

## **Annex 1: AUDIT PROTOCOL**

### **1. Basic principles**

#### **1.1 Purpose**

The purpose of this audit protocol is to provide direction concerning the scope and frequency of the audits to the auditor charged with auditing the request for determination of the grant amount to be submitted by the grant recipient to RVO (which acts on behalf of the Ministry of Foreign Affairs).

#### **1.2 Definitions**

Auditor: a registered accountant or an accounting consultant, as defined in Section 393 (1), Book 2 of the Dutch Civil Code, whom the grant recipient has instructed to audit the request for determination of the grant amount.

Grant recipient: a legal entity to which a grant has been awarded on behalf of the ministry.

Audit opinion: a written declaration by the auditor containing an opinion on the accuracy, completeness and financial regularity of a request for determination of the grant amount.

Financial regularity: a financial transaction complies with the provisions of the applicable legislation and regulations (see clause 1.3) that affect the outcome of that financial transaction.

#### **1.3 Legislation and regulations**

When auditing financial regularity in accordance with this protocol, the legislation and regulations (including any amendments thereto) specified in the grant provision will apply.

When performing the audit, the auditor will also check that:

- a. the recognition and statement of costs and income:
  1. does not include under eligible costs any costs that are not eligible under the terms of the grant provision;
  2. only includes under eligible costs, costs that are actually incurred by the grant recipient;
- b. the grant recipient has specified all sources of income, including grants, that have been used to fund the activity to which the grant relates;
- c. if the grant relates to the implementation of a project, the project has been implemented in accordance with the activity plan to which the grant provision relates.

### **2. Audit strategy**

#### **2.1 Requirements governing the audit strategy**

The audit must comply with the auditing standards that form part of the further auditing rules and standards (*nadere voorschriften Controle- en overige standaarden*, NV COS) that have been adopted by the Netherlands Institute of Chartered Accountants (NBA).

Without in any way limiting the provisions of the previous paragraph, the following aspects are of particular importance when auditing a specific financial recognition in order to determine the contributions from the ministry:

1. The auditor must conduct an analysis regarding the risk that the specific financial recognition contains a material misstatement. This risk analysis must be prepared for this audit specifically; a standard analysis is not sufficient. In the risk analysis, the auditor must indicate the checks that will be performed with regard to the identified significant risks.
2. Based on the risk analysis, the auditor will devise an audit plan that specifies the nature, timetable and scope of the audit activities that must be performed by members of the audit team in order to obtain sufficient audit evidence to reduce the control risk to an acceptably low level.
3. In the audit plan, the approval tolerance (see clause 2.2) will be translated into audit tolerances, with the approval tolerance being the maximum.
4. During the course of the audit, it is established whether the items included in the financial recognition are accurate, complete and regular (see the definition of financial regularity in

clause 1.2) with due regard for the audit tolerances and the approval tolerance (see clause 2.2).

5. The auditor must check:
  - that the contributions made by other administrative bodies, the European Commission and third parties towards the costs of the funded activities have been accurately and completely represented;
  - whether or not VAT has been correctly included as a cost;
  - *if applicable*: compliance with national and/or European public procurement directives.
6. The auditor may use audit procedures in the audit that were performed when auditing the grant recipient's annual accounts. However, a mere reference to these procedures in the audit file for the individual grant is not sufficient. These procedures, together with the main relevant conclusions, must be described in the audit file for the specific audit opinion. As it must be possible to use the audit file independently, it must contain the relevant documents.
7. The auditor must provide adequate audit documentation, which demonstrates that the audit procedures have been performed in accordance with the audit plan, specifies the outcomes of the audit and makes it clear that they have been evaluated by the auditor, who has ultimate responsibility. In addition to the audit plan based on the risk analysis, this documentation must include documents that demonstrate:
  - that the accuracy of the figures in the financial recognition has been checked;
  - that the financial recognition is consistent with accounting records;
  - that an analytical review has been performed of the actual reported costs compared to the budgeted costs;
  - the nature and scope of the system and data-oriented audit procedures regarding the costs entered in the financial recognition.

## 2.2 Materiality: approval tolerances and desired assurance

When forming an opinion on compliance with the grant obligations, the auditor will strive for a reasonable degree of assurance. If this concept needs to be quantified for the use of statistical techniques, a reliability level of 95% will be applied.

Given the above-specified level of reliability, an unqualified audit opinion implies that the maximum misstatement relating to the accuracy or financial regularity in the financial recognition does not exceed one per cent of the total financial significance of that recognition. The following approval tolerances will apply.

Nature of the business	Audit opinion			
	Unqualified	Qualified	Disclaimer of opinion	Adverse opinion
<b>Recognition misstatements</b>	<1%	>1% and <3%	N/A	>3%
<b>Inability to obtain adequate and suitable audit evidence</b>	<3%	>3% and <10%	>10%	N/A

These percentages are taken from the central government auditing manual (*Handboek Auditing Rijksoverheid*, HARo) of the interdepartmental consultation on departmental audit services (*Interdepartementaal Overleg Departementale Auditdiensten*, IODAD).

### Recognition misstatements

A recognition is deemed to be misstated if the audit indicates that an item, or part of an item, included in that recognition does not comply with one or more aspects of the applicable legislation and regulations (see also clause 1.2) or that an item, or part of an item, has not been recorded accurately or completely. Misstatements in relation to legislation and regulations are interpreted in absolute terms; offsetting of misstatements is therefore not permitted.

#### Inability to obtain adequate and suitable audit evidence (uncertainties in the audit)

Uncertainties in the audit are deemed to exist if it cannot be determined on the basis of the available audit evidence whether an item, or part of an item, complies with the requirements of the applicable legislation or regulations.

#### Rectifying of identified misstatements

The basic principle is that the grant recipient must correct the misstatements identified by the auditor as much as possible. Material misstatements (in accordance with the table in clause 2.2) that are not corrected by the grant recipient will result in a modified (for example, adverse) audit opinion from the auditor.

### **3. Reporting**

The auditor will record the outcomes of the audit in an audit opinion. The current NBA sample text (HRA 3, section II, chapter 10.3: 'Audit opinion for a public-sector grant expense statement' *Controleverklaring bij een subsidiedeclaratie in de publieke sector*) will be used for this purpose, as adapted for one-off grants. Reference should be made to the sample text provided with these audit guidelines.

### **4. Review policy**

The National Audit Office (*Auditdienst Rijk, ADR*) may review the audit performed for this grant. Upon request, the auditor performing the audit must provide the ADR with any information and documentation that it may require. Any additional costs incurred by the auditor in the context of this review will not be payable by the ministry.