

## Ministry of Foreign Affairs model audit protocol for project reports

Appendix to grant decision under the Grant Policy Framework 'Migration and Displacement 2023-2028'.

### 1. Introduction

This protocol must be followed in auditing the annual financial statements prepared in respect of the activity *Xenia – Protection and Assistance for Migrants and Vulnerable Members of Host Communities* for which a grant decision has been awarded under Grant Policy Framework 'Migration and Displacement 2023-2028'.

This audit protocol sets out the applicable principles and requirements and explains how the outcome of the audit must be reported.

The external auditor is engaged by the grant recipient Médecins du Monde Belgique, *the applicant*. The Minister may request that a review be performed, in consultation, to ascertain that the auditor has complied with the audit protocol.<sup>1</sup>

### 2. Audit subject and standards framework

#### 2.1. Audit approach

A.	Engagement to ascertain that the financial statements have been prepared in accordance with a special purpose framework pursuant to International Standards on Auditing (ISA) 805 mentioned under 3.A;
B.	Engagement to perform agreed-upon procedures pursuant to International Standard on Related Services (ISRS) 4400 regarding the subjects mentioned under 3.B.

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

The decision and this protocol refer to financial statements drawn up on the basis of the cash accounting system (expenditures and receipts) or accrual accounting system (costs and revenues). The accounting policies should be selected on the basis of the system used by the applicant in preparing the annual financial statements. The accounting policies used in the approved budget submitted for the grant application must correspond with those used in the related financial statements. They must also be consistent with the annual financial statements. Any changes to the system must be accompanied by explanatory notes and figures.

#### 2.2. Standards framework

The following standards framework applies to the grant:

- Decision awarding grant under the Grant Policy Framework 'Migration and Displacement 2023-2028', including related appendices.

An exhaustive summary of the review points relevant for the financial statements and the auditor is given in chapter 3 of this audit protocol.

<sup>1</sup> Government Accounts Act, section 6.3.

### 3. Audit activities

#### A. Audit of financial statements prepared in accordance with a special purpose framework pursuant to ISA 805

The aim of the audit of the financial statements is to establish whether they meet the requirements laid down in the standards framework referred to in section 2.2 of this protocol. The auditor must ascertain that:

1. if the accrual accounting system has been used, the explanatory notes mention which portion of the costs was paid within the period covered by the financial statements and which amount has been recognised for items that are payable;
2. expenditures (or costs) have been properly recognised and that expenditures (or costs) are related to the activities mentioned in the decision.
3. receipts or revenues have been recognised in full and that revenues have been received. The auditor will examine consistency with the revenue sources included in the approved budget and use their knowledge of the organisation, for example in relation to the auditing of annual financial statements;
4. the financial statements are structured with the same level of detail and with the same cost/expenditure categories as the submitted and approved budget. The budget must also be recorded in the financial statements;
5. expenditures/costs are evidenced by supporting documents. The auditor must determine on the basis of their professional judgement whether the supporting documents suffice as audit information/evidence and are appropriate to the nature of the activity and the accompanying approved budget;
6. discrepancies of more than 10% per budget line between the actual figure and approved budget are explained. Variances of EUR 5,000 or less do not need to be explained;
7. the accounting policies used are explained in the financial statements, and are consistent with the approved budget and the annual financial statements;
8. the system for allocating indirect costs/overheads to the activity is explained in the explanatory notes. The auditor must assess whether the allocation system has been used in the financial statements in accordance with the explanatory notes to the financial statements and with the approved budget. The associated audit activities are carried out in conjunction with those described at 9, namely ascertaining that expenditures/costs are recharged on the basis of actual expenditures/costs;
9. expenditures/costs are recharged to the funded activities on the basis of actual costs. This means that the applicant for the funds adopts a consistent approach in allocating indirect expenditures/costs and that retrospective costing takes place each year. If not yet available at the time of the audit, the retrospective costing for the year under review T-1 may be used. In the event of departure from this consistent approach in the allocation system, the applicant must have included an explanatory note in the financial statements;
10. the selected external invoices are compliant with the organisation's procurement policy and that suppliers are selected objectively by inviting multiple bids from a threshold amount of EUR 33,000 upwards.<sup>2</sup> Any departures must be explained by the organisation in the financial statements;
11. the number of hours and hourly rates claimed for internal and external staff where the hourly rate exceeds a threshold of EUR 225 per hour (excl. VAT) has been explained by the applicant in the financial statements. The total amount concerned must be included in the financial statements.

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<sup>2</sup> Where a EUR amount is stated, the equivalent amount in foreign currency applies where relevant.

## Materiality

The auditor will seek reasonable assurance which, when the statistical sampling method is used, means a minimum reliability level of 95%. In other words, the auditor will plan and perform the audit to obtain this level of assurance about whether the financial statements are free of material misstatements and/or uncertainties.

The following materiality levels apply when performing the audit.

Benchmark	Materiality
Reported expenditures/costs	2%

Type of audit opinion	Unqualified	Qualified	Disclaimer	Adverse
Accounting errors and uncertainties in the audit	≤2%	> 2% - ≤ 4%	Uncertainties > 4%	Errors > 4%

The auditor must prepare the audit opinion in accordance with the requirements set out in section 4 of this audit protocol. If the auditor encounters both accounting errors and uncertainties in the audit while performing the audit, these errors and uncertainties should always be considered individually and together when drawing up the audit opinion.

## B. Engagement to perform agreed-upon procedures pursuant to standard ISRS 4400

The auditor must perform the audit in accordance with ISRS 4400. This means that the auditor does not give assurance but reports only their audit findings. This protocol describes the audit activities.

In order to comply with the conditions for the grant the applicant must have documented the following safeguards in its organisation.

### 1. Allocation of expenditures/costs

A. The applicant must describe:

- how it is ensured that the direct costs/expenditures in the **grant programme records** match the financial statements and how (direct and indirect) costs/expenditures are allocated to the individual projects in these project records;
- specifically in relation to staff costs of the grant recipient, how the timesheet system is organised in order to allow staff costs to be allocated to projects in the grant programme records.

B. The applicant must describe the organisation's procedures and internal policies for determining the **allocation of costs/expenditures and overheads/indirect costs to the activity**. This description must explain:

- how these procedures and internal policies are recorded and that a consistent approach is adopted;
- how the applicant allocates the overheads/indirect costs to the activity, whether any changes have been made to the allocation system, and that a consistent approach is adopted in this respect;
- how the applicant ensures that the overheads/indirect costs recharged are no higher than necessary to cover costs;
- how the applicant ensures that no more than 100% of the actual costs/expenditures is recharged to the activity covered by this protocol.

The auditor must ascertain that the description is consistent with the information gathered during the activities referred to in part 3.A and reports their findings on this matter.

### 2. Incident management (duty to report)

The applicant must describe the organisation's procedures and internal policies for detecting, dealing with and reporting incidents.

This concerns incidents which may relate to fraud, corruption, sexual misconduct and other serious forms of inappropriate behaviour. This description must also address how such incidents can be reported and how they are recorded.

The key areas that must at least be covered by the internal policies and procedures, for instance by a code of conduct, are:

- inappropriate sexual behaviour, sexual harassment and sexual violence
- aggression, discrimination and bullying
- abuse of power
- corruption and fraud
- misuse or improper use of resources
- conflict of interests and nepotism
- tax avoidance and the pursuit of an asset management/investment policy contrary to the organisation's objectives
- manipulation of or misuse/leaking of information (or access to information)
- the existence of a whistleblowing procedure
- the existence of a point of contact inside or outside the organisation for reporting and recording incidents.

The auditor must ascertain that:

- the internal policies and procedures are focused on the aforementioned subjects;
- specifically that the incident management procedures are available on paper and/or digitally within the organisation, describing how this has been done;
- the organisation keeps records of incidents;
- incidents related to the activity that have been registered in these records are reported to the Ministry in accordance with the described procedures and as demonstrated by supporting documents.

### **3. Procurement**

The applicant must describe the procedures and internal policies for the procurement of goods and services. This description must incorporate measures to ensure that suppliers are selected objectively and must include at least:

- the bidding procedure
- the procedure for assessing bids.

The auditor must ascertain that the applicant's/institution's description matches the information gathered during the audit activities referred to in part 3.A and report their findings on this matter. Specifically the auditor must ascertain that the procedures for the procurement of goods and services are available on paper and/or digitally to the relevant staff, and describe how this has been done.

### **4. Management of local implementing organisations**

The applicant must describe the procedures and internal policies in relation to implementing organisations.

This description must include:

- how the applicant makes an advance assessment of the quality (management capacity) of the implementing organisation(s) that will be performing work for the applicant in relation to the activity or activities;
- how the applicant monitors the implementing organisation(s). Consideration must be given in this connection to the narrative and financial progress information that is provided and how it is established whether obligations have been met by the implementing organisation(s);
- the details of the sanctions procedure followed by the applicant if an implementing organisation fails to meet its obligations.

1. The applicant will provide (cumulative) insight in budget lines II.A.4 *Direct funding (excluding ICR) to in-country partners* and V.B. *Indirect costs recovery in-country partners* by reporting the following table

Organisation	Agreement duration	Agreement currency	Agreement Currency		Amount reported under budgetline II.A.4 <i>Direct funding</i>	Amount reported under budgetline V.B. <i>Indirect costs recovery in-country partners</i>
			Agreement amount	Disbursed	Currency financial report applicant	
					Disbursed	Disbursed
<b>Total:</b>						

2. The applicant will provide (cumulative) insight in the audited expenditures at the local partners by reporting the following table

Organisation	Agreement Currency			Audit opinion **
	Agreement amount	Amount received by the organisation	Amount accounted for by the organisation*	

\* Accounted for: progress report and (if prescribed) audit report are submitted and approved

\*\* specify the type of the audit opinion

The auditor must ascertain that:

- the management capacity of three of the implementing organisations has been assessed by the applicant in conformity with the applicant’s description. If there are fewer than three implementing organisations, each one must be subjected to a comprehensive assessment;
- the financial and narrative progress information of three of the implementing organisations has been monitored by the applicant in conformity with the applicant’s description. If there are fewer than three implementing organisations, each one must be subjected to a comprehensive assessment;
- in the event of a recorded failure by an implementing organisation to comply with its obligations, the auditor must comprehensively ascertain whether the established sanctions procedure was followed in relation to this implementing organisation;
- the extent to which the information gathered is consistent with the audit activities referred to in part 3.B and report their findings on the planned activities.
- that the information provided by the applicant in the tables under points 1 and 2 is correct and will report their findings on this matter.

## **4. Reporting**

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

### 4.1. Audit opinion

The auditor must issue an audit opinion in accordance with the requirements of standard ISA 805 upon completing the activities described in part 3.A. A model opinion is available on the IAASB's website.

The auditor must also ensure a suitable way of identifying the financial statements on which the audit opinion will be issued.

### 4.2. Report on factual findings

As regards the activities described in part 3.B, the auditor must report their findings in accordance with the requirements of standard ISRS 4400N. A model report is available on the IAASB's website.