

Audit requirements

Appendix to the Project Agreement and Terms and Conditions Grants (hereafter “T&CG”) between Aidsfonds – Soa Aids Nederland (hereafter “Aidsfonds”) and the Partner.

1. Objective and purpose of these audit instructions

Articles 6.13 – 6.20 of the T&CG stipulates whether Partners must furnish an audit opinion with their financial reports.

We require audits because we and our donors would like assurance regarding whether your organization’s (hereafter “Partner”) financial report on the grant is accurate in all material respects and in accordance with the Project Agreement and the T&CG, and so that we can obtain insight into any material misstatement or material weaknesses in internal control.

These audit instructions provide details regarding:

- the general requirements we expect from the auditor and the auditor’s work (see chapter 2).
- the type of audit opinion we expect to receive and the topics that must be included in the auditor’s report. There are different requirements for smaller grants than for larger ones, so that the costs and efforts related to the audit are kept proportional to the amount of the grant (articles 6.13 & 6.14 T&CG):
 - Grants with an average annual and total budget lower than EUR 15.000 do not require an audit.
 - See chapter 3 ‘Organization’s audited annual accounts’ for the requirements for grants with an average annual and total budget equal to or higher than EUR 15.000 and lower than EUR 50.000 (or the equivalent of these amounts in the contracted currency).
 - See chapter 4 ‘Project Audit’ for the requirements for grants with an average annual and total budget equal to or higher than EUR 50.000 (or the equivalent of this amount in the contracted currency).
- how an audit should be handled if a Partner works with subrecipients (chapter 5).

2. General requirements for the auditor and the audit

The certified auditor must be registered with a recognised institute of registered public auditors (Article 6.16, T&CG). The auditor is required to detail in the Independent auditor’s report (Appendix A) the recognised institute of registered public auditors where they are registered as an independent auditor.

We recommend to substitute the audit firm every 5 years. A possibility is to remain with the audit firm and ask for another partner of the audit firm to take responsibility for the audit.

The auditor must be unaffiliated with Aidsfonds – Soa Aids Nederland, the Partner and any subrecipients.

The audit must be performed in accordance with International Standards on Auditing (ISA). For the Organizational audited annual accounts (chapter 3) ISA 700 applies. For a Project audit (chapter 4) ISA 800 applies (Article 6.16, T&CG). It is the responsibility of the Partner to select an

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auditor that fulfils the requirements specified above.

The Project Agreement may deviate from the general provisions of the T&CG and the requirements in this document. Under certain circumstances, substantive grounds can be applicable and would justify that general provisions are not valid. For example, regulations that are specific for a region or industry. This must be expressed in the Project Agreement.

The audit report must contain the financial report which should be consistent with, and laid out in the same way as, the approved budget. The financial report consists of the approved budget, the reported (eligible accounted) expenditures versus budget, explanations on (approved) variances between the budget & expenditures, the income received from Aidsfonds and the (closing) balance. Closing balance is defined as the difference between the advance payments received from Aidsfonds and the accounted expenditures. And if the functional currency is different from contracted currency, it will show both currencies and the exchange rate used. All the information above is used to prepare the settlement and to formally close the grant.

Requirements regarding reporting conditions are noted in article 6 of the T&CG.

The accounting principles used should be mentioned, hence cash, accrual or hybrid.

3. Organization's audited annual accounts

The organization's audited annual accounts are required:

- For grants with an average annual and total budget equal to or higher than EUR 15.000 and lower than EUR 50.000 (or the equivalent of these amounts in the contracted currency).

See Articles 6.13B & 6.14B, T&CG.

The financial reports for each project must be accompanied by the organization's audited annual accounts.

Main objective of the audit:

To determine whether the annual accounts are accurate in all material respects so that we can be reasonably sure that the financial report will also be accurate.

The audit must be performed in accordance with International Standards on Auditing (ISA 700) (Article 6.16, T&CG). The text of the audit opinion must meet the International Standards on Auditing (ISA).

Finally, Aidsfonds is entitled to ask the Partner to submit the management letter issued by the auditor (Article 6.19 T&CG).

4. Project Audit

A separate audit of the project is required:

- For grants with an average annual and total budget equal to or higher than EUR 50.000 (or the equivalent of this amount in the contracted currency).

See Articles 6.13C & 6.14C, T&CG.

Main objective of the audit:

To determine whether the financial report on the grant is accurate in all material respects and in

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accordance with the Project Agreement and T&CG and to determine that the financial position gives a true and fair view.

The audit must be performed in accordance with International Standards on Auditing (ISA 800) (Article 6.16, T&CG).

The auditor will devote particular attention to the financial and reporting conditions that are laid down in Articles 6.3, 6.4 and 6.8 - 6.10 of the T&CG.

The expenditures in the financial report must be substantiated by appropriate documentation.

The auditor must investigate, within the limits of the audit, whether the grant was spent on achieving the objective for which the funds were granted.

The auditor must establish that the financial report is consistent with, and laid out in the same way as, the approved budget.

During the audit, the auditor must adhere to the following reliability margins:

- Reliability percentage is a minimum of 95%.
- The overall materiality level for the audit is 3% of the total expenditures. However a donor of the grant can set different requirements. E.g. for a substantive audit, where every EURO/US Dollar (expenditures and income) needs to be examined by assessing supporting documentation, a deviation of these reliability margins is needed. If this is the case, this will be included in the Project Agreement.

We request that the auditor confirms in the Memorandum of Examination (Appendix B) the materiality levels used, the performance materiality, clearly trivial and sum posting Level.

The auditor must confirm that the quality of the Partner's internal controls is sufficient and the auditor reports on any weaknesses in the internal controls.

All findings must be reported in the Memorandum of Examination. When it pertains to misstatements, it is preferred that these are corrected in the financial report. Please specify in the Memorandum of Examination when the finding has not been corrected.

Aidsfonds may always request the Partner to provide its Audited Annual accounts of the organization to Aidsfonds (Article 5.17, T&CG). Aidsfonds is also entitled to ask the Partner to submit the Management Letter issued by the auditor (Article 6.19, T&CG).

If the Partner uses part of the grant to award grants to subrecipients, the Partner must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG, articles 4.13 and 6.20 (see chapter 5).

See Appendix A for the text to be used in the audit opinion. If an auditor decides to deviate from the prescribed text of the audit opinion, the elements of the prescribed standard text as noted in Appendix A must be taken into account.

Together, the financial report and the audit opinion constitute a single document, which the auditor must authenticate. The report can be delivered electronically. All pages need to be numbered consecutively.

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5. Audit requirements for audit Partner and subrecipients

If the Partner uses part of the grant to award grants to subrecipients, the Partner must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG. See Articles 4.13 and 6.20, T&CG.

The Partner shall award subgrants based on conditions that are comparable to those in the Project Agreement, the T&CG, and these Audit Requirements. The Partner will have internal processes that ensure application of, and compliance with, these conditions. The auditor must establish whether the Partner has a reliable control system for awarding subgrants and auditing the subrecipients' financial reports.

We expect the Partner's auditor to issue an audit opinion regarding whether the financial report on the grant, *including the subrecipients' grants*, is accurate in all material respects and in accordance with the Project Agreement and the T&CG.

For subgrants with an average annual and total budget equal to or above EUR 50.000 (or the equivalent of this amount in the contracted currency), a separate audit opinion is required. It is up to the Partner's auditor to decide how it will determine that the financial reports of the subrecipients are accurate and in accordance with the Project Agreement and the T&CG. The auditor can accomplish this in one of the following ways:

- a. Subrecipients submit audit opinions with their financial reports to the Partner. The Partner's auditor evaluates these audit opinions. The auditor can review this audit work based on ISA 600 'Audits of Group Financial Statements (Including the Work of Component Auditors)'.
- b. If the subrecipient's financial reports do not include an audit opinion, then the Partner's auditor will conduct an audit of the subrecipient's grant. The audit must be performed in accordance with International Standards of Auditing (ISA 800). Furthermore the Partner is obliged to note in the contract with the subrecipients that in case the financial report does not include an audit opinion, an audit of the subrecipient's grant will be conducted by the Partner's auditor.

The auditor should report the methods used and its findings in the Memorandum of Examination (see Appendix B).

Appendix A. Text of the audit opinion of a project audit

Independent auditors report

To Aidsfonds – Soa Aids Nederland

Opinion

We have audited the financial report, initiated by us for identification purposes, of the project entitled '[name project]' for the period from [start date] until [end date] of [name Partner]. The financial report has been prepared by the management of [name Partner].

In our opinion, the financial report for the period from [start date] until [end date] of [name Partner], has been prepared, in all material respects, in accordance with the Project Agreement and the Terms and Conditions Grants. The total declared amount of expenditures of [amount in contractual currency] gives a true and fair view of the financial position.

Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISA 800) and the Audit Requirements of Aidsfonds – Soa Aids Nederland. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the grant statement' section of our report.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of [name Partner] in accordance with our regulations in respect to regulations and code of ethics for professional accountants, to be specific [code] Code of Ethics for Professional Accountants. On [date] we received from [name of the recognised institute of registered public auditors] the notification that we are registered as an independent accountant and are allowed to perform audits in [name country].

Management's responsibility

Management of [name Partner] is responsible for the preparation of the financial report in accordance with the Project Agreement and the Terms and Conditions Grants and for such internal control as it determines is necessary to enable the preparation of the financial report that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this grant statement. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with International Standards on Auditing and the audit

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requirements of Aidsfonds – Soa Aids Nederland, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatements of the grant statement, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- evaluating the overall presentation, structure and content of the grant statement, including the disclosures; and
- evaluating whether the grant statement represents the underlying transactions and events in a manner that achieves fair presentation.

Restriction of Use

This report is intended solely for the use for management of the entity to report to Aidsfonds – Soa Aids Nederland and its donors for this project and should not be used for any other purpose. Consequently, the auditor's report, or any part of it, may not be made available in any form to any other third parties without our prior written consent. Therefore we do not accept any liability to any third party who may have access to this report or into whose hands this report may come. Our report is not qualified in respect of this matter.

[Place, date]

For and on behalf of [name Partner]

[Name of external auditor]

[Signature external auditor]

Appendix B. Text for Memorandum of Examination

Memorandum of Examination

1. General

A. Does the auditor perform other services for the Partner? Does the auditor perform services for organizations that are affiliated with the Partner? If yes, please explain and describe how the auditor maintains their independence?

[Response]

B. How long has the auditor firm and auditor been performing audits for the Partner?

[Response]

C. Have there been any changes in the membership of the governing body of the Partner? If yes please explain the changes.

[Response]

D. Have there been (significant) changes in the integrity policies of the Partner? If yes please explain the changes.

[Response]

2. Fraud risk assessment

We performed procedures to identify fraud risk factors and performed audit procedures in response to those identified risks relating to internal controls. Below an overview of the identified risks:

Fraud risk	Management control	Auditor's response	Result

3. (Performance) Materiality, Clearly trivial and Sum posting level

The following percentages have been used in the audit:

Overall materiality used: [XX]%

Performance materiality¹: [XX]%

Clearly trivial²: [€XX/\$XX]

Sum posting Level³: [€XX/\$XX]

¹Performance materiality is a derivative of the Overall materiality. This is expressed as a percentage of the Overall materiality. This percentage is based on the findings of the auditor on the internal control. E.g. using a bandwidth: 50-90% where 90% means no findings in the internal control.

²The clearly trivial is the threshold set by an auditor below which misstatements do not need to be reported on.

³The SUM posting level is the Summary of Unadjusted Misstatements. It notes the amount of potential audit adjustments (subject to evaluation of relevant qualitative factors) that were not adjusted and need to be reported on because they exceed the threshold as stated by the clearly trivial. However they do not exceed the performance materiality and do not cause the audit opinion to a qualified one.

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4. Summary of unadjusted Misstatements (SUM)

[Please provide one of the following texts:

- [No unadjusted differences were noted]
- [All items have been discussed with the management of the organization. We hereby give you a short description of the differences:]]

Description of the difference	Amount	Management response

5. Description of significant accounting, financial, tax, or auditing matters, including accounting estimates and related judgments

[Please describe the accounting method used for the financial report and report any findings.]

Issue	Auditor’s recommendations	Management response

6. Update of last years issues

The following issues reported last year have been [resolved/ not resolved]:

Issue	Follow-up

7. Compliance with local laws and regulations

During our audit we have noted [the following risks/ no risks] related to non compliance with local laws and regulations. We have paid special attention to compliance with the local tax regime and social security obligations.

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Risk	Auditor’s recommendations	Management response

8. Procurement policy

[Please list any findings regarding the application of the procurement policy below.]

Issue	Auditor’s recommendations	Management response

9. Exchange rate

[Explain the method used to calculate the exchange rate, e.g. the weighted average exchange rate (the exchange rate of the disbursement when Aidsfonds transferred the funds). Provide your observations about the method that was used.]

10. Subrecipients

A. Applied audit methodology

[Referring to chapter 5 of the Audit requirements, please outline which methodology was used by the auditor to determine that the subrecipients’ financial reports are accurate and in accordance with the Project Agreement and the T&CG.]

B. Subgranting policy

[Describe any findings regarding the application of the subgranting policy of the Partner.]

C. Subrecipient audit opinion(s)

[Please confirm that received audit opinions of subrecipient’s grants are unqualified. If they are qualified, please report the findings.]

11. Other matters

[Describe other matters if applicable]