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Sida's Requirements for Annual Audit

In this guide you will find information on how Sida uses external audit as a tool for follow up of funds and what you as a cooperation partner need to do to fulfil your responsibilities. Please read the agreement clauses and annexes very carefully and discuss them with your contact person at Sida.

Audit requirements

Sida uses external audit to follow up on funds. At a general level, external audit increases confidence in financial reporting and helps to monitor compliance with agreement conditions and follow up of activities. The audit should be adapted to the type of support, i.e. project support requires an audit report at the project level, whereas for core support, the audit comprises the entire organisation in an ordinary annual audit (statutory audit).

The cooperation partner is responsible for funds being audited

You as the cooperation partner must ensure that the funds received from Sida are subject to annual, qualified and independent audit. This also means that it is you who must procure the audit services.

Make sure to start the procurement process of audit services well in advance.

The audit should be performed:

- **Annually** – The audit is carried out every year/period.
- **By a qualified auditor** – The auditor responsible must have the title of Authorized Public Accountant or equivalent.
- **As an independent audit** – The auditor must be external and independent. It is not sufficient to undergo an audit using the internal audit function of the cooperation partner.

Who pays for the audit?

The cost for the audit shall be paid for by the cooperation partner and included in the budget funded by Sida.

Audit of forwarded funds

You as the cooperation partner must ensure that forwarded funds are followed up in line with the requirements you have agreed to in your agreement with Sida.

You are responsible for ensuring that the following documentation are prepared and kept by any partner receiving funds:

- Documented control of the auditor's independence and professional standard;
- Documented control that the audit reporting is in accordance with the agreement; and
- Documented assessment of audit reporting and that adequate follow-up has taken place.

Any substantial deficiencies in the audit reporting from recipient partners shall be specified in the report to Sida.

International Standards on Auditing (ISA)

Sida requires the auditor to use the International Standards on Auditing (ISA) when auditing Sida-financed funds. This should be clearly stated in the audit report. If the auditor wants to use any other type of audit standard, please contact Sida for further advice.

The ISA consists of a number of standards providing a cross-border consensus on the definition of what constitutes an audit and how the auditor should conduct an audit. The ISA standard is developed by the International Auditing and Assurance Standards Board (IAASB) which resides as an independent entity within the International Federation of Accountants (IFAC).

Two major audit standards..

All audit reports should include an audit opinion made by the auditor.

For project/programme support, the audit reporting shall be in line with ISA 800/805. Under the ISA 800/805 assignment, the auditor shall assure that the financial report reflects, in all material respects, the agreement between Sida and the cooperation partner. The auditor shall provide an independent auditor's report and a management letter from this type of review. A management letter shall disclose all audit findings (significant and other findings) and weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses and present them in order of priority.

For core support, the audit reporting shall be in line with ISA 700. Under the ISA 700 assignment, the auditor provides assurance of the financial statement for the entire organisation. This is also called a statutory audit. The auditor shall provide an independent auditor's report and a management letter from this type of review.

..and one "agreed upon procedure"

The ISRS 4400¹ or 'agreed-upon procedures' is a mandatory complement to the ISA 800/805. Sida's standard terms of reference (ToR) for this assignment will therefore be found as an annex to the agreement for project/programme support detailing what procedures shall be performed by the auditor.

The ISRS 4400 is a verification exercise. The auditor only reports on the findings without making any assessment, opinion or recommendation. However, the auditor is obliged to clearly state what procedures they have performed.

You can add assignments to this ToR as you see fit after agreeing with Sida. Please note that you may not however remove anything from the ToR.

Make sure the auditor receives the latest version of ToR that you as cooperation partner have agreed to with Sida. The ToR could be updated from year to year. The auditor must agree to perform the audit assignment and provide an engagement letter/confirmation of accepting the assignment in return. Read this letter carefully and make sure that the agreed ToR is annexed to the auditor's letter. If the auditor excludes any part of the ToR, contact Sida for further advice.

For further information related to the ISRS 4400 assignment during project/programme support, please see the "Terms of Reference for Annual Audit" annexed to the agreement.

Auditor's length of service

To ensure independence of the auditor, the auditor responsible for a Sida-financed contribution is only allowed to perform their services for a maximum of seven years and must then be replaced. You are strongly encouraged to then also change the audit firm to minimise the risk of familiarity and objectivity but also to increase the added value from the audit reviews. You are allowed to continue with the same audit firm if another auditor fulfils the requirements but serious considerations should be given to the appropriateness of this decision. Please note, if you assess there is a need for a more frequent change before the seven year limit is reached, you should act accordingly to ensure a high quality of the audit.

What to do when you receive the audit report

When you as cooperation partner receive the audit report from the auditor, you should revisit the ToR you agreed to with the auditor and make sure you have received the services you procured. Make sure that the auditor's opinion is in line with the requirement in the ToR and that the auditor has responded to all areas under the ISRS 4400 assignment (if applicable). If something is unclear, ask the auditor to clarify so that you fully understand the audit report.

You should receive the following documents from the auditor:

¹ International Standard on Related Services 4400 (ISRS 4400)

- The Independent Auditor's Report (and attached to it, the financial report subject to the audit)
- A Management Letter²
- Agreed-Upon Procedures Report for ISRS 4400 assignments

Check that the audit report is signed by the responsible auditor. The auditor's signature could either be in the name of the audit firm, the personal name of the auditor or both, depending on the particular jurisdiction. If you are unsure, contact the auditor and ensure that this is done. Then, write then your management response (MR) on how you will address the findings and recommendations in the audit report, including an action plan, stating who is responsible, and when the actions will be taken.

Please note that if the audit report reveals ineligible expenditures or expenditures that lack sufficient supporting documentation, this needs to be investigated. Sida might recover funds that Sida does not consider eligible in accordance with the agreement.

Have any questions?

If you need further help or guidance, please reach out to your Sida Programme Officer.

Department: Department for Operational Support

Unit: Controlling and Investigation Unit

² Please note: If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.