



# Ukraine Partnership Facility (UPF) 1

## Annex 3: Audit protocol and explanatory notes

### Basic principles

#### Purpose

The purpose of this audit protocol is to provide direction concerning the scope and depth of the audit to the auditor in charge of auditing the consolidated financial report of a UPF project which is part of the request for determination of the grant amount to be submitted by the grant recipient to the Netherlands Ministry of Foreign Affairs via RVO.

Financial settlement by the Ministry of Foreign Affairs takes place on the basis of the consolidated financial report, which is part of the request for determination of the grant amount.

#### Definitions

**Auditor/accountant:** An independent certified accountant (in Dutch: *Registeraccountant/RA* or *Accountant-Administratieconsulent/AA* pursuant to Article 2:393, paragraph 1 of the Dutch Civil Code), whom the grant recipient has instructed to audit the financial report which is part of the request for determination of the grant amount.

**Grant recipient:** A legal entity to which a grant has been awarded on behalf of the Ministry of Foreign Affairs via RVO.

**Audit opinion:** A written declaration by the auditor containing an opinion (based on ISA 805) on the accuracy, completeness and financial regularity of the financial report/request for determination of the grant amount.

**Financial regularity:** A financial transaction complies with the provisions of the applicable legislation and regulations (see clause 1.3) that affect the outcome of that financial transaction.

### Legislation and regulations

When auditing financial regularity in accordance with this protocol, the legislation and regulations (including any amendments to it) specified in the grant provision and annex 1 will apply.

When performing the audit, the auditor will also check that:

- a) The recognition and statement of costs and income:
  1. does not include costs that are not eligible under the terms of the grant provision;
  2. only includes eligible costs, costs that the grant recipient actually incurs;
- b) The grant recipient has specified all sources of income, including grants, that have been used to fund the activity to which the grant relates;
- c) If the grant relates to the implementation of a project, the project has been implemented in accordance with the activity plan to which the grant provision relates.

# Audit strategy

## Requirements governing the audit strategy

The audit must comply with the auditing standards (in Dutch: *nadere voorschriften Controle- en overige standaarden*, NV COS) that have been adopted by the Netherlands Institute of Chartered Accountants (NBA) of ISA equivalents.

Without in any way limiting the provisions of the previous paragraph, the following aspects are of particular importance when auditing a specific financial recognition to determine the contributions from the Ministry of Foreign Affairs:

1. The auditor must analyse the risk that the specific financial recognition contains a material misstatement. This risk analysis must be prepared for this audit specifically; a standard analysis is not sufficient. In the risk analysis, the auditor must indicate the checks that will be performed with regard to the identified significant risks.
2. Based on the risk analysis, the auditor will devise an audit plan that specifies the nature, timetable and scope of the audit activities that must be performed by members of the audit team to obtain sufficient audit evidence to reduce the control risk to an acceptably low level.
3. In the audit plan, the approval tolerance (see clause 2.2) will be translated into audit tolerances, with the approval tolerance being the maximum.
4. During the audit, it is established whether the items included in the financial recognition are accurate, complete and regular (see the definition of financial regularity in clause 1.2) with due regard for the audit tolerances and the approval tolerance (see clause 2.2).
5. The auditor must check:
  - that the contributions made by other administrative institutions, the European Commission and third parties towards the costs of the funded activities have been accurately and wholly represented;
  - whether or not VAT has been correctly included as a cost;
  - *if applicable*, compliance with national and/or European public procurement directives is required.
6. The auditor may use audit procedures that were performed when auditing the grant recipient's annual accounts. However, a mere reference to these procedures in the audit file for the individual grant is not sufficient. These procedures, together with the main relevant conclusions, must be described in the audit file for the specific audit opinion. As it must be possible to use the audit file independently, it must contain the relevant documents.
7. The auditor must provide adequate audit documentation, which demonstrates that the audit procedures have been performed in accordance with the audit plan, specifies the outcomes of the audit and makes it clear that they have been evaluated by the auditor, who has ultimate responsibility. In addition to the audit plan based on the risk analysis, this documentation must include documents that demonstrate:
  - that the accuracy of the figures in the financial recognition has been checked;
  - that the financial recognition is consistent with accounting records;
  - that an analytical review has been performed of the actual reported costs compared to the budgeted costs;
  - the nature and scope of the system and data-oriented audit procedures regarding the costs entered in the financial recognition.

## Materiality: approval tolerances and desired assurance

The auditor will seek reasonable assurance which, when the statistical sampling method is used, means a minimum reliability level of 100%. In other words, the auditor will plan and perform the audit to obtain this level of assurance about whether 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 opinion	Unqualified	Qualified	Disclaimer	Adverse
Accounting errors and uncertainties in the audit	Less than or equal to 2%	More than 2% and less than or equal to 4%	Uncertainties more than 4%	Errors more than 4%

These percentages are taken from the central government auditing manual (in Dutch: *Handboek Auditing Rijksoverheid*, HARo) of the interdepartmental consultation on departmental audit services (in Dutch: *Interdepartementaal Overleg Departementale Auditdiensten*, IODAD).

### Recognition misstatements

A recognition is deemed to be misstated if the audit indicates that an item, or part of an item, included in that recognition does not comply with one or more aspects of the applicable legislation and regulations (see also clause 1.2) or that an item, or part of an item, has not been recorded accurately or completely. Misstatements in relation to legislation and regulations are interpreted in absolute terms; offsetting of misstatements is therefore not permitted.

### Inability to obtain adequate and suitable audit evidence (uncertainties in the audit)

Uncertainties in the audit are deemed to exist if it cannot be determined on the basis of the available audit evidence, whether an item or part of an item complies with the requirements of the applicable legislation or regulations.

### Rectifying of identified misstatements

The basic principle is that the grant recipient must correct the misstatements identified by the auditor as much as possible. Material misstatements (in accordance with the table in clause 2.2) that the grant recipient does not correct will result in a modified (for example, adverse) audit opinion from the auditor.

## Reporting

The auditor will record the outcomes of the audit in an audit opinion. The current NBA sample text will be used for this purpose: HRA 3, section II, chapter 10.3: "Audit opinion for a public-sector grant expense statement" (in Dutch: *Controleverklaring bij een subsidiedeclaratie in de publieke sector*) or an international equivalent.

## Review policy

The National Audit Office (in Dutch: *Auditdienst Rijk*, ADR) may review the audit performed for this grant. Upon request, the auditor performing the audit must provide the ADR with any information and documentation it may require. Any extra costs incurred by the auditor in the context of this review will not be payable by the Ministry of Foreign Affairs.

# Ministry of Foreign Affairs

## Audit protocol for project reports model

Annex to decision grant application

File number

### Introduction

This protocol must be followed in auditing the annual financial statements prepared with respect to the project

Project Title

for which a grant has been awarded under decision

File number

This audit protocol sets out the applicable principles and requirements and explains how the outcome of the audit must be reported.

The external auditor is engaged by

Grant applicant, the applicant.

The minister may request that a review be performed in consultation to ensure that the auditor has complied with the audit protocol.

### Audit subject and standards framework

#### 2.1. Audit approach

A.	Engagement to ascertain that the financial statements have been prepared in accordance with a special purpose framework pursuant to International Standards on Auditing (ISA) 805 mentioned under 3.A;
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The audit must be carried out in accordance with generally accepted auditing standards and, in particular, the *International Standards on Auditing (ISA)* of the International Auditing and Assurance Standards Board (IAASB).

The decision and this protocol refer to financial statements drawn up based on the 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 to prepare annual financial statements. The accounting policies used 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. Explanatory notes and figures must accompany any changes to the system.

#### 2.2. Standards framework

The following standards framework applies to the grant:

- Decision awarding grant UPF, including related annexes.
- An complete summary of the review points relevant to the financial statements and the auditor is given in chapter 3 of this audit protocol.

## **Audit activities**

### **Audit of financial statements prepared in accordance with a special purpose framework pursuant to ISA 805**

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

- If the accrual accounting system has been used, the explanatory notes mention which portion of the costs was paid within the period covered by the financial statements and which amount has been recognised for payable items;
- Expenditures (or costs) have been properly recognised, and that expenditures (or costs) are related to the activities mentioned in the decision;
- 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 their knowledge of the organisation, for example, in relation to the auditing of annual financial statements;
- The financial statements are structured with the same level of detail and the same cost/expenditure categories as the submitted and approved budget. The budget must also be recorded in the financial statements;
- Expenditures/costs are evidenced by supporting documents. The auditor must determine on the basis of their professional judgement whether the supporting documents suffice as audit information/evidence and are appropriate to the nature of the activity and the accompanying approved budget;
- Discrepancies of more than 10% per budget line between the actual figure and the approved budget are explained. Variances of 5,000 euros or less do not need to be explained;
- The accounting policies used are explained in the financial statements and are consistent with the approved budget and the annual financial statements;
- The system for allocating indirect costs/overheads to the activity is explained in the explanatory notes. The auditor must assess whether the allocation system has been used in the financial statements in accordance with the explanatory notes to the financial statements and with the approved budget. The associated audit activities are carried out in conjunction with those described at 9, namely ascertaining that expenditures/costs are recharged on the basis of actual expenditures/costs;
- Expenditures/costs are recharged to the funded activities on the basis of actual costs. It means that the applicant for the funds adopts a consistent approach in allocating indirect expenditures/costs and that retrospective costing takes place each year. If not yet available at the time of 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 have included an explanatory note in the financial statements;
- The selected external invoices are compliant with the organisation's procurement policy and suppliers are selected objectively by inviting multiple bids from a threshold amount of 33,000 euros. The organisation must explain all departures in the financial statements;
- 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 (excl. VAT) has been explained by the applicant in the financial statements. The total amount concerned must be included in the financial statements.

## Materiality

The auditor will seek reasonable assurance, which, when the statistical sampling method is used, means a minimum reliability level of 95%. In other words, the auditor will plan and perform the audit to obtain this level of assurance about whether 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 opinion	Unqualified	Qualified	Disclaimer	Adverse
Accounting errors and uncertainties in the audit	Less than or equal to 2%	More than 2% and less than or equal to 4%	Uncertainties more than 4%	Errors more than 4%

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

To comply with the conditions for the grant, the applicant must have documented the following safeguards in its organisation.

### 1. Allocation of expenditures/costs

**A.** The applicant must describe:

- How it is ensured 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 in relation to 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 determining the allocation of costs/expenditures and overheads/indirect costs to the activity. This description must explain the following:

- How these procedures and internal policies are recorded and that a consistent approach is adopted;
- How the applicant allocates the overheads/indirect costs to the activity, whether any changes have been made to the allocation system, and that a consistent approach is adopted in this respect;
- How the applicant ensures that the overheads/indirect costs recharged are not higher than necessary to cover costs;
- How the applicant ensures that no more than 95% of the actual costs/expenditures are recharged to the activity covered by this protocol.

The auditor must ascertain that the description is consistent with the information gathered during the activities referred to 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 that may relate to fraud, corruption, sexual misconduct and other severe forms of inappropriate behaviour. This description must also address how such incidents can be reported and how they are recorded.

The key 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 ascertain that:

- The internal policies and procedures are focused on the aforementioned subjects;
- Specifically that the incident management procedures are available on paper and/or digitally within the organisation, describing how this has been done;
- The organisation keeps records of incidents;
- Incidents related to the activity that have been registered in these records are reported to the Ministry of Foreign Affairs in accordance with the described procedures and as demonstrated by supporting documents.

## **3. Procurement**

The applicant must describe the procedures and internal policies for the procurement of 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 ascertain that the applicant's/institution's description matches the information gathered during the audit activities referred to in part 3.A and report their findings on this matter. Specifically the auditor must ascertain that the procedures for the procurement of 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 in relation to 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 relation to the activity or activities;
- How the applicant monitors the implementing organisation(s). Consideration must be given in this connection to the narrative and financial progress information that is provided and how it is established whether obligations have been met by the implementing organisation(s);
- The details of the sanctions procedure followed by the applicant if an implementing organisation fails to meet its obligations.

The auditor must ascertain that:

- The management capacity of 3 of the implementing organisations has been assessed by the applicant in conformity with the applicant's description. If there are fewer than 3 implementing organisations, each one must be subjected to a comprehensive assessment;
- The financial and narrative progress information of 3 of the implementing organisations has been monitored by the applicant in conformity with the applicant's description. If there are fewer than 3 implementing organisations, each one must be subjected to a comprehensive assessment;
- In the event of a recorded failure by an implementing organisation to comply with its obligations, the auditor must comprehensively ascertain whether the established sanctions procedure was followed in relation to this implementing organisation;
- The extent to which the information gathered is consistent with the audit activities referred to in part 3.B and report their findings on the planned activities.

#### **Reporting**

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

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

The auditor must issue an audit opinion in accordance with 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.