

Instructions on performing audits in connection with [Administrative Partner Organization's] management of subsidized activities in developing countries

This instruction includes the audit tasks that the Ministry of Foreign Affairs (MFA) requires that private organizations, which have entered into partnership agreements with MFA, cause their auditor to perform for the state funding of partnership organization's business and activities in developing countries. The authority to issue instructions concerning auditing appears in the annual budgets and in the partnership agreement, to which this instruction is appended. For audit instructions relevant to international organizations see following link: [General Guidelines for Accounting and Auditing of Grants Channelled Through Governmental, Parastatal and International Organisations](#). Please note that the instructions on audits are being reviewed. An update is expected this year.

Section 1. The organization competent assembly appoints the auditor of the organization. An approved registered auditor conducts the audit.

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, the MFA, and the incoming auditor of the reasons for resignation.

1.3 In case the auditing of activities abroad is performed locally in the recipient country the auditing must be conducted by an internationally recognized auditing firm.

Section 2. Auditing in Denmark is performed in accordance with good public auditing practice, as the term is defined in section 3 of the Law on Auditing of State Accounts etc. (Act no. 101 of 19th of January 2012) and further specified in section 2 and sections 3-7. Abroad, financial and budget performance audit are implemented in accordance with recognized international standards (IFAC/INTOSAI). Foreign auditors must, as necessary, be informed about the content of this audit instruction.

2.2 The audit reviews whether the accounts are true and fair, and whether the financial report is in compliance with the allocated grants, negotiated agreements with the MFA, signed contracts and law and other regulations for grant management. Furthermore, the auditor must assess whether due financial considerations has been fulfilled in the grant 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. Audit is usually performed in the course of the year. 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. The auditor examines whether

financial reports, conducted abroad, have been audited in accordance with recognized international standards, confer section 2 (1) of this instruction, and have been endorsed by the local auditor and by a, by the organization, authorised person. Auditor must make a general assessment of the scope and quality of the foreign audit, if necessary after contact with the local auditor. As part of the audit, unannounced inspections of cash and asset holdings should be carried out, including inspections of holdings abroad.

4.2 At the final audit the auditor must ensure that

- The accounts are outlined as required by the administrative guidelines;
- The accounts are true and fair and do not contain significant errors and imperfections;
- The financial covenants in the partnership agreement and minutes from negotiations with the MFA are met;
- The transactions, covered by the financial statements, comply with the allocated grants and the main purposes of their use as agreed during negotiations with the MFA.

4.3 Budget performance audit examines due financial considerations are fulfilled. The audit is carried out on the basis of the organization's financial review, continuous plans/report, and other reporting to the MFA on objectives, and achievements as well as economical, efficiency, and effectiveness.

4.4 The auditor must check that state grants are kept in a separate bank account and that the account movement is reconciled with the payment instructions from the MFA. Thus, the auditor must ensure that there is no confusion of the grant funds and the organization's own funds.

4.5 The auditor must ensure that the organization outlines the annual accounts in accordance with requirements in the administrative guidance. The auditor must examine:

- Whether sum data of programme – and project activities, including completed projects, is properly documented and specified in the internal accounts of the organization.
- Whether the organization has received locally audited accounts of all completed activities abroad. If this is not the case a list of outstanding accounts must be annexed the accounts for the partnership grant.
- Whether the audit, performed abroad, has given rise to significant remarks and whether certain reservations have been taken. If reservations have been made by auditors abroad 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. In accordance with agreement provisions the management of the organization provides the auditor with information that is regarded as important for the assessment of the accounts and for the auditor's assessment of the administration, including objectives and achievements. The management of the organization must give the auditor access to conduct the examinations, that the auditor finds necessary, and ensure that the auditor is given the information and assistance which must be regarded as necessary for conducting the audit.

Section 6. If the auditor, in connection with management of grant funds, becomes aware of offenses or significant disregard of provisions as stated in the partnership agreement or the administrative instructions, 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 MFA within 3 weeks. If not, the auditor is obliged to inform the MFA. Remarks by the auditor should be submitted with the notification of the ministry.

6.2 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 7. 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. Any reservations must appear in the endorsement.

7.2 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 organization 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, in particular the auditor's examination, assessment, and conclusions concerning economy, efficiency, and effectiveness as well as transactions out of line with the cooperation with MFA;
- Auditor's assessment of the audit conducted abroad, including outstanding accounts, accounts with certain reservations and significant remarks in the audit reports from the locally conducted audits.

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 grant. Any information on special reports or declarations, submission of exceptional report, advice, and assistance must be stated in auditor's records.

7.3 The organization must submit a copy of the auditor's records together with the endorsed accounts to MFA. 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.

Section 8. This instruction is appended to the partnership agreement of [xxx] between [Administrative partner Organization] and MFA and enters into force simultaneously with this. Before signing the agreement, it falls on the organization to obtain the auditor's written consent to carry out auditing of state grants in accordance with these instructions