

Strengthening Civil Society Audit Protocol

1. Introduction

1.1 Goal and design of Strengthening Civil Society strategic partnerships

The grant agreements for the policy framework Strengthening Civil Society is supported by the policy framework “Strengthening Civil Society”. The overall goal of the Strengthening Civil Society policy framework is to strengthen civil society organisations in low- and lower-middle-income countries in their role as advocates and lobbyists. This will enable them to fulfil that role, and – working with their national and international partners, and through their local, national and international networks – to contribute to a strong civil society which stands up for citizens’ needs and rights and in doing so contributes to improving the social contract between government and citizens as to inclusive, peaceful and sustainable societies.

In this Audit Protocol, ‘lead party’ refers to the civil society organisation which is awarded a grant by decision of the Minister, ‘consortium partners’ refers to the lead party and co-applicants, and ‘other partners’ refers to partners outside the consortium.

In this document the words “Standard”, “ISA” and “ISRS” are used. The grant recipient has to choose if they want to comply to Dutch or International audit standards.

1.2 Legal framework

The legal framework applicable to Strengthening Civil Society comprises:

- **Decision on the award of Strengthening Civil Society grants, including annexes**

For information purposes the following documents can be used

- a) Letter to parliament of 20 June 2019 providing an outline on the policy framework Strengthening Civil Society
- b) Policy framework and model application form for Strengthening Civil Society, published on 3 December 2019
- c) Agreement on a Strategic Partnership in the Area of Strengthening Civil Society

Documents a) and b) can be found on www.rijksoverheid.nl. Document c) is available at the lead party

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 house 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:

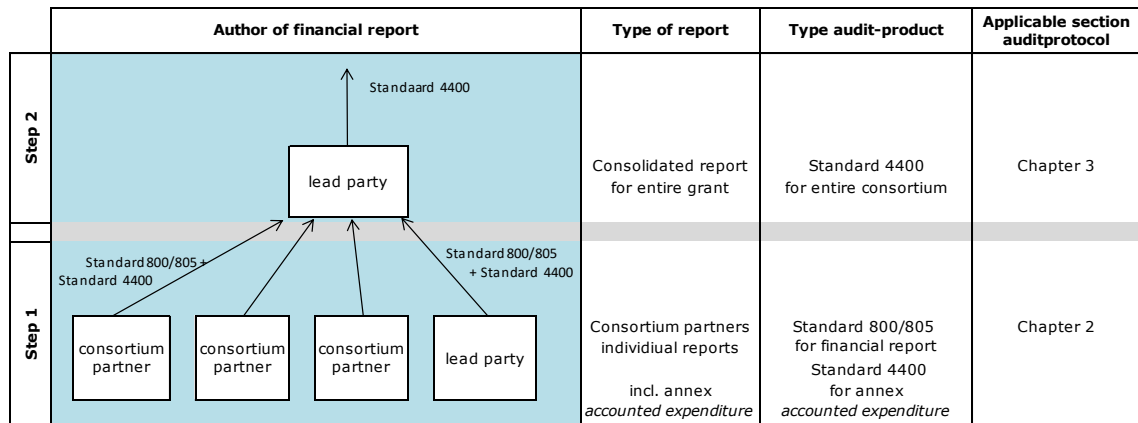
- inform its auditor of the provisions of the Audit Protocol;
- instruct its consortium partners to inform their auditors of the provisions of the Audit Protocol.

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 policy framework "Strengthening Civil Society " is awarded to an organisation that acts as lead party for an alliance. Expenditure of the grant will be through the individual consortium members, including the lead party; the lead party is in this case also consortium member.

The reporting structure is as follows :



Step 1:

The individual consortium members, including the lead party, draw up a financial Strengthening Civil Society report with regard to the provided and spent means.

Every Strengthening Civil Society financial report must meet the following conditions (a until d):

- a) the consortium partners must give a transparent account of their overhead costs, providing insight into management and administration costs, as included in the approved budget (see article 1 of the grant agreement and budget and liquidity planning included with the programme document annex 1 to the grant agreement);
- b) the financial statement must be laid out in the same way as the most recently approved budget for the year in question. It must include a consolidated statement (see article 3 of the grant decision);
- c) the financial statement must make a comparison with the budget, explaining any deviations greater than 10% on the subtotal of a country/region and/ or cost category.
- d) the annual financial progress report must include an overview of all (suspected) irregularities in the implementation of activities for which a grant has been received (e.g. fraud or violation of procurement procedures; see article 3 of the grant decision).
The overview must contain the current (suspected) irregularities, stating the financial

amount involved and the measures it has taken and the current status (eg progress of the investigation and/or follow up on the measures taken);

e) an annexe to the individual financial reports must present a table (referred to in this protocol as the *Accounted Expenditure Annexe*) detailing the total programme commitments entered into with third parties and charged to the grant during the reporting period in question and cumulatively during the term of the grant: the total commitments entered into, the total payments for them, and the total amount accounted for by the consortium partners during the reporting period.¹

The table must present the amounts passed on by the lead party and consortium partners to any cooperating partners. A report of factual findings must be drawn up on this table in accordance with Standard/ ISRS 4400. The table must be drawn up as follows:

A.	B.	C.	D.	E.	F.
Consortium partner	Funds received from BZ	Expenditure by the consortium partner	Funds passed on to the cooperating partner (cash outflow from the consortium)	Expenditure by the cooperating partner	Total amount accounted for (columns C+D)
1					
2					
3					
X					
Total					

Columns C and D are derived from the individual financial reports of the consortium partners and the lead party, with an audit opinion being issued on them in accordance with ISA 800/805. The amounts included in the above table must be cumulative.

In the annexe, the lead party/consortium partner describes (in no more than two sheets of A4) the process and documents² on the basis of which payments to cooperating partners are deemed to have been made and accounted for. If processes and documents are not uniform but subject to certain conditions (e.g. amount of financing, location of programme implementation, quality of the cooperating partner), these variations (i.e. different combinations of documents and processes) and the circumstances in which they occur must be reported in the annexe.

The annexes referred to in point e are submitted to the ministry by the lead party.

¹ Accounts rendered during the current reporting period can relate to amounts received from or paid by a consortium partner in previous reporting periods; the amounts are to be disclosed in the line relating to the current reporting period and not in the cumulative line. The date on which account is rendered is decisive.

² Documents can include narrative reports, financial reports, audit reports and field visit reports. Processes are the way in which these documents are used to determine that an amount has been accounted for, e.g. how often documents are checked and by whom, who decides on the amount that is deemed to have been accounted for, and the supporting evidence.

Activities auditor step 1:

The auditor of the consortium partners performs an audit according to Standard/ ISA 800/805 on the individual financial reports, and a Standard/ ISRS 4400 with regard to the annex “accounted expenditures”

(further information under chapter 2 of this audit protocol)

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) and the annex “accounted expenditures”
- the standard/ ISA 800/805 report for the financial report of the consortium partners, including the audit opinion according to paragraph 2.1 of annex A with this protocol.
- Report of findings (Standard 4400/ ISRS 4400) with annex “accounted expenditures”

Step 2:

The lead party consolidates the financial Strengthening Civil Society report and combines the annex “accounted expenditure” and the Standard 4400/ ISRS 4400 report of all the consortium partners in one set. The lead party gives, as part of this set, a summary of appr. 800 words which contains the main findings of the Standard 4400/ ISRS 4400 reports and the total amount accounted for (for the entire consortium).

Activities auditor step 2:

For the consolidated financial report for Strengthening Civil Society, the auditor performs a Standard 4400/ ISRS 4400 assignment (see chapter 3 of this protocol).

The financial report submitted by the lead party to the Ministry of Foreign Affairs contains :

- consolidated financial report for the entire consortium
- Standard/ ISRSR 4400-report on the consolidated report
- A set of :
 - Annex “accounted expenditure” of the individual consortium partners
 - Report of findings (Standard/ ISRS 4400) with the annexes
 - Summary written by lead party
- The audit opinion as mentioned in paragraph 2.1/annex A of this audit protocol

2. Audit procedures concerning individual consortium partners

2.1 Introduction

This chapter describes the audit activities concerning the financial statement Strengthening Civil Society of each consortium partner. These activities consists of an audit on the financial report (see 2.2 and 2.3) and an additional Standard/ ISRS 4400 (see 2.4).

The activities described in section 2.3 result in an audit opinion on the financial statement, drawn up in accordance with auditing Standard/ ISA 800/805, and an audit report in accordance with the text of annex A of this protocol.

The activities described in sections 2.4 and 2.5 should result in a report of findings, drawn up in accordance with auditing Standard/ ISRS 4400.

Both the audit opinions and the reports of findings will be submitted to the Ministry of Foreign Affairs by the lead party.

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 Dutch auditing standards (*Controle- en Overige Standaarden*; NV COS) or International Audit Standards (ISA).

The audit subject is the consortium's partners financial statement for the year under review (see 2.3 and 1.5 step 1 a - d) including the for the Strengthening Civil Society relevant processes and administrations.

2.3 Audit approach in respect of the financial statement (Standard/ ISRS 800/805)

The audit must be performed in accordance with the law of the country of statutory residence of the lead party (will be mainly Dutch law) and applicable audit standards. If applicable International Audit Standards can be used.

The minimum reliability level for audit purposes is 95%. Materiality is determined as follows for the purpose of drawing up the audit opinion:

Base materiality level	Materiality
Reported expenditures	2%

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

The auditor determines materiality for a multiyear activity on an annual basis. The table above shows how the permitted tolerance is calculated for the expenditures incurred and accounted for during the year.

The auditor draws up its opinion in accordance with the requirements set in this protocol. If the auditor detects both accounting errors and audit uncertainties, it will take both into account when forming its opinion.

As part of the audit of the financial statements, the auditor must specifically check whether the specific conditions set in section 1.5, step 1, points a to d, have been satisfied.

The auditor must draw up its opinion using the recent model provided text published on the IAASB's website or on the website of the Dutch Institute of Chartered Accountants (NBA).

When expressing an audit opinion, the auditor must provide a report in accordance with the model in annexe A of this protocol. The auditor report is an exception report and the findings reported in it need not automatically have consequences for the type of audit opinion, *unless the auditor is of the opinion that the reported findings have material consequences for the individual financial Strengthening Civil Society report.*

If and in so far as the auditor considers the design and functioning of the internal control system, and more specifically a) the authorisation of outgoing payments and incoming receivables, b) the allocation of direct and indirect programme costs, c) compliance with EU and other public procurement rules, and d) the extent to which accounting processes record the financial information in accordance with the reporting system applicable to the entity, the auditor will report its findings on these aspects in the audit 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 statements encompass all transactions and receipts, are 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 7i of the grant decision, which states: 'The grant recipient must not offer to third parties or seek

or accept from or be promised by third parties, for itself or for any other party, any gift, remuneration, compensation or benefit of any kind whatsoever, if this could be interpreted as a corrupt or illegal practice.'

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 under Standard/ ISA 580, the auditor must make a note to this effect in the audit report referred to in section 2.1 and drawn up in accordance with the model in annexe A of this protocol.

As in the case of the limited review of the management report in accordance with ISA 720 or with art 393 part 3 of Book2 Title 9 of the Dutch Civil Law, (The auditor's responsibility for other information), the auditor must check whether the narrative section of the reports of the individual consortium partners is compatible with the individual financial reports and contains no material discrepancies.

2.4 Audit approach Annex "accounted expenditure" and overhead (Standard/ ISRS 4400)

The consortium partner's auditor is responsible for drawing up the report of findings with the annex "accounted expenditure". This assignment is in accordance with Standard/ ISRS 4400 and has to be drawn up as follows :

Performing a Standard/ ISRS 4400 assignment means the auditor will not give assurance but only reports the factual findings. This protocol describes the accents for the assignment. 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 (see Standard/ ISRS 4400, paragraph 11 and 17). 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 perform the following activities **regarding the annex accounting expenditures:**

- requirements table
 - ascertain that the annex "accounted expenditures" at least contains the in paragraph 1.5 e mentioned rows and columns;
- congruency content of the table with (project) administration
 - ascertain the congruency of amounts for the reporting period and accumulated amounts in the (project) administration.
 - Ascertain this (project) administration (or in case of a separate (project) administration), equals the administration which is the basis for Strengthening Civil Society financial report. In case of separate

(project) administration the auditor ascertains the congruency of amounts with this financial administration.

- Existence of documentation and process
 - Take note of the description of the lead party's or consortium partner's process and supporting documents used to consider payments to other partners as accounted for. The auditor takes note whether there are variations in the description and which variations exists. (variation = different combinations of documents and processes, depending on the circumstances as described by the consortium partner). The auditor mentions these variations in the report of findings.
 - Take note of the "amount accounted" in the table of the current period and asks the lead party/consortium partner for specification of underlying amounts³ from the project administration.
 - From this specification the auditor selects 10% (with a minimum of 2 and a maximum of 7) of the underlying amounts. If the lead/ consortium partner has a description of a variety of processes or documents, the auditor makes sure that two or three of the most frequent varieties will be incorporated in the selection. If amounts are registered as accounted for in different parts of the reporting period, the auditor will strive to an equal spread in time in the selection.
In case of multiple "other parties", the auditor will strive for a spread over the different parties and in time.
Within the abovementioned framework the auditor will strive to cover at least 25% of the accounted expenditures. If this would lead to a selection that exceeds the maximum of 7 underlying amounts, a lower percentage is permitted.
 - For every selected expenditure the auditor determines :
 - Are the supporting documents in accordance with the consortium partner's processes ;
 - Are the supporting processes in accordance with the consortium partner's procedures;
 - Does the reported accounted expenditure correspond with the supporting documents

In case of any numeric deviation or deviation in supporting documents or processes, the auditor will mention this in the report of findings including the character, extent

³ "Underlying amount" is the amount accounted for per other organisation or per contract, or per country or region, or theme etc; depending on the primary lay out of the (project) administration.

and reason of the deviation. If the reason is unknown to the auditor he will request a clarification of the consortium partner and will include this clarification in the report of findings. The auditor does not have to further look into the reason for deviation and the clarification of the partner.

The auditor will perform the following activities **regarding the overhead**:

- The auditor describes the procedures and documentation the consortium (lead party and each consortium partner) have regarding overhead.
- The auditor describes how consortium partners ensure that overhead costs in their budgets are based on actual costs.
- The auditor describes the way the calculations of the overhead costs and the percentage are integrated into the overall financial statement of the consortium.

2.5 Audit report on the consortium partners

2.5.1 Audit opinion on the financial report Strengthening Civil Society (Standard/ 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 audit opinion is based on a model text published on the website of the Dutch Institute of Chartered Accountants (NBA) or on the IAASB's website.

2.5.2 Report of findings (Standard/ ISRS 4400)

The report of findings must be drawn up in accordance with auditing Standard/ ISRS 4400 and describes the activities and findings according to the aspects specified in paragraph 2.4 of this Audit Protocol.

The report of findings must be worded as follows, or is based on a model text published on the website of the Dutch Institute of Chartered Accountants (NBA) or on the IAASB's website.

3. Audit procedures concerning the lead party's financial statement

3.1 Introduction

This chapter describes the audit activities concerning the financial statement of the lead party on Strengthening Civil Society. This financial statement is a consolidated report of all Consortium partner's financial Strengthening Civil Society report.

3.2 Financial statement of the lead party (Standard/ ISRS 4400)

The lead party's auditor is responsible for drawing up a report of findings, in accordance with auditing Standard/ ISRS 4400, on the consolidated Strengthening Civil Society financial statement.

Performing a Standard/ IRS 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 (see Standard/ ISRS 4400). 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 Standard/ 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:
 - the consortium partner's name;
 - the type of audit opinion issued;
 - 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;
 - 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 discrepancies⁴ between the individual financial statements and the consolidated statement. The auditor will recommend improvements if 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 not followed, the auditor will make a separate notation of this in the report of findings, indicating the improvements or additions they consider necessary;

3.3 Audit report on the lead party's consolidated financial statement

3.3.1 Report of findings (Standard/ ISRS 4400)

The report of findings must comprise all the elements prescribed in auditing Standard/ 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 Standard/ ISRS 4400-compliant audit reports of each of the consortium partners, as referred to in section 3.2 (third indent).

The report of findings must be based on a model text published on the website of the Dutch Institute of Chartered Accountants (NBA) or on the IAASB's website.

Annex A template separate written report

Part of the audit opinion for financial report Strengthening Civil Society according to Standard / ISA 800/805

Re: separate written report for Strengthening Civil Society report of [name consortiumpartner] for [name of program] with [name of lead party] in accordance with Strengthening Civil Society 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 (will be mainly Dutch law) , applicable audit standards

⁴ Discrepancies :differences between the individual reports and the consolidated report eg as a consequence of numeral corrections in the current reporting period, numeral correction in former reporting periods, use of different cost categories etc.

and the audit protocol Strengthening Civil Society. If applicable International Standards can be used.

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

Explanation if opinion is not unqualified

2. If the auditor has, within the review has given attention to the administrative organisation and internal control, and in particular the following aspects, 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 authorisation payments (payments authorised by the right person and to the right party)

b) Findings attribution direct and indirect program costs (in conformity with the approved budget, annex 1 of the grant decision):

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:

3. 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, he will make note of that here.

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

- 3 The consortium partners have to declare to the auditor in the LOR the compliance with article 7i of the grant decision.

“ The grant recipient must not offer to third parties or seek or accept from or be promised by third parties, for himself or for any other party, any gift, remuneration, compensation or benefit 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 if the declaration is in the LOR

Findings presence of obligatory text in the LOR: