

**HOPE'87 Guidelines for Audits:
the External Auditor/ the Internal Audit Committee/ the Internal Auditor**

1. Objective of Audits

The objective of an External Audit is to determine whether on basis of financial statements, in the auditor's opinion, those statements present fairly in all material respects the financial position of HOPE'87, the results of its operations, and cash flows, in conformity with national or international generally accepted accounting principles (GAAP).

The objective of an Internal Audit is to report deficiencies in internal controls that are considered to be "reportable conditions". The main objectives of an Internal Audit are to ensure that the quality standards as set formally by the Board are met. These include the following accountability criteria:

- a) **GOVERNANCE** – The Governing Board actively carries out ultimate oversight authority for HOPE'87. This criterion provides information on the composition of HOPE'87 board, its core duties and how it ensures freedom of self-dealing.
- b) **FINANCE** – Externally audited annual financial statements are available. This criterion provides information on breakdown of income sources and expenses for programme and administrative activities.
- c) **FUND RAISING** – HOPE'87 informs the public of its mission and its intended way to use donated/granted resources. This criterion seeks to ensure that proposals/grant requests/solicitation materials from HOPE'87 are accurate, complete and respectful.
- d) **SERVICE QUALITY** – HOPE'87 regularly assesses its service quality standards and effectiveness by revising its manuals and guidelines in light of the experience made in project implementation and with a view to provide the best service for beneficiaries for best value of donors. This criterion seeks to ensure that HOPE'87 has defined processes to evaluate impacts of their programmes and to address any deficiencies.
- e) **TRANSPARENCY** – HOPE'87 is required to have annual reports available to the public. This criterion ensures that the reports provide information on service accomplishments, a list of the officers on decision-taking level, members of the Governing Board, and essential financial information.

Compliance with HOPE'87 quality standards implies an affirmative statement of the Internal Audit Committee regarding the following points:

- The HOPE'87 budget is being properly utilized in donor's allowed areas of expense.
- The risk management processes defined by the HOPE'87 policy and procedures are in place and operating as intended.
- The processes have been designed well enough to enable managers to manage the risks that they are responsible for in an effective way.
- Deficiencies in the design or operation of internal control that could result in violations

of laws, regulations, provisions of contracts or grant financial statements or the Internal Audit objectives are being known to the Board for further action.

- All procedures as laid down in the documents pertaining to the well functioning of the organisation are followed and any exception thereof being properly recorded and brought to the attention of the Board for further action.
- Areas of special attention and any risk that HOPE'87 faces in the existing circumstances and to avoid material external audit findings are highlighted.

2. Configuration

The External Auditor is appointed by the Board for a period of two years at the General Assembly. The External Auditor has to have recognised qualifications and must not be a staff member of HOPE'87.

The Internal Audit Committee is appointed by the Chairperson of the Board for a period of two years and is composed of at least three members. The Chairperson is a member of the Internal Audit Committee and presides it.

3. Authority

The Internal Audit Committee has appropriate authority to require any member of the organisation either to:

- attend an Audit Committee meeting; or
- provide written report(s) to the Internal Auditor/Audit Committee for the purpose of providing information to assist the Internal Auditor/Audit Committee in fulfilling its role of advising the Board.

The Internal Audit Committee has the authority to address the Board at each meeting.

The HOPE'87 Internal Audit Committee has the right to entrust staff members of the HOPE'87 General Secretariat to undertake audit tasks on its behalf when on mission abroad. These delegated Internal Auditors report back to the Internal Audit Committee.

4. Methodology

Internal Audit Program

Preparation of the Internal Audit program concludes the preliminary review phase. This program outlines the fieldwork necessary to achieve the Internal Audit objectives. At this stage the concerned staff will be informed of the Internal Audit program by the CFO or the SG to facilitate the Internal Audit process.

Fieldwork

The fieldwork concentrates on sample transaction testing and verification of documentation attached with financial transactions. It is during this phase that the Internal Auditor or the Internal Audit Committee determines whether policies and procedures and internal controls of HOPE'87 are adequate and being followed properly and in the manner described by the respective HOPE'87 guidelines. The fieldwork stage concludes with a list of significant findings from which the Internal Auditor will prepare a draft of the financial monitoring/Internal Audit report.

Transaction Testing

During this process Internal Auditors review financial transactions and their supporting documents. While verifying the accuracy, validness, relativity and transparency of the financial transactions, special emphasis is given on the implementation level of HOPE'87's internal controls and its own policies and procedures. The Internal Auditor will use random testing to pick the transaction for Internal Audit purposes from various head of accounts.

Advice & Informal Communications

As the fieldwork progresses, the Internal Auditor discusses any significant findings with the HOPE'87 Senior Management to get feedback and to provide an opportunity to clarify the position on this.

Internal Audit Report

The Internal Audit Report expresses the opinion of the Internal Auditor/ Internal Audit Committee and proposes recommendations for improvements. Recommendations of the Internal Audit Committee have to be executed by the General Secretariat without delay. Recommendations of the HOPE'87 Audit Committee or its designated emissary dealing with the work of Branch Offices, have to be implemented by the Branch Office Manager as swiftly as possible or within the given timeframe with feedback to HQ.

An Internal Audit Committee Report has to be produced in written form at least once a year for the General Assembly. The Internal Audit Committee has to be heard at each Board meeting and also has to inform the Board Members about the amount of reserve safeguarded and if a review of the reserve policy is necessary.

Annex A. Guidelines

The following questions might be taken into account by the Internal Auditor/Audit Committee:

- (a) Does HOPE'87 have an appropriate corporate governance statement? Does it include details of the main corporate governance practices in place? Is the Board satisfied as to the appropriateness of its contents?
- (b) Are the accounting policies of HOPE'87 appropriate and are they adequately disclosed in the financial statements?
- (c) Is the Board adequately informed of its accountability responsibilities to the donors?
- (d) What are the major government regulations which have an impact on HOPE'87? Who is responsible for monitoring compliance with these regulations?
- (e) What steps have been taken to ensure compliance with relevant ordinances and regulations?
- (f) What are the explanations for major budget variances?
- (g) Is programme reporting providing the Board with sufficient information to assess the impact and effectiveness of services and strategies?
- (h) How are HOPE'87's business risks identified and assessed? What is the ongoing programme of risk assessment and monitoring?
- (i) How do the internal controls protect HOPE'87's assets and provide reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection?
- (j) How are internal controls documented by HOPE'87? Who is responsible for ongoing review of the internal controls?
- (k) What is the policy in place concerning any illegal acts?
- (l) Have the external auditors noted any conflict of interest that could affect the control consciousness of staff? How was this assessed?
- (m) What are the external auditor's views on the effectiveness of the HOPE'87 internal audit or other control and review procedures?