

Explanatory Notes to the Ministry of Foreign Affairs model audit protocol for annual accounts

Select = The budget holder must select one of the options presented.

Complete = The budget holder must fill in specific data here.

Optional text = Text that may be included in the protocol at the budget holder's discretion.

If the grant/contribution/contract comprises more than 50% of the grant recipient's/contract partner's total revenues, an audit opinion on the annual accounts may be sufficient. If so, the contribution agreement/grant decision/contract should set out that annual accounts accompanied by an audit opinion are a reporting obligation for the organisation. An additional requirement is that the organisation issuing the annual accounts must itself disburse the funds directly to implementing parties and is not therefore working as an intermediary organisation with implementing organisations that do not form part of the legal entity of the grant recipient/contract partner.

Only in these cases does this audit protocol apply.

This document is a model audit protocol, to be supplemented with specific information and/or requirements depending on the nature of the application.

All highlights, this text box and all blue explanatory notes must be removed from the final protocol. The protocol must be accompanied by a copy of these Explanatory Notes.

When using the Ministry of Foreign Affairs model audit protocol ('the protocol'), please always bear in mind the following guiding principles:

- The protocol has been drawn up in accordance with the 2017 Audit Protocol Style Guide of the COPRO Working Group of the Royal Netherlands Institute of Chartered Accountants (NAB).
- The budget holder is responsible for the content of the protocol applicable to the award in question. The model must always be used with due care and consideration, and the final protocol needs to be tailored to the particular circumstances. The Financial and Economic Affairs Department (FEZ) should be consulted before requesting additional activities under part 3.B.
- If the auditor of the contribution recipient/grant recipient/contractor has any questions or wishes clarification regarding the protocol, discuss the issue with the auditor and, if required, request assistance from FEZ and/or the Central Government Audit Service (ADR). FEZ and/or the ADR will contact COPRO if necessary.
- This model protocol was originally drafted in Dutch. The guiding principles underlying the Dutch protocol remain binding, except where reference is made to international standards drawn up in English.

Explanatory notes on the individual sections of the protocol:

1. This section refers to the grant decision/contribution agreement/contract to which the audit protocol applies.
2. This section defines the audit subject. A distinction is made between:
 1. Part A: audit of annual accounts carried out in accordance with the International Standards on Auditing (ISA) and this protocol;
 2. Part B: engagement to perform agreed-upon procedures. These engagements arise from a risk assessment by the budget holder at the Ministry of Foreign Affairs regarding the activity to which a funding application relates (standard ISRS 4400). Section 2 also sets out the standards framework applicable to the audit of the financial statements (part A) and agreed-upon procedures (part B).
3. This section sets minimum requirements for the scope of the audit. The scope can be broadened by adding specific requirements.

Re A. The audit opinion on the annual accounts is based on the activities specified in part A.

Re B. The activities specified in part B form the basis for a report on factual findings (standard ISRS 4400), which means that the auditor does not give assurance but reports only their findings. The party who engaged the auditor must make its own assessment of these findings and draw its own conclusions.

The protocol describes the main points of the audit and the specific activities that it has been agreed that the auditor must perform in this connection, arising from the budget holder's risk analysis in relation to an application.

Ministry of Foreign Affairs model audit protocol for annual accounts

Appendix to **decision/contribution agreement/public service contract**

1. Introduction

This protocol must be followed in auditing the annual accounts that serve to account for the project or the activity for which a grant/contribution/contract has been awarded under **decision/contribution agreement/public service contract**

This protocol sets out the applicable principles and requirements and explains how the outcome of the audit must be reported.

The external auditor is engaged by **grant recipient/counterparty/contractor**, *the applicant*. The Minister may request that a review be performed, in consultation, to ascertain that the auditor has complied with the audit protocol.¹

2. Audit subject and standards framework

Audit approach

A.	Audit of annual accounts in accordance with standard ISA 700 referred to in part 3.A.
B.	Engagement to perform agreed-upon procedures pursuant to standard ISRS 4400 regarding the subjects mentioned under 3.B.

The audit must be carried out in accordance with generally accepted auditing standards (International Standards on Auditing; ISA) drawn up by the International Auditing and Assurance Standards Board (IAASB).

The annual accounts must be drawn up pursuant to generally accepted accounting principles.² The accounting policies used in the approved budget submitted for the **grant application/contribution/contract** must correspond with those used in the annual accounts.

The following standards framework applies to the **grant/contribution/contract**:

(1) If a grant has been awarded, include the following text:

- Decision awarding grant, including related appendices.

(2) If a contribution has been awarded, include the following text:

- Agreement awarding contribution, including related appendices.

(3) If a contract has been awarded, include the following text:

- Contract for, including related appendices.

An exhaustive summary of the review points relevant for the financial statements and the auditor is given in chapter 3 of this audit protocol.

3. Audit activities

Re. A. Audit of annual accounts prepared in accordance with standard ISA 700

The objective of the audit of the annual accounts is to obtain reasonable assurance about whether they present a true and fair view of the organisation's financial position and results, meeting the

¹ Government Accounts Act 2016, section 6.3.

² Title 9 of Book 2 of the Civil Code, in combination with the Dutch Accounting Standards Board guidelines for annual reporting, International Financial Reporting Standards (IFRS) or other comparable system. As a rule, accounts should be prepared on an accrual basis.

requirements laid down in the ISA for a regular audit of annual accounts and the requirements applicable to an audit opinion pursuant to ISA 700. The auditor must also ascertain that:

1. the annual accounts state the accounting policies used;
2. balance sheet items, revenues and costs are evidenced by supporting documents. The auditor must determine on the basis of their professional judgement whether the supporting documents suffice as audit information/evidence and are appropriate to the nature of the activity and the accompanying approved budget;
3. if a restricted fund is included in the annual accounts that relates to funding provided by the Ministry of Foreign Affairs, a statement of changes in the fund must be included in the explanatory notes to the balance sheet. The statement should show why the fund has grown and whether there is a link with funding from the ministry;
4. discrepancies of more than 10% per budget line between the actual figure and approved budget are explained. Variances of EUR 5,000 or less do not need to be explained;
5. if applicable, an explanation is given for a receivable or debt position with the ministry.

Only applicable in the case of an earmarked grant or contribution

6. the annual accounts show for each activity funded by the Ministry of Foreign Affairs what commitments relating to the activity have been assumed with other parties, and how much of these commitments has so far been paid;
7. costs and revenues for the activities referred to at 6 are explained separately in the annual accounts;
8. the balance sheet shows the total amount of outstanding prepayments from the applicant to implementing partners. The explanatory notes to this balance sheet item show what portion of the outstanding prepayments is connected with each activity funded by the Ministry of Foreign Affairs. The profit and loss account in the annual accounts shows how much of earlier prepayments for the activity have been repaid in the year under review;
9. the system for allocating indirect costs/overheads to the activity is explained in the explanatory notes. The auditor must assess whether the allocation system has been used in the financial statements in accordance with the explanatory notes to the financial statements and with the approved budget. The associated audit activities are carried out in conjunction with those described at 10, namely ascertaining that costs are recharged on the basis of actual costs;
10. costs are recharged to the funded activities on the basis of actual costs. This means that the applicant for the funds adopts a consistent approach in allocating indirect costs and that retrospective costing takes place each year. If not yet available at the time of the audit, the retrospective costing for the year under review T-1 may be used. In the event of departure from this consistent approach, the applicant must have included an explanatory note in the financial statements.

Only applicable (where relevant) to a grant-receiving institution based in the Netherlands

- The Top Incomes (Standardisation) Act (WNT) has been complied with where applicable. For further information, refer to the most recent version of the WNT audit protocol.

The minimum reliability level for the audit is 95%. In other words, the auditor will plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatements and/or uncertainties.

When performing the audit of the eligible costs of the activity referred to in section 1, the following materiality levels apply, with the reported eligible costs forming the benchmark. These are the total costs in the annual accounts for the year under review that can be linked to funding from the Ministry of Foreign Affairs.

Benchmark	Materiality
Reported eligible costs in the annual accounts	2%

Type of audit opinion	Unqualified	Qualified	Disclaimer	Adverse
Errors and uncertainties in the annual accounts	≤2%	> 2% - ≤ 4%	Uncertainties > 4%	Errors > 4%

The auditor must prepare the audit opinion in accordance with the requirements set out in section 4 of this audit protocol. If the auditor encounters both accounting errors and uncertainties in the audit while performing the audit, these errors and uncertainties should always be considered individually and together when drawing up the audit opinion.

B. Engagement to perform agreed-upon procedures pursuant to standard ISRS 4400

The auditor must perform the audit in accordance with standard ISRS 4400. This means that the auditor does not give assurance but reports only their audit findings. This protocol describes the audit activities.

In order to comply with the conditions for the **grant/contribution/contract** the applicant must have documented the following safeguards in its organisation.

The 'allocation of costs' section **only** applies in the case of an earmarked grant or contribution

1. Allocation of costs

A. The applicant must describe:

- how it is ensured that the direct costs in the **project records** match the financial statements and how (direct and indirect) costs are allocated to the individual projects in these project records;
- specifically in relation to staff costs, how the timesheet system is organised in order to allow staff costs to be allocated to projects in the project records.

B. The applicant must describe the organisation's procedures and internal policies for determining the **allocation of costs and overheads/indirect costs to the activity**. This description must explain:

- how these procedures and internal policies are recorded and that a consistent approach is adopted;
- how the applicant allocates the overheads/indirect costs to the activity, whether any changes have been made to the allocation system, and that a consistent approach is adopted in this respect;
- how the applicant ensures that the overheads/indirect costs recharged are no higher than necessary to cover costs;
- how the applicant ensures that no more than 100% (**reduce percentage if an own contribution is requested**) of the actual costs is recharged to the activity covered by this protocol.

The auditor must ascertain that the description is consistent with the evidence gathered during the activities referred to in part 3.A and reports their findings on this matter.

2. Allocation of interest accrued

- The applicant must provide a breakdown of interest accrued as stated in the annual accounts, including information on interest accrued on the funds made available by the Minister.
- The applicant must provide information showing that the interest accrued on the funds made available by the Minister has been used to fund the activities carried out under the **grant decision/contribution agreement/contract**.

The auditor must ascertain that:

- the applicant has provided a breakdown of interest accrued as set out in the annual accounts and the breakdown is consistent with the annual accounts and the evidence gathered during the audit of the annual accounts;
- the applicant has provided information showing which interest has been accrued on the funds made available by the Minister and that this information is consistent with the annual accounts and the evidence gathered during the audit of the annual accounts (the auditor also reports on which documents provide this information);
- the applicant has provided information to show that the interest accrued on the funds made available by the Minister has been used to fund the activities carried out under the **grant decision/contribution agreement/contract** and that this information is consistent with the annual accounts and the evidence gathered during the audit of the annual accounts (the auditor also reports on which documents provide this information).

3. Incident management (duty to report)

The applicant must describe the organisation's procedures and internal policies for detecting, dealing with and reporting incidents.

This concerns incidents which may relate to fraud, corruption, sexual misconduct and other serious forms of inappropriate behaviour. This description must also address how such incidents can be reported and how they are recorded.

The key areas that must at least be covered by the internal policies and procedures, for instance by a code of conduct, are:

- inappropriate sexual behaviour, sexual harassment and sexual violence
- aggression, discrimination and bullying
- abuse of power
- corruption and fraud
- misuse or improper use of resources
- conflict of interests and nepotism
- tax avoidance and the pursuit of an asset management/investment policy contrary to the organisation's objectives
- manipulation of or misuse/leaking of information (or access to information)
- the existence of a whistleblowing procedure
- the existence of a point of contact inside or outside the organisation for reporting and recording incidents.

The applicant's description must also set out how internal incident management policies and procedures are available on paper and/or digitally within the organisation.

The auditor must ascertain that:

- the internal policies and procedures are focused on the aforementioned subjects;
- specifically that the internal incident management policies and procedures are available on paper and/or digitally within the organisation in the way the applicant has described;
- the organisation keeps records of incidents;
- incidents related to the activity that have been registered in these records are reported to the Ministry in accordance with the described procedures and as demonstrated by supporting documents.

4. Procurement

The applicant must describe the procedures and internal policies for the procurement of goods and services. This description must incorporate measures to ensure that suppliers are selected objectively and must include at least:

- the bidding procedure
- the procedure for assessing bids
- how procedures for the procurement of goods and services are available on paper and/or digitally to the relevant staff.

1. The auditor must ascertain that the applicant's/institution's description matches the evidence gathered during the audit activities referred to in part 3.A.
2. Specifically the auditor must ascertain that the procedures for the procurement of goods and services are available as described by the applicant.
3. The auditor must establish that the organisation's procurement policy has been complied with on the basis of 15 of the selected external invoices relating to the audited eligible costs mentioned in part 3.A. It must be established that suppliers have been objectively selected for the transactions in question, with several quotations being requested for amounts over EUR 33,000.³ If fewer than 15 invoices are being audited, the auditor will examine all external invoices to establish whether the procurement policy has been complied with.

The auditor reports their findings on procurement and compliance with procedures.

³ The equivalent amount in a foreign currency applies where relevant.

5. Management of local implementing organisations

The applicant must describe the procedures and internal policies in relation to implementing organisations.

This description must include:

- how the applicant makes an advance assessment of the quality (management capacity) of the implementing organisation(s) that will be performing work for the applicant in relation to the activity or activities;
- how the applicant monitors the implementing organisation(s). Consideration must be given in this connection to the narrative and financial progress information that is provided and how it is established whether obligations have been met by the implementing organisation(s);
- the details of the sanctions procedure followed by the applicant if an implementing organisation fails to meet its obligations.

The auditor must ascertain that:

- the management capacity of three of the implementing organisations has been assessed by the applicant in conformity with the applicant's description. If there are fewer than three implementing organisations, each one must be subjected to a comprehensive assessment;
- the financial and narrative progress information of three of the implementing organisations has been monitored by the applicant in conformity with the applicant's description. If there are fewer than three implementing organisations, each one must be subjected to a comprehensive assessment;
- in the event of a recorded failure by an implementing organisation to comply with its obligations, the auditor must comprehensively ascertain whether the established sanctions procedure was followed in relation to this implementing organisation;
- the extent to which the evidence gathered is consistent with the audit activities referred to in part 3.A and report their findings on the planned activities.

4. Reporting

This section explains how the auditor must report on their audit activities.

Auditing annual accounts

The auditor must issue an audit opinion in accordance with the requirements of standard ISA 700 upon completing the activities described in part 3.A. A model is available on the IAASB website.

The auditor must also ensure a suitable way of identifying the financial statements on which the audit opinion will be issued.

Engagement to perform agreed-upon procedures

As regards the activities described in part 3.B, the auditor must report their findings in accordance with the requirements of standard ISRS 4400. A model is available on the IAASB website.