

Annex 2 - Audit Protocol Dutch Relief Alliance (DRA) Block Grant - Joint Responses

**Department for
Stabilisation and
Humanitarian Aid**

Humanitarian Aid Division

1. Introduction

Datum
31 May 2023

1.1 Goal and design of Joint Responses

Our reference
DSH-4000005527

The overall goal of the Joint Responses is to jointly provide timely, relevant, efficient and effective humanitarian assistance to people affected by crises.

For each Joint Response the consortium partners select the lead organization amongst them. The lead organization assumes overall responsibility for the proper planning and implementation of the Joint Response.

In this Audit Protocol, 'lead party' refers to the civil society organisation that is awarded a grant by decision of the foundation Dutch Relief Alliance and 'consortium partners' refers to the lead party and the Joint Response members.

1.2 Legal framework

The Ministry of Foreign Affairs of the Netherlands ("MFA") has awarded a grant of € 310.000.000, with assigned activity code 4000005527, hereinafter referred to as "Block Grant" to the DRA Block Grant Holder ("BGH");

Notification of the Block Grant and the applicable terms and conditions are laid down in the grant decision of MFA, dated 1 March 2022, hereinafter referred to as "Grant Decision";

The DRA has established a foundation (Stichting Beheer Subsidiegelden DRA) to manage the Block Grant ("Foundation DRA"). The BGH has signed an agreement ("Service Level Agreement") with the Foundation DRA to execute payments and manage the Block Grant on the basis of the decisions made in the DRA governance framework;

The Foundation DRA signs an agreement ("Grant Agreement") with the lead party for the Joint Response Grant ("JR Grant");

The lead party is responsible for the signing of a Sub Grant Agreement with each of the members of the Joint Response, and the members are responsible for the signing of a Sub Grant Agreement with their local partners.

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 entity's 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:

1. Inform its auditor of the provisions of the Audit Protocol;
2. Instruct the consortium partners to inform their auditors of the provisions of the Audit Protocol (including the auditors of the local partners).

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 "Joint Response" is awarded to an organisation that acts as lead party for an alliance. Expenditure of the grant will be through the individual consortium partners, including the lead party; the lead party is in this case also consortium partner.

The reporting structure is as follows:

	Author of financial report	Type of report	Type audit-product	Applicable section audit protocol
Step 2		Consolidated report for entire grant	ISRS 4400 for entire consortium	Chapter 3
Step 1		Consortium partners individual reports	ISA 800/805 for financial report	Chapter 2

Step 1:

The individual consortium partners, including the lead party, draw up a financial statement (individual DRA-Joint Response 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 (*Dutch- or International Standards on Auditing; ISAs*) of the International Auditing and Assurance Standards Board (IAASB), see chapter 2 of this protocol.

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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 (for the annual audits during the contract period of the multi-year contract the activities do not need to be finished but costs made so far can be included);
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 documentation with argumentation for linking (staff) costs to the project (such as timesheets). The information in the project records and other documentation agrees with the information in the financial administration;
 - c. The procurement procedures comply with the Principles and Procedures applicable to Procurement Contracts awarded within the framework of Humanitarian Aid Actions financed by the European Union, as laid down in Annex III of the Framework Partnership Agreement (FPA) between the organisation and ECHO;
 - 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.

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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 (see chapter 2.3 below) for the financial report of the consortium partners;
- An auditor report (exemption report) in accordance with the text of annex A of this protocol.

In case the project has been implemented by a local partner for a part of the budget and the local partner has submitted a separate ISA 800/805 report to the consortium partner, the consortium partner should then submit a ISRS 4400 audit report (see chapter 3 of this protocol) to the lead based on the underlying ISA 800/805 reports of the local partner(s) and the ISA 800/805 report of the consortium partner.

Step 2:

The lead party consolidates the financial Joint Response reports in one financial report for the entire consortium.

For the consolidated financial report of the Joint Response, the auditor performs an ISRS 4400 assignment (see chapter 3 of this protocol).

The financial report sent by the lead party to the foundation DRA contains:

- The consolidated financial report for the entire consortium;
- The 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 of each consortium partner to the Joint Response.

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 a report in accordance with the text of annex A of this protocol. In case activities are implemented through a local partner and the local partner has submitted a separate 800/805 audit report, a ISRS 4400 audit report (see chapter 3 of this protocol) should be added, mentioned under 1.5 step 1.

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 partners' financial statement for the year under review including processes and administrations relevant for the Joint Response.

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%.

The following materiality levels apply when performing the audit:

Benchmark	Materiality
Reported expenditures/costs	2%

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

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).

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The audit opinion must be drawn up in accordance with the sample text, that can be found on the (*Dutch*) NBA or IAASB website.

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 Joint Response 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 procurement procedures as laid down in the framework of Humanitarian Aid Actions financed by the European Union (ECHO);
- d) Adequate administrative processes to comply with the applicable legal framework for reporting,

s/he 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 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 financial statement of consortium partners

2.4.1. Audit opinion on the financial report Joint Response (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 in accordance with a recent model text as published on the (*Dutch*) NBA or IAASB website.

3. Audit procedures concerning the consolidated financial report of the Joint Response

3.1 Introduction

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Our reference
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This chapter describes the audit activities concerning the consolidated financial report of the Joint Response, to be provided by the lead party. This chapter also applies for audit activities concerning the consolidated financial report in case the project has been implemented by a local partner for a part of the budget and the local partner has submitted a separate ISA 800/805 report, provided by the consortium partner (see 1.5, step 1).

3.2 Consolidated financial report of the Joint Response (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 financial report of the Joint Response.

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:
 - o The consortium partner's name;
 - o The type of audit opinion issued;
 - o 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;
 - o 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 discrepancies¹ between the individual financial statements and the consolidated statement. The auditor will recommend improvements when they consider the consolidated financial statement or the lead party's explanatory text to be incorrect or incomplete, or to give insufficient information as to the specific grant conditions. If the recommendations are

¹ *Discrepancies*: differences between the individual reports and the consolidated report e.g. as a consequence of numeral corrections in the current reporting period, numeral correction in former reporting periods, use of different cost categories etc.

- not followed, the auditor will make a separate notion 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, refer to Annex A template).

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3.3 Audit report on the consolidated financial report of the Joint Response

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3.3.1 Report of findings (ISRS 4400)

Our reference
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The report of findings must comprise all 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 (Dutch) NBA or IAASB website.

Annex 2a – Template Separate Written Report

Separate written report for Joint Response report of [name consortium partner] for [name of program] with [name of lead party] in accordance with Joint Response 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 Joint Responses.

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

Explanation if opinion is not unqualified:

2. If the auditor has, within the review, given attention to the administrative organisation and internal control, and in particular the following aspects, s/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:

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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, s/he will make note of that here.

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

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3. The consortium partners must declare to the auditor in the LoR the compliance with article of the grant decision that 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"*. The auditor states whether the declaration is in the LoR.

Findings presence of obligatory text in the LoR: