



## Annex 4

### **Instruction regarding the performance of audit tasks related to activities covered by a Strategic Partnership Agreement**

This instruction covers the audit tasks that the Ministry of Foreign Affairs of Denmark (MFA) requires the Strategic Partner's auditor to perform in relation to the financing of the Strategic Partnership's activities in Denmark and in developing countries. The legal basis for giving instructions in the area of audit is encompassed in the annual finance act and in the partnership agreement, to which this instruction is an annex.

§ 1. The Strategic Partner's auditor is appointed by the organization's competent assembly. The audit is carried out by a state authorized public accountant.

(2) If the auditor is changed, the acceding auditor must contact the leaving auditor who is required to inform the Strategic Partner, MFA and the acceding auditor of the reasons for the termination of the contract.

(3) If the audit of activities outside Denmark is carried out locally in the recipient country, it must be performed by a chartered accountant or certified public accountant from an audit firm of high repute. The Strategic Partner's Danish auditor has the overall supervision of the local audit of expenses abroad.

§ 2. The audit in Denmark is conducted in accordance with the standards for public-sector auditing (standarderne for offentlig revision - SOR). Outside Denmark financial as well as performance and compliance audit is conducted according to recognized international standards issued by IFAC or INTOSAI. When relevant the local auditor should be informed of the content of this audit instruction.

(2) The audit shall verify whether the accounts are accurate and whether the transactions covered by the financial statement are consistent with the appropriations granted, negotiated agreements with the MFA, signed contracts and laws and other regulations in the area of grants management. The auditor also assesses whether due financial considerations have been taken in the management of the grant included in the accounts.

§ 3. The scope of the audit depends on the Strategic Partner's structure and practices, including internal control and other matters of importance for the presentation of the financial statement.

§ 4. Audit is conducted throughout the year. As part of the audit, the auditor examines the Strategic Partner's organizational structure and existing administrative procedures with a

particular emphasis on accounting, financial management and adequate internal control. Substantive audit is performed as a spot check examination of the vouchers and their correct registration in the bookkeeping based on an assessment of materiality and risk. The auditor examines whether the local financial statements have been audited according to recognized international standards, includes elements of performance and compliance audit and bear the endorsement of the local auditor and a person authorized by the Strategic Partner. The auditor makes a general assessment of the extent and quality of the local audit, if necessary after contact with the local auditor.

(2) The auditor shall ensure that the Strategic Partner sets up the annual financial statements in accordance with the requirements in the administrative guidelines. The auditor shall, in particular but not limited to, examine whether:

- The accounts are fair and do not contain significant errors or omissions,
- The accounts include common cost functions (programme support cost) based on a transparent and reasonable cost allocation mechanism,
- The accounts include personnel costs based on a transparent and reasonable calculation of the hourly rates and well-described internal salary structure in accordance with (not exceeding) the publicly recognized salary level(s) for salaries paid with public funds for comparable work,
- The own-financing requirement is met,
- The financial requirements of the Strategic Partnership Agreement and minutes from the annual strategic negotiations with MFA are met,
- The Strategic Partner has an updated plan for follow up on financial recommendations from previous audit and financial monitoring/review reports,
- The transactions covered by the financial statements are in accordance with the appropriations and the overall purpose of their use, agreed with MFA during the annual strategic negotiations.
- The Strategic Partner has received locally audited financial statements annually for all activities outside Denmark. If this is not the case, there must be a list of outstanding financial statements as an annex to the overall financial statement,
- Whether the local audit has given rise to significant remarks and whether it is with modification. If the local audit is with modification, or excludes elements of performance and compliance audit this must be mentioned in the audit report or in the auditor's management letter (or similar format),
- Completed projects are duly documented and specified in the Strategic Partner's internal financial statement,
- The financial statements have been reconciled with the Strategic Partner's annual financial statement.

(3) During the compliance audit, it is examined whether the grant management has met the requirements made for it. The audit is planned and performed in accordance with SOR 6.

(4) The performance audit examines whether economy, efficiency and effectiveness has been taken into account in the grant administration. The audit in Denmark, is conducted in accordance with SOR 7 and based on the Strategic Partner's accounting report, strategic plan, performance report and other reporting to MFA on goals and results, and on economy, efficiency and effectiveness. Outside Denmark performance and compliance audit is conducted according to recognized international standards issued by IFAC or INTOSAI.

(5) The auditor must verify that grant funds are segregated from other funds either in the organization's accounting system or using a separate bank account and that there is no mix of the grant funds and the Strategic Partner's own funds.

§ 5. In accordance with the provisions of the Strategic Partnership Agreement, the management of the Strategic Partner shall provide the auditor with the information that may be considered to be of importance for the assessment of the financial statement and for the auditor's assessment of the management, including objectives and results achieved. The Strategic Partner's management shall allow the auditor to conduct the investigations deemed necessary by the auditor and ensure that the auditor receives the information and assistance that may be deemed necessary for the performance of the audit.

§ 6. If the auditor becomes aware of any sign of fraud or material breaches of the Strategic Partnership Agreement and the administrative guidelines, it is the responsibility of the auditor to immediately inform the Strategic Partner's management and competent assembly and to ensure that notification of the findings are shared with the MFA within 2 weeks. Otherwise, it is the duty of the auditor to inform the MFA.

(2) The same shall apply if, during the audit or otherwise, the auditor becomes aware that the continuation of operations is uncertain for economic or other reasons.

§ 7. The audited financial statements shall be accompanied by an audit statement in accordance with the guidelines in SOR5, which shall state that the accounts have been audited in accordance with the rules in this instruction.

(2) The auditor shall submit a management letter (or similar format). The letter shall include but not necessary limited to information about:

- Which audit actions has been carried out and the result thereof,
- Significant uncertainty, errors, ineligible costs or omissions regarding the Strategic Partner's accounting or internal control,
- The organization's fulfillment of the own-financing requirement, including whether the funds are provided and used in accordance with the guidelines for this,

- The performance audit carried out, which does not include own-financing, including especially auditor's assessments and conclusions regarding economy, efficiency, and effectiveness as well as dispositions that fall outside the framework cooperation with MFA,
- Auditor's assessment of the local audit, including outstanding financial statements, accounting records with modification, missing elements of performance and compliance audit, and significant remarks in the audit reports for the local audits.

The management letter should state whether the auditor complies with the legislation's eligibility rules, whether the auditor has received all the information requested during the audit and whether the auditor has commented on the use of the grant. In the letter it shall be reported on any special reports or statements, submission of special reports, advice and assistance.

(3) A copy of the audit report and management letter shall be submitted by the Strategic Partner to MFA together with the audited financial statement. The same applies to the overall audited financial statement of the Strategic Partner with management letter as soon as this is approved by the Strategic Partner's Executive Committee or Competent Assembly.

§ 8. It is the responsibility of the Strategic Partner to obtain the auditor's written consent to revise the grant in accordance with this instruction.

## **Supplement to the Instruction regarding the performance of audit tasks related to activities covered by a Strategic Partnership Agreement**

Reporting on the performance audit is normally done in the management letter.

The audit statement states that audit has been carried out in accordance with the audit instructions and the standards for public-sector auditing.

Significant deficiencies or a reasoned presumption of violation of provisions and conditions for granting and applying grants must be stated in the audit report.

In practice, the auditor's detailed reporting of the audit can be done in the Strategic Partners' management letter, or in a separate report outside of the management letter's continuous page number, provided that reference is made to such separate reports in the management letter itself and that significant remarks are reflected in the management letter itself.

Auditor's control of section §4 (4) can be done by auditors reviewing the Danish organization's overall established procedures for determining data collection and reporting of productivity and efficiency goals. The auditor's report on this may be done in the Danish organization's audit report or in a separate report, cf. above

To the extent that the Strategic Partner makes concrete actual measurements of productivity and efficiency, it is expected that the auditor will assess the reliability of such measurements and report on it in the management letter. Where such concrete measurements are not available, the auditor must assess whether the organization otherwise (often on a more qualitative basis) makes reasonable assessments of the performance and the auditor may propose appropriate measurement methods. The auditor may report lack of reliable measurements of productivity and efficiency, etc. in the management letter without making reservations or providing additional information in the audit report on the accounts.

If there are no measurements of productivity and efficiency or that the available measurements are of such a nature that they can not form the basis of auditor's control pursuant to section §4 (4), the auditor shall report on this in the audit report or in a separate report outside of the management letter's continuous page number, provided that reference is made to such separate reports in the management letter itself and that significant remarks are reproduced in the management letter itself.