These guidelines describe Save the Children Norway's minimum requirements concerning auditing and act as an attachment to the agreement of cooperation between Save the Children Norway and a partner.

1. Introduction

There are two alternatives for external audit of the partner's activities: the partner will either have its own auditor or the partner may hand over all vouchers to Save the Children Norway and thereby be included in Save the Children Norway's main audit. The latter is most relevant where audit costs would be relatively high in the context of the project's total costs. The chosen alternative must be specified in the agreement of cooperation.

If the project is to be audited as part of Save the Children Norway's main audit, the guidelines in section 4.3 apply.

2. Qualified and registered auditor

The partner must sign an agreement with an auditor registered in the relevant national body of auditors and accountants. Due to requirements of Save the Children Norway's donors, the fact that the partner's auditor is either not registered in the national body of auditors and accountants or is not sufficiently qualified will constitute sufficient grounds for Save the Children Norway's resident representative to insist on a change of auditor.

It is the responsibility of Save the Children Norway's resident representative to ensure that the audit agreement includes the following topics:

3. Scope of work

The audit shall cover the total accounts of the partner's activities, including the activities financed by Save the Children Norway. There may be exceptions, for example with respect to government departments. Head office shall be consulted in such situations.

The auditor shall carry out the audit in accordance with generally accepted auditing practices. In addition, the auditor shall observe rules and regulations relevant to the project.

It is expected that visits to projects are included in the auditor's work. Which projects and how often have to be agreed upon with the partner.

4. Legal compliance

The auditor shall control that the partner's operations are in compliance with national laws and regulations with regard to

- income taxes of the staff
- staff employment, work permits, fringe benefits, employee tax withholdings and other compensations and withholdings
- value added taxes and dues
- currency exchange regulations
- any other matters required by national laws and regulations

5. Evaluation of internal controls

The auditor shall evaluate and comment on internal control with regard to its existence, effectiveness and adequacy to produce correct, true and fair accounts and to safeguard the assets. The auditor is expected to assess the risks of various types of transactions and to plan the audit accordingly. This should form the basis for the nature of the auditor's tests and should help the partner in designing and implementing improved procedures for controlling activities.

The auditor shall report to the partner on weaknesses in internal financial control and accounting procedures and practices together with recommendations for improvements.

The scope for internal control may vary with the nature of the activities. In general, the following areas should always be evaluated:

- monitoring of expenditure in the context of the budgets
- cash and bank disbursements to pay for received goods and services
- procurement procedures
- physical checks and accounting controls of inventories, stocks and supplies
- controls surrounding computerised applications and the information technology environment
- adequacy and effectiveness of the partner's procedures for controlling programme activities, for example in the context of approved budgets

6. Substantive audit work

In addition to evaluating internal financial control, the auditor shall perform substantive testing. The nature and extent will depend on the auditor's risk assessments and the effectiveness of internal control. The substantive tests shall always include:

- physical inspection of material inventories and fixed assets
- tests of cash and bank disbursements to ensure that these are supported by original vendor invoices and that they represent bona fide settlement for goods and services actually received
- evaluation and control of employee benefits to ensure that these are in compliance with employment contracts
- tests that the costs recorded for goods, services, salaries etc. are reasonable (amount and nature) in relation to actual operations of the projects and normal prices in the country

7. Financial accounting and reporting

The auditor shall test that the project's financial accounting and reporting is in compliance with generally accepted accounting practices. More specifically, the auditor shall test:

- that accounts are kept separately for each project as defined in the budget and that they are kept in accordance with planned deadlines
- that amounts reported in the periodic financial reports to Save the Children Norway are in accordance with the books of accounts and have been correctly classified in accordance with either national or Norwegian standards

8. Audit reports

The audit reports shall be delivered to the resident representative of Save the Children Norway's programme office, for further submission to Save the Children Norway's local auditor.

By 31 January the partner must verify the financial transfers from Save the Children Norway to the partner covering the twelve months of the year ending 31 December.

By 15 March the auditor shall submit an audit report covering the twelve months of the year ending 31 December.

In the audit report the following must be included:

- audited statements of the annual accounts presenting the total funding of the partner organisation (income and expenditure account for the partner's total operations)
- balance sheet listing the total assets and liabilities of the partner organisation
- audited statements of the accounts for projects funded by Save the Children Norway (income and expenditure accounts for projects funded by Save the Children Norway)
- a breakdown of the total income of the partner, giving specifications of the contribution from each donor

Failure to comply with deadlines stated above will constitute sufficient grounds for Save the Children Norway's resident representative to insist on a change of auditor.

In addition, an interim report for the first six months may be prepared by **31 July**. The need for an interim audit should be assessed by the partner, and should be included in the agreement between Save the Children Norway and the partner. The need for an interim audit should be assessed in the context of audit costs.

9. Management letters

In addition to the audit reports, the auditor shall report on internal control weaknesses and give recommendations as described under # 5 above - Evaluation of internal control. A draft shall be submitted to the partner for comments. The partner's comments shall then be included by the auditor in a management letter which will be delivered to the resident representative by **15 March** and **31 July** (if applicable) in the same way as the audit report.

10. Save the Children Norway's principal auditor

Due to requirements of Save the Children Norway's main donors, the principal auditor for the programme office shall have the authority to review the working papers of the partner's auditor. This shall be included in agreements with Save the Children Norway's partners. Save the Children Norway's principal auditor shall have a similar authority to review working papers of local auditors.

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