document sets out the standard GLA financial due diligence process, that can be tailored to suit GLA programmes needs and requirements as required. Prior to commissioning grant programmes, Directorate officers should liaise with their Finance Business Partner, within Financial Services to discuss their programme and associated financial due diligence requirements.