Sida

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A guide to those parts of the General Conditions for Sida's Grants to Swedish NGOs concerning audits

Audit Guide

Content

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1. Introduction

1.1 Using the Audit Guide

This Audit Guide has been produced by Sida in consultations with non-governmental organisations (NGOs) and their auditors. The opinions and the requests of the NGOs and the auditors have been of great importance and Sida has given them due consideration in the production of this guide.

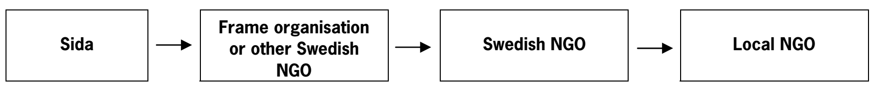
1.1.1 Contents of the Audit Guide

The Audit Guide contains clarifications of the contents of the sections on audit in General Conditions for Sida's Grants to Swedish NGOs, and the related audit instructions. The Guide has the aim of clarifying the requirements laid down in Sida's General Conditions. The Guide has three sections:

1. A section that is directed towards NGOs and clarifies the requirements for their work with the audit and provides them with support in this work. This section is related to Section 10, Audit, in Sida's General Conditions.
2. A section that is directed towards qualified auditors working with the audit of NGOs and elucidates the requirements made of them in Sida's Audit Instruction 1.
3. A section that is directed towards lay auditors working with the audit of NGOs and elucidates the requirements made of them in Sida's Audit Instruction 2.

1.1.2 Grants are handled in several links in a chain

The factor that is most difficult to deal with in Sida's General Conditions is that requirements in respect of audits shall be passed on through several links in the chain and that controls shall be exercised in several links. The descriptions contained in this Guide use the same links in the chain:



All these links are common, but only the link:”Frame organisation or other Swedish NGO” is always present since it is this organisation that receives the grant from Sida. The above chain is used in the Guide for the sake of clarity and to describe a situation that many NGOs recognise.

For the group of organisations for which the chain in the Guide is not appropriate, the requirements must be adjusted accordingly. Often this adjustment can be made by removing a link, adding a link, or putting another type of organisation in one of the links. The list below describes how some situations of this type can be dealt with.

1. *An international organisation channels the grant between the Swedish NGO and the local NGO.* In this case, the requirements made of the international organisation should follow as far as possible the requirements made of Swedish NGOs.
2. *A local NGO channels the grant between the Swedish NGO and the NGO that is the final recipient of the grant.* In this case, the requirements made of the local NGO that channels the grant should follow as far as possible the requirements made of Swedish NGOs.
3. *The local organisation in receipt of the grant is a government agency***.** The same requirements should be made as in the case of a local NGO.
4. *The frame organisation or the Swedish NGO that receives the grant directly from Sida implements the contribution itself***.** In this case there is no local NGO. The requirements are the same as for Swedish NGOs that channel grants, apart from the fact that requirements in respect of audit controls in the next link in the chain disappear. It is important to bear in mind that the audit of the Swedish NGO also includes activities in the partner country.

1.1.3 Definitions and explanations of terms

Both NGOs and their auditors submit reports. In the Audit Guide the following concepts are used for the various reports:

- *Report on a grant* means the report in respect of the use of a grant that an NGO submits to the provider of the grant. The report contains both a description of activities and a financial report.
- *Audit certificate* is the brief certificate that the auditor submits in respect of a report. The text of the audit certificate is specified in Sida’s audit instructions.
- *Audit memorandum* is the report on the content and scope of the audit, the examination of the controls made of the audit in subsequent links in the chain and significant observations made by the auditor to the organisation audited. The audit memorandum is also often referred to as the Management Letter.
- *Audit report* is the formal opinion given by an auditor on the basis of the organisation’s constitution or legislation. It is based on the examination of a report on the activities of the entire organisation.

In the Audit Instruction in the General Conditions, and in several places in this Audit Guide, reference is made to generally accepted auditing standards. This means the professional practices of experienced auditors.

FAR (the institute for the accountancy profession in Sweden) defines generally accepted auditing standards in its recommendations and statements on audit issues, primarily in"Auditing Standards in Sweden".

1.2 Sida's requirements in respect of audits

1.2.1 Sida's requirements are minimum requirements

The conditions in respect of audits in Sida's General Guidelines are the minimum requirements made by Sida for all links in the chain. There is nothing to prevent an NGO, in any link in the chain, from imposing stricter requirements on itself or on the organisations it channels grants to.

1.2.2 An NGO's assessment of materiality and risk

Sida's General Guidelines lay down certain requirements of an NGO's administration of the audit, for example the instructions that an organisation should give to its auditor, the requirements an organisation shall lay down in respect of organisations in subsequent links in the chain, and ways in which an audit in a subsequent link in the chain should be examined and followed up.

Sida requires an audit to be performed by a qualified auditor for grants over SEK 200 000. The formal requirements for audits of all grants over SEK 200 000 are the same, but an organisation must make its own assessment of the audit input needed to fulfil the requirement.

In making this assessment it may be of help to use the concepts of materiality and risk, which are commonly used in audits. Note that their use here refers to an NGO's assessment of materiality and risk in order to adapt its own audits to meet Sida's requirements, not the assessments made by the auditor in his audit. An NGO's assessment can have the following starting points:

- Materiality refers to the size of the grant. In general the resources provided for controls and follow up should be large for large grants.
- Risk refers to the probability that improprieties or errors may occur. The greater an organisation assesses the risk to be, the more resources it needs to invest in controls and follow-up. A high risk may be, for example, an assessment that it is difficult to judge the auditors' qualifications in a certain country or that the administrative routines in a recipient organisation are perceived as weak.

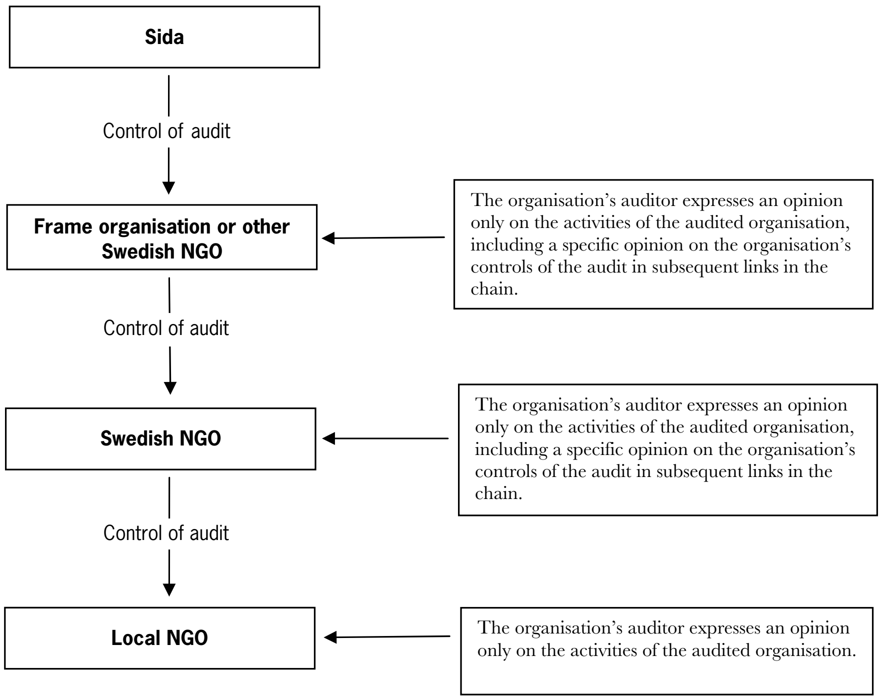
In what respects can an organisation adapt its routines in respect of audits of materiality and risk? The list below provides some examples but is by no means complete. An organisation can adjust the degree to which it

- follows up a recipient organisation's compliance with audit requirements
- checks the auditor of a recipient organisation
- follows up audit memoranda from a recipient organisation.

1.2.3 Division of responsibilities between the organisation and the auditor

One basic principle is that an auditor only expresses an opinion on the organisation he or she audits and not on organisations in subsequent links in the chain. Checks of audits in subsequent links in the chain are extremely important and the responsibility for performing controls of this type rests with the audited organisation. An organisation has the responsibility for audits in subsequent links in the chain and the organisation's auditor expresses an opinion on the organisation's internal controls of audits in subsequent links in the chain.

Division of responsibilities between organisations and auditors for controls of audits in subsequent links in the chain.



1.3 Risks of corruption

Audit Standards in Sweden, published by FAR, includes"Audit Standard 240: Fraud and Errors" This standard gives the following guidelines for the work of auditors:

– *The aim of this audit standard is to lay down standards and to provide guidance in respect of the auditor's responsibility for taking fraud and errors into consideration in the audit.*
– *When the auditor plans and performs audit steps and evaluates and submits reports on the results of these steps, he or she shall take into consideration the risk that there is material misstatement in the annual report as a result of fraud and errors.*
– *When the audit is planned, the auditor shall assess the risk that fraud and errors can lead to the annual report containing material misstatement and shall make inquiries of management every time fraud or error is discovered.*
– *On the basis of the risk assessment the auditor shall organise an audit to provide satisfactory assurance of the discovery of such misstatement due to fraud and errors and which is of material importance for the annual report as a whole.*

A large proportion of the programmes of development cooperation of Swedish NGOs are implemented in corruption-prone environments. This is evident for example from Transparency International's ”Corruption Perceptions Index” in which several of Sweden's partner countries are ranked among the most corruption-prone.

This implies that the risk of fraud is often relatively great. Since the grants are often relatively small amounts, the frauds, when they occur, tend to be considerable in relation to the total grant. This implies that in many cases there is a clear risk of material misstatements as a consequence of fraud. It is important that the auditor takes this clearly evident risk into consideration in his/her risk assessments and planning.

All organisations, Swedish and foreign, should emphasise this risk to their auditors in order to ensure that they take it into account in their work. Consequently all organisations that channel grants further in the chain should pass on this requirement to the next organisation. A source for making assessments of this risk is the above-mentioned ”Corruption Perceptions Index”.

It is naturally of great importance that the local NGO ensures that its auditor gives consideration to the risk of significant fraud. RS 240 constitutes generally accepted auditing standards in Sweden and is therefore not applicable to foreign auditors. Instead, the more exhaustive ”International Standard on Auditing 240, The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements” or national standards in the country in question are applicable to foreign auditors. It is appropriate that the local NGO emphasises the relevant standard when commissioning the audit assignment.

1.4 Further development of the Audit Guide

The objective is that the Audit Guide shall be as relevant and practically applicable as possible. Therefore it will be further developed after it has been used in practice for one year. When the Guide has been used for the audit of accounts for the financial year 2004, Sida will collect experience from NGOs and their auditors and revise the Guide.

2. Requirements of NGOs

2.1 Requirement of an unbroken chain of reports with audit certificates

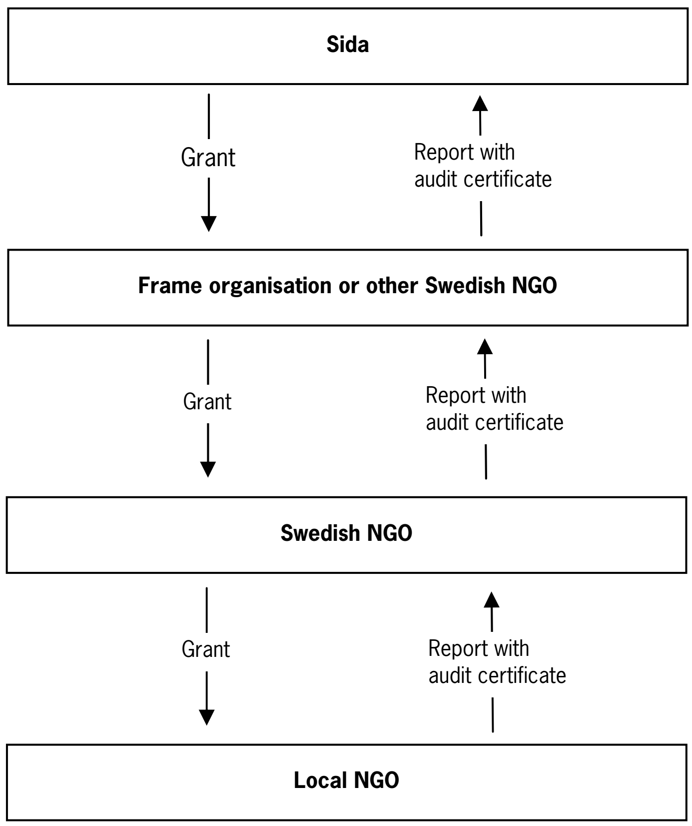
General Conditions10. Audit.	For all Sida's grants there shall be an unbroken chain of reports and associated audit certificates up to and including the final organisation in receipt of the grant.

1. A grant and an agreement between the donor of the grant and the recipient of the grant are always inter-related. A grant in this context refers to the amount of support that the parties have agreed in the agreement.
2. Every grant made under a separate agreement is to be reported on separately by the recipient of the grants. The frequency of the recipient's reports can vary. This is regulated in the agreement.
3. Audit certificates shall be attached to all final reports but are not required for interim reports. For agreements on grants that extend over a longer period than three years, an audit certificate is required every third year in connection with the interim report.
4. An audit shall only be made of organisations or persons that record costs in the accounts and submit reports in accordance with the agreement. This means that organisations or persons that receive advances and then account for these advances in the form of receipts are not audited. Nor are organisations or persons that receive grants without the obligation to make reports to be audited.
5. In cases of organisation support or core funding, it is often not possible to distinguish individual grants. In these cases the organisation channelling the grant should require the recipient organisation's complete annual report together with its audit report, i.e. a full report on the organisation's activities and finances.
6. In cases of co-financed projects with a number of donors the organisation channelling the grant should have the ambition to coordinate the reporting and auditing requirements with the other financiers. This means that the organisation must be flexible to a certain extent

in its requirements. Coordination may apply, for example, to the interval between reports, the reports that shall be audited, and the formulation of the audit certificate.

7. The same principle also applies in cases where the chain has more steps than in the figure below. Organisations at all points in the chain report upwards to the organisation from which they have received the grant, with a separate audit certificate for the report.

An unbroken chain of reports with associated audit certificates for all grants



2.2 When shall Audit Instruction 1 or 2 be used?

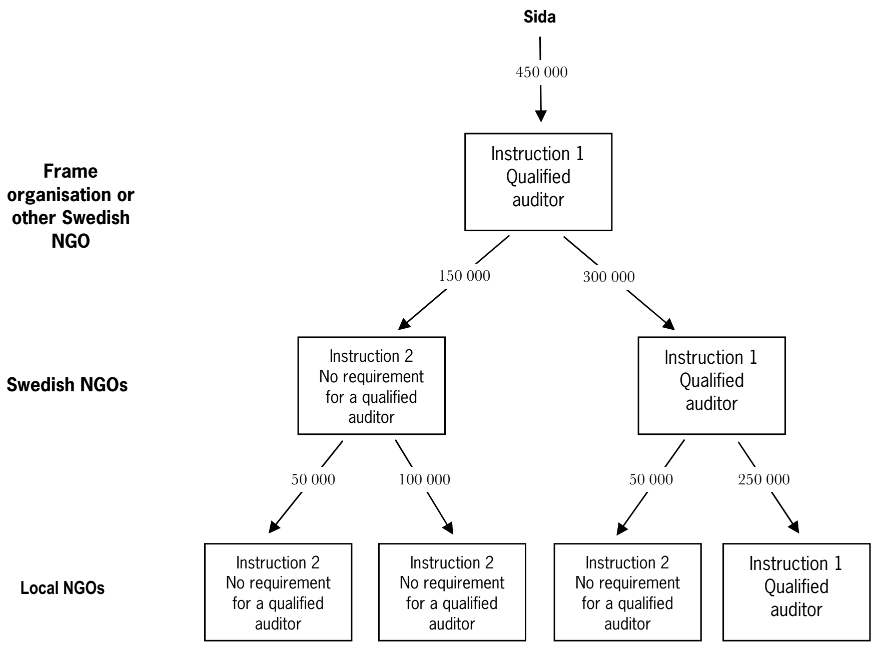
General Conditions10. Audit.	Reports in respect of framework grants or other grants exceeding SEK 200 000 shall be audited in accordance with Sida's audit instruction 1. Reports in respect of grants other than framework grants and which do not exceed SEK 200 000 shall be audited in accordance with Sida's audit instruction 2.

1. The amount in each stage in the chain determines the instruction that is to be used. A grant from Sida can thus be audited according to different instructions in different parts of the chain.
2. The amount of SEK 200 000 for the audit requirement in accordance with Audit Instruction 1, and thus for an audit by a qualified

auditor, is Sida's minimum requirement and there is nothing to prevent an NGO from applying stricter criteria and setting a smaller amount for audits in accordance with Audit Instruction 1.

3. The amount of SEK 200 000 refers to agreed grants and not actually disbursed grants.
4. The amount of SEK 200 000 refers to agreed grants for the entire period of the agreement.
5. If an organisation receives several grants, with several agreements and reports, the various grants do not need to be combined when a decision is made to use Audit Instruction 1 or 2. Each grant is assessed separately.

The size of the grant determines whether the audit shall follow Audit Instruction 1 or 2



2.3 What is a qualified auditor?

General Conditions10. Audit.	All reports that are audited in accordance with Sida's audit instruction 1 shall be examined by a qualified auditor. In respect of reports that are audited in accordance with audit instruction 2, Sida can accept that the audit is performed by an auditor elected by the organisation.

1. In Sweden the concept "qualified auditor" refers to an authorised public accountant or approved public accountant.
2. In the partner country the point of departure of the concept of "qualified auditor" is a level of qualifications and experience that corresponds to that possessed by a qualified auditor in Sweden. The level of qualifications and experience may coincide with a local

licence or certification but this is not necessarily the case. An assessment of qualifications and experience must be made in addition to checks of local licences or certification.

3. A Swedish NGO should regard ”high risk countries” as those countries in which the standard of auditors is difficult to assess or where it is often low. In these cases a more exhaustive assessment than normal should be made of the local organisation's auditor.
4. An elected auditor may either be a qualified auditor or a lay auditor. The term lay auditor refers in this context to a person who does not have auditing as his/her profession. Even if the lay auditor is not a professional auditor, it is important that he or she has basic knowledge of accounting.

2.4 Passing on audit instructions to the next link in the chain

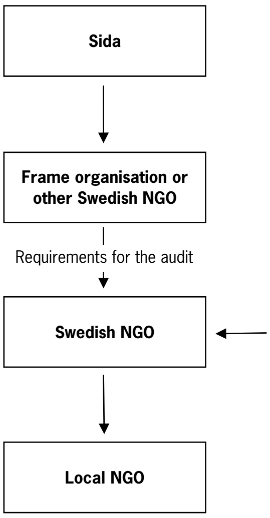
General Conditions10. Audit.	The audit instruction in question shall, where appropriate, be passed on to the organisations subsequently in receipt of the funds.

1. The main principle shall be that as much as possible of the audit instructions shall be passed on to all links in the chain. Those parts that can normally be passed on are listed below.
2. In some cases it is necessary to make an exception from the lists below. This assessment is made from case to case and should be regarded as an exception. Examples of cases where it may be necessary to make an adjustment is in cases of organisation support or core funding, or when the project in question is being financed by several financiers.
3. Exceptions from passing on parts of the audit instructions shall always be agreed with the organisation channelling the grant and the reasons for the exception shall be documented. Exceptions in this context refer to exceptions from the conditions that are listed in section 2.4.1 to 2.4.4 below.
4. This Audit Guide is applicable to a very large extent to all Swedish NGOs regardless of their position in the chain and their auditors. Therefore in most cases the organisation channelling the grant can pass it on to organisations receiving grants in Sweden. The Swedish recipient organisation and its auditor can use it without any further adaptation.
5. The Audit Guide is based to a large extent on Swedish conditions, Sida's requirements of Swedish NGOs and generally accepted auditing standards in Sweden. Therefore it cannot be passed on, translated but not adapted, to local NGOs and their auditors. On the other hand the Guide contains guidelines for those parts that can be passed on to local NGOs.
6. The Audit Guide refers in certain cases to generally accepted auditing standards in Sweden and to FAR's rules. These are specific to Sweden and cannot be passed on to foreign auditors. On the other hand, instead of generally accepted auditing standards in Sweden, it is

possible to refer to International Standards on Auditing (ISA). Of particular relevance is ISA 240, The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements, and ISA 800, The Auditor's Report on Special Purpose Audit Engagements.

2.4.1 Grants over SEK 200 000 from a frame organisation or any other Swedish NGO to a Swedish NGO

Frame organisations or any other Swedish NGOs that receive grants from Sida for onward transmission to a Swedish NGO should normally pass on the following conditions in respect of audit to the recipient organisation when the amount of the grant that is passed on exceeds SEK 200 000.



Conditions in respect of the audit

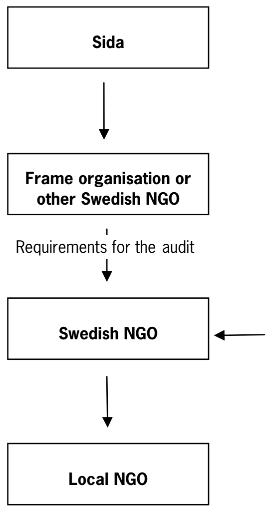
1. A report on the grant shall be audited by a qualified auditor.
2. Conditions for audits and audit instructions shall, where applicable, be passed on to the next organisation in the chain.
3. The Swedish NGO shall exercise controls of the audit in all subsequent links in the chain.
4. The Swedish NGO shall submit the following reports to the donor organisation:
   - Audit certificate
   - Report from the auditor on the content and scope of the audit, examination of the organisation's internal controls of audits in organisations in subsequent parts of the chain, and significant observations in the activity for which the grant was provided.

Instructions that the Swedish NGO shall give to the qualified auditor (from Audit Instruction 1)

1. The auditor shall issue an audit certificate in respect of the report made by the organisation under the agreement.
2. This audit certificate shall contain the following:
   - A reference to the report that the audit certificate refers to
   - A statement that the auditor has audited the organisation's internal controls in respect of audits of all organisations to which the organisation channels the grant.
   - A statement to the effect that the audit has been performed in accordance with generally accepted auditing standards and in accordance with the organisation's specific instructions.
   - A statement on whether or not the report has been drawn up in accordance with the agreement.
   - A statement on whether or not the organisation's internal control of audits in all organisations subsequently in receipt of the funds gives cause for remark.
   - A statement on whether the auditor proposes that the report be approved or not.
3. The auditor shall give the audited organisation a report on
   - the content and scope of the audit.
   - the result of the examination of the organisation's internal control in respect of audits of all organisations to which, under the agreement the organisation channels the grant.
   - significant observations on the activity covered by the report
4. In addition to the audit made by the auditor in accordance with generally accepted auditing standards, the auditor shall make a special examination to ascertain that:
   - the organisation has signed agreements with the organisations to which it channels Sida funds
   - any contribution made by the organisation itself is reported in accordance with the agreement
   - the grant is kept separately in a separate bank account
   - the financial report to Sida is made against the approved budget and contains explanations for any deviations
   - the organisation has internal regulations for procurements that correspond to Sida's procurement regulations for NGOs and has followed these regulations in its procurements.

2.4.2 Grants under SEK 200 000 from a frame organisation or any other Swedish NGO to a Swedish NGO

Frame organisations or any other Swedish NGOs that receive grants from Sida for onward transmission to a Swedish NGO should normally pass on the following conditions in respect of audit to the recipient organisation when the amount of the grant that is passed on is less than SEK 200 000



Conditions in respect of audit

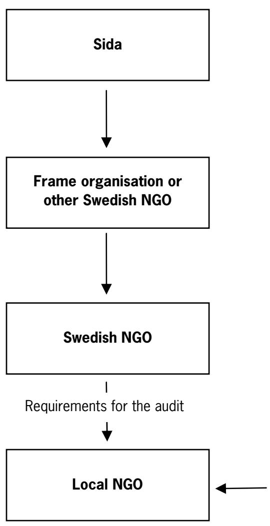
1. A report on the grant may be audited by a lay auditor.
2. Conditions for audits and audit instructions shall, where applicable, be passed on to the next organisation in the chain.
3. The Swedish NGO shall exercise controls of the audit in all subsequent links in the chain.
4. The Swedish NGO shall submit the following reports to the donor organisation:
   - Audit certificate

Instructions that the Swedish NGO shall give to the lay auditor (from Audit Instruction 2)

1. The auditor shall issue an audit certificate in respect of the report made by the organisation under the agreement.
2. This audit certificate shall contain the following:
   - A reference to the report that the audit certificate refers to.
   - A statement on whether the auditor proposes that the report be approved or not.

2.4.3 Grants over SEK 200 000 from a Swedish NGO to a local NGO

A Swedish NGO that receives a grant from a frame organisation or any other Swedish NGO and channels the grant onwards to a local NGO should normally pass on the following conditions in respect of audit to the recipient organisation when the amount of the grant that is passed on exceeds SEK 200 000



Conditions in respect of audit

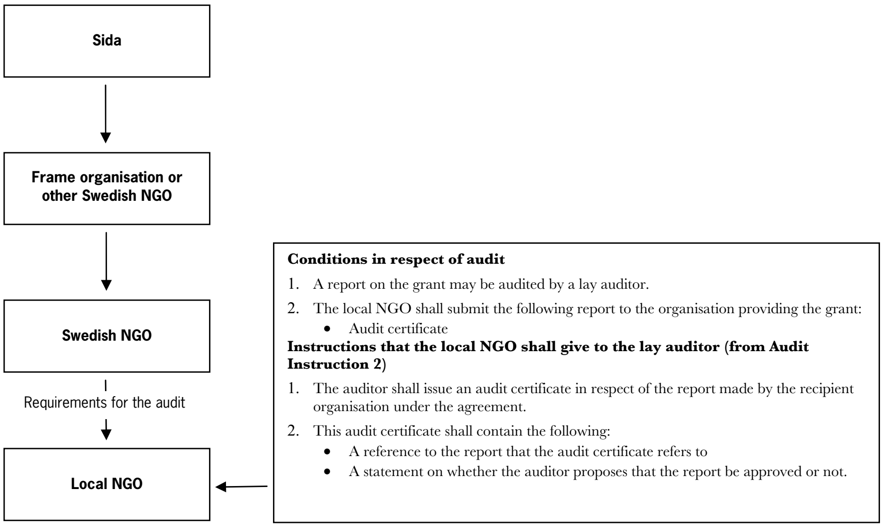
1. A report on the grant shall be audited by a qualified auditor.
2. The local NGO shall submit the following reports to the organisation providing the grant:
   - Audit certificate
   - Report from the auditor on the content and scope of the audit, and significant observations in the activity for which the grant was provided.

Instructions that the local NGO shall give to the qualified auditor (from Audit Instruction 1)

1. The auditor shall issue an audit certificate in respect of the report made by the organisation under the agreement.
2. This audit certificate shall contain the following:
   - A reference to the report that the audit certificate refers to
   - A statement that the audit has been performed in accordance with generally accepted auditing standards in the country and in accordance with the organisation's special instructions.
   - A statement whether the report has been drawn up in accordance with the agreement.
   - A statement on whether the auditor proposes that the report be approved or not.
3. The auditor shall give the audited organisation a report on
   - the content and scope of the audit
   - significant observations on the activity covered by the report
4. In addition to the audit made by the auditor in accordance with generally accepted auditing standards, the auditor shall make a special examination to ascertain that:
   - the grant is kept in a bank account
   - the financial report is made against the approved budget and contains explanations for any deviations
   - the organisation has internal regulations for procurements and has followed these regulations.

2.4.4 Grants under SEK 200 000 from a Swedish NGO to a local NGO

A Swedish NGO that receives a grant from a frame organisation or any other Swedish NGO and channels the grant onwards to a local NGO should normally pass on the following conditions in respect of audit to the recipient organisation when the amount of the grant that is passed on does not exceed SEK 200 000



2.5 Controls of audits in subsequent links in the chain

General Conditions10. Audit.	An organisation which channels grants to other organisations shall ensure that appropriate audits are performed at all such organisations.

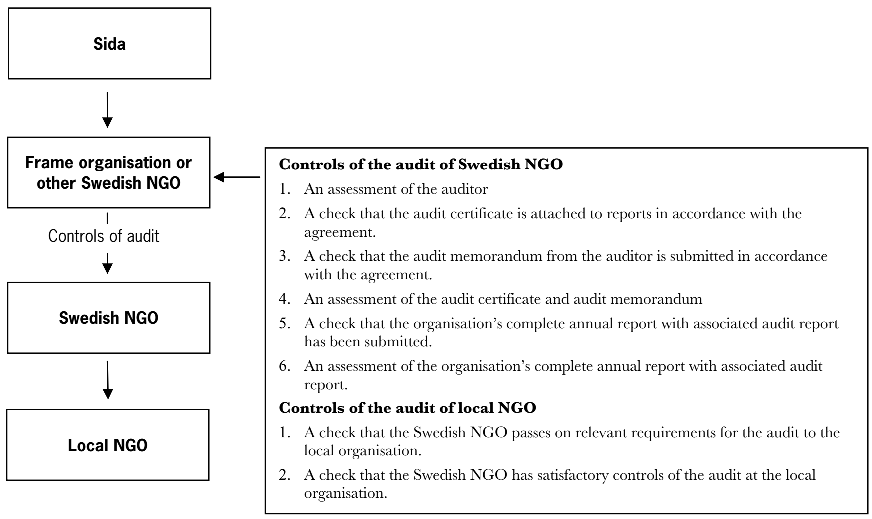
1. The control of audits at all subsequent links in the chain performed by an organisation that channels grants to other organisations shall entail that all reasonable steps have been taken to ensure that the audits do not have any significant deficiencies in any part.
2. The control of an audit is usually limited to reading and analysing the audit certificate and the audit memorandum from the auditor.
3. Controls of audits at several organisations in the chain are usually performed by checking that requirements in respect of audits are passed on and by checking the internal controls of audit of subsequent organisations in the chain at the organisation next in receipt of the grant.
4. One important component of the controls of the audit at subsequent organisations in the chain is the check made on the auditor, for example licence, experience, membership of professional organisation, and membership of international networks.
5. It is often difficult to assess the qualifications of a local auditor. The responsibility for making this assessment rests primarily with the Swedish NGO that channels the grant to the local NGO. If the

Swedish NGO does not consider that it possesses the competence and experience to make this assessment independently, it may need to engage external assistance, for example from its auditor or elsewhere.

6. In evaluations and during the visits made by Swedish NGOs to the partner countries, a follow-up of the audit should be included as part of the work.
7. Controls of audits at subsequent organisations in the chain should be adapted to the situation in question. Large grants often require more extensive controls than small grants. Situations in which there is a risk that the audit does not fulfil requirements require more extensive controls than situations where this risk is not great. Examples of situations in which the risk often increases is when the local organisation is a new partner in cooperation and shows that it has shortcomings in its administrative capacity, or when the grant is given to an organisation in a country in which audit is judged from experience to be associated with risks.

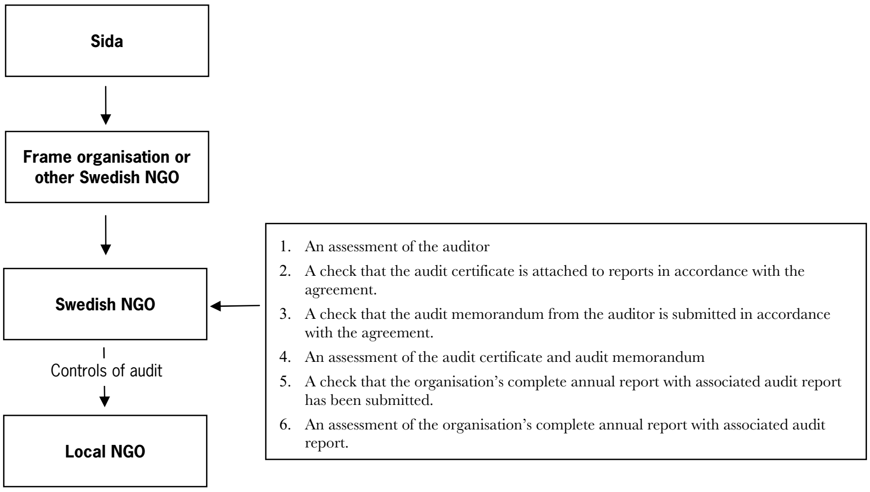
2.5.1 Controls exercised by a frame organisation or other Swedish NGO of audits in all subsequent organisations in the chain.

Controls exercised by a frame organisation or other Swedish NGO of audits in all subsequent organisations in the chain should contain the following steps.



2.5.2 Controls exercised by Swedish NGOs of audits in local NGO

The controls exercised by Swedish NGOs of audit in a local NGO should normally contain the following steps.



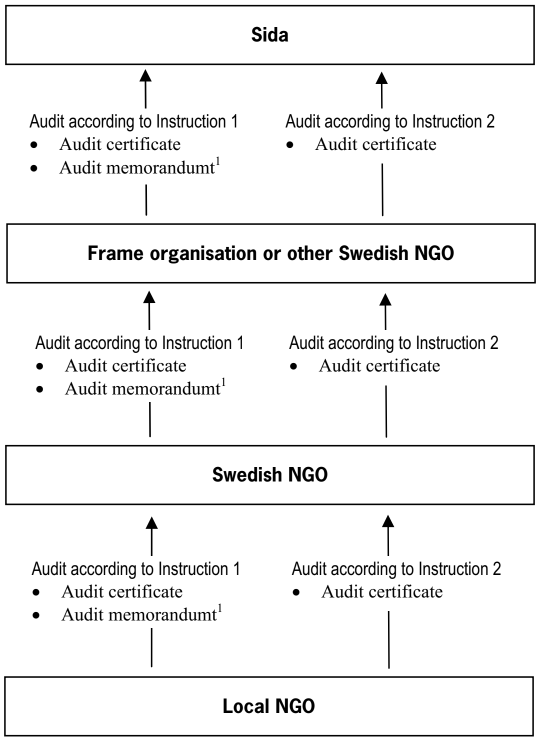
2.6 Reports from recipients of grants in respect of audits

General Conditions10. Audit.	The organisation in receipt of the grant shall submit the following reports to Sida when the audit is performed in accordance with audit instruction 1: 1. Audit certificate in accordance with Sida's audit instruction 1 2. Report from the auditor in respect of the content and scope of the audit and the result of the examination on the organisation's internal controls of audits in organisations subsequently in receipt of the funds. The organisation in receipt of the grant shall submit the following report to Sida when the audit is performed in accordance with audit instruction 2: 1. Audit certificate in accordance with Sida's audit instruction 2.

1. The auditor of the organisation in receipt of the grant submits his/her report to the organisation either in accordance with Instruction 1 or Instruction 2. The organisation in receipt of the grant passes on its auditor's report to the organisation from which it has received the grant.
2. The frame organisation or other Swedish NGO that receives a grant directly from Sida reports to Sida. This means that these organisations' audit certificates and any audit memoranda will be public documents when they have been submitted to Sida.

3. In some individual cases Sida can request audit certificates and audit memoranda from organisations at a lower level in the chain. Therefore, it is appropriate that all organisations regard their reports in respect of audits of their activities supported by Sida as potential public documents.

The reports on audit made by the organisation in receipt of the grant to the organisation from which it has received the grant



[1] *Auditor's report in respect of:*
- *Content and scope of the audit*
- *Result of the audit of internal controls of audits at organisations subsequently in receipt of the funds*
- *Important observations.*

3. Requirements of auditors in audits

performed in accordance with audit instruction 1

The auditor's certificate in Sida's Audit Instruction 1 is linked to a FAR statement (RevU 3) which is intended to guide the auditor on the emphasis and scope of the audit and on the formulation of the certificate. The statement includes the following:

– *In this context, the auditor's certificate is a statement of opinion that constitutes an attestation which an auditor provides in addition to what is laid down in relevant legislation.*
– *The auditor's duties and responsibilities in connection with the auditor's certificate does not deviate from that which applies under FAR's Code of Professional Ethics for Accountants, rule 4. This means that FAR's recommendations should guide the auditor, where applicable, in respect of the emphasis and scope of the audit and the reports.*
– *As a rule information should be made available on the standpoints adopted by the auditor, on the auditee and as a rule also on the scope of the audit. If the audit has been made as a result of legislation or special instructions, information to this effect should be supplied.*

FAR's statement above is not based on the International Standards on Auditing (ISA). FAR's statements that are not based on ISA relate to the auditor's examination of specific Swedish conditions and are therefore not suitable for the auditors of local NGOs. For these auditors, ISA 800: The Auditor's Report on Special Purpose Audit Engagements, or a national standard in the country in question should provide guidance. Obviously ISA 800 can also be of assistance to Swedish auditors.

3.1 Requirements in respect of audit certificates

3.1.1 The auditor's statement of the report's compliance with provisions in the agreement.

General ConditionsAudit Instruction 1	The report has been prepared in accordance with above-mentioned agreement with Sida.

1. The auditor shall express an opinion on whether the audited report has been prepared in accordance with the underlying agreement with Sida or the donor organisation.

2. The auditor cannot be expected to express an opinion on those parts of the report that are outside his/her field of competence. An NGO's report can normally be divided into a financial report, a report on activities and a report on effects. The auditor expresses an opinion on the following parts and aspects:

   – The financial report shall be audited in its entirety, including follow-up against budget. The auditor expresses an opinion on the financial report in its entirety.

   – The activity report should be related to the financial report to check whether they accord with each other and in order to make an assessment of whether the costs are reasonable. The auditor only expresses an opinion on that part of the activity report that can be related to the financial report.

   – It is not possible at all for the auditor to express an opinion on effects. The auditor does not express an opinion at all on the effects report.

3.1.2 The auditor's opinion on internal controls of audit in recipient organisations

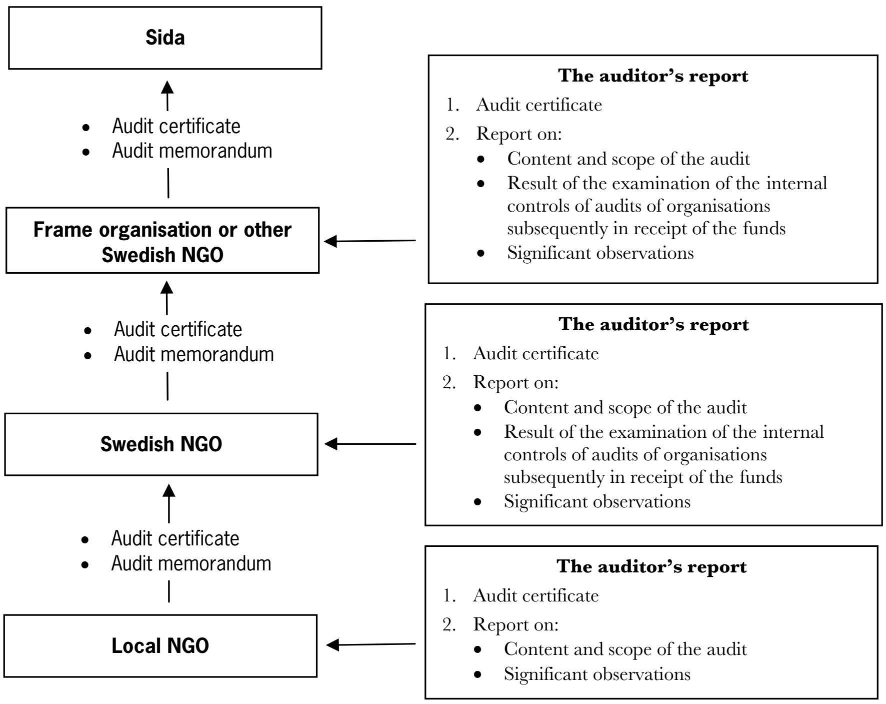
General ConditionsAudit Instruction 1	The internal controls of audit in recipient organisations give no cause for remark.

1. The auditor only expresses an opinion on the audited organisation's control of the audit of organisations subsequently in receipt of the grant, not on the audit(s) of the organisation(s) as such.
2. The opinion is based on an assessment of how well the audited organisation follows the guidelines for NGOs in section 2.5 of the Audit Guide: Control of audit in recipient organisation(s).

3.2 Requirements in respect of the audit report

General ConditionsAudit Instruction 1	The auditor shall also submit a report to the audited organisation in respect of: – the content and scope of the audit – the result of the examination of the organisation's internal control in respect of audits of all organisations subsequently in receipt of the funds to which, in accordance with the agreement with Sida, the organisation channels grants. (In the audit of an organisation that channels grants to other organisations) – significant observations on the activity supported by Sida that the auditor should report to the board of the organisation in accordance with the recommendations on the audit process made by FAR (the institute for the accountancy profession in Sweden).

The auditor's report to the audited organisation



3.2.1 The report on the content and scope of the audit

The auditor shall give a report to the audited organisation on the content and scope of the audit

1. The report should be brief and be kept at an overall level.
2. From the report, it should be possible for Sida or the donor organisation to form a conception of what the auditor has not audited and

which Sida or the donor organisation may therefore need to audit. However, it is not intended that the auditor shall report what he/she has not audited.

3.2.2 The report on the organisation's internal control of audit(s) of organisations in subsequent receipt of the grant

The auditor shall submit a report to the audited organisation on the result of the audit of the organisation's internal controls of audits of all organisations that the audited organisation channels grants to in accordance with the agreement with Sida.

1. The report should contain an analysis of how well the audited organisation's systems and routines for control of audits of organisations in subsequent receipt of the grant follow the guidelines for NGOs in section 2.5 of the Audit Guide: Control of audit in recipient organisation(s).
2. The report should contain possible recommendations to the audited organisation for improvements of its control of audits of organisations in subsequent receipt of the grant.

3.2.3 Report on significant observations

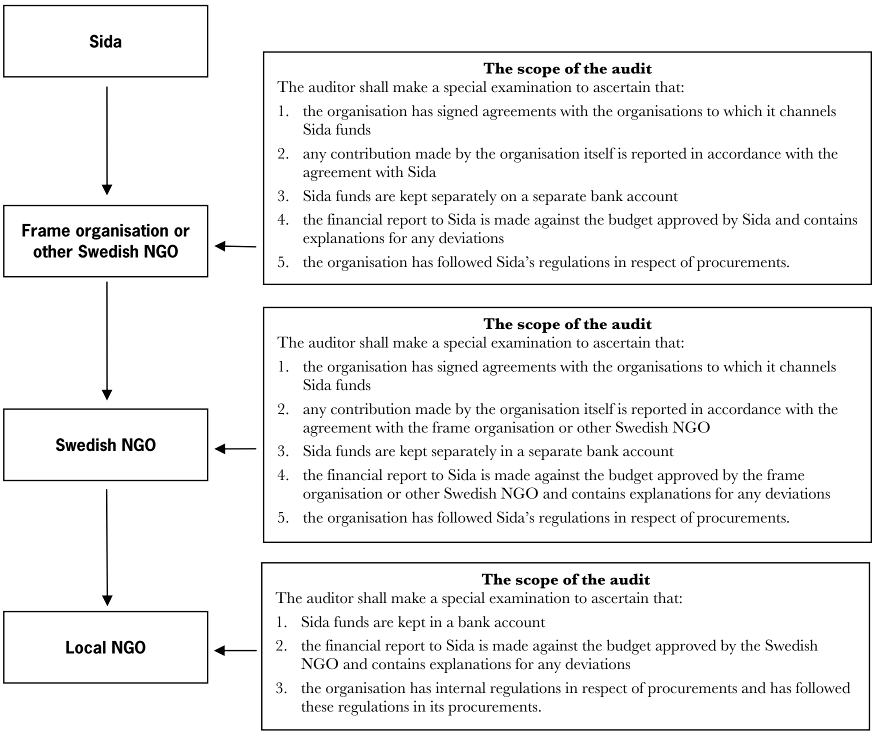
The auditor shall submit a report to the audited organisation on significant observations relating to the activities supported by Sida which the auditor should report to the board of the organisation in accordance with FAR's recommendation in respect of the audit process.

1. The report should contain possible recommendations to the audited organisation in respect of the observations reported by the auditor.

3.3 Special requirements in respect of the scope of the audit

General ConditionsAudit Instruction 1	In addition to the audit made by the auditor in accordance with generally accepted auditing standards, the auditor shall make a special examination to ascertain that: 1. the organisation has signed agreements with the organisations to which it channels Sida funds 2. any contribution made by the organisation itself is reported in accordance with the agreement with Sida 3. Sida funds are kept separately in a separate bank account 4. the financial report to Sida is made against the budget approved by Sida and contains explanations for any deviations 5. the organisation has followed Sida's regulations in respect of procurements.

The special requirements in respect of the scope of the audit, apart from auditing in accordance with generally accepted auditing standards, in Sida's Audit Instruction 1.



3.3.1 Examination that the organisation has signed agreements with the organisations to which it channels Sida's funds

1. The auditor shall verify that the audited organisation has signed agreements with the organisations to which it channels Sida's funds
2. The auditor shall examine the content of the agreements to the extent compatible with generally accepted auditing standards.
3. The auditor shall make a special examination of the content of the agreements in respect of audit. In this respect the auditor shall check that the agreements contain the requirements that are to be passed on to subsequent recipient organisations under the audited organisation's agreement with the donor organisation. The Audit Guide provides specific guidance on the agreements on audit that shall be passed on in all parts of the chain.

3.3.2 Examine that any contribution made by the organisation itself is reported in accordance with the agreement with Sida

1. In general agreed contributions by the organisation itself are only made by Swedish NGOs.

3.3.3 Examine that Sida's funds are kept on a separate bank account

1. Swedish NGOs shall keep funds granted by Sida separately in a separate bank account.
2. Recipient organisations in countries where the activities take place (i.e. local NGOs) shall keep the grants in a bank account.

3.3.4 Examine that the financial report has been made against a budget approved by Sida and contains explanations of any deviations

1. The auditor verifies that the report against the budget corresponds with the accounts and thus provides a true and fair view.
2. The auditor verifies that explanations of deviations from budget are provided and that the explanations are not contradicted by other parts of the report or by any other information possessed by the auditor on the audited organisation.

3.3.5 Examine that the organisation has followed Sida's regulations in respect of procurements

1. The regulations in "General Conditions, Sida's Grants to Swedish NGOs" shall be passed on to Swedish NGOs in all parts of the chain. Auditors of all Swedish NGOs that are audited on the basis of Sida's Audit Instruction 1 can therefore base their audits on Sida's General Conditions.
2. An auditor of a Swedish NGO shall verify that the organisation he audits has internal rules for its procurements. These rules shall meet Sida's requirements laid down in Appendix 2 of the General Conditions: Procurement regulations for NGOs.
3. An auditor of a Swedish NGO shall verify that the organisation he audits follows the internal rules in its procurements.
4. An auditor of a local NGO shall verify that the organisation he audits has internal regulations for procurements and that it has followed these regulations in its procurements.

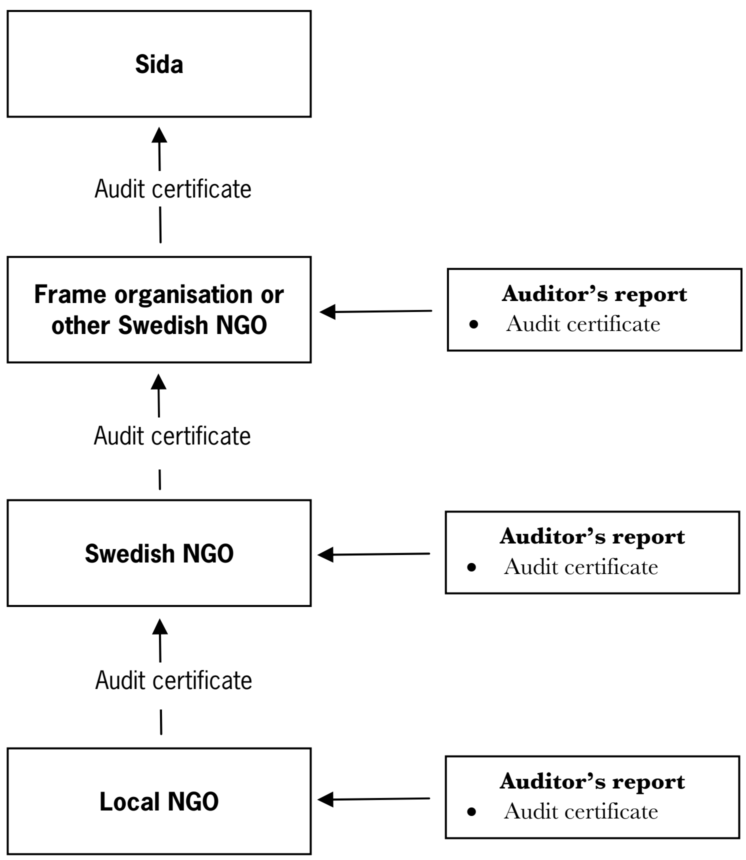
4. Requirements of auditors in audits
performed in accordance with audit instruction 2

4.1 Requirements in respect of audit certificates

General ConditionsAudit Instruction 2	On completion of the audit, the auditor shall issue an audit certificate to the audited organisation in respect of the organisation's report

1. In audits performed in accordance with Sida's Audit Instruction 2, no other requirements are made of the audit certificate than the elected auditor expresses an opinion on the audited report.

Requirements in respect of the auditor's report according to Sida's Audit Instruction 2



4.2 Proposals for the different steps of the audit

Sida makes no specific requirements in respect of audits based on Audit Instruction 2, apart from the fact that the auditor shall submit an audit certificate that is worded in a certain way. To provide support for lay auditors, a checklist is presented below of the steps that should normally be included in the audit according to Audit Instruction 2. In other words the checklist does not constitute a Sida requirement on the content of the audit, but should be regarded as proposed guidelines.

1. Check that the audited organisation's report to the donor organisation follows the agreement between the two organisations.
2. Check that the costs reported by the audited organisation to the donor organisation correspond with those in the accounts.
3. Check that there is underlying documentation for the costs that the audited organisation reports to the donor organisation. The underlying documents can consist of the organisation's own vouchers or reports from recipient organisations.
4. Check that the activity report and the financial report do not contradict each other.
5. Check if possible that the activities reported by the audited organisation have been implemented.
6. Check that any contribution made by the audited organisation has been reported in accordance with the agreement with the donor organisation.
7. Check that the audited organisation has signed agreements with the organisations to which it channels the grant.
8. Check that interest earned by that the audited organisation has been reported and where applicable has been repaid in accordance with the agreement with the donor organisation.
9. Check that unutilised funds have been reported and, where applicable, have been repaid in accordance with the agreement with the donor organisation.
10. Check that a Swedish NGO's bank account for Sida funds is to be signed for by at least two persons jointly.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.

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