

Annex 3: Audit Guidelines

(From Project Implementation Guidelines – Annex 10)

AUDIT GUIDELINES FOR THE USE OF FUNDS FROM THE BIOFISA II PROGRAMME

Audit instructions

The Project Consortium's obligation to have an audit conducted

The **Project Consortium** and particularly the **Lead Partner** is always ultimately responsible over the implementation of projects, and must be able to demonstrate to the BioFISA Programme Unit (BPU), the CSIR as contracting partner for BioFISA Programme, the BioFISA II Steering Committee and the two main Donors, the Ministry for Foreign Affairs of Finland, and the Department of Science and Technology of South Africa, that it uses the financial grant in accordance with the Contract Agreement for the Seed or Flagship Project.

By means of reporting by the **Project Consortium** implementing the project and the designated Lead Partner contracted by the CSIR for project implementation, the BPU and CSIR wants to ensure that the steps taken and the use of funds within the Project correspond to the approved decision and that the general conditions are being met. The Project Consortium reports on the project activities and use of the Grant according to the agreed schedule. Together with the Completion Report, the auditor has to provide a statement on the part of the report which deals with the use of the support. The auditor's report is appended to the Project Consortium's Completion Report to the CSIR, BPU and BioFISA Steering Committee. Reporting, including appendices, is always to be submitted by the due date.

Expenses that are entered into the Lead Partner and Co-Partner's bookkeeping shall be audited by the Lead Partner. Auditors have to be certified and must meet the requirements set by the authorities of the country in question. Auditors have to submit a **single report** on the Project Consortium and Lead Partner's activities and expenditures recorded in the countries where the project is implemented.

These guidelines also include an:

- ✓ Auditing report (Appendix A) in the required format, and
- ✓ Instructions for the auditor (Appendix B) in the country of operation.

NB: In addition to the reporting requirements presented in this manual the Completion Report shall include the Project Consortium's financial statement (annual report, balance sheet, profit and loss account and appendices), and an audit report of the organisation's financial statement.

General qualifications of an auditor and the Project Consortium's obligation to choose an authorised auditor

The auditor shall have sufficient expertise and experience in accounting, financial and legal matters and auditing as is necessary in light of the quality and scope of the activities of the organisation or foundation. A person who is in bankruptcy, under guardianship or barred from conducting business cannot be selected to be the auditor. The same applies to a natural person whose legal capacity has been restricted. The Lead Partner has to ensure that the hired auditor fulfils the requirements of the public authorities of the country in question. In the country where the audit is conducted, it is advisable to use the services of authorised auditors.

Scope and content of audit

In carrying out their duties, the auditors have to observe good auditing practices. A Lead Partner that receives development cooperation support has to make sure that the auditing of the use of support has been duly organised. The Lead Partner's auditor's report is based on the organisation's own audit of its bookkeeping in (the Project Consortium's project costs and its remittances to other Co-Partner in the recipient countries). Correspondingly, reports produced by auditors of organisations in the countries of operation are based on local expenses and on the accounts prepared by local organisations.

The Project Consortium has to supplement the Completion Report with the following appendices:

- A standard format auditor's report (Appendix A), and
- A brief, free-form summary of the findings and suggestions for improvement related to the use of project support.

In addition to what is required by good auditing practices, auditors have to ensure that the use of support complies with the general conditions of project support as detailed in the Grant agreement and elaborated on in the Project Implementation Guidelines.

Also the following topics have to be checked during the audit:

1. The Project Consortium has signed written cooperation contracts with the partners that will be given a part of the support – refer to Memorandum of Agreement to form a Consortium.
2. The expenses of the financial report can be derived from the Project Consortium's bookkeeping and that the expenses are based on appropriate valid receipts and itemized expenditure.
3. The financial section of the Completion Report corresponds to the Donor's project support decision,
commitment and approved project proposal and workplan. Significant budgetary overruns and/or undercuts have been duly accounted for and they must include references to the BPU's approval.
4. Activities described in the Completion Report correspond to the expenses of the financial report (to be verified as far as possible).
5. The Project Consortiums self-financing (20 % Co-payment and 20 % costed in kind contribution) has materialised in the way recorded in the annual report and in accordance with the financing agreement. The monetary contribution to self-financing is based on the Project Consortium's bookkeeping.
6. The administrative expenses set out in the project's Completion Report comply with the general conditions.
7. Interest and foreign currency tranches and other possible profits accrued from the support (if relevant) are duly reported and used for the purposes of the project.
8. The Project Consortium has made appropriate arrangements for the audit in the recipient country where Lead Partner operates. The Project Consortium has organised appropriate monitoring of possible findings and recommendations generated by the audit.
9. Withdrawn but unused support in the accounting period is duly recorded in the Completion Report and in the Project Consortium's bookkeeping.

Auditing the project can, naturally, also include other measures.

Appendix A

Auditing guidelines

A standard format auditor's report to the partnership organisation's auditor

Auditor's Report

For [*name of organisation*]

I have audited the expenses of the development cooperation programme [**name of project**] conducted by the Project Consortium, represented by [**Lead Partner**] between [**day month year**] and [**day month year**].

The annual report and appendices have been compiled by the team leader of this project, [*name of team leader or consortium representative*].

The audit has been conducted in accordance with the auditing instructions concerning development cooperation support granted to Project Consortium`s by the BioFISA II Programme and, as appropriate, international auditing standards. According to the recommendations an audit is planned and conducted in order to reach sufficient certainty of whether the annual report and its specifications which are audited include any essential mistakes or shortcomings. The audit concentrates on the examination of the material on which the figures and other information presented in the report, including itemised costs, are based. The audit also assesses the foundations of the preparation of the annual report and itemised costs as well as the manner of presentation.

According to my understanding the bookkeeping and the part of the annual report concerning use of the support, including itemised costs, essentially comply with the general conditions of project support. I pronounce that the annual report for the Ministry for Foreign Affairs can be approved.

Alternatively use

Fundamental mistakes or shortcomings were detected during the audit. The matters that are contrary to the essential terms and conditions are listed below or in a separate clarification.

Place and date

Auditor's signature

Printed name and authorisation

Appendix B

Audit Instructions for a Project whose financial support is administered through the Finnish – Southern African Partnership Programme (BioFISA Phase II) to Strengthen NEPAD/SANBio Network

SCOPE

We ask you to conduct a Special Purpose Audit concerning the BioFISA II Project **[Name of project]** represented by **[Lead Partner]**.

According to the Ministry for Foreign Affairs of Finland's general conditions regarding development cooperation support, the receiving organisation must observe principles related to good governance and anti-corruption activities. State support shall be used only to cover expenses considered to be necessary and reasonable in carrying out the project activities. The support-receiving organisation shall in its accounting follow the generally accepted national accounting principles (GAAP). The audit should be carried out in accordance with International Standards on Auditing as applicable, including relevant national legislation and standards.

The nature of a Development Cooperation Project is as follows:

- A project is not a legal entity but an accounting subject
- It can include transactions in more than one legal entity (e.g. Partner or Subsidiary)
- It does not prepare statutory Financial Statements
- The statements under audit are the Financial Project Report and the List of Fixed Assets
- The accounting is mainly on a Cash Basis - there may be a few Accruals
- Fixed Assets are not capitalised but recorded as cost when purchased
- The Materiality Level in each audit finding is the equivalent of EUR 200.

REPORTING

We ask you to further send the Auditor's Report to BioFISA II Programme Unit at the CSIR by email. The report has to be in English and include the following items:

- Project number and name
- Implementing organisation
- Date of the cooperation contract
- Reporting period and currency
- Exchange rate used in the Financial Project Report
- Total amount of budgeted income and expenditures (including balance from previous year)
- Total amount of actual income and expenditures (including balance from previous year)
- Closing balance (including cash, bank and other assets like advance payments and outstanding payments)
- Auditor's name, position, address, phone, fax and e-mail
- Date, auditor's signature and authorization
- Opinion on the issues below

OPINION

The Auditor's Report offers an opinion on the following areas:

- Does the Financial Project Report match with the Bookkeeping?
- Does the Financial Project Report correspond with the Project Contract?
- Does the funds received match with the Bookkeeping?
- Does the Bookkeeping match with the Receipts?
- Are there proper Receipts for the transactions?
- Is there an adequate Bookkeeping, including Journal and General Ledger?
- Do the changes in the List of Fixed Assets match with the Receipts?
- Does the Bookkeeping match with the Official Bank Account Statements and Cash Book? Does the opening balance of funds correspond with the audit report of last year?
- Is the approved Financial Project Report free of material misstatement?
- Are the received, unused funds properly recorded as a liability in the balance sheet and included in the ending balance of the Financial Project Report?

- Are the recorded expenses in the Financial Project Report in line with the approved original budget and activity plan? The report should contain explanations of deviations larger than 15 per cent.
- Is the internal control system of the organisation in place? Are there any material weaknesses that the organisation should improve?
- Do the salaries of project personnel match with the existing and properly signed employment contracts and does working hour recording exist?
- Does the organisation have copies of all valid essential contracts (government, trading, rental, lease, service agreement)?