Annex 3:  
Audit protocol - Model audit protocol for audit and assurance engagements

Appendix to decision RSG0123508

1. Introduction

This protocol must be followed in auditing the annual financial statements prepared in respect of the grant awarded under decision RSG0123508 signed on 30 November 2016. This audit protocol sets out the applicable audit principles and requirements and explains how the audit findings must be reported.

The external auditor is engaged by the grant recipient. After consultation, the Minister may request that a review be conducted to ascertain that the auditor has complied with the audit protocol.

2. Audit subject and standards

The audit subjects are:

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>A.</td>
<td>the grant recipient’s financial statements for the applicable year;</td>
</tr>
<tr>
<td>B.</td>
<td>the activities listed under 3.B on which a report of findings must be issued in accordance with ISRS 4400.</td>
</tr>
</tbody>
</table>

3. Engagements of the auditor

Part A. Auditing annual financial statements

The audit must be carried out in accordance with generally accepted auditing standards and in particular the auditing standards (International Standards on Auditing; ISAs) of the International Auditing and Assurance Standards Board (IAASB).

The auditor must audit the financial statements to establish that they meet the requirements laid down in section 2 of this protocol. The auditor will ascertain that:

1. expenditures and receipts are accurate and complete;
2. expenditures and receipts relate to the activities referred to in section 1 of this protocol;
3. expenditures are legitimate and comply with the criteria laid down in points a) to e). The auditor must establish that:
   a. expenditures are corroborated by supporting documents;
   b. the organisation keeps project records and timesheets;
   c. the information in the project records and timesheets agrees with the information in the financial administration;
   d. suppliers were selected objectively and threshold amounts were respected in accordance with the EU public procurement rules laid down in EU
Directives 2004/17/EC and 2004/18/EC, or – in case EU rules do not apply, local public procurement legislation;
d. tax and social insurance remittances have been made in accordance with the tax laws of the country where the organisation is established and for the period to which the audit opinion relates;
e. invoices are settled on the basis of actual costs or lump sum amounts set in accordance with the organisation’s internal policies.

The minimum reliability level for audit purposes is 95%. The auditor will accordingly plan and conduct the audit to obtain reasonable assurance that the accounts contain no material misstatements or uncertainties.

The type of opinion will be determined by the following materiality levels, based on the amount funded.

<table>
<thead>
<tr>
<th>Type of audit opinion</th>
<th>Unqualified</th>
<th>Qualified</th>
<th>Disclaimer</th>
<th>Adverse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting errors</td>
<td>See table below</td>
<td>≤ 6%</td>
<td>-</td>
<td>≥ 6%</td>
</tr>
<tr>
<td>Audit uncertainties</td>
<td>See table below</td>
<td>≤10%</td>
<td>≥ 10%</td>
<td>-</td>
</tr>
</tbody>
</table>

The auditor should also take account of the following permitted tolerances.

<table>
<thead>
<tr>
<th>Amount funded</th>
<th>Permitted tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than EUR 1.5 million</td>
<td>3% of the grant amount</td>
</tr>
<tr>
<td>Greater than or equal to EUR 1.5 million but less than EUR 5 million</td>
<td>EUR 50,000</td>
</tr>
<tr>
<td>Greater than or equal to EUR 5 million</td>
<td>1% of the grant amount</td>
</tr>
</tbody>
</table>

The audit opinion must be drawn up in accordance with the model in section 4 of this protocol.

Supplementary activities to the audit of the annual financial statements are:

The auditor must establish that management specifically confirms in the letter of representation that they have complied with article 7.h of the grant decision: ‘You may not offer to or accept from third parties anything of any kind whatsoever, if this could be interpreted as an illegal or corrupt practice. Such practices may provide grounds for the withdrawal of this decision or part thereof’.

The auditor must report any information that came to its notice during the audit which is relevant to the grant provider for the final determination of the grant. Findings relating to the requirements referred to in this section may be relevant to the grant provider.
Part B. Agreed-upon procedures (ISRS 4400)

If the engagement is an International Standard on Related Services (ISRS) 4400 engagement, it should be performed as follows.

In an ISRS 4400 engagement the auditor does not provide assurance but reports only its factual findings. This protocol describes the main points of the engagement. The user of the report must form its own opinion and draw its own conclusions. The auditor should agree the nature, timing and scope of the specific activities with the contracting authority and disclose the findings in the report of findings (see ISRS 4400, paragraphs 11 and 18). The auditor's activities and their scope must be clearly understood. The auditor is not expected to express an opinion on the adequacy and appropriateness of the activities performed in relation to the purpose of those activities or any other purpose.

The auditor must carry out the following procedures:

The auditor must establish that:

- A statement of no-objection was obtained by SNV on the profile of each project staff member, the selection procedure and criteria, as well as the final candidate;
- Salaries by SNV charged to the project are based on actual costs and do not include charges for indirect costs;
- Accommodation cost reported by SNV and subcontractors are based on effective costs and took into account the maximum amounts fixed by the Memorandum of understanding of the donor coordination group on travel fees and daily subsistence allowances in Benin, June, 22nd 2010;
- The inflation on budgeted salaries, budgeted remunerations costs and budgeted operational costs reflect the effective inflation rate over expenses made in the Netherlands as published by the Centraal Bureau van de Statistiek (CBS), or are reduced to the effective inflation rate over expenses made in Benin as published by the Union Economique et Monétaire Ouest Africaine (UMEOA). But in any case does not exceed 1,5% per year, unless agreed otherwise;
- Management fee for the operational costs is reported separately and does not exceed 15% of disbursed approved expenditure;
- Annual savings on operational costs by SNV in a closed financial year are added to the budget of the fund if the succeeding financial year, unless agreed otherwise;
- A statement of no-objection was obtained by SNV on the call for project proposals and the results report of each call;
- Fund management fee is reported separately and does not exceed 3% of Fund approved expenditure;
- The projects considered to be financed through the fund do not include a management fee exceeding 7%;
- The Operational Management Manuel set up by SNV and approved by the Minister is used effectively and is being respected by the SNV and the projects financed through the Fund;
- Expenditures and receipts are accurate and complete for the projects financed through the Fund;
• SNV imposes sanctions on implementing organisations that fail to meet with their obligations. If a sanction is imposed, the auditor will check that the sanctions procedure was observed;
• SNV executes payments of management fee, fund management fee, and to projects directly from the dedicated account. Operational costs may be made from other SNV accounts.

4. Reporting

This section explains how the auditor must report on its activities.

The auditor must in any event issue an audit opinion on the activities described in part 3.A in accordance with the model set out in this section.

The auditor must report on the activities described in part 3.B in accordance with the requirements of ISRS 4400. A model report is available on the IAASB's website (Appendix 2 of ISRS 4400).

Auditor's report on financial statements
The auditor's report must in any event include the audit's objective and scope, the applicable audit criteria in so far as relevant and any limitation of scope.

An unqualified auditor's report must be worded as follows or in accordance with a more recent model text as published on the IAASB website: https://www.iaasb.org/.

INDEPENDENT AUDITOR'S REPORT

To: the Minister for Foreign Trade and Development Cooperation
c/o Embassy of the Kingdom of the Netherlands in Cotonou

Report on the financial statements
We have audited the accompanying financial accounts for grant decision RSG0123508, dated 30 November 2016, of SNV International, The Hague for .... (year).

Management responsibility
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the conditions laid down in the grant decision RSG0123508 awarded under the grant regulations dated 30 November 2016. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the International Standards on
Auditing and the Audit protocol for grant RSG0123508, specifically sections 2 and 3. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of SNV for .... (year) were prepared, in all material respects, in accordance with the requirements laid down in the grant decision awarded under the grant regulations dated 30 November 2016.

**Limitation of use and distribution**

The financial statements were prepared for SNV and the Dutch Ministry of Foreign Affairs in order to enable SNV to comply with the reporting requirements under grant decision RSG0123508. The financial statements may not be appropriate for other purposes. Our audit opinion is intended solely for SNV and the Dutch Ministry of Foreign Affairs and should not be distributed to or used by...