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**Appendix 5**

Audit Instruction for development research projects led by research institutions based in Ghana, Nepal or Tanzania (the responsible institution)

Introduction

South-led development research projects consist of a research-based institution in Ghana, Nepal or Tanzania (the lead), partner(s) in Denmark, Ghana, Nepal or Tanzania and possibly partner institutions outside of these countries. For clarification purposes pertaining to this instruction, it is the responsibility of the responsible research institution (the lead) to consolidate annual accounts from all involved partners outside of Denmark based on local audits, as well as to provide DFC with a Management endorsement of Accounts from their Danish partners. Likewise, it is the responsibility of the responsible institution to provide consolidated final audited accounts from all involved institutions.

This audit instruction is relevant for research institutions based in Ghana, Nepal or Tanzania who are responsible for a development research project supported by Danida, and must be shared with their external auditor ahead of the audit.

Audit appointment

1. Annual and final audits of the project shall be performed by an auditor appointed by the responsible institution. The audit is carried out by a state authorized public accountant.
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.

Use of audit standards and endorsement by the auditor

1. For projects with multiple partners, each partner must appoint an auditor to audit their project accounts.
	1. In Denmark, the requirements for annual and final audits depend on the status of the Danish partner institution. There are three models, as described below.
	Models for annual and final audits of Danish partners:

3.1.a. The Danish partner institution is audited directly by personnel from the Danish National Audit Office (NAO; Rigsrevisionen): The partner submits annual and final Management Endorsement of Accounts (Appendix 3) to the responsible institution, and these are forwarded to DFC along with the consolidated accounts.

3.1.b. The Danish partner institution is audited by an auditor assigned by the NAO: The partner submits annual Management Endorsement of Accounts, and final audited accounts to the responsible institution. These are forwarded to DFC along with the consolidated accounts.

3.1.c. The Danish partner institution is not subject to the NAOs audit: The partner submits annual audited accounts as well as final audited accounts to the responsible institution in Ghana, Nepal or Tanzania. These are forwarded to DFC along with the consolidated accounts for the project.

* 1. External audits of Danish partners must be conducted in accordance with the standards for public-sector auditing (SOR).
	2. Audits of the responsible institution and partners outside of Denmark must be conducted according to the International Standards on Auditing (ISA) or similar international standards (issued by IFAC and/or INTOSAI).
	3. Partner institutions outside of Denmark must prepare audited annual accounts according to a separate instruction (Appendix 6) and submit these to the responsible institution in Ghana, Nepal or Tanzania.
	4. The auditors shall confirm in writing that they will carry out the audit in accordance with the present instruction. A template to this endorsement is attached to this instruction (Appendix 5a).

Consolidation of audited accounts

1. The responsible institution in Ghana, Nepal or Tanzania shall consolidate the accounts from all partners and submit consolidated annual accounts to DFC, signed by the project coordinator and the responsible accounting officer of the institution. Management endorsement of accounts from Danish partner institutions pertaining to their budget share must be submitted along with the consolidated accounts.
2. The auditor of the responsible institution must prepare a final audit report of the consolidated project accounts covering all involved institutions.

Scope of the audit

1. 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.
2. As part of the audit, the auditor will examine the responsible 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.
3. The auditor shall ensure that the accounts of the responsible institution have been prepared as prescribed by DFC. The auditor shall, in particular but not limited to, examine whether:
4. the accounts are fair and do not contain significant errors or omissions;
5. the transactions covered by the accounts are in conformity with the conditions and general objectives for the grants as agreed with DFC, including the grant budget.
6. the responsible institution has received audited financial statements annually from all partner institutions outside of Denmark and management endorsed accounts from partners in Denmark. If this is not the case, there must be a list of outstanding financial statements as an annex to the overall financial statement.
7. the involved institutions managing secondary partners have included these expenses in their own accounts and audit.
8. the received partner audited accounts have been audited according to recognized international standards and if they bear the endorsement of the auditor of the partner institution. Also, whether they have given rise to significant remarks and whether it is with modification. If any partner audit is with modification, this must be mentioned in the audit report or in the auditor’s management letter (or similar format).

1. The auditor examines whether economy, efficiency and effectiveness have been taken into account in the grant administration.

The following are examples of areas that must be practised satisfactorily and that the auditor will inspect, most likely through random spot checks:

* The procedures and internal control mechanisms related to approval of vouchers are satisfactory. The approval of a voucher must ensure that the voucher is based on thrift.
* Payroll costs for individual staff are reasonable when compared with relevant comparable institutions, salary statistics, guidelines, or the like and follow the agreed budget in the grant agreement
* Competitive quotations are being obtained in relation to procurement of goods and services.
* Available assets are being kept in an appropriate manner and according to rules and regulations.
1. 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.
2. The management of the responsible institution is required to give the auditor any information that may be material to the auditor’s assessment of the accounts and of the administration of the project grant. Similarly, they must give the auditor access to initiating any examination that the auditor considers necessary and ensure that the auditor receives the information and assistance needed for performing the audit.
3. 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 management/board of the responsible institution, and request that they in writing inform DFC accordingly within 3 weeks (copy of the letter to the auditor). 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. The instructions also apply if the auditor, either as part of his or her audit or in other ways, draws the conclusion that, for financial or other reasons, the continuation of the project is at risk.
4. The audited financial statements shall be accompanied by an audit statement in accordance with the International Standards on Auditing (ISA) or similar international standards (issued by IFAC and/or INTOSAI), which shall state that the accounts have been audited in accordance with the rules in this instruction.

Templates to appendix 5

# Appendix 5a provides a template for endorsement by auditors to carry out their audit in accordance with the present instruction.

# Appendix 5b contains a checklist to be filled in by the auditors of the partner institutions outside of Denmark. The audits of the partner institutions outside of Denmark must include, but are not necessarily be limited to, the contents of the checklist. The template will be filled in by the auditors of the partner institutions outside of Denmark and shared with the lead institution.

**Appendix 5a**

# 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*]

# Checklist to the Auditors of Partners outside Denmark Appendix 5b

# To be forwarded to the responsible institution.

Project: Period: Auditor: Signature:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  | 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, and that expenses for secondary partners are included in the relevant project partner accounts, by way of sufficient documentation from the secondary partners.
 |  |  |  |  |
| 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. Do you assess that the risk of fraud in the project is normal? |  |  |  |  |
| 3.2. 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 international standards for 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?
 |  |  |  |  |