

# **Addressing Root Causes Fund**

## **Audit Protocol**

**31 January 2017**

## **Addressing Root Causes Fund - Audit Protocol**

### **1. Introduction**

#### **1.1 Goal and design of Addressing Root Causes strategic partnerships**

The grant agreements for the policy framework Addressing Root Causes is supported by the policy framework "Addressing Root Causes". The overall goal of the Addressing Root Causes policy framework is to address the political and socioeconomic root causes of armed conflict and instability and irregular (secondary) migration.

In this Audit Protocol, 'lead party' refers to the civil society organisation which is awarded a grant by decision of the Minister and 'consortium partners' refers to the lead party and co-applicants.

#### **1.2 Legal framework**

The legal framework applicable to Addressing Root Causes comprises:

- **Decision on the award of Addressing Root Causes grants**

For information purposes the following documents can be used

- a) Policy framework and model application form for Addressing Root Causes, published on 8 January 2015

This document can be found on [www.rijksoverheid.nl](http://www.rijksoverheid.nl)

#### **1.3 Purpose of the Audit Protocol**

This Audit Protocol sets out the applicable audit principles and requirements and explains how the audit findings must be reported.

The auditor will be engaged by the lead party. The Minister may request that a review be conducted, in mutual consultation, to assess whether the house auditor has complied with the Audit Protocol.

#### **1.4 Structure of this document**

This Audit Protocol distinguishes between audit activities concerning the financial statement of each consortium partner (chapter 2) and audit activities concerning the consolidated financial statement for the consortium as a whole drawn up by the lead party (chapter 3).

This means that the lead party must:

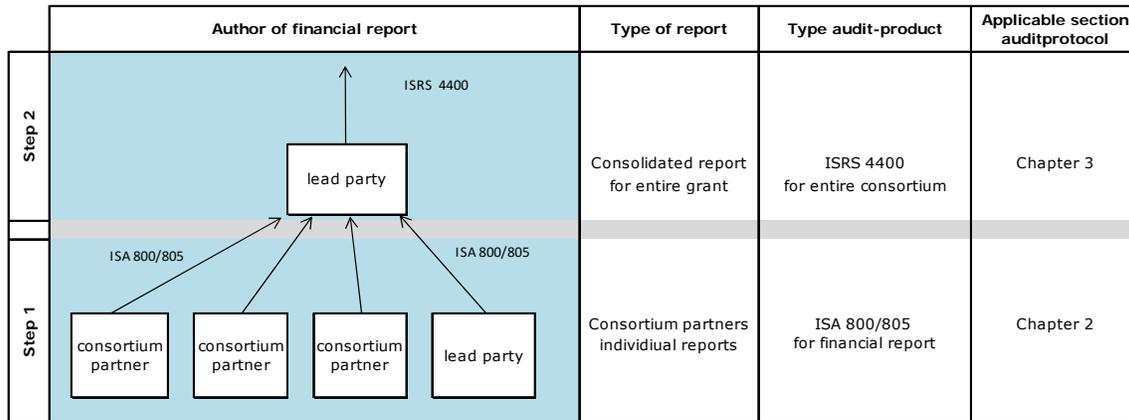
- inform its auditor of the provisions of the Audit Protocol;
- instruct its consortium partners to inform their auditors of the provisions of the Audit Protocol.

Chapter 3 only applies to the lead party's auditor. The other chapters apply to the auditors of all consortium partners. The audit procedure is depicted in the diagram below.

## 1.5 Accountability

The grant within the context of the policy framework “Addressing Root Causes” is awarded to an organisation that acts as lead party for an alliance. Expenditure of the grant will be through the individual consortium members, including the lead party; the lead party is in this case also consortium member.

The reporting structure is as follows:



### Step 1:

The individual consortium members, including the lead party, draw up a financial statement (Individual Addressing Root Causes financial report) with regard to the provided and spent means.

The audit must be carried out in accordance with generally accepted auditing standards and in particular the auditing standards (*International Standards on Auditing; ISAs*) of the International Auditing and Assurance Standards Board (IAASB), see chapter 2 of this protocol.

The auditor must establish that the financial statements meet the requirements laid down in section 2 of this protocol. The auditor will ascertain that:

1. expenditures and receipts are accurate and complete;
2. expenditures and receipts relate to the activities referred to in section 1.1 of this protocol;
3. expenditures are legitimate and comply with the criteria laid down in points a) to e). The auditor must establish that:
  - a. expenditures are corroborated by supporting documents;
  - b. the organisation keeps project records and timesheets; the information in the project records and timesheets agrees with the information in the financial administration;
  - c. suppliers were selected objectively and threshold amounts were respected in accordance with the EU public procurement rules laid down in EU Directives 2004/17/EC and 2004/18/EC, or – in case EU rules do not apply, local public procurement legislation;

- d. tax and social insurance remittances have been made in accordance with the tax laws of the country where the organisation is established and for the period to which the audit opinion relates;
- e. invoices are settled on the basis of actual costs or lump sum amounts set in accordance with the organisation's internal policies.

The individual consortium partners, including the lead party, supply the following documents to the lead party:

- the financial report of the consortium partners (including the lead party for their part of the expenditure)
- the ISA 800/805 report for the financial report of the consortium partners
- an audit report (exemption report - in accordance with the text of annex A of this protocol)

**Step 2:**

The lead party consolidates the financial Addressing Root Causes reports in one financial report for the entire consortium.

For the consolidated financial report for Addressing Root Causes, the auditor performs a ISRS 4400 assignment (see chapter 3 of this protocol).

The financial report send by the lead party to the Ministry of Foreign Affairs contains:

- consolidated financial report for the entire consortium
- ISRS 4400-report on the consolidated report

## 2. Audit procedures concerning individual consortium partners

### 2.1 Introduction

This chapter describes the audit activities concerning the financial statement Addressing Root Causes of each consortium partner consisting of an audit on the financial report.

The activities described in section 2.3 result in an audit opinion on the financial statement, drawn up in accordance with auditing ISA 800/805 and an audit report in accordance with the text of annex A of this protocol.

### 2.2 Audit objective and scope

The auditor must establish that the transactions as accounted for in the financial statement comply with the framework mentioned under paragraph 1.2. The audit must be carried out in accordance with the requirements laid down in this Audit Protocol and with the relevant-auditing standards.

The audit subject is the consortium's partners financial statement for the year under review including the for the Addressing Root Causes relevant processes and administrations.

### 2.3 Audit approach in respect of the financial statement (ISA 800/805 )

The audit must be performed in accordance with the law of the country of statutory residence of the lead party and applicable audit standards.

The minimum reliability level for audit purposes is 95%. Materiality is determined as follows for the purpose of drawing up the audit opinion:

| Type of audit opinion | Unqualified     | Qualified | Disclaimer | Adverse |
|-----------------------|-----------------|-----------|------------|---------|
| Accounting errors     | See table below | ≤ 6%      | -          | ≥ 6%    |
| Audit uncertainties   | See table below | ≤10%      | ≥ 10%      | -       |

| Grant amount in the year concerned                             | Permitted tolerance |
|--|---------------------|
| Less than €1.5 million   | 3% of grant amount  |
| Greater than or equal to €1.5 million and less than €5 million | €50,000             |
| Greater than or equal to €5 million                            | 1% of grant amount  |

Materiality must be based on total expenditure of the financial statement.

As part of the audit the auditor examines explicitly whether the financial report meets the requirements mentioned in chapter 1.5 (step 1, bullet 3, a-e).

The audit opinion must be drawn up in accordance with the sample text provided in section 2.4.1 of this Audit Protocol, or based on a more recent sample text.

The audit opinion will be accompanied by a separate written report in accordance with annex A of this audit protocol. This is an exemption report and findings reported do not necessarily have consequences for the audit opinion, *unless the auditor deems the findings of material relevance for the financial Addressing Root Causes report.*

*If* the auditor has, in the scope of the audit, taken into account the set up and functioning of the administrative organisation and internal control and more specifically:

- a) authorisation of payments
- b) attribution of direct and indirect programme costs
- c) compliance with (European) tender procedures
- d) adequate administrative processes to comply with the applicable legal framework for reporting,

he/she will take up the findings in this separate written report.

The auditor must request a letter of representation (LoR) from the grant recipient's management stating that, to the best of their knowledge, the financial statement 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. In the letter of representation, management must specifically confirm that they have complied with article 7h of the grant decision, which states: *'You may not offer to or accept from third parties anything of any kind whatsoever, if this could be interpreted as an illegal or corrupt practice. Such practices may provide grounds for the withdrawal of this decision or part thereof.'*

If the consortium partner's management refuses to include this statement in the letter of representation and/or refuses to issue a letter of representation, the auditor will make a note to this effect in their report of findings according to article 2.1 in accordance with the text in annex A, in accordance with ISA 580.

## **2.4 Audit report on the consortium partners**

### **2.4.1 Audit opinion on the financial report Addressing Root Causes (ISA 800/805)**

The audit opinion must in any event include the aim and scope of the audit, the audit criteria applied, where relevant, and the audit opinion.

An unqualified auditor's report must be worded as follows or in accordance with a more recent model text as published on the IAASB website:

#### *Engagement*

We have audited the financial statement under the grant agreement Addressing Root Causes dated XX-XX-20XX of [*name of entity*] at ... [*registered office*] for the year .... .

#### *Management responsibility*

The financial statement, drawn up in accordance with the conditions in the grant agreement of XX-XX-20XX is the responsibility of the management of the entity (or other applicable name eg the board of the foundation etc). The management is also responsible for such internal control as it deems necessary for the financial statement to be drawn up without material misstatement as a result of fraud or error.

#### *Auditor responsibility*

It is our responsibility to issue an opinion on the financial statement, based on our audit. We conducted our audit in accordance with .... law and auditing standards, and with the Addressing Root Causes Audit Protocol, specifically article 2.2 and 2.3. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain information on the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The activities depend on the auditor's approach, which includes assessing the risk of the financial statement containing material misstatement as a result of fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the organisation's preparation and fair presentation of the consolidated financial statements 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 organisation's 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 evaluating the overall presentation of the financial statements.

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 Addressing Root Causes financial statement of (entity) over [year] has been drawn up in all material aspects in accordance with the conditions of the grant agreement for Addressing Root Causes of XX-XX-20XX

*Restrictions on use and distribution*

The financial statement has been drawn up for [name of lead party] and the Ministry of Foreign Affairs, so that [name of entity and name of lead party] can fulfil the reporting obligations pertaining to their Addressing Root Causes grant. As a consequence, the financial statement may not be suited to other purposes. Our audit opinion has been drawn up solely for the use of [name of entity and name of lead party] and the Ministry of Foreign Affairs and must not be distributed to or used by any other parties.

... [place], ... [date]

... [signature]

... [auditor's name]

... [name of audit firm]

### **3. Audit procedures concerning the lead party's financial statement**

#### **3.1 Introduction**

This chapter describes the audit activities concerning the financial statement of the lead party on Addressing Root Causes activities. This financial statement is a consolidated report of all Consortium partner's financial Addressing Root Causes reports.

#### **3.2 Financial statement of the lead party (ISRS 4400)**

The lead party's auditor is responsible for drawing up a report of findings, in accordance with auditing ISRS 4400, on the consolidated Addressing Root Causes financial statement.

Performing an ISRS 4400 assignment means the auditor will not give assurance but only reports the audit findings. This protocol describes the accents for the audit. The user of the report is responsible for the opinion and conclusion on the report. The auditor should carefully attune the nature, timeframe and the size of the agreed activities with the principal and express this in the report. It should be clear what activities were performed by the auditor and what the scope was. The auditor is not held to have an opinion on the adequacy and suitability of the performed activities in relation to the goal, nor for any other purpose.

The auditor will:

- establish whether audit opinions, based on auditing ISA 800/805, have been issued for the financial information used as input for the consolidated financial statement (i.e. on each of the consortium partners' financial statements);
- establish the type of audit opinions issued. For those audit opinions that are *not* unqualified, the auditor will include the following information in their report of findings:
  - the consortium partner's name;
  - the type of audit opinion issued;
  - the literal content of the item or items (and the amounts involved if possible) that led the auditor concerned to withhold an unqualified audit opinion;
  - if possible : the way in which this item/these items have been accounted for in the consolidated financial statement;
- establish whether the lead party accurately and completely combined the financial statements of the individual consortium partners in the consolidated financial statement, and provided explanations for any discrepancies<sup>1</sup> between the individual financial statements and the consolidated statement. The auditor will recommend improvements if they consider the consolidated financial statement or the lead party's explanatory text to be incorrect or incomplete, or to give

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<sup>1</sup> Discrepancies :differences between the individual reports and the consolidated report eg as a consequence of numeral corrections in the current reporting period, numeral correction in former reporting periods, use of different cost categories etc.

- insufficient information as to the specific grant conditions. If the recommendations are not followed, the auditor will make a separate notation of this in the report of findings, indicating the improvements or additions they consider necessary;
- establish whether each consortium partner has issued an audit report (exemption report)

### **3.3 Audit report on the lead party's consolidated financial statement**

#### **3.3.1 Report of findings (ISRS 4400)**

The report of findings must comprise all the elements prescribed in auditing ISRS 4400 and describe the procedures and findings in accordance with section 3.2 of this Audit Protocol.

It must also contain a summary of the ISRS 4400-compliant audit reports of each of the consortium partners.

A sample text can be found on the IAASB website

## Annex A template separate written report

Separate written report for Addressing Root Causes report of [name consortium partner] for [name of program] with [name of lead party] in accordance with Addressing Root Causes audit protocol paragraph 2.3

**Period audited report:** [start date] – [end date]

The auditor is responsible for performing the audit in accordance with the law of the country of statutory residence of the lead party, applicable audit standards and the audit protocol Addressing Root Causes.

1. In case the opinion is not unqualified, the auditor will give explanation here.

*Explanation if opinion is not unqualified*

2. If the auditor has, within the review has given attention to the administrative organisation and internal control, and in particular the following aspects, he states his findings on these aspects. If no attention was given to the administrative organisation and internal control, the auditor states "not applicable".

*Findings Administrative organisation, internal control:*

*a) Findings authorization payments (payments authorized by the right person and to the right party)*

*b) Findings attribution direct and indirect program costs (in conformity with the approved budget):*

*c) Findings applicable (European) procurement rules:*

*d) Findings the extent to which the administrative processes lead to recording of the financial information in accordance with the for the entity applicable legal framework:*

If, as a result of the audit, other findings occur, which the auditor orally or in writing, reports to the governance organ of the consortium partners, he will make note of that here.

*Other findings on the review (which the auditor orally or in writing, reports to the governance organ of the consortium partners):*

3 The consortium partners must to declare to the auditor in the LOR the compliance with 7h of the grant decision.

*"You may not offer to or accept from third parties anything of any kind whatsoever, if this could be interpreted as an illegal or corrupt practice. Such practices may provide grounds for the withdrawal of this decision or part thereof"*

The auditor states if the declaration is in the LOR

*Findings presence of obligatory text in the LOR:*