

Guideline for Audit instructions 2022

A. Introduction

The purpose of this document is to provide guidance on the Audit instructions for agreement partners in preparation for audit as well as for auditors in the whole project chain for organizations with project/program agreements with *Union to Union*.

B. Auditing requirements

The audit shall be carried out in accordance with

- I. International audit standards (ISA) issued by IAASB¹.
- II. In addition, an assignment according to International Standards on Related Services (ISRS) 4400 shall be carried out.

The audit and the additional assignment shall be carried out by an external, independent and qualified auditor. A template for the assignments is available if the auditor wants to use but is free to use their own version.

In case funds are channelled from GUF or Regional GUF to a next level partner also:

- III. Follow up of funds that are channelled to implementing partners
- IV. *Union to Unions* additional assignments

The reporting shall be signed by the responsible auditor (not just the audit firm²) and shall include the title of the responsible auditor.

¹ The International Auditing and Assurance Standards Board (IAASB)

² If the audit firm is obliged to sign, refer to relevant legislation. *Union to Union* still needs to know who has been responsible for the audit assignment.

I. Objectives and scope of the audit ISA 800/805

The objective is to audit the financial report submitted to *Union to Union* and to express an audit opinion according to ISA, applying ISA 800/ISA 805, on whether the financial report is in accordance with

- the Cooperation partner's accounting records and
- *Union to Union's* requirements for financial reporting as stipulated in the agreement including appendices between *Union to Union* and Cooperation partner.

II. Additional assignment; according to agreed upon procedures ISRS 4400,

The objective is to also review the following areas in accordance with the Mandatory procedures that must be included. Some assignments are not applicable for regional or local level.

Mandatory procedures that must be included:

1. Observe whether the financial report is structured in a way that allows for direct **comparison with the latest approved budget**³.

The latest approved budget for 2022 is the original budget from the application for 2020-2022 with any adjustment or new budget lines included below the original ones as per the guideline for the financial reporting.

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 current agreement.

Income per budget line is the amount in the approved budget and the outcome is the actual costs.

Cumulative information for the current period (2020-2022) will be done by Union to Union.

- b. When applicable, **compare** if the **opening fund balance**⁴ for the reporting period matches with what was stated as **closing fund balance** in the previous reporting period.

*The end of year balance **in currency on each level** per December 31st must be equal to the ingoing balance the next year on January 1st.*

- c. **A disclosure of exchange gains/losses.** Inquire and confirm whether the disclosure includes the entire chain of currency exchange from *Union to Union's* disbursement to the handling of the project/programme within the organisation in local currency/ies, if applicable.

³ The budget is attached to the agreement with *Union to Union* as an annex and any updates should be supported by a written approval by *Union to Union*.

⁴ I.e. funds remaining from disbursements made during previous reporting period/s

The exchange gains/losses are described in the narrative report Q9b. "Exchange rate gains or losses". The gain/loss is calculated only on the end of year balance for each level and in SEK.

The outgoing balance is based on the amounts transferred to and from each level and the expenditure accredited to that level as shown in the template excel file "Finance Template" in the sheet "Transfers and Balance".

For projects including many local partners with other currencies than the application budget currency local level partners can do this in their local currency. The Union to Union agreement partner will then aggregate the local information to the application currency for each level and summarize in Q9b

- d. Explanatory notes (such as, for instance, accounting principles applied for the financial report).

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- e. Amount of funds that has been forwarded to implementing partners, when applicable.

As shown in the template excel file "Finance Template" in the sheet "Transfers and Balance". This is not applicable for local level partners.

3. Inquire and inspect Salary costs, applicable for all levels:

- a. Inquire and inspect **with what frequency salary costs** during the reporting period **are debited** to the project/programme

This refers to all salary costs in the project on all budget lines.

Preferably all salaries should be under the budget line "Staff/Personnel costs, but they might occur under other budget lines as for example Project coordinator.

Choose a sample of three individuals for three different months and:

- b. Inquire and inspect whether there are **supporting documentation**⁵ for debited salary costs.

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- c. Inquire and inspect whether **actual time worked is documented and verified by a manager**. Inquire and inspect within **which frequency reconciliations between debited time and actual worked time is performed**.

The costs should be charged on a regular basis and authorized by the appropriate person. The basis for any estimated staff costs must be clearly documented and commented on in the narrative report. Estimates alone are not sufficient.

- d. Inspect whether the Cooperation partner **comply with applicable tax legislation** with regard to personal income taxes (PAYE⁶) and social security fees.

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⁵ Debited salary costs should be verified by supporting documentation such as employment contracts.

⁶ Pay As You Earn

4. Inspect and confirm **Unspent fund balance**, applicable for all levels

- 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**

Comment on any funds in the report that are not project funds from the agreement but are part of the organisation's own funds for the project.

- b. Applicable the final year: **Inspect and confirm the unspent fund balance** in the financial report and confirm the amount that shall be repaid to *Union to Union*.

The amount that shall be paid back to Union to Union can only be confirmed in the currency for that level as the final value in SEK of the repayment amount will be set by Union to Union after the report has been approved. It will then be valued at the Union to Union end of year rate for each currency and a final total in SEK will be notified the Union to Union Agreement partner in the "Project Report Memo"

The final balance for the project as a whole to be repaid will be handled by the UtoU agreement partner and not by each level partner

III. Follow up of funds that are channelled to implementing partners

Mandatory assignments that must be included if the Cooperation partner forward funds to implementing partners (IP's). Choose a sample of a minimum of 40 % of the total of disbursed funds as well as 30 % of the number of IP's or a maximum of 10 IP's.

This is not applicable for local level partners.

Inspect and confirm whether the Cooperation

1. has **signed agreements** with the selected IP's

Are there signed agreements with all partners in the project chain that has received part of the project funds?

2. **in all agreements entered with IP's, included the requirement to carry out annual audits.** The requirement shall specify that these audits shall be carried out with application of ISA (reporting according to ISA 800/805) and a separate assignment according to ISRS 4400 should be included for project/programme support.

Do all the agreements include the requirements? If they do not, what kind of agreement has been used instead?

Inquire and inspect whether the **Cooperation partner has received financial reports and reports from auditors from all IP's** included in the selected sample.

3. a. Inquire and inspect whether the Cooperation **partner has verified if reports from IP's** are in line with the requirements in the Agreement.

Is there any documentation on in the reports are in line with the requirement or not? The format of the documentation may vary, could be in a system, in a list etc.

3. **b.** Inquire and inspect whether the Cooperation partner has **documented its assessment** of the submitted financial reports and reporting from auditors including management responses and action plans from selected IP's.

Is there any documentation on the assessments? The format of the documentation may vary, could be in a system, in a list etc.

3. **c.** Inquire and inspect whether the Cooperation partner has **documented its follow-up actions** based on the information provided in the financial reports and the reporting from the auditor of the selected IP's.

Is there any documentation over the follow-up actions? The format of the documentation may vary, could be in a system, in a list etc. or part of an overall assessment

3. **d.** Inquire and inspect whether the Cooperation partner has **reported substantial observations**⁷ from selected IP's audit reports in its communication with *Union to Union*. List observations⁸ from IP's audit reports which have been part of this sample.

Has any report been made, e-mail communication sent or comments been added in the Narrative report under 10. Additional comments?

If agreements regarding core support are entered into with IP's, the audit shall be conducted in accordance with ISA 700 or National standards on auditing.

IV. Union to Unions additional assignments

For Bilateral projects

1. If *Union to Union's* contracting partner is a **Swedish Union**, the auditor shall review that **the own contribution** (5 % of the total project budget) has been reported on the income side in the project accounts together with the project funds from *Union to Union*.

For all projects

2. Review that an **organizational assessment** has been done before entering in agreement with organizations at subordinate level.

The focus of the organisational assessment is of the administrative and financial capacity of the agreement holder for handling the project funds.

3. If the Cooperation partner has agreements on subsequent levels with local partners for less than 75 000 SEK, the auditor shall review if the Cooperation partner has a written approval from *Union to Union* to **include the costs on subsequent level** in the Cooperation partners own audit.

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⁷ Deemed substantial by the Cooperation partner

⁸ Observations included in Management Letters and if applicable, qualified audit reports.

4. If the Cooperation partner has an **approved exception** from *Union to Union* permitting transfer of funds outside of the international banking system, the auditor shall review that the agreed stipulated special routines and conditions is adhered to.

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5. Review that the project/program funds are deposited in a **bank account that requires two authorized signatories jointly**, until funds are spent on the project/programme or paid out to organizations at subordinate levels.

The requirement is for the project funds to be released from the bank account.

6. That any interest accruing to the project/programme is included in the financial reports. *The interest shall be filled in on the appropriate line in the Excel file in the "Transfer and Balance" sheet.*

C. The reporting

Reporting from the ISA assignment

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion shall be clearly stated. The financial report that has been the subject of the audit shall be attached to the audit report.

The audit report must include an opinion, below is an example on how an audit opinion can be stated.

Opinion

We have audited the statement of income and expenditure of (Organisation) for (the Project/Project no) for the period from January 1 to December 31, XXXX and notes to the statement of income and expenditure, including a summary of significant accounting policies (together "the financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the income and expenditure of (the Project/Project no), for the period from January 1 to December 31, 20YY in accordance with the cash income and expenditure basis of accounting described in Note I.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA800/805). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are independent of the Organisation in accordance with the ethical requirements that are relevant to our audit of the financial statement in (country), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The audit report shall include signed versions of the sheets "Budget and Outcome" and "Transfers and Balances".

Management Letter

The reporting shall also include a Management letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

Measures taken by the Cooperation partner to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.

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.

Reporting from the ISRS 4400 assignment

The additional assignment according to Agreed upon procedures ISRS 4400 under section II, shall be reported separately in an “Agreed upon procedures report”. Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated in the report.

Management Response

The Management Letter shall be responded to in a Management Response by the agreement partner in which the agreement partner addresses any issues in the Audit report and corresponding Management Letter. If there are no issues raised by the auditors in the Management Letter and the audit is without comments a Management Response shall be issued where the agreement partner acknowledges this.