

Audit protocol for AIHRC Action plan 2019-2023
Appendix accompanying *Joint Financing Arrangement*

1. Overall principles of the procedures to be performed

The auditor is required to plan, execute and report on the financial audit engagement in order to conclude on the following matters. Furthermore, the auditor is required to assess whether the partner has adequate policies and procedures in place regarding the following matters: (those matters are not covered by the audit engagement in accordance with ISA 805)

- 2.1 Principles of orderliness (financial regularity/reporting)
- 2.2 Existence, adequacy and effectiveness of the Internal Control System (ICS)
- 2.3 Conformity with the project objectives and adherence to the contract conditions
- 2.4 Economical conduct of business and effective use of financial resources

In this part, we have elaborated each of the above-mentioned principles and added the question relevant to the principle. The questions will help the auditor to easily achieve the goal of each principle.

Principles of orderliness (financial regularity)

Project related matters

- Authorisation of expenses and their validation by means of appropriate, seamless documentation of receipts.
- Proof of funds received for project performance and reconciliation of the information with the donor's statements.
- Proof of the existence of goods as well as a means of tracking the financial allocation and physical movement of such goods.
- Use of expenses in conformity with the agreed budget(s)
- Conformity of contracts with the relevant laws.
- Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Accounting related matters:

- Compliance and material accuracy of the statements, receipts, project accounting and other reports.
- Correctness and completeness of the accounting entries.
- Timely recording of all business and financial transactions.
- Agreement of project accounts and other reports with the general ledger accounts.
- Adequacy and completeness of revenues, all revenues are booked correctly.
- Proof of receivables and obligations as well as corroboration for balances in reconciliation and transit accounts.
- Reconciliation of the effective cash balance and bank statements with the general ledger accounts
- Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports.

Existence, adequacy and effectiveness of the Internal Control System (ICS)

- Adequacy of the internal organisation (structures, functions, tasks, authority, responsibilities, methods, procedures, segregation of duties, etc.).
- Effectiveness of project management and accounting processes.
- Adherence to applicable laws, regulations and instructions.
- Physical existence of assets and the related controls.
- Measures to safeguard against incorrect entries, manipulation of accounts, irregularity and fraud.
- Adequacy and completeness of financial information and the reporting system.

Conformity with the project objectives and adherence to the contract condition

- Agreement of transactions, expenditures and receipts by comparison with the basic project documents (project description, programs of activities, contracts, TORs, budgets, etc.).
- Exclusive use of the funds allocated for goods and services for the project in line with the contractual provisions; goods must be physically available or have been demonstrably used/sold.
- Compliance with contractual provisions agreed on between the Donors and the contract partners.
- Verification that expenses charged to the project correspond to the agreed budget. Discrepancies between effective project expenses and budgeted expenses must be adequately justified and documented by the contract partner.

Economical conduct of business and effective use of financial resources

- Financial resources must be used for project activities as defined by the contractual provisions, ensuring an appropriate level of cost and benefit.
- Existence and application of adequate measures in the internal control system (ICS) in respect of the utilization of committed resources.
- Use of an appropriate system of tasks, authorities and responsibilities (T/A/R), in particular the separation of conflicting or important functions and processes such as commitment to obligations, signing and recording of expenses, matching of cash and bank account balances, clarification of long-term unsettled receivables and obligations, physical existence of material goods, etc.
- Existence of an adequate purchasing system that guarantees an optimal cost-benefit ratio for the purchased materials and services and the appropriateness of the goods and services provided by contractors for local customers and cost structures.
- Verification that prices and rates are subject to regular reviews and that the accounting system in use is adequate to the requirements of a management tool, particularly as it concerns cost analysis.
- Critical inspection, substantiation and test for correctness of costs and expenses billed by consultants (rent, travel expenses, lump-sum expenses) and corroboration of their operational contribution to the project.
- Critical inspection (if necessary, with expert assistance) of all benefits paid to local staff (gross salary, social security contributions, income tax, etc.).
- Existence and use of a vehicle logbook and verification that private use of the vehicle is invoiced.
- Verification that private use of mobile and fix net phones by members of the staff has been invoiced and paid on time.

2. Audit subject

The audit subjects are:

1. the recipient's financial statement/annual report for the applicable year;
2. the processes and records, listed under 3.2, on which these documents are based;
3. any specific conditions listed under 3.3.

3. Audit scope

Re 1.

The audit should be carried out in accordance with International Standards on Auditing (ISA 805).

In auditing the financial statement, the auditor will assess regularity and whether the applicable requirements have been satisfied. The auditor must establish the completeness and accuracy of all receipts and expenditures, and that they derive logically from and are in line with the activity referred to under paragraph 1 of this protocol.

The auditor must observe a minimum level of reliability of 95% and a permitted tolerance of 1%

The audit opinion will be drawn up in accordance with the model in paragraph 4 of this protocol.

Re 2.

With regard to the organisation's processes and records, the auditor must establish that:

- the grant recipient has an effective administrative organisation with a system of internal control measures (AO/IB), providing reasonable assurance of:
 - compliance with legislation on, for instance, remittance of salaries tax, social insurance contributions and value added tax, and procurement;
 - proper accounting and reporting;
 - proper asset register;
- the grant recipient has, and acts in accordance with, a sound internal policy on implementing organisations or partners, which includes provisions on:
 - assessing the management capacity of these organisations or partners;
 - sanctions to be imposed on organisations or partners should they fail to comply with their obligations.

The auditor should request a letter of representation from the grant recipient's management stating that, to the best of their knowledge, the financial statement encompasses all transactions and receipts, is accurate and complete in every respect and that all grant conditions, including those beyond the scope of the audit, have been met. In the letter of representation, management should specifically confirm that they have complied with following : 'the grant recipient shall not offer to third parties or seek or accept from or be promised by third parties, for himself or for any other party, any gift, remuneration, compensation or benefit of any kind whatsoever, which could be interpreted as an illegal or corrupt practice. The audit report will contain a management letter.

If, in the course of the audit, the auditor finds evidence of illegal or corrupt practice, he or she must act in accordance with the COS 240 guideline on fraud.

The auditor must report any information that came to his notice during the audit which may reasonably be suspected to be relevant to the grant provider in finalising the grant award.

Although the auditor does not give an opinion on the narrative part of the annual report, he should ascertain by means of a limited review that the narrative and financial sections of the report are in agreement and contain no contradictions.

Re 3.

The auditor has established that the specific grant conditions of the Joint Financing Arrangement have been met.

- Procurement procedures have been followed in line with national and international standards.
- Procurement with a value exceeding USD 50,000 have been put forwarded to the Donors.
- AIHRC's annual procurement report is of adequate quality
- AIHRC's asset registration is up-to-date

4. Reporting

The audit opinion should cover the mentioned four principles and in any event include the aim and scope of the audit, the audit criteria applied, where relevant, and any restrictions imposed on the scope of the audit.

Furthermore the auditor will write a report of findings regarding the evaluation of the administrative organisation and internal control structure of the grant recipient, identifying any matters worthy of mention, including any material shortcomings in the internal control system.

An unqualified audit opinion must be worded as follows:

'We have audited the financial statement of ... at ... for the period from ... to The financial statement is the responsibility of the management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and with due regard for the audit protocol. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and of the risks of material differences as a result of fraud. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement gives a correct and complete view of all receipts and expenditure

The auditor will make separate mention, in the report of findings, of any material deviation from the requirements included in this protocol. This includes information which the auditor can reasonably suspect to be relevant to the grant provider in finalising the grant award.

- In the case of an adverse audit opinion, the auditor should indicate:
 - the influence on the transactions included in the financial statement;
 - the grant conditions that have not been met; and/or
 - any unlawful acts identified.

5. Management representation of full disclosure

The auditor shall obtain a management representation letter signed by the management of the partner organization, certifying:

- a) The acknowledgement of the organization's responsibility for the keeping of accounts and financial documents that are correct, complete, fair, representing the true facts, in conformity

with the objectives of the project, the documents of reference (description of the project, contracts, budgets, etc.) and national legislation;

- b) That all accounting records, supporting and other documents, minutes and any other pertinent information necessary for the audit be at the disposal of the auditor;
- c) The completeness of information concerning property and goods;
- d) The completeness of information concerning financing received or due and own financing concerning the audited period, for the project being examined;
- e) The availability of any information and explanations, either orally or by written confirmation, which might be required by the auditor in the execution of his mandate;
- f) In the case of contributions to local NGOs, the declaration has to certify the completeness of information concerning financing received or due and own financing concerning the audit period, for the project being audited **and** for the examination of the consolidated financial statements of the organization. The consolidated financial information, including balance sheets and profit and loss statements of the project are to be attached to the declaration and form an integral part thereof. This declaration shall be provided together with the financial audit report.

6. Documents of reference

The following documents and matters are to be considered by the auditor as basic references for performing the financial audit:

Legislation:	National law
Project/program:	Agreement between Donors and the partner relevant to the project; Project Document/TOR; Budgets, financial plans, programs of project activities; Project management procedures Any other documents concerning the project/program.
Accounting:	Accounting documents subject to the financial audit Financial and operational reports concerning the project/program.
Auditor:	Prior internal and external audit reports of the partner Any other information requested from the partner by the auditor.