Project Audit  
Instructions (PAI)

2024

Table of contents

[Table of contents 2](#_Toc182226928)

[Cover letter 4](#_Toc182226929)

[1. Summary information 6](#_Toc182226930)

[2. General information and contacts 6](#_Toc182226931)

[3. Timetable 7](#_Toc182226932)

[4. BDO Global Portal 7](#_Toc182226933)

[5. Important information 8](#_Toc182226934)

[6. Project risks of material misstatement 9](#_Toc182226935)

[7. Relevant ethical requirements, including those related to independence 9](#_Toc182226936)

[8. Materiality 10](#_Toc182226937)

[9. Direction, supervision and review of the component auditor work 10](#_Toc182226938)

[10. Auditing and accounting standards 11](#_Toc182226939)

[11. Changes in accounting and audit standards 12](#_Toc182226940)

[12. Fraud related risks/suspected fraud 12](#_Toc182226941)

[13. Related party relationships and transactions 13](#_Toc182226942)

[14. International Standards on Quality Management 14](#_Toc182226943)

[15. Highlights memorandum 14](#_Toc182226944)

[16. Summary of corrected and uncorrected misstatements 15](#_Toc182226945)

[17. Communications with those charged with governance and management letter 15](#_Toc182226946)

[18. Subsequent events review 16](#_Toc182226947)

[19. Feedback 16](#_Toc182226948)

[20. Appendices and templates 18](#_Toc182226949)

# Cover letter

Dear component auditor

BDO has been appointed auditors of Norwegian Refugee Council (NRC) for the period ending 31.12.2024, and your firm has been engaged to be involved in the audit as a component auditor for the consolidated project reports. All projects included in a larger reporting package for the donor under a framework agreement are considered part of a consolidated project report.

As project engagement partner it is my responsibility to determine whether the significant judgments made and the conclusions reached, in the context of your component work, are appropriate given the nature and circumstances of the project audit engagement. As project engagement partner, I also assume overall responsibility for the work referred to yourselves as component auditor. Our role as the project auditor is to manage and achieve audit quality for the purposes of the project audit by being sufficiently involved in the component auditor’s work. We achieve this by determining the nature, timing, and extent of your work as component auditor and through direction, supervision, and review of your work.

The nature and extent of your participation and role is explained in the Project Audit Instructions (PAIs) accompanying this cover letter. These PAIs consist of general information about the project and the audit that are relevant for all component auditors. In these instructions, you will find various requirements and deliverables with accompanying templates required to be completed, signed and submitted by the component auditor via the Global Portal.

These instructions have been prepared to apply the requirements of the International Standard on Auditing 600 Revised – *Special Considerations – Audits of Group Financial Statements (Including the work of Component Auditors)* (ISA 600 (Revised)) and as such, I would like to point out some key elements resulting from the implementation of ISA 600 (Revised) that are relevant for our mutual cooperation and your role as a component auditor on this engagement:

1. Component auditors are part of the engagement team for which I am responsible. To fulfill this responsibility, I will be closely involved in the audit work you will perform. Further details are given in these instructions.
2. Effective two-way communication is key for a successful audit. Although this is discussed later in more detail in these instructions, I would like to emphasize that if you have any doubts as to whether you need to communicate relevant matters to us, please contact me or the primary engagement contact(s) as early as possible. This will allow all parties involved to address any issues early in the process and will also enable the entities we audit to receive a high-quality audit.
3. The relevant ethical requirements, including those related to independence, that apply to the project audit also apply to all component auditors when they are performing work for project audit purposes. Such relevant ethical requirements may be different or in addition to those applicable when performing a statutory audit or similar engagements in your jurisdiction. If there are any issues or breaches of relevant ethical requirements, we ask that you contact me, or the primary engagement contact as soon as possible.

**Online briefing meeting**

We will schedule a briefing meeting with you on these PAI. The briefing meeting will be held as an open forum together with other project auditors reporting under the same framework agreement.

Please contact us if you have any questions about these instructions or any other matters concerning the project audit.

Yours sincerely,

***Leif Åge Aabø***

*Engagement Partner*

*BDO AS*

# Summary information

We, as Auditor of the Norwegian Refugee Council have been engaged to perform audits of projects receiving financial support from NMFA (Norwegian Ministry of Foreign Affairs), Norad (Norwegian Agency for Development Cooperation), Sida (Swedish Development Cooperation) or other stand-alone agreements[[1]](#footnote-2). In the following instructions, the donor organizations will simply be referred to as “the donor”. These audit instructions are designed to inform you, as project auditor, of the scope of work we require you to perform for the purpose of the total project audit. The project instructions outline among other areas: key reporting deadlines and audit deliverables that shall submitted to us based on communication guidelines. Norwegian Refugee Council prepares its financial statements in NOK in accordance with Norwegian Generally Accepted Accounting Procedures (NGAAP).

Issuance date of these Project Auditor Instructions is November 11, 2024.

# General information and contacts

These PAIs are designed to inform you, as the component auditor, of the work we require you to perform on the component for the purpose of the project audit.

Any concerns that you may have regarding these PAIs are to be resolved immediately by contacting the project auditor using the primary engagement team contact details outlined in the table below. Also, please inform the primary engagement team contact immediately of any items in the instructions which you believe are incorrect or omitted.

You are required to confirm that you will cooperate with us by performing the work required by us and understand the context in which we will use your work. This confirmation from you is included in **Appendix A and Appendix B** which you must complete and return to us as per the dashboard in the Global Portal.

Table of the key project auditor contacts

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contact** | **Name** | **Location** | **Phone** | **Email** |
| **Group audit engagement partner** | Leif Åge Aabø | Oslo, Norway | +47 404 53 736 | [leif.age.aabo@bdo.no](mailto:leif.age.aabo@bdo.no) |
| **Group audit engagement manager** | Maria Voroshnina | Oslo, Norway | +47 942 90 500 | [maria.voroshnina@bdo.no](mailto:maria.voroshnina@bdo.no) |
| **Group engagement team contact** | Hanne Alsaker Mathiesen | Oslo, Norway | +47 995 64 866 | [hanne.mathiesen@bdo.no](mailto:hanne.mathiesen@bdo.no) |
| **Additional Group engagement team contact** | Kristina Sandvik | Oslo, Norway | +47 90 02 66 50 | [kristina.sandvik@bdo.no](mailto:kristina.sandvik@bdo.no) |

Please complete the template provided in **Appendix A and Appendix B** and submit it to us via the Global Portal as per the timetable. If there are any future changes to this information that was previously provided, please use the template provided in **Appendix A and Appendix B** and re-submit it to us when changes occur.

# Timetable

A dashboard view of all the component auditor specific tasks and due dates is included in the Global Portal. The schedule below provides a summarized timetable.  
  
The Global Portal is the main form of communication between us as project auditor and you as component auditors and this is the platform to be used for submission of PAIs responses and tracking of all deliverables.

|  |  |  |
| --- | --- | --- |
| **Description of deliverable** | **Appendix** | **Due date** |
| Planning deliverables | Appendix A – Component auditor questionnaire  Appendix B – Planning confirmations and independence confirmation project audit | January 6, 2025 |
| Period end deliverables | Appendix C – Risk report and results of tests  Appendix D – Highlights memorandum  Appendix E – Summary of misstatements  Appendix F – Management letter  Appendix J - Audit report on project financial statements | February 17, 2025 |

# BDO Global Portal

The BDO Global Portal (Global Portal) is the platform used to facilitate communication between the project auditor and component auditor(s) as well as to facilitate communication between project management and the project auditor. **The name of the portal is (Group) Norwegian Refugee Council. Please, use Exchange Next Gen portal.**

|  |
| --- |
| Global Portal is used to communicate instructions, share documentation, access templates, and sign off tasks (with due dates) once completed. **The component auditor submits all deliverables to the project auditor via the Global Portal in accordance with the set timetable**.  For each reporting requirement and/or project procedure outlined in these PAIs and/or in the Appendices in these instructions, as component auditor, you are required to:   * Read the task description and follow the instructions, including completing and then uploading the relevant reporting documents or templates (if applicable). * Sign, scan, and save/convert all required documents and upload these files to the respective task. * Send us documents, even when using Global Portal, which bear a signature.   Documents are to be provided in PDF format, unless previously agreed to be in DocuSign (or a similar e-signature tool), to receive originally signed documents via the Global Portal. Unless otherwise agreed, please do not use any other format. *Appendix C “Risk Report and results of tests” shall be provided to BDO Norway in both excel and pdf format*.  All required items are included in the Global Portal for the project audit for each task, as a downloadable template. Examples of these templates are included as Appendices to these instructions for your information. |

Et bilde som inneholder tekst, skjermbilde, Font, nummer

Automatisk generert beskrivelse

# Important information

Project Audit Reports

For reporting on projects receiving financial support from the donor, the audit report template provided is to be used. Please clarify with your contact person in Norwegian Refugee Council if you have questions regarding the above.

Other information

We would like to emphasize that the local audit team should, to the extent possible, build upon the audit work that has been done in relation to the statutory audit when doing project audits, in order to reduce the total amount of audit work. This can be done by for example, building upon risk assessments and substantive tests done in the statutory audit when conducting project audits. The same applies for any additional reporting conducted for Sida funded projects.

# Project risks of material misstatement

An overview of project wide risks is included in **Appendix C “Risk Report and results of tests.** This Appendix includes risks identified by group project auditor and audit procedures designed to respond to the identified risks**.** We as project auditor, require that you as component perform the listed procedures and document the result of the performed tests and conclusions in **Appendix C.** If you decide to perform other tests than the one listed to address the risk, please document this in **Appendix C.**

However, this does not necessarily mean that all the RMMs listed are relevant to the scope of your procedures on the financial information of the component for purposes of the project audit. If this is the case, please document this in **Appendix C.**

If there are any significant RMMs (or additional risks at the higher end of the spectrum that you may be aware of at the component that you believe to be of significance to the project financial statements, but that are not scoped in for your component(s) as per **Appendix C**, or any other matters that you believe need to be brought to our attention, please list these risks in **Appendix D Paragraph E.**

If additional significant RMMs of the project financial statements, due to fraud or error, are identified by us during the course of our audit and we believe those significant RMMs are relevant to the scope of your procedures at the component level, we will communicate these additional significant RMMs and changes in the project audit plan, if any, to you as soon as practicable.

# Relevant ethical requirements, including those related to independence

**Relevant ethical requirements, including those related to independence, applicable to the project audit**

As project auditor, we are required to confirm whether you, as a component auditor[[2]](#footnote-3), understand and will comply with the Relevant ethical requirements (RERs), including those related to independence, that apply to the project audit.

As a component auditor, you are required to comply with the RERs, including those related to independence, as outlined in **Appendix A** in relation to the work performed on the financial information of the component audited entity[[3]](#footnote-4).

# Materiality

Project materiality has been established at 1 % of total costs on the project. Specific performance materiality / performance materiality for the project can be determined by you as the component auditor but cannot exceed 75 % of your component materiality. However, note that all identified errors in the project audit are to be corrected.

# Direction, supervision and review of the component auditor work

Component auditors are subject to the direction, supervision, and review by the group auditor. As such, communication between the group auditor and the component auditor takes place at appropriate times during the audit. There are different ways in which we may direct, supervise, and review your work during the audit.

* Hold meetings or calls with you during various phases of the audit to communicate identified and assessed risks, issues, findings, and conclusions (i.e., facilitate two-way communications between the group auditor and the component auditor).
* Use the Global Portal to provide information, submit deliverables and other potential underlying audit documentation of the audit procedures assigned to you.
* Perform reviews of your audit documentation when permitted by law and regulation to achieve the following engagement team objective:
  + When you are assigned responsibility to perform further audit procedures in response to assessed risks of material misstatement, particularly in areas of higher assessed risks (including significant risks), we as the auditors of the consolidated project report perform a review to evaluate the appropriateness of those audit procedures and the results thereof.

**Planning audit phase**

For planning audit purposes, we require you to submit the following deliverables:

* Appendix B – Planning confirmations

**Year-end work phase**

An overview of project wide risks is included in **Appendix C (Risk Report and Results of Tests).** This Appendix includes risks identified by us as group project auditor, and audit procedures designed to respond to the identified risks**.** We as group project auditor, require that you as component auditor perform the listed procedures and document the result of the performed tests and conclusions in **Appendix C.** If you decide to perform other tests than the one listed to address the risk, please document this in **Appendix C.**

Please provide a summary of your findings and conclusions explaining how you have audited the risks applicable for the components for which you had performed audit procedures in **Appendix C (Summary of Work Performed) and D (Highlights memorandum).**

We plan to evaluate the appropriateness of the audit procedures performed and the results thereof.

**Matters of high importance**

We would like to emphasize the importance of timely communication on matters which are considered to be of high importance for the group audit as a whole. For the group audit engagement, we require that you contact us immediately if any early warning triggers arise during your audit procedures.

This includes matters such as:

* You become aware that your firm’s review process (or external regulatory inspections) has resulted in ‘major findings’ for this component engagement or the component auditor partner.
* Inability to meet the reporting deadline (including resourcing capacity issues).
* The identification of new information of the component that might impact the risk assessment or detailed audit procedures or the level of component materiality applicable to the component.
* The discovery of related party relationships or transactions not previously identified by group management or us.
* Fundamental weaknesses in the internal control structure.
* Indications of suspected fraud or fraud.
* Any financial or economic problems that come to your attention might have a significant impact on the project financial report.
* Subsequent events which would result in either an adjustment to the reporting package of the component for the period or potentially require disclosure in the group financial statements.
* If applicable: expected qualification/modification of your opinion and description of the reason.

# Auditing and accounting standards

**Accounting principles/applicable financial reporting framework**

The consolidated project report is presented in conformity with Norwegian Generally Accepted Accounting Procedures (NGAAP) and current practices in the humanitarian organizations.

The component financial information is prepared by component management for the purposes of reporting to donor organization and enabling its preparation of the consolidated project report which is to be reported to the Norwegian back donor. The component financial information is being prepared in accordance with NRC Financial Handbook (Financial Handbook version 2.6). Accounts should be prepared according to accrual basis of accounting and outlines the financial reporting requirements. Accounting principles used in the project should be clearly stated in the notes of the financial statement.

**Auditing standards**

We will be conducting our audit of the project financial statements in accordance with professional standards issued by the International Auditing and Assurance Standards Board (IAASB). We require you to perform your procedures in accordance with these standards and the specific requirements according to these GAIs. This is also reflected in the report that we require from you. The auditor shall comply with all ISAs relevant to the audit when performing the project audit. Of particular relevance is ISA 240, (the Auditor’s responsibility to Consider Fraud and Error in an Audit of Financial Statements), and ISA 805 (“Special considerations audits of single financial statements and specific elements, accounts or items of a financial statement”).

In accordance with the ISAs, we are prohibited from using internal auditors to provide direct assistance, this prohibition also extends to component auditors and therefore as component auditor you cannot plan to use internal auditors to provide direct assistance with the work required in these instructions.

**Notes to the Project Financial Statements**

Appendix K (Notes to Financial Reporting NMFA, Norad, Sida, Danida) provide template of notes that are to be included in the Financial Statements of the projects. Please, fill out accounting policies that are basis of the project reporting in Note 1.

The principles of Fair Shared Cost Allocation model are also specified in the Appendix K.

# Changes in accounting and audit standards

We would like to draw attention to the changes in the auditing standard ISA 600 (revised) effective from January 1, 2024. Component auditors are required to familiarize themselves with the new standard, as it is relevant for this year's reporting.

# Fraud related risks/suspected fraud

In the case of either fraud and/or suspected or identified instances of fraud involving component management, employees who have significant roles in internal control at the component or others, you are to:

* inform the project engagement partner and primary contact as soon as practicable,
* follow local laws and regulations with regards to communication to component management, and
* provide us with copies or summaries of any written or oral communications with component management and/or those charged with governance at the component about the fraud or suspected fraud.

Below is a list of indicators (not exhaustive) of possible improper behavior and or potential fraud:

* Excessive hospitality and entertainment expenses.
* Expenses relating to lobby activities and sponsoring that are not adequately substantiated.
* Payments for the use of ‘intermediaries’, including agents, whose commission is disproportionate to the agreed work.
* A long-term business relationship with an individual (foreign) official.
* Cash payments that are not adequately documented.
* Consultancy fees that are not adequately substantiated.
* Keeping an ‘illicit fund’.

We apply professional skepticism throughout the engagement, which includes being alert to indicators of fraud and possible management bias.

Please inform us immediately of any instances of fraud or suspected fraud so that we may discuss these with project management and evaluate their possible effect on the project financial statements.

Furthermore, we require you to report any instances of non-compliance with laws and regulations, which can have a potential impact on the project financial statements.

# Related party relationships and transactions

We have identified the following related parties:

* Management, board of directors and employees in the local organization
* Local management in projects
* Management and employees of the local partners and donors

As the component auditor, consider this list when confirming your independence and when performing your procedures on the component. If you are aware of, or become aware of, any potential conflicts or threats to your independence, contact us immediately.

* Take notice of the overview of related party relationships and related party transactions as obtained from project management at the project level
* Perform the procedures detailed **Appendix C** to these instructions.
* Using **Appendix D (Highlights memorandum**) to these instructions:
  + Report if you identify related party relationships not previously identified by project management or the project auditor, including the amounts related to these transactions.
  + Report on the audit procedures performed and the results of these procedures.

The highlights memorandum in **Appendix D** (**Highlights memorandum**) is to be used for reporting the results of your work on related party relationships and transactions.

# International Standards on Quality Management

The International Standards on Quality Management (ISQM) are applicable for the audit of the project financial statements.

ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* or local equivalents, strengthens firms’ systems of quality management (SoQM) through a robust, proactive, and effective approach to quality management. The standard encourages firms to design a system of quality management that is tailored to the nature and circumstances of the firm and engagements it performs. ISQM 1 applies to all firms that perform engagements under the IAASB’s international standards.

We require you to submit a signed version of **Appendix B.** In addition to other matters, you are confirming the status of your firm’s system of quality management and the sufficiency and appropriateness of the planned engagement resources.

# Highlights memorandum

The Highlights memorandum in **Appendix D** is required to include the following items if within scope:

* Scope of audit work performed, materiality levels
* Component auditor report on component financial information (or reporting package) prepared for the purposes of preparing the consolidated financial statements of the project (if applicable).
* Summary of conclusion(s) on significant RMMs and/or risks on the higher end of the spectrum of inherent risk
* Business issues, including external and internal environmental factors, etc.
* Significant audit findings (summary of uncorrected misstatements, system of internal control deficiencies, etc.)
* Procedures performed on related party relationships and transactions
* Matters communicated with component management and those charged with governance of the component
* Procedures performed on improper payments or business practices, including fraud
* Outstanding matters
* Other matters.

# Summary of corrected and uncorrected misstatements

Misstatements can include errors, fraud, and judgmental differences. Report all misstatements above the component clearly trivial threshold to component management as they arise. Encourage component management to correct all proposed adjustments arising from your procedures.

All misstatements above the component clearly trivial threshold whether corrected or uncorrected are to be included in the ‘Summary of corrected and uncorrected misstatements’. This needs to clearly distinguish between corrected and uncorrected misstatements. Explain the nature of each misstatement adequately.

Please also report misstatements of a qualitative nature (for example, missing disclosures, presentation errors, etc.) on the ‘Summary of corrected and uncorrected misstatements’ in Appendix E.

The format we ask you to use to report the misstatements is included as Appendix E. If, during the course of your work, you have not identified any misstatements, corrected or uncorrected, please confirm this to us.

# Communications with those charged with governance and management letter

If the ‘Communications with those charged with governance’ and the ‘Management letter’ are written in a language other than English, summaries in English are required to be sent to us. Furthermore, and whenever possible, such translations are agreed upon with component management to avoid misunderstandings resulting therefrom.

**Communications with component management**

Please provide details of matters that you have either communicated or are expecting to communicate with component management, including any communications relating to identified fraud or suspected fraud involving component management, employees who have significant roles in the project’s system of internal control, or others where the fraud or suspected fraud resulted or is suspected to have resulted in a material misstatement of the financial information of the component. Please forward us a copy of the communications with component management. This is to be summarized in Appendix H.

Inform us, within the same reporting deadline, if you have not sent any communications to component management.

**Communications with those charged with governance**

Please provide details of matters that you have communicated or expect to communicate with those charged with governance of the component. Please forward us a copy of the communications with those charged with governance of the component.

Component auditor to include communications relating to fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component or others where the fraud or suspected fraud resulted or is suspected to have resulted in a material misstatement of the financial information of the component.

Inform us, within the same reporting deadline, if you have not sent any communications to those charged with governance of the component.

**Management letter**

A management letter includes deficiencies identified in the system of internal control of the component in connection with the audit procedures performed, as well as opportunities for improving the system of internal control.

* Segregation of duties in relation to asset handling, ordering and approval of costs
* Procurement and approval of contractors/vendors meet the donor requirements
* Reconciliation of bank accounts, authorization, segregation of duties
* Cash box reconciliation/counting
* Donor funds are not used as loans or advances to other to parties
* Control routines have been implemented to prevent double reporting of costs
* If use of local partners; securing that local partners meet the donor regulations

Please make sure that your comments, observations, or suggestions included in the management letter are first discussed with component management. If component management disagrees with a comment and you still feel it is a valid point for inclusion in your management letter, include the point and state the component position. If you decide to send a management letter to the component management, you are to forward a copy of the management letter to us. Status and management action on deficiencies from the previous year’s management letter should also be commented. If you are not issuing a management letter, you must inform us of this within the same reporting deadline.

# Subsequent events review

Subsequent events are events between the date of your report on your work on the financial information of the component and the project reporting date indicated above, that would result in an adjustment to the financial information (‘reporting package’) of the above component or result in any change to your reporting to us or may require an adjustment to or disclosure in the project financial statements. If there are any subsequent events that you become aware of you are required to notify us about these subsequent event(s) immediately.

# Feedback

We welcome observations and feedback from you on the PAIs received by you for this year’s project audit engagement. This information may be included in next year’s PAIs and also used in future audit planning to provide management and those charged with governance of the project with an understanding of our efforts for continuous improvement.

# Appendices and templates

| **Appendix /**  **BDO template** | **Description of deliverable** |
| --- | --- |
| Appendix A | Component auditor questionnaire |
| Appendix B | Planning Confirmations and Component Auditor Initial RERs, including independence Confirmation |
| Appendix C | Risk Report and Results of Tests |
| Appendix D | Highlights memorandum |
| Appendix E | Summary of corrected and uncorrected misstatements |
| Appendix F | Management letter |
| Appendix J | Audit Report on the Project Financial Statement |
| Appendix K | Notes to Financial reporting (NMFA, Norad, Sida, Daninda) |

1. Agreements with donor funds where auditor is required to issue an ISA 800/805 report [↑](#footnote-ref-2)
2. The term component auditor is used as in ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).* [↑](#footnote-ref-3)
3. The term component audit client is used as defined by the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). From a BDO perspective, ’client’ is referred to as ‘audited entity’. [↑](#footnote-ref-4)