



## Explanatory notes for the Ministry of Foreign Affairs model audit protocol for project reports

When using the Ministry of Foreign Affairs model audit protocol for project reports ('the protocol'), please consider the following guiding principles:

- The protocol has been drawn up in accordance with the 2017 Audit Protocol Style Guide of the COPRO Working Group of the Royal Netherlands Institute of Chartered Accountants (NAB).
- The budget holder is responsible for the protocol content that applies to the related grant award. Always use the model with due care and consideration. The final protocol must be tailored to the particular circumstances. Consult the Financial and Economic Affairs Department (FEZ) before requesting extra activities under part 3.b.
- If the auditor of the contribution recipient/grant recipient/contractor has questions or wants to clarify the protocol, discuss the issue with the assessor. You may ask for assistance from FEZ and/or the Central Government Audit Service (ADR) if needed. FEZ and/or the ADR will contact COPRO if necessary.
- This model protocol was initially drafted in Dutch. The guiding principles underlying the Dutch protocol remain binding. References to international standards drawn up in English are an exception.

Explanatory notes on individual protocol sections:

1. This section refers to the individual grant decision/contribution agreement/contract to which the audit protocol applies.
2. This section defines the audit subject. A distinction is made between:
  - 2.1 Part A: Audit of the project report prepared following particular purpose frameworks under International Standards on Auditing (ISA) 805;
  - 2.2 Part B: Engagement to perform agreed-upon procedures. These engagements arise from a risk assessment by the budget holder at the Ministry of Foreign Affairs on activities to which a funding application relates with the International Standard on Related Services (ISRS) 4400. Section 2 also sets the standards framework for auditing the financial statements (part A) and agreed-upon procedures (part B).
3. This section establishes the minimum requirements of the audit scope, which may be expanded with specific requirements included in the decision, contribution agreement or public service contract.

#### Part A.

The audit opinion is based on the activities specified in part A. If an audit opinion on financial statements is required, it is implicit that the auditor will also review the processes that underlie the financial statements in so far as is relevant and necessary for the auditor to reach an opinion on the statements. These activities, thus, do not need to be specified in part A.

If the budget holder wishes to audit specific aspects of certain processes or processes with little or no relevance to the audit opinion, these should be specified in part B. Following the International Standard on Related Services (ISRS) 4400, a report on factual findings must be requested. The audit must describe the required audit activities (what, when and how) in detail.

#### Part B.

The activities specified in part B form the basis for a report on factual findings following the International Standard on Related Services (ISRS) 4400. This means the auditor reports only their findings. The party that contracted the auditor must assess these findings and draw their own conclusions.

The protocol describes the main points of the audit and the specific activities that the auditor must perform, arising from the budget holder's risk analysis of an application.

# Ministry of Foreign Affairs model audit protocol for project reports

Annex to decision (*Case number UPF*) UPF23:

## 1. Introduction

This protocol must be followed when auditing the annual financial statements prepared for the activity (*project name*):

for which a grant has been awarded under decision UPF23:

This audit protocol outlines the applicable principles and requirements and explains how the audit's outcome must be reported.

The external auditor is contracted by the grant recipient (*the applicant*):

The minister may request that a review be performed in consultation to ascertain whether the auditor has complied with the audit protocol.<sup>1</sup>

## 2. Audit subject and standards framework

### 2.1. Audit approach

#### **A**

Engagement to ascertain that the financial statements have been prepared following a particular purpose framework under the International Standards on Auditing (ISA) 805 mentioned under 3.A.

#### **B**

Engagement to perform agreed-upon procedures under the International Standard on Related Services (ISRS) 4400 on the subjects mentioned under 3.B.

The audit must follow generally accepted auditing standards, particularly the *International Standards on Auditing*, ISAs of the International Auditing and Assurance Standards Board (IAASB).

The decision and this protocol refer to financial statements based on the applicant's cash accounting system (expenditures and receipts) or accrual accounting system (costs and revenues). The accounting policies should be selected based on the system used by the applicant when preparing the annual financial statements. The accounting policies in the approved budget submitted for the grant application must correspond with those used in the related financial statements. They must also be consistent with the annual financial statements. Any changes to the system must be explained through notes and figures.

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<sup>1</sup> Government Accounts Act, section 6.3.

## 2.2. Standards framework

The following standards framework applies to the grant:

Decision awarding grant UPF23:

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including related annexes.

For a complete summary of the review points relevant to the financial statements and the auditor, see Chapter 3 of this audit protocol.

## 3. Audit activities

### A. Audit of financial statements prepared under a special purpose framework following ISA 805

The financial statements audit aims to establish whether these statements meet the standards framework requirements referred to in section 2.2 of this protocol. The auditor must ascertain that:

1. If the accrual accounting system has been used, the explanatory notes mention which part of the costs were paid within the period covered by the financial statements and which amount has been recognised for payable items;
2. Expenditures or costs have been justly recognised, and expenditures or costs are related to the activities mentioned in the decision;
3. Receipts or revenues have been recognised in total, and revenues have been received. The auditor will examine consistency with the revenue sources included in the approved budget and use its knowledge of the organisation, for example, about the auditing of annual financial statements;
4. The financial statements are structured with the same level of detail and cost/expenditure categories as the submitted and approved budget. The budget must also be recorded in the financial statements;
5. Supporting documents give evidence of expenditures and costs. The auditor must determine whether the supporting documents suffice as audit information/evidence and are appropriate in regard to the nature of the activity and the accompanying approved budget;
6. Discrepancies of more than 10% per budget line between the actual figure and the approved budget must be explained. Variances of 5,000 euros or less do not need explaining;
7. The accounting policies used are explained in the financial statements. They are consistent with the approved budget and the annual financial statements;
8. The explanatory notes show the system for allocating indirect costs/overheads to the activity. The auditor assesses whether the allocation system used in the financial statements follows the explanatory notes and the approved budget. The associated audit activities are carried out with those described in point 9, namely ascertaining that expenditures/costs are reimbursed on the basis of actual expenditures/costs;
9. Expenditures/costs are reimbursed to the funded activities on the basis of actual costs. This means that the fund applicant adopts a consistent approach in allocating indirect expenditures/costs, and retrospective costing takes place each year. If not available during the audit, the retrospective costing for the year under review (T-1) may be used. In the event of departure from this consistent approach in the allocation system, the applicant must include an explanatory note in the financial statements;

10. The selected external invoices follow the organisation's procurement policy. Suppliers are selected objectively by inviting multiple bids from a threshold of 33,000 euros upwards.<sup>2</sup> The organisation must explain all exceptions in the financial statements;
11. The applicant has explained the number of hours and hourly rates claimed for internal and external staff where the hourly rate exceeds a threshold of 225 euros per hour (excluding VAT) in the financial statements. The total amount concerned must be included in the financial statements.

### Materiality

The auditor will seek reasonable assurance, which means a minimum reliability level of 95% when using the statistical sampling method. The auditor will plan and perform the audit to get this level of assurance that the financial statements are free of material misstatements and/or uncertainties.

The following materiality levels apply when performing the audit.

Benchmark	Materiality
Reported expenditures/costs	2%

Type of audit opinions	Unqualified	Qualified	Disclaimer	Adverse
Audit accounting errors and uncertainties	Less than or equal to 2%	More than 2% but less than or equal to 4%	Uncertainties more than 4%	Errors more than 4%

The auditor must prepare the audit opinion following the requirements in section 4 of this audit protocol. If the auditor encounters accounting errors and uncertainties while performing the audit, these errors and uncertainties should always be considered individually and together when drawing up the audit opinion.

### B. Engagement to perform agreed-upon procedures under standard ISRS 4400

The auditor must perform the audit following ISRS 4400. This means that the auditor does not give assurance but reports only their audit findings. This protocol describes the audit activities.

To follow the grant conditions, the applicant must have documented the following safeguards in their organisation.

#### 1. Allocation of expenditures/costs

A. The applicant must describe:

- How the organisation ensures that the direct costs/expenditures in the **project records** match the financial statements and how (direct and indirect) costs/expenditures are allocated to the individual projects in these project records;
- Specifically for staff costs, how the timesheet system is organised to allow staff costs to be allocated to projects in the project records.

B. The applicant must describe the organisation's procedures and internal policies for **allocating costs/expenditures and overheads/indirect costs to the activity**. This description must explain the following:

- How the procedures and internal policies are recorded and how a consistent approach is adopted;

<sup>2</sup> Where an amount in euros is stated, the equivalent amount in foreign currency applies where relevant.

- How the applicant allocates the overheads/indirect costs to the activity, whether any changes have been made to the allocation system, and how a consistent approach is adopted in this respect;
- How the applicant ensures that the overheads/indirect costs reimbursed are not higher than necessary to cover costs;
- How the applicant ensures that **no more than 100%** of the actual costs/expenditures is reimbursed to the activity covered by this protocol.

The auditor must ensure that the description is consistent with the information gathered during the activities in part 3.A and reports their findings on this matter.

## **2. Incident management (duty to report)**

The applicant must describe the organisation's procedures and internal policies for detecting, dealing with and reporting incidents.

This concerns incidents related to fraud, corruption, sexual misconduct and other serious forms of inappropriate behaviour. This description must also address how such incidents are reported and recorded.

The most relevant areas that must at least be covered by the internal policies and procedures, for example, by a code of conduct, are:

- Inappropriate sexual behaviour, sexual harassment and sexual violence;
- Aggression, discrimination and bullying;
- Abuse of power;
- Corruption and fraud;
- Misuse or improper use of resources;
- Conflict of interests and nepotism;
- Tax avoidance and the pursuit of an asset management/investment policy contrary to the organisation's objectives;
- Manipulation of or misuse/leaking of information (or access to information);
- The existence of a whistleblowing procedure;
- The existence of a point of contact inside or outside the organisation for reporting and recording incidents.

The auditor must ensure that:

- The internal policies and procedures focus on the subjects mentioned above;
- The incident management procedures are available on paper and/or digitally within the organisation. The auditor should describe how this has been done;
- The organisation keeps records of incidents;
- Incidents related to the activity have been registered in these records and reported to the ministry under the described procedures as demonstrated by supporting documents.

## **3. Procurement**

The applicant must describe the procedures and internal policies for procuring goods and services.

This description must incorporate measures to ensure that suppliers are selected objectively and must include at least the following:

- The bidding procedure;
- The procedure for assessing bids.

The auditor must ensure the applicant's/institute's description matches the information gathered during the audit activities in part 3.A and report their findings on this matter. Specifically, the auditor must ensure that the procedures for procuring goods and services are available on paper and/or digitally to the relevant staff and describe how this has been done.

#### **4. Management of local implementing organisations**

The applicant must describe the procedures and internal policies of implementing organisations.

This description must include:

- How the applicant makes an advance assessment of the quality (management capacity) of the implementing organisation(s) that will be performing work for the applicant in regard to the activity or activities;
- How the applicant monitors the implementing organisation(s). Consider the provided narrative and financial progress information and how it is established whether obligations have been met by the implementing organisation(s);
- The details of the sanctions procedure the applicant follows if an implementing organisation fails to meet its obligations.

The auditor must ensure that:

- The management capacity of 3 implementing organisations has been assessed by the applicant in accordance with the applicant's description. If there are fewer than 3 implementing organisations, each one must undergo a comprehensive assessment;
- The financial and narrative progress information of 3 implementing organisations has been monitored by the applicant in accordance with the applicant's description. If there are fewer than 3 implementing organisations, each one must undergo a comprehensive assessment;
- If an implementing organisation fails to meet its obligations, the auditor comprehensively ascertains whether the established sanctions procedure has been followed;
- The extent to which the information has been gathered is consistent with the audit activities in part 3.B, and report their findings on the planned activities.

#### **4. Reporting**

This section explains how the auditor must report on their activities.

##### **4.1. Audit opinion**

The auditor must issue an audit opinion under the requirements of standard ISA 805 upon completing the activities described in part 3.A. A model opinion is available on the IAASB's website.

The auditor must also ensure a suitable way of identifying the financial statements on which the audit opinion will be issued.

##### **4.2. Report on factual findings**

For the activities in part 3.B, the auditor must report their findings under the requirements of standard ISRS 4400N. A model report is available on the IAASB's website.