



With support from  
Finland's development  
cooperation

## **Auditing of KIOS Grants**

KIOS Foundation awards grants for human rights work with funds provided by the development cooperation budget of the Ministry for Foreign Affairs of Finland. These instructions have been made to regulate the auditing of these grants and to help auditors prepare their reports with the accuracy required by the Ministry for Foreign Affairs of Finland. If you have any questions or uncertainties, please contact your KIOS Contact person.

The Audit Instructions below shall be forwarded to your auditor. The audit required should be a separate audit of the KIOS grant. In some cases, the grantee can also submit a KIOS-specific audit extracted from the consolidated audit, if agreed beforehand with KIOS. The information given in both types of audit reports shall be at least as accurate as required in these Audit Instructions.

Templates of the Engagement Letter and Auditor's Report are attached to the Audit Instructions. The Engagement Letter is a model which may help you in the contracting process. However, you may use your own contract model, if deemed more accurate.

We ask you to send the Auditor's Report (including the accompanying Management Letter) to KIOS Foundation by email after the final narrative and financial reports have been submitted.

## **Audit Instructions for a KIOS grant provided with Finnish development cooperation funds channeled KIOS Foundation**

We ask you to conduct the following Agreed-upon Procedures (detailed in the Engagement Letter template) concerning the report of the Grant funded by KIOS Foundation with development cooperation funds from the Ministry for Foreign Affairs of Finland.

According to the Ministry for Foreign Affairs of Finland's general conditions regarding support to non-governmental organisations and municipalities, the receiving organisation must observe principles related to good governance and anti-corruption activities. State support shall be used only to cover expenses considered necessary and reasonable in carrying out the project activities. The support-receiving organisation shall in its accounting follow the generally accepted national accounting principles (GAAP). The audit should be carried out in accordance with the International Standards on Related Services 4400 applicable to agreed-upon procedures engagements considering the financing agreement signed in between KIOS Foundation and [grantee], as well as relevant national legislation and standards.

### **The nature of KIOS supported grant action (project) is as follows:**

- A project is not a legal entity but an accounting subject
- It can include transactions in more than one legal entity (e.g. Partner or Subsidiary)
- It does not prepare statutory Financial Statements
- The statements under audit are the Financial Project Report and the List of Fixed Assets
- Fixed Assets are not capitalised but recorded as cost when purchased
- The Materiality Level in each audit finding is the equivalent of 200 Euros or 0,15 % of total reported expenses, if it is higher than 200 Euros.

### **Reporting**

The Agreed-upon Procedures are listed in the template of the Auditor's Report. The report must be in English (or in another language agreed with KIOS Foundation) and include the findings of all of the Agreed-upon Procedures and a Management Letter. ISRS 4400 report is not meant to be a standard report so each auditor should in any case adjust the report to reflect the procedures carried out and the observations made during the procedures.

## **Engagement Letter template:**

[Contact person  
Grant beneficiary  
Address]

[Date]

### ***[Agreed-upon Procedures for project report]***

#### **Objectives and Background**

[Grantee] has prepared a report on the [project] to KIOS Foundation dated [date] for the period of [xx.xx.20xx – xx.xx.20xx].

[Grantee] has asked [audit company / authorized auditor] to perform agreed-upon procedures with regards to the report on the [project] as a whole, its implementation and the use of funds. The purpose of our audit procedures is solely to assist KIOS Foundation and by extension the Ministry for Foreign Affairs of Finland in evaluating whether the report has been drawn up, and the funds has been used for intended purposes, in accordance with the financing agreement signed in [date] between KIOS Foundation and [grantee].

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide.

This Engagement Letter sets out the Services that we have agreed to provide and the terms of our engagement.

#### **Services to Be Provided**

Our engagement will be conducted in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements taking into account the conditions set out in the financing agreement signed in [date] between KIOS Foundation and [grantee] and we will indicate so in our Report.

We have agreed to perform the procedures described in appendix 1 and report to you the factual findings resulting from our work.

The procedures that we will perform will not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements and, consequently, no assurance will be expressed.

In connection with the engagement, we will prepare a report where we will bring our observations based on the audit procedures performed.

The procedures that we will perform are intended solely for the purpose set forth in the Engagement Letter's first paragraph and the report may not be used for any other purpose. The report or part of it may not be copied, otherwise duplicated or be given to a third party. [However, According to the Finnish Act on the Openness of Government Activities (621/1999) the report is a public document, with the exception of business and professional secrets that the recipient has clearly labeled as commercial and professional secrets, i.e. confidential information, in accordance with Section 24 para. 20 of the Act on the Openness of Government Activities. The obligation of professional secrecy does not apply to information that the Ministry for Foreign Affairs of Finland declares or gives to a third party on the basis of an authority or a law.] Our Report only applies to the report detailed above; it does not apply to the recipient's complete financial statements.

## **Requirements for the Auditor**

By agreeing to this engagement, the Auditor confirms meeting at least one of the following conditions:

- The Auditor is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC).
- The Auditor is a member of a national accounting or auditing body or institution. Although this organisation is not a member of the IFAC, the Auditor commits to undertake this examination in accordance with the IFAC standards and ethics set out in these terms.
- The Auditor is registered as a statutory auditor in the public register of a public oversight body in the country of the engagement and this register is subject to principles of public oversight as set out in the legislation of the country.

## **Timetable**

We will be able to commence our work on [date] and we expect our Report to be completed by [date].

## **Resources**

[Auditor's name] will be responsible for the engagement. [Other members of the team are NN, YY and ZZ.]

## **Your Responsibilities**

[Grantee] is responsible for documentation and preparation of the report in accordance with the financing agreement signed in [date] between KIOS Foundation and [grantee] In addition, [Grantee] is responsible for providing all the necessary documentation and assistance needed for us to perform all the agreed-upon procedures.

## **Estimated Time Needed and Fees**

[We estimate that the time needed for providing the Services will be [xx hours/xx days/xx weeks]. We estimate that our fee for this engagement is [amount and currency].

## **[Terms of Business]**

[This Engagement Letter should be read in conjunction with the enclosed Terms of Business.]

## **Acknowledgement and Acceptance**

This Engagement Letter (including its appendices) [and the enclosed Terms of Business together] form the Contract between us.

Please record your agreement to the terms of this Contract by signing the enclosed copy of this letter in the space provided and returning it to us.

Yours sincerely,

[Auditing Firm]

[The person responsible for the engagement]  
[Authorised Public Accountant/Certified Auditor]

## **Appendix**

1 Template of the Auditor's Report  
[2 Terms of Business]

**Confirmation of the Contract**

I have read and accepted the Contract terms set out in the Engagement Letter (including its appendices) [and the Terms of Business]. I accept those Contract terms on behalf of [Grantee] and represent that I am authorised by [Grantee] to do so.

Date .....

On behalf of [Grantee]

Signed .....

[Name and position]

.....

[Where the text is in brackets [ ] it should be edited or removed.]

## **Auditor's Report template:**

### ***Appendix 1: Auditor's Report on Agreed-upon Procedures***

[To Grantee]

We have performed the procedures agreed with you and enumerated below, relating to the report on the [name of the project]. The report, totaling [total costs] [currency] for the period of [dd.mm.20yy-dd.mm.20yy], was signed by [the contact person of the grantee] on [date].

Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements taking into account the conditions set out in the financing agreement signed in [date] between KIOS Foundation and [grantee]. The following procedures were performed solely to assist KIOS Foundation and Ministry for Foreign Affairs of Finland in evaluating whether the report has been drawn up, and the funds have been used for intended purposes, in accordance with the financing agreement.

- 1) We obtained a mutually signed valid agreement of cooperation with KIOS Foundation and [the grantee] in order to find out whether
  - the parties have a valid agreement of cooperation,
  - the agreement of cooperation has been adhered to and
  - the financial programme/project report correspond with the agreement of cooperation.

Additionally, we obtained the instructions issued by KIOS Foundation including the reporting and procurement instructions and interviewed [the contact person of the grantee: name and position] whether the instructions have been adhered to.

- 2) We obtained [the grantee's] project accounting documents, a description of how the project accounting is arranged and interviewed [the contact person of the grantee: name and position] in order to find out
  - does [the grantee] have an adequate double-entry bookkeeping system in place, including journal and general ledger, and
  - what bookkeeping software if any is used.
- 3) We obtained a documentation on working time recording and interviewed [the contact person of the grantee: name and position] in order to find out how the employee's working time recording is arranged.
- 4) We obtained the project's budget and activity plan approved by KIOS Foundation and performed the following
  - compared the actual figures to the budgeted figures, and
  - checked whether the report includes explanations of budgetary deviations over 15 %.

- 5) We reconciled the financial figures presented in the financial section of the report with the project accounting in order to find out does the financial figures in the report match up with the bookkeeping. The reconciliation included matching
- the opening balance of funds between the bookkeeping and the auditor's report of the beginning of the project,
  - received funds between the bookkeeping and the report,
  - incurred costs between the bookkeeping and the report and
  - received but unused funds between liabilities in bookkeeping and ending balance of the report.

Additionally, we reconciled the official bank account statements and cash books relating to the [project] with the bookkeeping as of [date / end of reporting period] and calculated [the grantee's] cash and reconciled the amount with the bookkeeping as of [the date of performing the agreed-upon procedures].

- 6) We ensured that the self-financing (cash, in-kind contribution or voluntary work) in the report is based on bookkeeping or adequate specifications, and in the case of in-kind contributions and/or voluntary work the valuation is appropriately justified.
- 7) With regard to the information in the cost statement, the following procedures were carried out. The procedures covered at least 30 % of the wages and salaries reported for the project and at least 15 % of the payment of wages and salaries reported for the project.
- We tested that at least 30 % of total wages and salaries are based on properly signed contracts and an adequate working time recording.
  - We tested that at least 15 % of total wages and salaries have been paid.
  - We tested social security expenses including pensions and taxes have been recorded and paid to relevant authorities in accordance with the national legislation.
- 8) With regard to the information in the cost statement, the following procedures were carried out. The procedures covered at least 30 % of the costs (other than personnel-related costs) reported for the project and at least 15 % of the payments of the costs (other than personnel-related costs) reported for the project.
- We tested that the recorded costs are based on supporting documentation,
  - We agreed the audit trail from general ledger to the project financial reporting,
  - We assessed the eligibility of costs against the funding agreement and project budget.

- We tested that the costs were approved according to the [grantee's] [approval guidance].
- With regard to the costs inspected, we assessed whether the procurement instructions issued by KIOS Foundation have been adhered to.
- With regard to taxes (other than personnel-related) we assessed whether they have been appropriately recorded and timely paid out to relevant authorities.

9) We obtained a list of fixed assets and performed the following procedures:

- We assessed if the list was maintained up-to-date.
- We reconciled the list and the changes in the list with the bookkeeping.

Additionally, we checked that at the termination of projects adequate documents of the transfer of the fixed assets have been prepared and signed.

10) We interviewed [the contact person of the grantee: name and position] in order to find out the following:

- How [the grantee] ensures that the funds has not been, even temporarily, used for any other than project purposes.
- What kind of procedures does [the grantee] have with the original documents of all valid essential contracts (e.g. agreements with authorities, rental, lease, service agreements).
- Has there been any indication of fraud, corruption, money laundering or terrorism in any form.

11) Based on information we received during performing the agreed-upon procedures, we assessed whether any internal control deficiencies have come to light, which are significant in terms of project funding. If during performing the agreed-upon procedures we see a conflict between the financial section of the report and the other sections of the report, we report our observations.

We report our findings below:

1) In Item 1 we observed that

- the parties have [not] a valid agreement of cooperation [that was signed [date]],
- based on our observations during this engagement the agreement has [not] been adhered to
- the financial [project] report [does not] correspond[s] with the agreement of cooperation.
- Additionally, we obtained [the instructions issued by KIOS Foundation including the reporting and procurement instructions. Based on the interview with [the contact person of

the grantee: name and position], the instructions have [not] been adhered to [if not, please specify]].

- 2) In Item 2 we observed that [the grantee's] project accounting is arranged [describe how the project accounting is arranged and comment does the [the grantee] have an adequate double-entry bookkeeping system in place, including journal and general ledger, and what bookkeeping software they are using.]
- 3) In Item 3 we observed that [the grantee's] working time recording is arranged [describe how the working time recording is arranged.]
- 4) In Item 4 we obtained the project's budget approved by KIOS Foundation on [date] totaling [total budgeted costs] [currency]. We also [tested that]
  - the actual figures in report is [not] in line with the budget and
  - the report [does not] include[s] explanations of budgetary deviations over 15 %.
- 5) In Item 5 we reconciled the project accounting with the financial section of the report:
  - the opening balance of funds [amount, currency] [does not] match[es] between the bookkeeping and the auditor's report of the previous period [in case of not matching please specify],
  - received funds[does not] match[es] between the bookkeeping and the report [in case of not matching please specify],
  - incurred costs [does not] match[es] between the bookkeeping and the report [in case of not matching please specify] and
  - received but unused funds [amount, currency] [does not] match[es] between liabilities in bookkeeping and ending balance of the report. [in case of not matching please specify]

Additionally, we reconciled the official bank account statements and cash books relating to the [project] with the bookkeeping as of [date / end of reporting period] with [no differences / difference of [amount of difference] and calculated [the grantee's] cash [amount, currency] and reconciled the amount with the bookkeeping as of [the date of performing the agreed-upon procedures].

- 6) In Item 6 we noted that [the grantee] has locally acquired self-financing based on accounting records amounting to [amount, currency].
- 7) In Item 7 we tested that:
  - [%] of total wages and salaries are based on properly signed contracts and an adequate working time recording,
  - [%] of total wages and salaries have been paid and

- social security expenses including pensions and taxes have been recorded and paid to relevant authorities in accordance with the national legislation.

8) In Item 8 we observed that the costs tested:

- Were [not] based on supporting documentation [in case of inadequacy, please specify].
- The audit trail from general ledger to the project financial reporting was [not] [adequate and complete].
- We did [not] recognize [any] suggestions that the costs examined would not have been eligible according to the funding agreement and project budget [please specify].
- The costs were [not] approved according to the [grantee's] [approval guidance] [please specify].
- The procurement instructions issued by KIOS Foundation have [not] been adhered to [please specify].
- The taxes (other than personnel-related) have [not] been appropriately recorded and timely paid out to relevant authorities.[if not, please specify].

9) In Item 9 we observed that:

- The list has [not] been maintained up-to-date by the [grantee.]
- The list and the changes in the list [does not] reconcile[s] with the bookkeeping [in case of deviations, please specify].

Additionally, we ensured that at the termination of projects, adequate documents of the transfer of the fixed assets have [not] been prepared and signed. [please specify].

10) In Item 10 we inquired [the contact person of the grantee: name and position] to find out the following:

- [describe how [the grantee] ensures that the funds has not been, even temporarily, used for any other than project purposes.]
- [describe what kind of procedures [the grantee] have with the original documents of all valid essential contracts (e.g. agreements with authorities, rental, lease, service agreements)]
- [if there has been any indication of fraud, corruption, money laundering or terrorism in any form, describe specifically].

11) In Item 11 we point out that based on the information we received during performing the agreed-upon procedures, we have [not] detected any internal control deficiencies which are significant in terms of project funding [specify if internal control deficiencies have been detected; these should be detailed in the Management Letter]. We have [not] detected a conflict between the financial section of the report and the other sections of the report [specify if conflicts have been noted].

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance of the abovementioned issues.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is not to be used for any other purpose. The report or part of it may not be copied, otherwise duplicated or be given to a third party. [However, According to the Finnish Act on the Openness of Government Activities (621/1999), the report is a public document, with the exception of business and professional secrets that the recipient has clearly labeled as commercial and professional secrets, i.e. confidential information, in accordance with Section 24 para. 20 of the Act on the Openness of Government Activities. The obligation of professional secrecy does not apply to information that the Ministry for Foreign Affairs of Finland declares or gives to a third party on the basis of an authority or a law.] Our Report only applies to the report detailed above; it does not apply to the recipient's complete financial statements.

[Location and date]

[Auditing firm]

[The person responsible for the engagement]  
[Authorised Public Accountant/Certified Auditor]

[Where the text is in brackets [ ] it should be edited or removed.]