

# **Audit requirements**

Appendix to the Project Agreement and the Terms and Conditions Grants  
June 26, 2016.

## **1. Objective and purpose of these audit instructions**

Articles 5.38 - 5.45 of the Terms and Conditions Grants (T&CG) provide that grantees must furnish an audit opinion with their annual interim financial reports and final financial reports.

We require audits because we and our donors would like assurance regarding whether your organisation's (the grantee's) 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 impose on 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. We impose 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. We commission three types of audits:
  - See paragraph 3 for requirements for grants with annual and total budgets of EUR / USD 150,000 or higher (project audit)
  - See paragraph 4 for requirements for grants with annual and total budgets between EUR / USD 50,000 and EUR / USD 50,000 (audited annual accounts with separate financial statements for the projects).
  - See paragraph 5 for grants with annual and total budgets less than EUR / USD 50,000 (audited annual accounts of the overall organisation).
- how an audit should be handled if a grantee works with subgrantees. (paragraph 6).

For the text of the audit opinion of a project audit, see appendix A.

## **2. General requirements for the auditor and the audit**

The certified auditor has to be registered with a recognised institute of registered public auditors (Article 5.39, T&CG).

The auditor must be unaffiliated with Aids Fonds - STOP AIDS NOW! - Soa Aids Nederland, the grantee, and any subgrantees.

The audit must be performed in accordance with International Standards on Auditing (ISA) and applicable standards (Article 5.39, T&CG).

Tips for finding a certified auditor can be found at:

<https://www.mango.org.uk/guide/externalaudit>

The Project Agreement may deviate from the general provisions of the TC&G.

### 3. Requirements for a Project Audit

*An audit of the project is required with:*

- an interim financial report, if the average annual budget is EUR / USD 150,000 or higher.
  - a final financial report, if the total amount of the grant is EUR / USD 150,000 or higher.
- See Articles 5.42-5.43, T&CG.*

Main objective of the audit: To determine whether the financial report on the grant is accurate in all material respects and in accordance with the Project Agreement and T&CG.

The audit must be performed in accordance with International Standards on Auditing (ISA) and applicable standards (Article 5.39, T&CG).

The auditor will devote particular attention to the financial and reporting conditions that are laid down in Articles 5.4 and 5.45 of the T&CG.

The items in the interim and final financial reports 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.

We request that the auditor confirms in the memorandum of examination the materiality levels used, including the *performance materiality* and *SUM-posting level*<sup>1</sup>.

The auditor should request a letter of representation from the organisation's management stating that, to the best of their knowledge, the financial report 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. A copy of the signed representation letter must be added to the memorandum of examination.

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

All findings exceeding the SUM-posting level must be reported in the memorandum of examination and preferably be corrected in the financial report. Please specify in the memorandum of examination whether the finding has been corrected or not.

The Aids Fonds may always request the Partner to provide its annual accounts to the Aids Fonds (Article 5.20, T&CG). The Aids Fonds is entitled to ask the Partner to submit the management letter issued by the auditor (Article 5.45, T&CG).

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<sup>1</sup> The SUM posting level is the amount (subject to evaluation of relevant qualitative factors) below which potential audit adjustments need not be accumulated and evaluated and potential control deficiencies need not be accumulated and evaluated. SUM = Summary of Unadjusted Misstatements

If the grantee uses part of the grant to award grants to subgrantees, the grantee must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG, articles 9.1-9.3 (see paragraph 6).

See Appendix A for the text to be used in the audit opinion.

Together, the financial report and the audit opinion constitute a single document, which the auditor must stamp and initial on each page. The report can be delivered electronically.

#### **4. Audited annual accounts with separate financial statements**

*The organisation's audited annual accounts with separate financial statements for projects is required with:*

- an interim financial report if the average annual budget is EUR / USD 50,000 or more, but less than EUR / USD 150,000.
- a final financial report if the total amount of the grant is EUR / USD 50,000 or more, but less than EUR / USD 150,000.

*See Articles 5.42-5.43, T&CG*

The interim and final financial reports for each project must be accompanied by the organisation's audited annual accounts, along with a separate financial statement for the relevant project. This project financial statement must have been part of the audit of the annual accounts.

Main objective of the audit:

To determine whether the financial statement regarding the grant is accurate in all material respects and in accordance with the project agreement and the T&CG.

The audit must be performed in accordance with International Standards on Auditing (ISA) and applicable standards (Article 5.39, T&CG).

The auditor will devote particular attention to the financial and reporting conditions that are laid down in Articles 5.4-5.45 of the T&CG.

The items in the financial statement 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 statement 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.

We request that the auditor confirms in the memorandum of examination the materiality levels used. (including the "Performance materiality" and SUM-posting level)

The auditor should request a letter of representation from the organisation's

management stating that, to the best of their knowledge, the annual accounts, including the financial statement for the project, encompass all transactions and receipts, are accurate and complete in every respect, and that all grant conditions, including those beyond the scope of the audit, have been met. A copy of the signed representation letter must be added to the memorandum of examination.

The auditor must confirm that the quality of the grantee's internal controls are sufficient and report any weaknesses in the internal control.

All findings exceeding the SUM-posting level, must be reported in the memorandum of examination and preferably be corrected in the annual accounts/financial reports. Please specify in the memorandum of examination whether the finding has been corrected or not.

The text of the audit opinion must meet the International Standards on Auditing (ISA).

If the grantee uses part of the grant to award grants to subgrantees, the grantee must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG, articles 9.1-9.3 (see paragraph 6).

The Aids Fonds is entitled to ask the Partner to submit the management letter issued by the auditor (Article 5.45, T&CG).

Together, annual accounts, the financial statement for the project, and the audit opinion constitute a single document, which the auditor must stamp and initial on each page. The report can be delivered electronically.

## **5. Audited annual accounts of the organisation**

*The organisation's audited annual accounts of the organisation is required with:*  
- the interim financial report if the average annual budget is less than EUR / USD 50,000.  
- the final financial report if the total amount of the grant is less than EUR / USD 50,000.  
*See Articles 5.42-5.43, T&CG)*

The interim and final financial reports for each project must be accompanied by the organisation'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) and applicable standards (Article 5.39, T&CG).

The auditor should request a letter of representation from the organisation's management stating that, to the best of their knowledge, the annual accounts encompass all transactions and receipts, are accurate and complete in every respect, and that all grant conditions, including those beyond the scope of the audit, have been met. A copy of the signed representation letter must be added to the memorandum of examination.

The auditor must confirm that the quality of the grantee's internal controls are sufficient and report any weaknesses in the internal controls.

The text of the audit opinion must meet the International Standards on Auditing (ISA).

If the grantee uses part of the grant to award grants to subgrantees, the grantee must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG, articles 9.1-9.3 (see paragraph 6).

The Aids Fonds is entitled to ask the Partner to submit the management letter issued by the auditor (Article 5.45, T&CG).

Together, the annual accounts and the audit opinion constitute a single document, which the auditor must stamp and initial on each page. The report can be delivered electronically.

## **6. Audit requirements in case of subgrantees**

If the grantee uses part of the grant to award grants to subgrantees, the grantee must verify that the subgrants are also used in accordance with the Project Agreement and the T&CG. See Articles 9.1-9.3, T&CG.

We expect the grantee's auditor to audit the subgrantees and issue an opinion regarding whether the financial report on the grant, *including the subgrants*, is accurate in all material respects and in accordance with the project agreement and the T&CG.

It is up to the grantee's auditor to decide how it will determine that the financial reports on the subgrants *are* accurate and in accordance with the Project Agreement and the T&CG.

The auditor can accomplish this in one or more of the following ways:

- a. Subgrantees submit audit opinions with their financial reports. The grantee's auditor evaluates these audit opinions. The auditor can review this audit work based on ISA 600 'Using the work of other auditors'.
- b. If the subgrantee's financial reports do not include an audit opinion, or if the audit opinion is qualified, then the grantee's auditor will conduct additional audits at the subgrantees.
- c. The auditor establishes whether the grantee has a reliable control system for awarding subgrants and auditing the subgrantees' financial reports. In this respect, the grantee makes the award of subgrants conditional on conditions and instructions that are comparable to those in the Project Agreement, the T&CG, and these Audit Requirements. The grantee also has internal processes that ensure application of, and compliance with, these conditions.

The auditor should report the methods used and its findings on these topics in the memorandum of examination.

## **Appendix A. Text of the audit opinion of a project audit Independent auditor's report**

To Aids Fonds - STOP AIDS NOW! - Soa Aids Nederland

We have audited the financial report, initialed by us for identification purposes, of the project entitled 'XXXX' for the period XXXX of [name of the grantee]. The financial report has been prepared by the management of [name of grantee].

### *Management's responsibility*

Management of [name grantee] is responsible for the preparation of the financial report in accordance with Generally Accepted Accounting Principles and for such internal control as it determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing and the audit requirements of Aids Fonds – STOP AIDS NOW! – Soa Aids Nederland. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the criteria used for the legitimate realization of accounted transactions, as well as evaluating the overall presentation of the financial report.

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

### *Opinion*

In our opinion, the financial report for the period XXXX of [name of grantee], is in all material aspects, accurate and in accordance with Generally Accepted Accounting Principles. The total declared amount is € .....

### *Restriction of Use*

This report is intended solely for the use for management of the entity to report to Aids Fonds - STOP AIDS NOW! - 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

[Name of external accountant]