



## Appendix 3.2: Audit Instructions

Audit instructions concerning the performance of audit tasks in connection with research projects financed by ICARS.

1. The audit of the research project shall be performed by an external auditor appointed by the Responsible Ministry or the Lead Research Institution in charge of the financial management of the grant, including financial reporting.
2. The external auditor shall be responsible for the total audit of the project. For projects with multiple participating ministries, research institutions, universities and partner stakeholders (referred to as "participants" in the following), each participant must appoint an auditor to audit the participant's project accounts. The project accounts of each participant shall form part of the combined project accounts of the Responsible Ministry or Lead Research Institution. The auditor of the Responsible Ministry or Lead Research Institution can rely on the audit of the project accounts of each participant.
  - 2.1. The auditor must be a certified accountant and must be able to conduct the audit in accordance with the International Standards on Auditing (ISA) or similar international standards.
  - 2.2. In case of a change of auditor, the newly appointed auditor must approach the resigning auditor, who is obliged to inform the appointee about his or her reasons for resigning.
  - 2.3. The auditor shall confirm in writing to the Responsible Ministry or Lead Research Institution and ICARS respectively that he or she will carry out the audit in accordance with the present instruction. A template for this endorsement is attached to this instruction (Appendix 3.2a).
3. The external auditor must verify the correctness and accuracy of the financial accounts of the research project and check whether the transactions covered by the accounts are in conformity with these instructions and ICARS' Guideline for the Project Proposal and Guideline for Project Administration. The external auditor must also assess whether due economic considerations have guided the transactions covered by the accounts.
4. The scope of the audit will depend upon the organisational structure and the administrative procedures, including the internal control and other conditions pertinent to the accounting process.
5. As part of the audit, the external auditor will examine participants' organisational structure and existing procedures with special focus on accounting practices, financial management and internal control. The audit of financial transactions will be based on spot check examinations of the quality of voucher material and its correct recording in the books, with a view, among other things, to assessing its significance and risk.
6. At the audit the external auditor will verify:
  - That the accounts have been prepared as prescribed by ICARS;
  - That the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with ICARS
7. As part of the audit of the salaries and emoluments included in the projects accounts the external auditor must verify:
  - That the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with ICARS
  - That PhD stipends are paid according to the appropriate tariffs of the institution



- That in case the participant practices compensation in the form of payment for freedom from teaching/other general tasks of the researchers/staff, clear documentation for this practice must be available
- That the following documentation must be verified in case the participant practices compensation in the form of payment for over-time to the researchers/staff in addition to the full-time salary paid by the participant:
  - written contracts between the researchers/staff and the project exist
  - documentation for the payment of over-time exists in the form of timesheets to document the time used on the project or performance reports to document the task completed
  - staff payments including the timesheets/performance reports must be authorised by the designated person

7. The external auditor will also verify whether the participants has practiced reasonable economies in the administration of the grants, and that the project is managed with an attitude based on thrift.

The following are examples of the performance areas that the participants must practise satisfactorily and that the auditor will inspect, most likely through random spot checks.

- The procedures and control mechanisms related to approval of vouchers are satisfactory. The approval of a voucher must ensure that the voucher is based on thrift
  - Payroll costs for individual staff are reasonable when compared with relevant comparable organisations, salary statistics, guidelines, or the like
  - Competitive quotations are being obtained in relation to procurement of goods and services
  - Available assets are being kept in an appropriate manner and according to rules and regulations
8. The external auditor must control that the project grant amounts are deposited on a separate account/activity, and that all transfers to and from the account have been reconciled with and checked against the transfers from ICARS.
  9. The participants' management is required to give the external auditor of the Responsible Ministry or Lead Research Institution any information that may be material to the external auditor's assessment of the accounts and of the participants' administration of the grant. Similarly, the participants' management must give the external auditor of the Responsible Ministry or Lead Research Institution access to initiating any examination that he or she considers necessary, and ensure that the auditor receives the information and assistance needed for performing the audit.
  10. If the audit of the grant management and accounting uncovers illegal activity or significant non-compliance with the stipulations of the Grant Letter and the Grant Framework, the external auditor is required immediately to inform the participant's management/board and the Responsible Ministry or Lead Research Institution, and ensure that the Responsible Ministry or Lead Research institution informs ICARS accordingly within 3 weeks. The information to ICARS must be accompanied by the auditor's observations on the matter. If the participant fails to forward this information to ICARS, it is the obligation of the external auditor to do so.
  11. The instructions contained in paragraph 10 also apply if the external auditor, either as part of his/hers audit or in other ways, draws the conclusion that, for financial or other reasons, the continuation of the project is at risk.
  12. The audited accounts must carry the external auditor's report, stating that the accounts have been audited in accordance with the guidelines in the present Audit Instructions. The report must also comprise the external auditor's qualifications, if any. The report should follow the format in Appendix 3.2a & 3.2b.
  13. The attached checklist (Appendix 3.2c) is to be forwarded to the Responsible Ministry or Lead Research Institution and ICARS at the same time as the external auditor's endorsement.



## Appendix 3.2a: Template for Statement of Endorsement Regarding the Audit of Research Projects

To [the Responsible Ministry of Lead Research Institution]

Audit of [name of Project], [ICARS Grant reference no.] for the period of [period].

This letter is provided in connection with our audit of the project and for the purpose of expressing an opinion on whether the financial accounts give a true and fair view (present fairly, in all material respects) of the operations of the project for the period [period].

We acknowledge the receipt of the Audit Instructions, Appendix 3.2 as part of the Framework for ICARS' Demonstration Projects.

We confirm and acknowledge that:

1. We will be able to comply with the instructions
2. The instructions are clear and that we understand them
3. *[For a project with multiple auditors: The auditor of the Responsible Ministry or Lead Research Institution intends to review and, if considered appropriate, use our work performed on the financial information of the project for purposes of the audit of the financial information of the project. We will make all necessary information about our audit of the project available to the auditor of the Responsible Ministry or Lead Research Institution in this respect.]*
4. In connection with the work that we will perform on the financial information for the project, we confirm the following:
  - We have a sufficient understanding of and comply with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the Code) or similar standards. In particular, and with respect to ICARS and the project partner(s), we are independent within the meaning of Section 290 of Part B of the Code or similar standards.
  - We have a sufficient understanding of International Standards on Auditing from IFAC or similar standards, and will conduct our work on the financial information of the project in accordance therewith.
  - We have a sufficient understanding of ICARS's requirements.

We will inform you of any changes in the above representations during the course of our work on the financial information of the project.

AUDITOR

[Name and title of the external auditor]

[Workplace of auditor]

[Date]

[Address]



## Appendix 3.2b: Template for Independent Auditor's Report

Project title:

Participant:

To [Responsible Ministry or Lead research institution and ICARS]

We have audited the accompanying project accounts for the period [period]. The project accounts showing a grant of USD [grant amount] and total expenditure of USD [total expenditure].

[breakdown of expenditure into same level of detailing as the approved budget per Grant Letter]

The project accounts have been prepared by the management of [participant] in accordance with the Grant Framework and all its elements, including the Audit Instructions stated in Appendix 3.2.

### **Management's responsibility for the project accounts**

The Management is responsible for the preparation of project accounts in accordance with the Grant Framework and all its elements. Furthermore, the management is responsible for such internal control as management deems necessary to enable the preparation of project accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

In addition, the management is responsible for transactions covered by the project accounts statements complying with the appropriations granted, statutes, other regulations, agreements and usual practice.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these project accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as well as good public auditing practice pursuant to ICARS' Audit Instructions. This requires that we comply with ethical requirements and plan and perform the audit in order to be satisfied that the project accounts are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the project accounts. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the project accounts, whether due to fraud or error. In making those risk assessments the external auditor considers internal control relevant to the organisation's preparation of project accounts in accordance with accounting provisions of the Grant Framework. The aim is to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organisations 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 the overall presentation of the project accounts.

The audit also involves assessing whether business processes and internal controls have been established, supporting that the transactions covered by the project accounts comply with the appropriations granted, statutes, other regulations, agreements and usual practice.

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 project accounts for the period **[period]** have been prepared, in all material respects, in accordance with the Grant Framework and all its elements. It is also our opinion that business processes and internal controls have been established, supporting that the transactions covered by the project accounts comply with the appropriations granted, statutes, other regulations, agreements and usual practice.

**Emphasis of matter regarding basis of accounting and restriction of distribution and use**

Without modifying our opinion we point out that the specific purpose of the project accounts is to comply with the accounting provisions of the Grant Framework and all its elements. Consequently, the project accounts may be unsuitable for other purposes.

This external auditor's report has been prepared for the Responsible Ministry or Lead Research Institution and the participants and ICARS only and should not be distributed to or used by any other parties.

**[Place], [xx. xx. 20xx]**

**[Auditor]**



## Appendix 3.2c: Checklist for the Audit Report

To be forwarded to the Responsible Ministry or the Lead Research Institution and ICARS

Project:

Period:

Auditor:

Signature: \_\_\_\_\_

	Yes	No	N/A	Comments ('No' or 'N/A'-answers are to be commented)
<b>1. International standards on auditing</b>				
1.1. Has your audit been conducted in accordance with the International Standards on Auditing (ISA) or similar international standards? Please specify.				
<b>2. Confirmation on the accounts and financial considerations</b>				
2.1. Can you confirm?				
a) that the accounts have been prepared as prescribed by ICARS;				
b) that the accounts are correct and accurate and do not contain significant errors or omissions,				
c) that the financial provisions contained in the project agreement with ICARS have been complied with, and				
d) that the transactions comprised by the accounts are in conformity with the conditions and general objectives for the grants as agreed with				
e) ICARS.				
f) that salaries and emoluments are in conformity with the conditions and general objectives for the grants as agreed with ICARS				
2.2. Is it your assessment that due economic considerations have guided the transactions covered by the accounts and that the partner has practiced reasonable economies in the administration of the grants, and that the project is managed with an attitude based on thrift?				
2.3. Can you confirm that your endorsement on the accounts is an unqualified opinion?				
<b>3. Fraud and non-compliance with guidelines</b>				
3.1. Has your audit been conducted in accordance with international standards?				
3.2. Do you assess that the risk of fraud in the project is normal?				
3.3. Can you confirm that you are not aware of any illegal activity or significant non-compliance with the stipulations of the project agreement and the administrative guidelines?				



	Yes	No	N/A	Comments ('No' or 'N/A'-answers are to be commented)
<b>4. Work of other auditors</b>				
4.1 If your audit is partially based on the work of another auditor, can you confirm that your audit has been conducted in accordance with international standards for using the work of another auditor?				
<b>5 Audit of budget information in accounts</b>				
5.1 Can you confirm that the budget in the account is the <b>originally</b> approved budget for the project or a revised budget that ICARS has approved?				
<b>6 ICARS funds with partners</b>				
6.1 Are ICARS funds with partners easily distinguished from other grants?				