

OLOF PALMES INTERNATIONELLA CENTER'S AUDIT INSTRUCTIONS FOR PARTNER AND MEMBER ORGANISATIONS

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To Auditors auditing projects financed with funds from the Olof Palmes Internationella Center (the Palme Center).

Please note that these instructions replace all previous audit instructions.

GENERAL INFORMATION

Partner Organisations (PO) granted funds from the Palme Center for development cooperation projects are required to submit annual audited project reports for the period covered by the contract with the Swedish Member Organisation (MO)/the Palme Center by **1 February** each year, unless otherwise agreed with the Swedish Member Organisation (MO)/the Palme Center in writing.

Member Organisations (MO) granted funds from the Palme Center for development cooperation projects are required to submit annual audited project reports for the period covered by the contract with the Palme Center by **1 March** each year, unless otherwise agreed with the Palme Center in writing.

All project/s must be audited annually, unless otherwise agreed with the Swedish Member Organisation (MO)/the Palme Center in writing.

The audit must be carried out by an external, independent, and qualified Auditor.

Approved titles for the Auditor:

- Certified Public Accountant (CPA);
- Chartered Accountant (CA); or
- Equivalent according to project country law.

The audit must be conducted in accordance with internationally accepted standards, ISA, issued by the International Federation of Accountants (IFAC). The “Handbook for International Standards on Auditing and Quality Control”.

OBJECTIVES AND SCOPE OF THE AUDIT

In the Audit – made in accordance with generally accepted auditing standards – the Auditor must especially examine that the PO/MO has complied with the Agreement between the PO/MO, the MO/the Palme Center, or the PO/the Palme Center, as well as with the Palme Center’s guidelines. The Auditor must also check that the information provided in the financial report matches the financial information in the narrative report.

If the PO/MO channels grants to another party, the Auditor must check that the PO/MO has an Agreement with the third party and that the Palme Center’s audit instructions have been followed in all organisations subsequently in receipt of funds.

Both POs and MOs may receive either:

- 1) Project funds
- 2) CORE funding

The reporting and audit requirements differ between the two funding alternatives, as outlined below.

1. PROJECT FUNDING

The annual financial report to be submitted by the PO and/or the MO must consist of at least the following documents:

For both PO and MO, when applicable:

- i. **Accumulative budget report** signed by the person authorised to sign for the PO/MO as well as by the Auditor. Template available at <https://www.palmecenter.se/resourcecenter/>.
- ii. **Expenditure Specification report** signed by the person authorised to sign for the PO/MO as well as by the Auditor. Template available at <https://www.palmecenter.se/resourcecenter/>.
- iii. **Reporting by the Auditor:**
 - A. Audit report according to ISA 800/805;
 - B. Management Letter and Management Response; and
 - C. Report over Factual findings according to ISRS 4400

The Auditor must also attach a copy of their audit certification/registration document that verifies what kind of certification (CPA, CA etc.) the Auditor holds.

- iv. **Transfer of Assets** signed by the person authorised to sign for the PO/MO (only applicable final year). Template available at <https://www.palmecenter.se/resourcecenter/>.

A) Audit report according to ISA 800/805

The Auditor must write a report according to ISA 800/805, which must express an opinion whether the submitted annual financial report is in accordance with the following:

- Organisation's project accounting records; and
- The Olof Palmes Internationella Center's Accumulative budget and Expenditure Specification reports

It is important that the Auditor's report clearly states that the audit has been performed in accordance with ISA 800/805 and the Olof Palme International Center's Audit Instructions. Otherwise, the Palme Center cannot approve the audit.

B) Management Letter and Management Response

The Auditor must in addition to the Auditor's report enclose a Management Letter which must contain the essential findings that the Auditor has made during the audit process. Any expenses with insufficient supporting documentation should be quantified, regardless of materiality.

If the audited period is not the first period of the project, the Auditor must follow up on any recommendations provided in the audit report for the prior period.

If the Auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

The PO/MO is required to write a Management Response to the Auditor's Management Letter, regardless of whether the Letter contains any findings. In the event of any findings, the Management Response should address, clarify, and provide an action plan outlining the steps to implement the recommendations.

C) International Standards on Related Services, ISRS 4400

In addition to the abovementioned findings in the Management Letter, the audit report must contain additional procedures in accordance with the International Standard on Related Services (ISRS 4400). The additional assignment according to agreed-upon procedures ISRS 4400, must be reported separately in an "Report over Factual findings".

1. Mandatory procedures that must be included for 100% of the disbursed funds:

- 1.1 Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget.
- 1.2 Observe and inspect whether the financial report provides information regarding:
 - a. Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under the current Agreement;
 - b. When applicable, verify if the opening fund balance for the reporting period matches with what was stated as closing fund balance in the previous reporting period;
 - c. A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from the Palme Center's disbursement to the handling of the project/programme within the PO/MO in local currency/ies, if applicable;
 - d. Explanatory notes (such as, for instance, accounting principles applied for the financial report); and
 - e. Amount of funds that has been forwarded to implementing partners, when applicable.
- 1.3 Audit staff costs as per below:
 - a. Inquire and inspect with what frequency salary costs during the reporting period are debited to the project/programme.
 - b. Important: Choose a sample of three individuals for three different months and inquire and inspect whether there are supporting documentation for debited salary costs.
 - c. Verify whether actual time worked is documented and verified by a Manager. Inquire and inspect within which frequency reconciliation between debited time and actual worked time is performed; and
 - d. Inspect whether the PO/MO complies with applicable tax legislation regarding personal income taxes (PAYE) and social security fees.
- 1.4 Audit of remaining unspent balance as per below:
 - a. Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account; and
 - b. Applicable the final year only. Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that must be repaid to the Palme Center.
- 1.5 Inquire and inspect whether the PO/MO has documented its follow up actions based on the information provided in the financial reports and the reporting from the Auditor for previous audits.
- 1.6 Review and confirm whether the PO/MO screens IP's and/or suppliers to ensure that such parties are not subject to the European Union's financial sanctions list of persons, groups and organisations ([EU Sanctions list](#)). Enquire whether there has been any reported findings from the screening process and if so, report on such findings.

2. ADDITIONAL PROCEDURES IF PROJECT FUNDS ARE CHANNELLED TO OTHER PARTIES

Mandatory assignments that must be included if the PO/MO forwards Project funds to other Implementing partners (IPs).

The audit must cover 100% of the total disbursed Project funds or a maximum of 10 IPs.

- 2.1 Inspect and confirm that the PO/MO has signed Agreement/s with selected IPs.
- 2.2 Inspect and confirm whether the PO/MO, in all agreements entered with IPs, included the requirement to carry out annual audits. The requirement must specify that these audits must be carried out according to ISA 800/805, including Management Letter and Management Response, and ISRS 4400.
- 2.3 Inquire and inspect whether the PO/MO has received financial reports and reporting from Auditors from all IPs included in the selected sample and that the reports are in line with the requirements in the Agreements between the parties.
- 2.4 Inquire and inspect whether the PO/MO has documented its assessment of the submitted financial reports and reporting from Auditors including Management Responses and Action plans from the selected IPs.
- 2.5 Inquire and inspect whether the PO/MO has documented its follow up actions based on the information provided in the financial reports and the reporting from the Auditor of the selected IPs.
- 2.6 Inquire and inspect whether the PO/MO has reported all observations from selected IPs audit reports in its communication with the Palme Center. List observations from IPs audit reports which have been part of this sample.

2. CORE FUNDING

The annual financial report to be submitted by the PO and/or the MO must consist of at least the following documents:

For both PO and MO, when applicable:

- i. **Accumulative budget report for Core funding**, signed by the person authorised to sign for the PO/MO as well as by the Auditor.
- ii. **Reporting by the Auditor:**
 - A. Audit report according to ISA 700 or National Standards on Auditing;
 - B. Management Letter and Management Response.

The Auditor must also attach a copy of his/her audit certification/registration document that verifies what kind of certification (CPA, CA etc.) the Auditor holds.

A) Audit Report According to ISA 700 or National Standards on Auditing

The Auditor must write a report according to ISA 700 or National Standards on Auditing, which must express an opinion whether the submitted annual financial report is in accordance with the following:

- Organisation's accounting records;
- The organisation's total revenue, including a breakdown of revenue per funder;
- A comparison between the actual activity costs for the current and previous reporting periods, including a breakdown of costs per funder;
- Information on interest and/or unutilised funds;
- A list of any amounts that have been forwarded to other parties; and
- Olof Palmes Internationella Center's Accumulative budget report.

It is important that the Auditor's report clearly states that the audit has been performed in accordance with ISA 700 or National Standards on Auditing and the Olof Palme International Center's Audit Instructions. Otherwise, the Palme Center cannot approve the audit.

B) Management Letter and management response

The Auditor must in addition to the Auditor's report enclose a Management Letter which must contain the essential findings that the Auditor has made during the audit process. Any expenses with insufficient supporting documentation should be quantified, regardless of materiality.

If the audited period is not the first period of the project, the Auditor must follow up on any recommendations provided in the audit report for the prior period.

If the Auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

The PO/MO is required to write a Management Response to the Auditor's Management Letter, regardless of whether the Letter contains any findings. In the event of any findings, the Management Response should address, clarify, and provide an action plan outlining the steps to implement the recommendations.

ADDITIONAL PROCEDURES IF CORE FUNDS ARE CHANNELLED TO OTHER PARTIES

Mandatory assignments that must be included if the PO forwards Core funds to other Implementing partners (IPs).

The audit must cover 100% of the total disbursed Core funds or a maximum of 10 IPs.

If Agreement/s regarding Core funds are signed between the PO and IPs, the audit must be conducted in accordance with ISA 700 or National Standards on Auditing, including Management Letter and Management Response.