**Annex 4c:**

**Instruction regarding the performance of audit tasks related to State grant financed activities in Denmark and abroad managed by pooled funds and networks (grants above DKK 500.000)**

This instruction covers the audit tasks that the Ministry of Foreign Affairs of Denmark (MFA) requires the host organisation’s auditor to perform in relation to the State grant financing of activities administered by pooled funds and networks in Denmark and developing countries. The instruction applies to all activities included in the budget approved by the MFA. As such, the audit instruction includes all activities within programme and project activities for both pooled funds and the host organisation’s own supporting activities as well as other activities, administration, and audit. Both the host organisation, the grantee, and the local partner are subject to its application. The legal basis for giving instructions in the area of audit is encompassed in the annual finance acts and in the guidelines for the management of grant financing from the MFA to pooled funds and networks, to which this instruction is an annex.

**§ 1.** The host organisation’s/grantee’s auditor is appointed by the organisation’s competent assembly. The audit is carried out by an independent, certified auditor.

(2) In the event of a change of auditor in the host organisation, the acceding auditor or the host organization must contact the MFA and inform about the reasons for the change of auditor.

(3) If the audit of activities outside of Denmark is carried out locally in the recipient country, it must be performed by an independent, certified auditor from an audit firm of high repute. The host organisation’s Danish auditor is also responsible for the overall supervision of the local audit of expenses abroad.

**§ 2.** The audit in Denmark is conducted in accordance with the standards for public sector auditing (i.e. *standarderne for offentlig revision, SOR*). Outside of Denmark, financial, performance and compliance audits are conducted according to recognized international standards issued by IFAC and/or INTOSAI. The local auditor should be informed of the content of the present audit instruction.

(2) The audit must verify whether the accounts are accurate and whether the transactions covered by the financial statement are consistent with the appropriations granted, the guidelines for the management of grant financing, the signed contracts and laws, and other regulations in the area of grants management. The auditor also assesses whether due financial considerations have been taken into account in the management of the grant included in the accounts.

**§ 3.** The scope of the audit depends on the host organisation’s/grantee’s/local partner’s administrative structure and practices, including the internal control and other matters of importance for the presentation of accounts.

**§ 4.** Ordinarily, the audit is conducted throughout the year for host organisations and at the end of a grant for grantees/local partners. As part of the audit, the auditor examines the host organisation’s/grantee’s/local partner’s organisational structure and existing administrative procedures with a particular emphasis on accounting, financial management, and adequate internal control. As a rule, substantive audit is performed as a spot check examination of the documents and their correct registration in the bookkeeping based on an assessment of materiality and risk. The host organisation’s/grantee’s auditor examines whether the local financial statements from abroad have been audited according to recognized international standards and bear the endorsement of the local auditor and a person authorized by the host organization/grantee. The auditor makes a general assessment of the extent and quality of the local audit, if necessary after contact with the local auditor.

(2) The auditor must ensure that the host organisation sets up the annual financial statements in accordance with the requirements in the guidelines for the management of grant financing. The host organisation’s/grantee’s auditor must, in particular but not limited to, examine whether:

* The accounts are fair and do not contain significant errors or omissions,
* The financial requirements of the guidelines for the management of grant financing and minutes from the annual strategic negotiations with the MFA are met by the host organisation,
* The transactions covered by the financial statements are in accordance with the appropriations and the overall purpose of their use as agreed between the host organisation and the MFA during the annual strategic negotiations.
* The host organisation has received locally audited financial statements for all activities outside of Denmark. If this is not the case, a list of outstanding financial statements must be appended as an annex to the overall financial statement,
* Whether the local audit has given rise to significant remarks and whether it is with qualification. If the local audit is with qualification, this must be mentioned in the audit report or in the auditor’s management letter (or similar format),
* completed projects are duly documented and specified in the host organisation’s/grantee’s internal financial statement,
* The financial statements have been reconciled with the host organisation’s/grantees and, to the extent that it is possible, local partner’s annual financial statement.

(3) During the compliance audit, it is examined whether the grant management has met the requirements made for it. The audit is planned and performed in accordance with SOR 6.

(4) The performance audit examines whether due financial considerations have been taken into account in the management of the grant. The audit is conducted in accordance with SOR 7 and based on the host organisation’s accounting report, strategic plan, performance report and other reporting to MFA on goals and results, and on economy, efficiency and effectiveness.

(5) The auditor must verify that grant funds are segregated from other funds either in the organisation’s accounting system or by use of a separate bank account, and that there is no mixing of the grant funds and the host organisation’s/grantee’s/local partner’s own funds.

**§ 5.** The host organisation’s/grantee’s/local partner’s management must provide the auditor with information that may be considered to be of importance for the assessment of the financial statement and for the auditor’s assessment of the management, including objectives and results achieved. Management must allow the auditor to conduct those investigations deemed necessary by the auditor and ensure that the auditor receives the information and assistance that may be deemed necessary for the performance of the audit.

**§ 6.** If the host organisation’s/grantee’s/local partner’s auditor becomes aware of any sign of fraud or material breaches of the guidelines for the management of grant financing, it is the responsibility of the auditor to immediately inform the grant giver’s management and competent assembly and to ensure that notification of the findings along with the auditor’s remarks are shared with the MFA within 3 weeks. Otherwise, it is the duty of the auditor to inform the MFA.

(2) The same must apply if, during the audit or otherwise, the auditor becomes aware that the continuation of operations is uncertain for economic or other reasons.

**§ 7.** The audited financial statements must be accompanied by an audit statement in accordance with the guidelines in SOR5, which must state that the accounts have been audited in accordance with the rules in this instruction.

(2) The auditor must submit a long form audit report (or similar format), including but not necessary limited to information about:

* Which audit actions have been carried out and the results thereof,
* Significant uncertainty, errors, or omissions regarding the host organisation’s accounting or internal control,
* the performance audit carried out, including especially the auditor’s assessments and conclusions regarding economy, efficiency, and effectiveness as well as dispositions that fall outside of the cooperation with the MFA,
* Auditor’s assessment of the local audit, including outstanding financial statements, accounting records with qualification, and significant remarks in the audit reports for the local audits.

The long form audit report must state whether the auditor complies with the legislation’s eligibility rules, whether the auditor has received all the information requested during the audit, and whether the auditor has commented on the utilization of the grant. The long form audit report must report on any special reports or statements as well as any submission of special information, advice, or assistance.

(3) A copy of the long form audit report must be submitted by the host organisation to the MFA together with the audited financial statement. The same applies to the host organisation’s overall audited financial statement including the long form audit report, as soon as this has been approved by the host organisation’s executive committee or competent assembly.

**§ 8.** It is the responsibility of the host organisation/grantee/local partner to obtain the auditor’s written consent to audit the grant in accordance with this instruction.

**Supplement to the instruction regarding the performance of audit tasks related to State grant financed activities in Denmark and developing countries administered by pooled funds and networks (grants above DKK 500.000)**

As a general rule, reporting on the performance audit is done in the long form audit report.

The auditor’s report must state that the audit has been carried out in accordance with the audit instructions and the standards for public sector auditing.

Significant deficiencies and/or a reasoned presumption of violation of provisions and conditions for granting and applying grants must be stated in the audit report.

In practice, the auditor’s detailed reporting of the audit can be done in the auditor’s long form audit report of the host organization/grantee/local partner, or in a separate report outside of the long form audit report continuous pagination, provided that reference is made to such separate reports in the auditor’s long form audit report itself and that significant remarks are reflected in the auditor’s long form audit report itself.

Auditor’s control of section §4 (4) can be done by the auditor reviewing the host organisation’s/grantee’s/local partner’s overall established procedures for determining data collection and reporting of productivity and efficiency targets. The auditor’s report on this may be done in the host organisation’s/grantee’s/local partner’s auditors’ long form audit report or in a separate report, cf. above.

To the extent that the host organization/grantee/local partner makes concrete actual measurements of productivity and efficiency, it is expected that the auditor will assess the reliability of such measurements and report on this in the auditors’ long form audit report. Where such concrete measurements are not available, the auditor must assess whether the organisation otherwise (often on a more qualitative basis) makes reasonable assessments of its performance, and the auditor may propose appropriate measurement methods. The auditor may report on the lack of reliable measurements of productivity, efficiency, etc. in the auditor’s long form audit report without making reservations or providing additional information in the auditor’s report on the accounts.

If there are no measurements of productivity and efficiency or the available measurements are of such a nature that they cannot form the basis of auditor’s control pursuant to section §4 (4), the auditor must report on this in the long form audit report or in a separate report outside of the auditor’s records continuous pagination, provided that reference is made to such separate reports in the auditor’s long form audit report itself and that significant remarks are reproduced in the auditor’s long form audit report itself.