

Annex A: Guidance for conducting audits

The following guidance should be followed when conducting audits of Embassy-funded projects or organisations.

1. Objectives of the audit

The objective of the audit of the programme/project financial statements is to enable the auditor to express a professional opinion on the financial statements that the partner is required to prepare.

2. Scope

The scope of the audit must include, at a minimum, all funds received for the project. Partner organisations are encouraged to conduct organisational audits where possible.

The audit must be carried out in accordance with international standards on auditing, as promulgated by the International Federation of Accountants and will include such tests and auditing procedures as the auditor considers necessary under the circumstances.

Special attention should be paid by the auditor as to whether:

- a) Funds have been used in accordance with the conditions of funding agreements, with due attention to efficiency and economy, and only for the purposes for which funding was provided.
- b) Bank accounts maintained have not become overdrawn during the accounting period.
- c) Goods and services have been procured in accordance with the relevant procedures.
- d) All necessary supporting documents, records and accounts have been kept in respect of each project with clear linkages to the progress reports presented to the Embassy.
- e) The financial statements have been prepared in accordance with international accounting standards taking into account the partner's system of accounting which may be cash-based or modified cash-based.

The audit should include a rigorous examination of the system of internal controls, including organisation structure, authority levels, staff competence, accounting records and supporting documentation, separation of duties, and monitoring arrangements. Where certain controls are impracticable, appropriate compensating controls should exist.

The auditor should plan the audit so that there is a reasonable expectation of detecting material misstatements in the accounts resulting from fraud, error or non-compliance with laws and regulations as may be necessary. If the auditor's suspicions are aroused, s/he must inquire into all the circumstances until satisfied. If material irregularities are discovered, they must be reported to the Embassy immediately.

3. Financial Statements

The financial statements must be **prepared in the partner organisation's own format** from the accounting records maintained at particular projects however, at a minimum this must include:

- a) A Receipts and Payments or an Income and Expenditure Statement (in the partner's currency of operation) showing a breakdown of income by donor, including separately all income received from the Embassy. The accounts should include expenditure by country (for international organisations),

by budget line item and by direct/indirect cost category, and comparative figures for the preceding year together;

b) Where relevant the statement should also include expenditure incurred directly by Irish Aid on behalf of the partner. The payment statement will identify the total amount by organisation of any grant to another organisation/district etc. from Embassy funding;

c) Balance sheet as at year-end (in the partner's currency of operation), including the Embassy fund balance remaining. Where Embassy funds remaining are mixed with other source of funds, the accounts will note the fund balance remaining to the Embassy and make a statement on where this fund balance is held; (For Example if a project has a remaining fund balance to Embassy of €20,000 the note would say that the €20,000 is on deposit in Bank account no XXX, which also contains the fund balance of other donors/the partner's own funds)

d) Notes to the financial statements presenting:

- A brief explanation of the programme/ project objectives.
- Accounting policies.
- Any supplementary financial information or schedules in support of (a), (b) and (c) above.
- Receipts from the Embassy in equivalent euro and actual local currency with the date of transfer of the funds;

e) The financial statements should be signed by the partner.

4. Audit Report

The audit report should be addressed to the organisation being audited. The opinion expressed in the audit report will address whether:

a) The financial statements present a true and fair view of the financial position of the organisation audited. In expressing this opinion, the auditor must consider whether proper accounting records have been maintained in each case, and whether the financial statements are in agreement with these records;

b) Funds provided for the project by Embassy have been used in accordance with the relevant grant agreement;

c) The auditor shall make a statement confirming they have complied with these terms of reference in the introduction to the management letter. In particular, they will confirm that they have complied with each of the points raised under section 2 above.

5. Management Letter/ Internal Control Letter

In addition to the audit report, the auditor will prepare a "Management Letter" addressed to the audited organisation, which will:

a) Give comments and observations on the accounting records, systems, and controls that were examined during the audit;

b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;

c) Include management comments and observations relating to the recommendations in (b) above:

- Include management comments from the partners' programme/project management;
- The auditors will bring matters to the attention of management as they arise and seek clarification and/or management's comments during the course of the audit;

d) Communicate matters that have come to the auditor's attention that might have a significant impact on the implementation of the programme;

e) Refer to any other matters that the auditor considers relevant;

f) The management letter must include a review of the issues raised in the previous year's management letter and a status report on progress/follow up covering:

- Recommendations from previous years not implemented;
- Recommendations from previous years implemented;
- Recommendations from current year – including note when there are no issues highlighted during the year.

g) In all cases, a management letter MUST be issued. If no issues have arisen during the course of the audit, the auditors must issue a management letter stating that no issues have arisen. This does not mean that recommendations from previous years will not be followed up on by the auditors.

h) Include a high, medium or low prioritisation on all issues arising in the management letters. Ranks should be allocated according to the following criteria:

- A: a major weakness or a recurring issue that must be addressed soon;
- B: an important matter that will significantly improve the control environment, the accounting system or the operations of the business but is not so serious or prevalent as to be considered a major weakness;
- C: a minor (or isolated) weakness that should nevertheless be addressed to improve the control environment, the accounting system or the operations of the business.