Instructions on performing audits

This instruction includes the audit tasks that International Media Support (IMS) requires that partner organization, which have entered into partnership agreements with IMS.

Section 1:

1.1 The auditing must be conducted by an internationally recognized auditing firm, and IMS to approve the auditor if not approved previously by IMS. The partner organization to share with IMS auditor contact details and professional profile.

1.2 In case of a change of auditor, the incoming auditor must make representation to the outgoing auditor who is obliged to inform the organization, IMS, and the incoming auditor of the reasons for resignation.

Section 2:

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard **ISA 800/805** and the auditor's opinion shall be clearly stated, as well as a Management letter with audit findings and weaknesses identified during the audit process. In addition, the report should cover the following two additional standards:

I. **International standards (IFAC/INTOSAI)**
II. **Procedures ISRS 4400**

2.1 Auditing is performed in accordance with good public auditing practice, as the term is defined in the Law on Auditing. Financial and budget performance audit are implemented in accordance with recognized international standards (IFAC/INTOSAI). The INTOSAI standards may be found and downloaded from INTOSAI's homepage (http://www.intosai.org/issai-executive-summaries/4-auditing-guidelines.html).

For your assistance, we highlight some significant issues:

- The concepts of materiality and risk apply also to an audit performed in accordance with INTOSAI.

- Regularity. Tests should be made of compliance with applicable laws and regulations. This also includes tests of compliance with regulations set by IMS about the financial statements, etc.

- Performance audit is concerned with the audit of economy, efficiency and effectiveness.

    - Economy. The principle of economy means minimizing the cost of resources. Evaluate the resources used are available in due time, in and appropriate quantity and quality and at the best price. Further, the organization undertakes, and is accountable for, all procurement activities according to own regulations and procedures and in line with international good practice.

- Efficiency. The principle of efficiency means getting the most from available resources. Evaluate if there is a reasonable relation between the human, financial and other resources consumed during the activities and the results produced by the activities.
- Effectiveness. Evaluate performance in relation to the achievement of the objectives of the project. The actual impacts of activities are compared with the intended impact. (For example, efficiency may be high, but the results achieved may not be in line with the objectives of the project).

- The Project Management, and ultimately the partner, is responsible for developing specific and measurable objectives and performance targets, and for the establishment of adequate and reliable internal control systems. Internal control systems should be in place to ensure:
  - that activities are performed in accordance with applicable laws and regulations,
  - that financial reports and other information are reliable,
  - reliable reports about the project managements evaluation of the economy, efficiency and the effectiveness of the project.
- It is the responsibility of the auditors to design audit steps and procedures to provide reasonable assurance that errors, irregularities and illegal acts that could have a direct and material effect on the financial statement amounts or on the compliance with applicable laws and regulations are detected.

The main objective of performance auditing is constructively to promote economical, effective and efficient governance. It also contributes to accountability and transparency.

Furthermore, and as part of the performance audit, the auditors should evaluate whether the internal controls and procedures form an appropriate basis for achieving economy, efficiency and effectiveness, and if the Project Management prepares relevant and reliable reports about the performance. Relevant recommendations from the auditors in this respect are an important element of the performance audit. Therefore, it is requirement to report separately on the performance audit.

Performance audit may be integrated with the financial audit, but may also include audit procedures with the only objective of evaluating the performance.

2.2 Additional assignment; according to agreed upon procedures ISRS 4400, review the following areas in accordance with the Terms of Reference below

Mandatory procedures that must be included:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget[1].

2. Observe and inspect whether the financial report provides information regarding:

a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.

b) When applicable, compare if the opening fund balance[2] for the reporting period matches with what was stated as closing fund balance in the previous reporting period.

c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from IMS' disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable.

d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).

e) Amount of funds that has been forwarded to implementing partners, when applicable.

3. a) Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.

Choose a sample of three individuals for three different months for each of the payroll and:

b) Inquire and inspect whether there are supporting documentation[3] for debited salary costs.

c) Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.

d) Inspect whether the Cooperation partner comply with applicable tax legislation with regard to personal income taxes (PAYE)[4] and social security fees.

4. a) Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.

b) ***Applicable the final year***: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to IMS.

The reporting

The reporting shall be signed by the responsible auditor (not just the audit firm[5]) and shall include the title of the responsible auditor.

Reporting from the ISA assignment

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion shall be clearly stated. The financial report that has been the subject of the audit shall be attached to the audit report.

[1] The budget is attached to the agreement with IMS as an annex and any updates should be supported by a written approval by IMS.

[2] I.e. funds remaining from disbursements made during previous reporting period/s

[3] Debited salary costs should be verified by supporting documentation such as employment contracts.

[4] Pay As You Earn

[5] If the audit firm is obliged to sign, refer to relevant legislation. IMS still needs to know who has been responsible for the audit assignment.

The reporting shall also include a Management letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

Measures taken by the implementing partner to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.

If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

Reporting from the ISRS 4400 assignment
The additional assignment according to agreed upon procedures ISRS 4400 under section II, shall be reported separately in an "Agreed-upon procedures report". Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated in the report.

2.3 The audit reviews whether the accounts are true and fair, and whether the financial report follows the allocated budget, negotiated agreements with IMS, signed contracts and MoU. Furthermore, the auditor must assess whether due financial considerations has been fulfilled in the project management covered by the financial statement.

Section 3:

The scope of the audit depends on the administrative structures and procedures of the organization, including the internal control and other circumstances of importance for financial reporting.

Section 4:

4.1 As part of the audit the auditor examines the organization structure and existing procedures with particular emphasis on accounting, financial management, and adequate internal controls. In principle, substantive audit is performed as spot checks on the quality of exhibits and correct registration of these in the accounts, including assessments of materiality and risk. Ensure that the audit report has been endorsed by the organization, authorized person.

4.2 At the final audit the auditor must ensure that
- The accounts are outlined as required by the PART 2. GENERAL CONDITIONS of the contract.
- The accounts are true and fair and do not contain significant errors and imperfections.
- The transactions, covered by the financial statements, comply with the allocated budget and the main purposes of their use as agreed during negotiations with IMS.

4.3 The auditor must check that funds are kept in a separate bank account and that the account movement is reconciled with the payment instructions from IMS. Thus, the auditor must ensure that there is no confusion of the grant funds and the organization's own funds or funds from other donors.

4.4 The auditor must ensure that the organization outlines the annual accounts in accordance with requirements in the PART 2. GENERAL CONDITIONS of the contract. The auditor must examine:
- Whether a significant remark has been made and whether certain reservations have been taken. If reservations have been made by auditors, this must be mentioned in auditor's report.
- Whether figures in the accounts have been reconciled with the regular financial statement of the organization.

Section 5:

5.1 If the auditor, in connection with management of grant funds, becomes aware of offenses or significant disregard of provisions as stated in the contract or PART 2. GENERAL CONDITIONS of the contract, the auditor must immediately inform the organization's management and competent assembly and ensure that information concerning the findings with auditor's remarks is sent to the IMS within 3 weeks. If not, the auditor is obliged to inform the IMS.

5.2 Same procedure applies if the auditor during the audit or otherwise becomes aware of the fact that a continuation of operations is uncertain due to financial or other reasons.

Section 6:

6.1 The audited accounts must carry the auditor's report, in which it must appear that the accounts have been audited in accordance with provisions of this instruction and a clear reference to the number of the contract. Any reservations must appear in the endorsement.

6.2 The auditor must keep auditor's records. The auditor's records must contain information on:
- Which auditing tasks have been carried out, and the results thereof;
- Significant uncertainties, errors, or imperfections concerning bookkeeping, accounting, or internal control;
- The organization's compliance with requirements of independent financing, including whether the funds are raised and used in accordance with pertinent guidelines;
- The conducted budget performance audit, the auditor's examination, assessment, and conclusions concerning economy, efficiency, and effectiveness as well as transactions out of line with the cooperation with IMS;

It must be evident from the auditor's records on the account whether the auditor meets the requirements of legal capacity, whether the auditor during the audit has received all required information, and whether the auditor has had any remarks on the application of the project and budget. Any information on special reports or declarations, submission of exceptional report, advice, and assistance must be stated in auditor's records.

6.3 The organization must submit a copy of the auditor's records together with the endorsed accounts to IMS. Same procedure applies to the organization's audited combined financial statement with auditor's records as soon as it has been approved by the organization's executive committee and competent assembly.

INSERT AUDITOR'S LETTERHEAD

[INSERT PARTNER'S NAME]

[INSERT COUNTRY]

[INSERT PROJECT NAME AND IMS-XXXXX]

[INSERT TIME PERIOD FX. 01.01.2019 - 31.12.2019]

CONTENT LIST

1. Independent Auditor's report (IMS Template)
2. Independent Auditors' report on actual findings ISRS 4400 (IMS Template)
3. Management Declaration (IMS Template)
4. Management Letter from the Auditor (IMS Guideline)
5. Management Response to the letter above (IMS Guideline)
6. Financial Statement (based on IMS' financial report template (ANNEX A)
7. Fixed Assets - Inventory - Equipment 2018 (ANNEX B)

INSERTT AUDITOR'S
LETTERHEAD

1) INDEPENDENT AUDITORS' REPORT

To International Media Support (IMS)

Opinion

We have audited the project financial statement for [insert partner] for the financial year [INSERT PERIOD]. The project financial statement is prepared based on accounting policies established by International Media Support and part of the IMS agreement number [IMS-XXXXX]

In our opinion, the project financial statement is, in all material respects, correct, i.e. prepared in accordance with accounting policies established by International Media Support.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA 800/805) and International Organization of Supreme Audit Institutions (INTOSAI) auditing standards based on generally accepted principles of performance auditing cf. Audit instructions regarding the performance of audit tasks related to activities covered by a Strategic Partnership Agreement. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the project financial statement" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the grantee in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Emphasis of matter in the financial statements –limitation of distribution and use

The project financial statement has been prepared in order for the responsible party to meet the user's requirements. As a result, the project financial statement may not be suitable for other purposes.

Our report has been prepared solely for the use of the responsible party and the user and should not be distributed to or used by any other parties.

We have not modified our opinion in respect of this matter.

Emphasis of matter regarding the audit

In accordance with the grantor's guidelines, the grantee has recognized the budget figures approved by the grantor as comparative figures in the project financial statements. The budget figures have not been subjected to audit procedures.

Management's responsibilities for the project financial statement

Management is responsible for the preparation of the project financial statement in accordance with accounting policies established by International Media Support and for such internal control as Management determines is necessary to enable the preparation of the project financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the project financial statement

Our objectives are to obtain reasonable assurance about whether the project financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and INTOSAI auditing standards based on generally accepted principles of performance auditing cf. Audit instructions regarding the performance of audit tasks related to activities covered by a Strategic Partnership Agreement will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the project financial statement.

As part of an audit conducted in accordance with ISAs and INTOSAI auditing standards based on generally accepted principles of performance auditing cf. Audit instructions regarding the performance of audit tasks related to activities covered by a Strategic Partnership Agreement, we exercise professional judgement and maintain an attitude of professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the project financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by Management are reasonable.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Statement on compliance audit and performance audit

Management is responsible for ensuring that the transactions included in the financial reporting comply with appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of the funds and operations covered by the project financial statements. Consequently, Management is responsible for establishing systems and procedures supporting economy, productivity and efficiency.

In performing our audit of the project financial statements, it is our responsibility to perform compliance audit and performance audit of selected items in accordance with public auditing standards. When conducting a compliance audit, we test the selected items to obtain reasonable assurance as to whether the transactions covered by the financial reporting comply with the relevant provisions of appropriations, legislation and other regulations as well as agreements entered into and usual practice. When conducting a performance audit, we perform assessments to obtain reasonable assurance as to whether the tested systems, processes or transactions support due financial considerations in relation to the management of funds and operations covered by the project financial statements.

We must report on any grounds for significant critical comments, should we find such when performing our work.

We have no significant critical comments to report in this connection.

The final accounts have been prepared in accordance with internationally generally accepted accounting principles.

Opinion

In our opinion, the financial statements for the project for the [INSERT PERIOD] are prepared in all material aspects in accordance with the financial reporting provisions of the contract [INSERT IMS-XXXXX].

[PLACE], [INSERT DATE]

[NAME OF AUDIT COMPANY]

[NAME OF AUDITOR & TITLE]

[AUDITOR'S SIGNATURE AND DATE]

Додаток 1

INSERTT AUDITOR'S LETTERHEAD

2) ISRS – FACTUAL FINDINGS

To [INSERT PARTNER'S NAME]

We have performed the procedures agreed with you and enumerated below with respect to the financial statement for [INSERT IMS-XXXXX] for [INSERT PERIOD].

Our engagement was undertaken in accordance with the International Standard on Engagements to Perform Agreed-upon Procedures Regarding Financial Information and additional requirements.

The procedures were performed solely to provide International Media Support (IMS) with information for the purpose of fulfilling the requirements in accordance with Terms of Reference.

Mandatory procedures performed:

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget.

Finding: …………………

2. Observe and inspect whether the financial report provides information regarding:

a) Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement-if applicable

Finding: …………………

b) Compare if the opening fund balance for the reporting period matches with what was stated as closing fund balance in the previous reporting period (if applicable)

Finding: ………………

c) A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from IMS' disbursement to the handling of the project within the partner organisation in local currency.

Finding: …………………

d) Explanatory notes (such as, for instance, accounting principles applied for the financial report).

Finding: …………………

e) Amount of funds that has been forwarded to other implementing partners (if applicable)

Finding: …………………

3. a) Inquire and inspect with what frequency salary costs during the reporting period are debited to the project.

Finding: …………………

Choose a sample of three individuals for three different months and:

b) Inquire and inspect whether there are supporting documentation for debited salary costs.

Finding: …………………

c) Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.

Finding: …………………

d) Inspect whether the partner comply with applicable tax legislation with regard to personal income taxes (PAYE) [6] and social security fees.

Finding: …………………

4. a) Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.

Finding: …………………

b) *Applicable the final year*: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to IMS.

Finding: …………………

5. Inquire and inspect whether the partner has adhered to the procurement guidelines, which IMS provided, by selecting a minimum of three procurements of goods and/or services.

Finding: …………………

6. Inquire and inspect if the agreed indirect/overhead costs are based on a cost recovery model. Obtain information on debited overhead costs within the project and confirm whether the costs are in line with the partner´s routines for allocating overhead costs to different projects.

Finding: …………………

Final remarks

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the financial statement for project [INSERT IMS-XXXXX].

Had we performed additional procedures, or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is not to be used for any other purpose. This report relates only to the accounts and items specified above and does not extend to the financial statement for project [INSERT IMS-XXXX] of [INSERT PARTNER'S NAME], taken as a whole.

[NAME OF AUDIT COMPANY]

[NAME OF AUDITOR & TITLE]

AUDITOR'S SIGNATURE AND DATE]

INSERT PARTNER'S LOGO

[6] Pay As You Earn

3) MANAGEMENT'S DECLARATION

[INSERT NAME OF THE PARTNER] hereby declares that the financial setup and thus financial reporting adheres to the Terms of Reference for Audit from International Media Support as well as the financial reporting clause in the agreements between [INSERT NAME OF THE PARTNER] and International Media Support (IMS).

The financial report audited by [INSERT NAME OF AUDITOR] covers the contract periods in the agreement between [INSERT NAME OF THE PARTNER] and IMS, i.e. [INSERT PERIOD].

The purpose of the present financial report is to give a well-documented picture of the funds and expenses of the project for the contractual period.

The financial report covers the agreement [INSERT CONTRACT NUMBER AND NAME OF PROJECT].

The audited financial report covers bank information (funds received, bank charges and accumulated bank interests), the agreed budget, the realized expenses and the balance between the budget and expenses. The report also includes the total overview of funds and expenses, and thus the balance of funds, i.e. the outstanding payment from IMS to [INSERT NAME OF THE PARTNER].

The narrative report on the project is submitted together with the audited financial report, and thus the two reports give the total overview of all programmatic and financial aspects of the agreement and the implementation.

[DATE]	*[DATE]*
[SIGNATURE]	*[SIGNATURE]*
[NAME]	*[NAME]*
[TITLE, i.e. Director, President etc.]	[TITLE, i.e. Finance Manager, Controller etc.]

INSERT AUDITOR'S LETTERHEAD

4) MANAGEMENT LETTER FROM THE AUDITOR

Додаток 1

[INSERT PARTNER'S NAME]

[INSERT DIRECTOR'S NAME]

[INSERT PARTNER'ADDRESS]

[INSERT DIRECTOR'S EMAIL]

[INSERT DATE]

[INSERT AUDITOR'S ID]

Subject: **Management letter [20XX]**

Dear Ms/Mr

We have audited the financial statements **[20XX]** of [Partner's name] and the grant of IMS. In this management letter we describe our major findings.

Findings in respect of the audit

We would like to draw your attention to certain matters which we identified during our audit of the financial report, described below.

[Finding 1]

....
....
....
....

[Finding 2]

....
....
....
....

[Finding 3]

....
....
....
....

[NAME OF AUDIT COMPANY]
[NAME OF AUDITOR & TITLE]
[AUDITOR'S SIGNATURE AND DATE]

***IMS' NOTES**: PLEASE BE ADVISED THAT THE MANAGEMENT LETTER SHOULD LIST THE MAIN FINDINGS, IF ANY, OR SPECIFY IF THEY ARE NO FINDINGS.*

The Management Letter should provide an overview with audit findings and weaknesses identified during the audit process. The auditor shall regardless of materiality quantify the amount of costs missing sufficient supporting documentation. The auditor shall make recommendations to address any weaknesses identified, and the recommendations shall be presented in priority.

If the auditor assesses that no findings or weaknesses have been identified during the audit that results in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

Measures taken by the organization to address weaknesses identified in previous audits shall also be presented in the Management Letter.

Please see a guiding framework above.

INSERT PARTNER'S LOGO

5) MANAGEMENT RESPONSE TO AUDITOR'S LETTER

Subject: Management response to the Audit findings [20XX]

We have reviewed the major findings in the Management letter regarding the audit of the [Partner's name] **[20XX]**.

Please find our responses below:

[Response to Auditor's Finding 1]

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

[Response to Auditor's Finding 2]

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

[Response to Auditor's Finding 3]

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

Yours sincerely,

[INSERT DATE]

[INSERT SIGNATURE]

[INSERT PARTNER'S NAME]

[INSERT TITLE, i.e. Director, President etc.]

IMS' NOTES:

PLEASE BE ADVISED THAT THE MANAGEMENT RESPONSE LETTER SHOULD LIST REPLIES TO THE MAIN FINDINGS IN THE MANAGEMENT LETTER WRITTEN BY THE AUDITOR, IF ANY, OR IN CASE THERE ARE NO FINDINGS, ACKNOWLEDGE RECEIPT OF LETTER

6) Financial Statement

Note: Use the attached template in Annex A

7) Fixed Assets – Inventory – Equipment (If Applicable)

Note: use the attached template in annex B