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**Appendix 7**

**Audit Instructions**

Audit Instructions Concerning the Performance of Audit Tasks in Connection with Development Research Projects Financed by the Danish Ministry of Foreign Affairs.

1. The audit of the project shall be performed by an auditor appointed by the responsible institution. The auditor shall be responsible for the total audit of the project. For projects with multiple partners, each partner may appoint an auditor to audit such partner’s project accounts. The project accounts of the partner shall form part of the combined project accounts of the responsible institution. The auditor of the responsible institution can rely on the audit of each partner’s project accounts.
	1. The auditor must be a certified accountant and must be able to conduct the audit in accordance with the International Standards on Auditing (ISA) or similar international standards.
	2. In case of a change of auditor, the newly appointed auditor must approach the resigning auditor, who is obliged to inform the appointing institution about his or her reasons for resigning.

1.3 The auditor shall confirm in writing to the responsible institution/DFC, respectively that he or she will carry out his or her audit in accordance with the present instruction. A template to this endorsement is attached to this instruction (Appendix 7a).

1. The auditor must verify the correctness and accuracy of the Project Financial Accounts and check whether the transactions covered by the accounts are in conformity with the project agreement with DFC, DFC’s General Conditions for grants and grant management. The auditor must also assess whether due economic considerations have guided the transactions covered by the accounts.
2. The scope of the audit will depend upon the organisational structure and the administrative procedures, including the internal control and other conditions pertinent to the accounting process.
3. As part of the audit, the auditor will examine the institution’s organisational structure and existing procedures with special focus on accounting practices, financial management and internal control. The audit of financial transactions will be based on spot check examinations of the quality of voucher material and its correct recording in the books, with a view, among other things, to assessing its significance and risk.
	1. At the audit the auditor will verify:
4. that the accounts have been prepared as prescribed by DFC;
5. that the accounts are correct and accurate and do not contain significant errors or omissions;
6. that the financial provisions contained in the grant agreement is in compliance with DFC conditions?
7. that the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with DFC.

4.2 As part of the audit of the *salaries and emoluments* included in the projects accounts the auditor must verify:

1. that the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with DFC.
2. That PhD stipends are paid according to the appropriate tariffs of the institution
3. that in case the institution practices compensation in the form of *payment for freedom* from teaching /other general tasks of the participating researchers, clear documentation for this practice must be available
4. that in case the institution practices compensation in the form of *payment for over-time* to the participating researcher in addition to the full-time salary paid by their institution, that the following documentation must be verified:
	* written contracts between the researchers/staff and the project exist
	* documentation for the payment of over-time exists in the form of
		+ timesheets to document the time used on the project

or

* + - performance reports to document the task completed
	+ staff payments including the timesheets/performance reports must be authorised by the designated person as per the institution’s/project’s Accounts Manual.

4.3 The auditor will also verify whether the institution has practiced reasonable economies in the administration of the grants, and that the project is managed with an attitude based on thrift.

The following are examples of the performance areas that the organisation must practise satisfactorily and that the auditor will inspect, most likely through random spot checks.

1. The procedures and control mechanisms related to approval of vouchers are satisfactory. The approval of a voucher must ensure that the voucher is based on thrift.
2. Payroll costs for individual staff are reasonable when compared with relevant comparable organisations, salary statistics, guidelines, or the like.
3. Competitive quotations are being obtained in relation to procurement of goods and services.
4. Available assets are being kept in an appropriate manner and according to rules and regulations.

4.4 The auditor must control that the project grant amounts are deposited on a separate account/activity (except from co-financed Projects), and that all transfers to and from the account have been reconciled with and checked against the transfers from DFC.

5. The partner’s management is required to give the auditor of the responsible institution any information that may be material to the auditor’s assessment of the accounts and of the partner’s administration of the project grant. Similarly, the partner’s management must give the auditor of the responsible institution access to initiating any examination that he considers necessary, and ensure that the auditor receives the information and assistance needed for performing the audit.

6. If the audit of the grant management and accounting uncovers illegal activity or significant non-compliance with the stipulations of the project agreement and the administrative guidelines, the auditor is required immediately to inform the partner’s management/board and the responsible institution, and to ensure that the responsible institution informs DFC accordingly within 3 weeks. The information to DFC must be accompanied by the auditor’s observations on the matter. If the institution fails to forward this information to DFC, it is the obligation of the auditor to do so.

6.1 The instructions contained in paragraph 6 also apply if the auditor, either as part of his audit or in other ways, draws the conclusion that, for financial or other reasons, the continuation of the project is at risk.

7. The audited accounts must carry the auditor’s report, stating that the accounts have been audited in accordance with the guidelines in the present Audit Instruction. The report must also comprise the auditor’s qualifications, if any. The report should follow the format in Appendix 7b.

7.1 The attached checklist (Appendix 7c) is to be forwarded to the responsible institution/DFC at the same time as the auditor’s endorsement.

**Appendix 7a**

# Template for Statement of Endorsement Regarding the Audit of Development Research Project

To **[***the responsible institution***]**

# Audit of [*name of Project*], [*DFC file no*.]) for the period of [*period*].

This letter is provided in connection with our audit of the project and for the purpose of expressing an opinion on whether the financial accounts give a true and fair view (present fairly, in all material respects) of the operations of the project for the period **[***period***]**.

We acknowledge the receipt of the Audit Instructions, appendix to General Conditions.

We confirm and acknowledge that:

1. We will be able to comply with the instructions.
2. The instructions are clear and that we understand them.
3. [*For auditors of foreign partners for a project with multiple auditors:* The auditor of the responsible institution intends to review and, if considered appropriate, use our work performed on the financial information of the project for purposes of the audit of the financial information of the project. We will make all necessary information about out audit of the project available to the auditor of the responsible institution in this respect.]
4. In connection with the work that we will perform on the financial information for the project, we confirm the following:
	1. We have a sufficient understanding of and comply with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the Code) or similar standards. In particular, and with respect to DFC and the project partner(s), we are independent within the meaning of Section 290 of Part B of the Code or similar standards.
	2. We have a sufficient understanding of International Standards on Auditing from IFAC or similar standards, and will conduct our work on the financial information of the project in accordance therewith.
	3. We have a sufficient understanding of DFC’s requirements.

We will inform you of any changes in the above representations during the course of our work on the financial information of the project.

AUDITOR

[*Date*]

[*Address*]

# Appendix 7b

# Independent auditor’s report on the project account for [*project title*], [*DFC file no.*]

# To [*the responsible institution/DFC*]

We have audited the accompanying project accounts for the period **[***period***]**. The project accounts showing a grant of DKK **[***grant amount***]** and total expenditure of DKK **[***total expenditure***]**.

**[***breakdown of expenditure into same level of detailing as the approved budget per Letter of Grant***]**

The project accounts have been prepared by the management of **[***institution***]** in accordance with Danida Fellowship Centre (DFC)’s General Conditions for research projects.

### Management’s responsibility for the project accounts

Management is responsible for the preparation of project accounts in accordance with DFC’s General Conditions for research projects. Furthermore, the management is responsible for such internal control as management deems necessary to enable the preparation of project accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

In addition, the management is responsible for transactions covered by the project accounts statements complying with the appropriations granted, statutes, other regulations, agreements and usual practice.

### Auditor’s responsibility

Our responsibility is to express an opinion on these project accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation as well as good public auditing practice pursuant to DFC’s audit instruction. This requires that we comply with ethical requirements and plan and perform the audit in order to be satisfied that the project accounts are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the project accounts. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the project accounts, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the organisation’s preparation of project accounts in accordance with the accounting provisions of the General Conditions for research projects. The aim is to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organisations internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the project accounts.

The audit also involves assessing whether business processes and internal controls have been established, supporting that the transactions covered by the project accounts comply with the appropriations granted, statutes, other regulations, agreements and usual practice.

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

### Opinion

In our opinion, the project accounts for the period **[***period***]** have been prepared, in all material respects, in accordance with the General Conditions for research projects. It is also our opinion that business processes and internal controls have been established, supporting that the transactions covered by the project accounts comply with the appropriations granted, statutes, other regulations, agreements and usual practice.

### Emphasis of matter regarding basis of accounting and restriction of distribution and use

Without modifying our opinion we point out that the specific purpose of the project accounts is to comply with the accounting provisions of the General Conditions for research projects. Consequently, the project accounts may be unsuitable for other purposes.

This independent auditor’s report has been prepared for the institution(s) and DFC only and should not be distributed to or used by any other parties than the institution(s) and DFC.

**[***Place***]**, **[***xx. xx. 20xx***]**

**[***Auditor***]**

# Checklist to the Auditors Appendix 7c

# To be forwarded to the responsible institution/DFC, whatever is applicable.

Project: Period: Auditor:

|  | Yes | No | N/A | Comments (‘No’ or ‘N/A’-answers are to be commented) |
| --- | --- | --- | --- | --- |
| **1. International standards on auditing** |  |  |  |  |
| * 1. Has your audit been conducted in accordance with the International Standards on Auditing (ISA) or similar international standards?

Please specify. |  |  |  |  |
| **2. Confirmation on the accounts and financial considerations** |  |  |  |  |
| 2.1. Can you confirm? |  |  |  |  |
| 1. that the accounts have been prepared as prescribed by DFC;
 |  |  |  |  |
| 1. that the accounts are correct and accurate and do not contain

significant errors or omissions, |  |  |  |  |
| 1. that the financial provisions contained in the project agreement with DFC have been complied with, and
 |  |  |  |  |
| 1. that the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with DFC.
 |  |  |  |  |
| 1. that salaries and emoluments are in conformity with the conditions and general objectives for the grants as agreed with DFC, including:

- PhD stipends are paid according to the institution’s tariffs;- in case the *Payment of overtime* model is applied * + 1. written contracts exist between the researchers/staff and the project;
		2. timesheets are used to document the time used on the project or performance reports are used to document the task completed;
		3. staff payments including the timesheets/performance reports must be authorised by the designated person as per the institution’s/project’s Accounts Manual.
 |  |  |  |  |
| 2.2. Is it your assessment that due economic considerations have guided the transactions covered by the accounts and that the partner has practiced reasonable economies in the administration of the grants, and that the project is managed with an attitude based on thrift? |  |  |  |  |
| 2.3. Can you confirm that your endorsement on the accounts is an unqualified opinion? |  |  |  |  |
| **3. Fraud and non-compliance with guidelines** |  |  |  |  |
| 3.1. Has your audit been conducted in accordance with ISA 240? |  |  |  |  |
| 3.2. Do you assess that the risk of fraud in the project is normal? |  |  |  |  |
| 3.3. Can you confirm that you are not aware of any illegal activity or significant non-compliance with the stipulations of the project agreement and the administrative guidelines? |  |  |  |  |
| **4. Work of other auditors** |  |  |  |  |
| * 1. If your audit is partially based on the work of another auditor, can you confirm that your audit has been conducted in accordance with ISA 600: Using the work of another auditor?
 |  |  |  |  |
| 1. **Audit of budget information in accounts**
 |  |  |  |  |
| * 1. Can you confirm that the budget in the account is the ***originally*** approved budget for the project or a revised budget that the donor has approved?
 |  |  |  |  |
| 1. **DFC funds with partners**
 |  |  |  |  |
| * 1. Are DFC funds with partners easily distinguished from other grants and is interest paid to DFC?
 |  |  |  |  |