

Guideline for selection of (new) auditor by IP

This guideline serves to enable selection of auditors which do comply with the level of competence that IDH requires and are fully independent of our implementation partners (IP). IDH has the objective to work with best independent auditors and to refrain of any preferential treatment.

After selection IDH stimulates to create a partnership for possible follow-up assignments for existing/new projects. In this way the auditor can also function as a sparring partner for improvement of IP's reporting.

This guideline is as much as possible aligned with the audit instructions of the external auditor of IDH. Especially as the current audit instructions of the external auditor requests the auditor to confirm being independent (Annex 2: Confirmation of independence and access to working papers) and requests the auditor to provide information to understand the competence of the auditor (Annex 3: Understanding the competence of component auditor).

Scope

This guideline should be applied by Implementing Partners which are for the first time required to be audited according to the audit instructions of IDH or in case an Implementing Partner does want to work with a different audit firm then the audit firm that they engaged in previous year of the contract with IDH or previous engagement with IDH.

Process

At contracting the Implementing Partner, this guideline and the audit instructions of the external auditor of IDH are shared and discussed with the Implementing Partner. The Implementing Partner is asked to select and engage an audit firm based on the following criteria:

- Independence of the Auditor (To be judged on same information as requested in Annex 2)
- Competence of the Auditor (To be judged on same information as requested in Annex 3)
- Proven experience with International Standards on Auditing (ISA)
- Auditor is capable and willing to work exactly according to templates and defined requirements (audit instructions) of the company auditor of IDH
- Auditor is capable and willing to provide all audit documents in English
- In good cooperation with the Implementing Partner the auditor can meet the deadline and deliver the audit documents in time. As the audit report is part of the annual reporting cycle of IDH with a tight/strict schedule, meeting the deadline and reporting in time is elementary.
- Reputation of the auditor
- Experience of the auditor in the non-profit sector where it's clients received funds/grants from an international organization and experience in the sector/industry of the implementing partner
- Price of the services of the auditor (total fee for the audit and hourly fees)
- Audit approach of the auditor

In case the Implementing partner is not yet working with an audit firm that meets the requirements and is offering its services at a reasonable price, the Implementing partner should ask an offer from at least three different audit firms. Requesting them to fill 'Criteria same as Annex 2 and Annex 3 of the audit instructions' and to provide input to judge the other selection criteria. Based on the criteria the Implementing Partner selects and engages the auditor and stores the supporting documentation with

information on the auditors used for selection. The Implementing Partner shall maintain this documentation and on request IDH should get access to that documentation.

The engaged Auditor later on, can make use of the info provided for the 'Criteria same as Annex 2 and Annex 3 of the audit instructions' when they need to confirm their independence and provide information about their competence in the audit documentation they need to provide to IDH and the external auditor of IDH.

In case of a change in engaged auditor in a multi-year project (for example for year two of the project a different auditor is selected than the auditor that was engaged for the audit of year one of the project), IDH group management will be consulted before the new auditor is appointed locally (giving IDH Group management the opportunity to discuss the reasons for change of auditor and to be actively involved in the selection process if it deems so necessary). After appointment the new auditor is obliged to get in contact with the old auditor to discuss the most important outcomes of the audit of the previous year.

In case the audit firm selected and engaged, is not part of the list in annex 4 'top 10 Accounting firms', documentation should be requested from the audit firm and send to IDH (email to: audit@idhtrade.org) to proof that the audit firm is licensed by local (country or regional) oversight Board (depending on local legislation and situation).

Criteria same as Annex 2 of the audit instructions:

A2. Independence

Group name:	Stichting IDH Sustainable Trade Initiative
Project:	
Period:	[specify period]
Entity name:	[name of component]
Component auditor	[name of component auditor]

Independence

All members of our proposed audit Engagement Team as well as the Audit Partner have no financial interests in the client (or its parent, ultimate parent company or other related prescribed entities) and are able to confirm that.	Yes / No
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In addition, based on my enquiries, below is a complete list of non audit services provided to the entity by us as a firm (see **Note 1** below) or any entity related to us as a firm (see **Note 2** below) as per the table below is complete.

Entity	Service provided	Budget hours	Budget fees	Independence safeguards

<p>Note 1 To be independent of the country practice, a separate entity must:</p> <ul style="list-style-type: none"> ■ Be separately owned (giving consideration to ownership by the country practice and partners or employees of the country practice, including spouses or dependents thereof); ■ Have its own separate management; ■ Be financially independent of the country practice and partners or employees, including spouses or dependents thereof, of the country practice; ■ Be located in office space separate from the country practice; ■ Employ its own separate staff; ■ Not refer to the country practice or Mazars in its letterhead or stationery; and ■ For Mazars entities, not be listed in the Mazars International Directory nor should personnel of the separate entity be listed in the Directory. 	<p>Note 2 The services to be disclosed include:</p> <p>Bookkeeping or other services related to the accounting records or financial statements of the audit client; Financial information systems design and implementation; Appraisal or valuation services, fairness opinions, or contribution-in-kind reports; Actuarial services; Internal audit outsourcing services; Management functions; Human resources (i.e., executive recruiting); Broker or dealer, investment adviser, or investment banking services; Legal services; and Expert services unrelated to the audit</p>
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Criteria same as Annex 3 of the audit instructions:

A3. Understanding the (competence of) component auditor

Group name:	Stichting IDH Sustainable Trade Initiative
Project	
Period	[specify period]
Entity name:	[name of component]
Component auditor	[name of component auditor]

Procedure	Result
Are policies and procedures for performing the work (for example, audit methodologies) and more specifically the policy of involving specialists set up in accordance with ISA;	
Does the company have an audit manual?	
Is the manual regularly used?	
Does the firm use electronic files?	
ISA included in electronic files?	
Common quality control policies and procedures; Is the component audit firm ISQC1 compliant?	
Common monitoring policies and procedures.	
List the differences in the auditing and other standards applied by Component auditor and those applied in the audit of the group financial statements (as described in the group audit instructions)?	
Describe the specific laws and regulations or legal system applicable to the audit market.	
Professional oversight, discipline, and external quality assurance;	
Is the component audit firm licensed by local oversight Board?	
Is component audit firm 'reviewed' for quality by the local oversight body? When was the last review performed? Where the results satisfactory?	
Is the component audit firm 'reviewed' for quality by the international network organization? When was the last review performed? Where the results satisfactory?	
Please describe the education and training required to become a qualified auditor.	
Is there a compliance officer?	

List the following about the responsible engagement partners	
Name of audit partner	
Is the audit partner qualified? Include qualifications Member of the national component auditor's organization? Is the component auditors organization using a disciplinary committee?	
Name of concurring or second partner if applicable	
Is the second audit partner qualified? Include qualifications Member of the national component auditor's organization? Is the component auditors organization using a disciplinary committee?	
The professional competence of Component auditor ,i.e. whether it:	
Describe an understanding of auditing and other standards applicable to the client audit that is sufficient to fulfil the component auditor's responsibilities in the group audit.	
Describe the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the local companies; and	
List the following about audit specific topics	
Describe the use of other auditors in the audit	
List the following about other relevant component auditor knowledge	
Include names and qualifications of other team members?	
Is a technical department available to the team?	
ISA knowledge training received?	
Industry and specific client knowledge	
Permanent education	

Additional Criteria:

Experience with International Standards on Auditing (ISA)	
Willing and capable to work exactly according to templates and defined requirements (audit instructions) of the company auditor of IDH	
Auditor is capable and willing to provide all audit documents in English	
In good cooperation with the Implementing Partner the auditor can meet the deadline and deliver the audit documents in time. As the audit report is part of the annual reporting cycle of IDH with a tight/strict schedule, meeting the deadline and reporting in time is elementary.	
Reputation of the auditor	
Experience of the auditor in the non-profit sector where it's clients received funds/grants from an international organization and experience in the sector/industry of the implementing partner	
Price of the services of the auditor (total fee for the audit and hourly fees)	
Audit approach of the auditor	

Annex 4: Top 10 Accounting Firms

1. Deloitte
2. PWC (Price Waterhouse Coopers)
3. Ernst & Young (EY)
4. KPMG
5. BDO
6. Grant Thornton(GT)
7. Baker Tilly
8. Smith & Williamson
9. Moore Stephens
10. Mazars