

Open Society Foundations

**Audit Instructions
for the year ending
31 December 2013**

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1. Introduction, mandate and general applicability

PricewaterhouseCoopers, in Switzerland (hereafter 'PwC') have been engaged to report on the financial statements of the Foundation Open Society Institute (hereafter 'FOSI'), based in Switzerland, for the year ended 31 December 2013.

As auditors of FOSI, PwC are required to conduct certain external audit procedures on the Foundations, Institutions and Initiatives (hereafter 'Foundations'), which receive FOSI funds.

For details with respect to applicability, please refer to Section 3 Audit Scope and Applicability.

Audit requirements of Foundations, Institutions and Initiatives who received funding from the Open Society Institute¹ (hereafter 'OSI') and/or from the Foundation to Promote Open Society² (hereafter 'FPOS') during 2013 are also included in these Audit Instructions.

Sections 2 to 6 of these Audit Instructions detail the audit procedures that are required for each Foundation, along with the process by which this work and the subsequent reporting should take place.

2. Audit administration

The Open Society Foundations Audit Department (hereafter the 'Audit Department') will coordinate the 2013 external audits of all Foundations on behalf of PwC, OSI and FPOS. All correspondence, queries and reporting should be communicated to the Audit Department.

Electronic copies of these Audit Instructions and the accompanying Instruction Kit will be distributed directly to the **Executive Management of all Foundations** listed in section 3 below. They **are responsible for** forwarding both, the Audit Instructions and the Instruction Kit, to the auditors **immediately**, and they should **request** their auditors **to submit contract proposals** for the engagement. If a Foundation intends to replace its prior year's auditor, the reasons for this change should be disclosed to the Audit Department and PwC in order to get **prior approval** for the appointment of the new auditors from the Audit Department.

All appointed external auditors should complete the attached **Confirmation of appointment and independence and receipt of audit instructions template** (Appendix 1) and send it to the Audit Department upon the mutual acceptance of the wording of the engagement letter for the audit.

If an appointed auditor needs to report directly to PwC or to OSI or to FPOS for any reasons, then they are free to do so. **However, we reiterate that the normal channel of communication and reporting should be through the** Audit Department.

¹ Charitable Trust, organized under the Laws of the State of New York.

² Charitable Corporation, organized under the Laws of the State of Delaware.

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The contact details are as follows:

a. PricewaterhouseCoopers AG

Attn. Urs W. Hunziker
Bleichemattstrasse 43
CH-5000 Aarau
Switzerland

Tel. (office): +41-58-792-6100
Mobile: +41-79-542-5711
urs.hunziker@ch.pwc.com

b. Open Society Institute Budapest

Open Society Foundations Audit Department
Attn. Antal Vincze (Open Society Foundations Audit Manager)
Oktober 6 u. 12
1051 Budapest, Hungary

Tel. : +361-882-3143
Mobile: +3630-9325-155
Fax.:+361-882-3134
antal.vincze@opensocietyfoundations.org

c. Open Society Institute

Attn. Maija Arbolino (Director of Finance and Chief Financial Officer)
224 West 57th Street New York
New York 10019

Tel.:+1-212-548-0600 (front desk)
Fax:+1-212-548-4600
maija.arbolino@opensocietyfoundations.org

d. Foundation to Promote Open Society

Attn. Gail Scovell (General Counsel)
224 West 57th Street New York
New York 10019

Tel.:+1-212-548-0600 (front desk)
Fax:+1-212-548-4600
gail.scovell@opensocietyfoundations.org

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e. Foundation Open Society Institute

Attn. Dr. Suzanne Wettenschwiler
Baarerstrasse 12,
CH-6300 Zug, Switzerland

Tel: +4141-729-1500
Fax: +4141-729-1515

f. AdminGroup Zrt.

Attn. Zsuzsanna Kovacs
Oktober 6 u. 12
1051 Budapest
Hungary

Tel +361-882-3866
Fax +361-882-6155
zskovacs@admingroup.hu

3. Audit scope and applicability

As the name implies, this is an audit in accordance with International Standards on Auditing (ISA, as defined by the International Federation of Accountants, IFAC) with the objective of providing an opinion as to whether the Financial Reporting Package is prepared, in all material respects, in accordance with the Open Society Foundations' Accounting Policy. **The audit strategy, including setting the level of materiality, should be determined locally by the auditors, sufficient to meet this objective.** The appointed external auditor may also be required to provide assistance in the preparation of the Financial Reporting Package, and should be prepared to do so.

Full procedures, as detailed under section 4 below, will apply to the OSF entities operating in the following countries or regions, for the year ended 31 December 2013:

Foundations

Albania	Macedonia
Armenia	Moldova
Bosnia Herzegovina	Mongolia
Georgia	Serbia
Haiti	South Africa (OSFSA)
Indonesia (TIFA)	Tajikistan
Kazakhstan	Turkey
Kosovo	Ukraine
Kyrgyzstan	Angola*

Other Institutions and Initiatives

Open Society Institute Budapest
Open Society Institute for Eastern Africa (OSIEA)
Open Society Initiative for Southern Africa (OSISA)*
Open Society Initiative for Western Africa (OSIWA)

** OSISA should submit audited consolidated Financial Reporting Package for its operations in the Johannesburg, Kinshasa and Luanda offices.*

Foundations whose 2013 total accrual based spending under FOSI's, OSI's and FPOS's funding, on aggregate, is expected to remain below the threshold of USD 1.5M will be subject to individual assessments by the Open Society Foundations Audit Department and PwC to establish if procedures referred under section 4 below are applicable for them for the fiscal year of 2013. Therefore, Foundations who expect that their 2013 FOSI, OSI and FPOS related spending will, on aggregate, remain below the USD 1.5M threshold, should contact the Open Society Foundations Audit Manager to determine the applicability of the audit requirements. All other Foundations should proceed with audit arrangements.

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Foundations, whose audit requirements under these instructions are dropped for 2013 as a result of the above assessment, may become subject to alternative audit procedures by the Open Society Foundations Audit Department.

Some Foundations may also be subject to Statutory Audits as well as audits under different standards required by other donors (for instance, recipients of USAID funding are subject to an audit under its Automated Directives Systems -ADS 591-, if their annual spending under all USAID support exceeds 300K USD, or 500K USD if they are subject to an A-133 audit). Those Foundations should contact the Audit Department to coordinate the audit efforts in order to minimise costs and the burden on staff.

4. Scope and Reporting requirements

The scope and the deliverables for each appointed external auditor are as follows:

- a. ISA audit of the Financial Reporting Package (hereafter “FRP”) with the objective of providing an opinion as to whether the FRP was prepared, in all material respects, in accordance with the Open Society Foundations’ Accounting Policy (see below for further detail)**
- b. Procedures to be completed in conjunction with the FRP audit following the “Instructions for the Audit Areas of Specific Focus” (hereafter “ASF”); submission of a Highlights Memorandum (see below for further detail)**
- c. Management Letter containing issues raised during the FRP audit and during the completion of the procedures carried out under the ASF requirements**
- d. ISA audit opinion on a set of IFRS Financial Statements (it is applicable ONLY IF such report is requested by the Foundation)**
- e. Summary of Unadjusted Audit Differences.**

Foundations are also required to respond to the **direct confirmation request of AdminGroup Zrt.** concerning cash receipts from and payments made by FOSI on their behalf during 2013. The confirmation request shall be sent by AdminGroup Zrt. prior to the 2013 audit season.

At the request of the Foundation, the appointed auditor **may be** required to complete a ‘**Special purpose audit report / opinion**’ for inclusion in the annual report of the Foundation. The format and the scope of reporting should be agreed upon between the Foundation and the Auditor.

Auditors should submit final deliverables in hard copy and in a “.pdf file” format to the recipients and following the deadlines shown in section 5. The Financial Reporting Package and the Highlights Memorandum must be submitted to the recipients in final (*.pdf) format, only after the Audit Department has reviewed them and accepted them for final issuance.

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a. ISA audit including audit opinion on the Financial Reporting Package (FRP)

The Auditor should **complete the audit report** on the FRP in conformity with ISA 800, as shown in **Appendix 2** to these Instructions.

The **FRP** should follow the **template** provided in **Section 2 of the Instruction Kit**³ and be prepared in accordance with the **Open Society Foundations' Accounting Policies** included in **Section A.1 of the Instruction Kit**.

b. Procedures to be completed in conjunction with the FRP audit following the "Instructions for the Audit Areas of Specific Focus" ("ASF"); issuance of the Highlights Memorandum

The Auditor should **carry out the procedures** detailed in the **"Instructions for the Audit Areas of Specific Focus" ("ASF"**, see **Appendix 3.1**) **in conjunction with the FRP audit**. The Auditor is required to also **consider the results of his work performed under the ASF when forming his opinion on the FRP** (see the "Auditors' Responsibility" section of the Audit Report under Appendix 2).

Please note the audit requirements under section 6 of Appendix 3.1 that should be performed for OSF entities who received "Expenditure Responsibility" grants from OSI and/or FPOS during 2013.

The Auditor should communicate the outcome of his ASF work **in the Highlights Memorandum, following Appendix 3.3**. **The Auditor should also include his findings and recommendations arising during the completion of the ASF requirements in the Management Letter** (instead of the Highlights Memorandum).

c. Management Letter (ML)

In this document, the appointed external auditor should **report** to the Foundation's Executive Management (copy to the Open Society Foundations Audit Manager) on their **recommendations for improvement** in the Foundation's financial operations and internal controls **arising from the audit of the FRP and from the work carried out under the ASF requirements** (see sections a. and b. above).

The **Management Letter** should **follow the standard format** detailed in **Appendix 4** and **must** include Management's comments unless they are refused, in which case, this should be stated clearly in the ML. The Auditor should also **follow up on issues raised in prior years** and is required to provide feedback whether prior year's issues have been addressed by

³ The **INSTRUCTION KIT** is an **INTEGRAL PART OF THESE AUDIT INSTRUCTIONS**. It includes several policies that are relevant to the preparation and the audit of the Financial Reporting Package and for the completion of the requirements under the ASF (see section b. above). It also includes the accounting examples which demonstrate how the FOSI/OSI/FPOS Income and the FOSI/OSI/FPOS receivable balances should be determined and tested in the FRP, for a variety of funding and functional currency scenarios in the Open Society Foundations. **Please refer to Appendix 5 for the Table of Contents of the Instruction Kit.**

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management. **Significant value could be added** where the appointed external auditor and Foundation work together to develop the ML as a framework for the implementation of all required changes (even the inclusion of target dates for the implementation of key recommendations would go a long way towards this). **In instances where there are no unresolved issues from prior years' audits and where there are no new issues noted during the current audit, the auditor must confirm to the recipients electronically or in hard copy that it does not intend to issue a Management Letter this year.**

d. ISA audit opinion on a set of IFRS Financial Statements

The audited FRP is not suitable for use outside the Open Society Foundations. However, **Foundations may need a set of audited Financial Statements for general use**, for instance **for fundraising purposes, in accordance with International Financial Reporting Standards ("IFRS")** (or other suitable comprehensive basis of accounting).

Where the **Foundation also requires an ISA audit of its IFRS accounts, the incremental audit work is expected to be minimal as Part I of the FRP and the IFRS accounts will almost be identical, except for a few well defined areas such as the disclosure requirements required under IFRS 7 and IAS 24** (and, where applicable, accounting for and consolidating subsidiaries; please refer to section 1 in the Instruction Kit).

e. Summary of Unadjusted Audit Differences

All unadjusted errors should be reported under Section 6 of Part II of the FRP, which must also be submitted to PwC separately.

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5. Reporting timetable

Reporting requirements	Responsibility	Addressee	Recipient(s)	Deadline
1. Foundations to appoint their external auditor	Foundation Management	N/A	N/A	Immediate
2. Copy of draft audit contract to the Audit Department for review	Foundation Management	Audit Department	Audit Department	Immediate
3. Confirmation of appointment and independence and receipt of audit instructions (Appendix 1) sent to the Audit Department	External Auditor	Audit Department	Audit Department	Upon the acceptance of the wording of the engagement letter
4. Foundations to submit period 12 and 13 reports for 2013 to the Center	Foundation Management	AdminGroup Zrt	AdminGroup Zrt	31 January 2014
5. Final sign-off by Foundations on Open Society Foundations Management Report (including accounting periods 1-14); no changes after this date, other than any adjustments made during the audit process which is to be reported in the 15th period after the completion of the audit process (see below)	Foundation Management	AdminGroup Zrt	AdminGroup Zrt	14 March 2014
7. Confirmation of funds received from and payments made by FOSI on behalf of the Foundation	Foundation Management	AdminGroup Zrt	AdminGroup Zrt, copy to PwC	21 March 2014
8. Draft Financial Reporting Package (Part I-II.) (which may be unaudited at this stage, but containing all disclosure notes, including the split of balances related to FOSI, OSI, FPOS and Third party)	External auditor/ Foundation Management (auditors should assist)	Audit Department	Audit Department	21 March 2014
9. ISA Audit Opinion and audited Financial Reporting Package prepared in accordance with Open Society Foundations' Accounting Policies, “.pdf” file and hard copy	External auditor	Local Board	Audit Department/ Local Board	21 April 2014
10. Summary of Unadjusted Audit Differences “.pdf” file and hard copy	External auditor	PwC	PwC, Audit Department	21 April 2014

Continues on the next page.

5. Reporting timetable (continued)

Reporting requirements	Responsibility	Addressee	Recipient(s)	Deadline
11. Management Letter (ML) “.pdf” file and bound hard copy	External auditor	Local Board	Audit Department/ Local Board/ PwC	21 April 2014
12. Highlights Memorandum “.pdf” file and bound hard copy	External auditor	Audit Department	Audit Department/ PwC	21 April 2014
13. Submission of 15 th period Open Society Foundations Management report for 2013, including audit adjustments, as reviewed by the auditors	Foundation Management	AdminGroup Zrt	AdminGroup Zrt	<u>When the audit is completed and the FRP is approved and all entries are made to bring the accounting records in line with the audited FRP.</u>
14. Summarised report to PricewaterhouseCoopers, in Switzerland	Audit Department	PwC	PwC	5 May 2014

Audit deliverables (items 9, 11-12 above) should be provided to the Open Society Foundations Audit Department in original signed hard copy and in “.pdf” file format (which displays the final signed hard copy version) via email to the Open Society Foundations Audit Manager and to the member of the Audit Department who is in charge of the audit coordination of the given Foundation.

Draft/unsigned versions of any audit deliverables may be submitted in Word or Excel formats. When drafts addressing the Audit Department’s comments are resubmitted to the Audit Department for review please use track changes to make the review process easier and faster.

The date referred to as deadline is to be understood as the date of the reports’ arrival at the addressees’ and recipients’ premises.

Although we expect that all audits are carried out following the above schedule, the Audit Department must immediately be informed where an appointed external auditor becomes aware, for whatever reason, that the deadlines above will not be met.

Please note that, similar to prior year, FOSI, OSI and FPOS will not send Cash Donation and Receivable Confirmations letters. The Auditors should devise their confirmation templates as they deem necessary for testing the relevant balances. Confirmation requests should be submitted as follows:

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FOSI confirmation requests should be submitted to:

Peter Sziranyi
AdminGroup ZRt. (*authorized to confirm on behalf of FOSI*)
Oktober 6 u. 12
1051 Budapest
Hungary
sziranyi@admingroup.hu,

OSI and FPOS confirmation requests should be submitted to:

Sandra Sandifer
Open Society Institute
224 West 57th Street New York
New York 10019
Tel.:+1-212-548-0600
sandra.sandifer@opensocietyfoundations.org

It is recommended that requests for confirmations are sent to AdminGroup, OSI and FPOS at the end of the audit process as AdminGroup, OSI and FPOS will only be able to confirm the balance of “FOSI Receivable”, “OSI Receivable” or “FPOS Receivable” when those balances have been audited and the OSF Audit Department has also confirmed their accuracy. The OSF Audit Department will supply the balances of FOSI, OSI and FPOS Receivables to AdminGroup, OSI and FPOS to facilitate their confirmations.

6. Contracting and invoicing arrangements

Prospective auditors should provide the details of their quotes as follows (as applicable):

- a. Full ISA audit of the FRP
- b. Completion of the procedures required in the Instructions for the Audit Areas of Specific Focus
- c. Full ISA audit of the IFRS financial statements (optional – if requested by the Foundation)
- d. Assistance in the accounts preparation (where necessary)
- e. Statutory Audit (if applicable)
- f. Other deliverables required by other donors (if applicable).

The **contract** should be in written form, **between the Audit Firm, the Foundation, either OSI or FPOS, and, either Foundation Open Society Institute (FOSI), or OSI Assistance Foundation (OSI AF).** The Open Society Foundation Audit Manager should be contacted to establish whether OSI or FPOS, and whether FOSI or OSIAF should be the contracting party for the given Foundation.

If FOSI is the contracting party, it should be identified as a party to the contract by the following detail:

Dr. Suzanne Wettenschwiler
Foundation Open Society Institute,
Baarerstrasse 12,
CH-6300 Zug, Switzerland
Registration No: CH-170.7.000.483-4 (if required)
Tax No: 1011-851-92 (if required)

The contract should contain the following content:

“For the purpose of this engagement Foundation Open Society Institute will be represented with a full sphere of authority by its financial service provider, AdminGroup Zrt., (address: Október 6. u. 12. Budapest 1051, Hungary), and that a) all rights of Foundation Open Society Institute under this engagement may be exercised by AdminGroup Zrt. and b) all communications with Foundation Open Society Institute will take place through AdminGroup Zrt.”

If OSI AF is the contracting party, it should be identified as a party to the contract by the following detail:

Dr. Suzanne Wettenschwiler
OSI Assistance Foundation,
Am Schrägen Weg 5,
FL-9490 Vaduz, Liechtenstein
Registration No: FL-0001.530.146-8 (if required)

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The contract should contain the following content:

“For the purpose of this engagement OSI Assistance Foundation will be represented with a full sphere of authority by its financial service provider AdminGroup Zrt. (address: Október 6. u. 12. Budapest 1051, Hungary), and that a) all rights of OSI Assistance Foundation under this engagement may be exercised by AdminGroup Zrt. and b) all communications with OSI Assistance Foundation will take place through AdminGroup Zrt.”

If OSI is the contracting party, it should be identified as a party to the audit contract by the following detail:

Maija Arbolino
Open Society Institute
224 West 57th Street
New York, NY 10019
USA

The contract should contain the following content:

“AdminGroup Zrt. (address: Október 6. u. 12. Budapest 1051, Hungary), through its officers, directors, and employees, is authorized to sign the Foundation’s audit contract on behalf of the Open Society Institute, as indicated in the legally executed Power of Attorney between AdminGroup Zrt. and the Open Society Institute.”

If FPOS is the contracting party, it should be identified as a party to the audit contract by the following detail:

Gail Scovell
Foundation to Promote Open Society
224 West 57th Street
New York, NY 10019
USA

The contract should contain the following content:

“AdminGroup Zrt. (address: Október 6. u. 12. Budapest 1051, Hungary), through its officers, directors, and employees, is authorized to sign the Foundation’s audit contract on behalf of the Foundation to Promote Open Society, as indicated in the legally executed Power of Attorney between AdminGroup Zrt. and the Foundation to Promote Open Society.”

A copy of the contract proposal should in all cases be submitted to the Open Society Foundations Audit Department for review and approval (rather than to OSI, FPOS, FOSI or OSI AF). The Audit Department will forward the final version of the contract to AdminGroup Zrt., who will sign it on behalf of OSI or FPOS, and FOSI or OSIAF, in accordance with the above.

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The contract should, at the minimum, cover the following:

- fee structure and out of pocket expenses estimation;
- responsibilities of the parties;
- scope of work to be performed;
- basis of reporting;
- deliverables (as per Section 4) and deadlines.

Limitation of liability of the auditors in the engagement letters

Wherever it is not in conflict with applicable country legislation, OSF expects its auditors to take unlimited liability for damages caused by the auditor due to its gross negligence and wilful deceit. OSF primarily considers this issue to be a matter of its trust in the auditor and only secondarily sees it as a way of securing maximum recovery of losses in a possible dispute situation. Limitations of liability for damages caused for any other reasons are negotiable and are often set at two or five or ten times the audit fee.

Invoicing arrangements

The Open Society Foundations Audit Department administers a budget to cover the expenses related to the scope under 6.a. and 6.b. above. Expenses related to the other requirements, as applicable, should be paid by the Foundations from their own budgets.

The addressee on the invoices should be as agreed in the respective engagement letter. Invoices related to 6.a and 6.b above should be mailed to the Open Society Foundations Audit Manager for review and he will forward the invoices to the payer OSF entity for approval and payment.

Please do not mail any invoices to OSI, FPOS, FOSI or OSIAF. If the auditors do not follow these instructions it may result in significant delays in the payment of their invoices.

All auditors must submit this document upon the acceptance of the engagement letter by contracting parties!

Confirmation of appointment and independence and receipt of audit instructions

We acknowledge receipt of the instructions for the 31 December 2013 audit of **(name of Foundation)** to be performed in accordance with International Standards on Auditing (ISA) and of our appointment as auditor for this period. In addition we confirm that we are independent with respect to **(name of Foundation)** under the International Federation of Accountants (IFAC) Code of Ethics of professional accountants.

Key personnel assigned for the engagement are:

	Name	Years on engagement	Contact details (telephone, email and fax)
Audit Partner:	_____	_____	_____
Audit Manager:	_____	_____	_____
Audit Supervisor:	_____	_____	_____

We accept this engagement as described in your letter and instructions and confirm that we are able to perform our work in order to report within the timetable shown in section 5.

Address:

.....

Signed:

Date:

Upon the acceptance of the terms of the engagement letter, please fax or email the scanned copy of this confirmation to: Antal Vincze, Open Society Foundations Audit Manager, Fax: +361-882-3134; email: antal.vincze@opensocietyfoundations.org.

INDEPENDENT AUDITOR'S REPORT

Addressed to: Management/Board of the Specific Foundation

Copy to: Open Society Foundations Audit Department

We have audited the accompanying Open Society Foundations Financial Reporting Package (“the Financial Reporting Package”) of [*name of legal entity/foundation*] (“the Foundation”), which comprises the Statement of Assets, Liabilities and Fund Balance as at December 31, 2013, and the Statement of Revenues, Expenses and Change in Fund Balance, and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The Financial Reporting Package has been prepared by management of the Foundation in accordance with the Open Society Foundations’ Accounting Policies included in Section A.1 of the Instruction Kit issued for the 2013 external audits of the Open Society Foundations.

Management’s Responsibility for the Financial Reporting Package

Management of the Foundation is responsible for the preparation of the Financial Reporting Package in accordance with the Open Society Foundations’ Accounting Policies, and for such internal control as management determines is necessary to enable the preparation of the Financial Reporting Package that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the Financial Reporting Package based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Open Society Foundations’ Audit Instructions on the Audit Areas of Specific Focus. International Standards on Auditing require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Reporting Package is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Reporting Package. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Financial Reporting Package, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the Financial Reporting Package in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Reporting Package.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Financial Reporting Package of the Foundation for the year ended December 31, 2013 is prepared, in all material respects, in accordance with the Open Society Foundations' Accounting Policies.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Foundation to comply with the Open Society Foundations' Accounting Policies. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Management of the Foundation and the Open Society Foundations and should not be distributed to or used by parties other than the Management of the Foundation and the Open Society Foundations.

[Auditors' signature]

[Date of the Auditors' Report]

[Auditors' address]

INSTRUCTIONS FOR THE AUDIT AREAS OF SPECIFIC FOCUS TO BE COMPLETED BY THE AUDITOR IN CONJUNCTION WITH THEIR ISA AUDIT OF THE 2013 FINANCIAL REPORTING PACKAGE OF THE FOUNDATION

The Auditors should carry out the procedures described in sections 1-6 below in conjunction with their audit of the Financial Reporting Package of the Foundation. The procedures presented below should not supersede the procedures the Auditor deems necessary to comply with International Standards on Auditing. **Findings, if any, or recommendations of the Auditors raised during the completion of these procedures should be presented in the Management Letter.**

In addition to the Audit Report issued on the Financial Reporting Package, the Auditor is required to submit a Highlights Memorandum following the format shown in Appendix 3.3, which should reflect the outcome of the procedures required under sections 1-6 below. Upon request, the auditor should also provide view access to the OSF Audit Department regarding the schedules prepared by the Auditor as a result of the testing completed under Section 2 below.

1. Compliance with Laws and Regulations

As part of the audit of the Financial Reporting Package the Auditor will consider the Foundation's compliance with Laws and regulations, to the extent necessary to establish if the Financial Reporting Package is not materially misstated due to non-compliance.

During his above procedures the Auditor should also be alert, and report in the Management Letter instances when he assessed the Foundation to be compliant with Laws and Regulations and he believes that a matter neither requires recognition nor/and disclosure in the Financial Reporting Package; however, the Authorities have challenged or are challenging a particular practice of the Foundation which may have potential financial and reputational consequences for the Foundation. Potential Financial consequences reported should include material items; for this purpose, material is defined 50K USD or more. Reputational loss is defined as the impact of a charge brought against the Foundation as a consequence of which the Foundation's dealings with its stakeholders are or may be adversely impacted.

At the minimum, however, the Auditor should perform the following work to establish if there are instances discussed in the preceding paragraph:

- Inquire Management
- Inquire the Foundation's Legal Counsel
- Inspect correspondence with the Authorities
- Inspect Board minutes.

2. Grants and Operational Project administration

a) Grant Review: Testing of compliance with Open Society Foundations' Best practices in Grants Management

Each auditor should select a sample of at least 15 grants contracted (under OSI's, FPOS's and FOSI's support) during 2013 and possibly closed before the end of 2013, and determine whether the Open Society Foundations' Best Practices in Grants Management have been followed by the Foundation. The number of grants selected into the sample under FOSI's, OSI's and FPOS's support should represent the proportion of FOSI, OSI and FPOS sponsored grants (by value) in the total FOSI, OSI and FPOS funded grant population. The samples so determined under FOSI's, OSI's, FPOS's support should include 8 of the largest grant which should also be proportionately split between OSI's, FPOS's and FOSI's support. If the grant cycle of a selected grant is not fully completed before 31 December, 2013 (i.e. the grant is not closed), then the Auditor should follow the cycle through the date of his opinion on the Financial Reporting Package, for that particular item.

For incremental audit requirements related to the Grant Review of OSI and FPOS funded grants please refer to Section 6 below.

The Auditor should consider the schedule in Appendix 3.2 as the suggested format to document his work. The schedule is not part of the deliverables of the Auditor; however, the OSF Audit Department may request the Auditor to provide view access to such schedule.

The Auditors should first obtain understanding of Open Society Foundations' Best Practices in Grants Management (please refer to section 3 of the 2013 Instruction Kit, circulated separately), so as to be clear on the criteria modelled in Appendix 3.2. During their testing the Auditors should look for sufficient and appropriate evidence to establish if the Foundation complied with the various control elements and stages indicated in Appendix 3.2 for the sample selected, and if it kept adequate documentation.

The Auditor should use the schedule under Appendix 3.2 as follows: each cell should contain a clear “Yes” or “No” indicating compliance or highlighting non-compliance. If the grant cycle of a grant selected is not completed before the date of the Auditor’s report on the Financial Reporting Package then the outstanding control stages should be marked as “Not Due” or “ND”. Marks such as “N/A” or “Not Applicable” should be avoided, unless it is fully justified in the circumstances. If the Auditor inserts "N/A" he should document the reason why he believes the control in question is not applicable for the item.

Where non-compliance is identified and the Foundation has not introduced alternative procedures to deal with the risks to be addressed with a control element/stage indicated in Appendix 3.2, the Auditor should give a “No” mark and provide explanation regarding the circumstances in a footnote underneath the table. Such instances of non-compliance **should also be mentioned in the Management letter**.

Where non-compliance is identified, however, the Foundation introduced alternative procedures, the Auditor should still mark “No” in the chart (indicating the non-compliance); however, the footnote should briefly explain the alternative procedures introduced by the Foundation.

Where there is a **pattern of non-compliance** (systemic failure to comply with one or more requirements in the table), we expect that the **internal control weakness is also described in the Management Letter**. Instances where alternative procedures are followed by the Foundation should also be indicated in the Management Letter.

The Auditor is also requested to carry out grant confirmation for the sample of grantees selected for the Grant Review. The information confirmed should include the grant amount as per the grant letter concluded with the grantee during the year, the amount paid by the Foundation to the grantee during the year and the resulting outstanding grant payable of the Foundation as at the end of the year. The confirmation letter should be on the Foundation’s letterhead, and responses should be sent to the address of the Auditor.

b) Operational Project Review

The Auditor should select a sample of at least 5 operational projects administered during the year, including the two projects with the largest budgets (conferences, seminars, summer schools, training workshops etc.). Similar to the grants under a) above, the number of FOSI, OSI and FPOS funded operational projects included in the sample should reflect the proportion of operational project expenses charged against FOSI, OSI and FPOS.

The Auditor should use Appendix 3.2 as the model for the desired control stages and documentation to be retained for operational projects, when assessing the Foundation's compliance in this area. In addition, the Auditor should consider using Appendix 3.2 as the suggested format to document his work. The schedule is not part of the deliverables of the Auditor; however, the OSF Audit Department may request the Auditor to provide view access to such schedule.

While the total sample (for Grant Review and Operational Project Review under a) and b) above) of 20 should not be reduced, the number of grants versus operational projects within the sample may be changed based on the ratio of total grant expense to total operational project expense. *For further sampling requirements and testing to be performed for Foundations that received Expenditure Responsibility⁴ (ER) grants from OSI and/or FPOS during 2013, please refer to Section 6 below.*

Similar to the Grant Review, instances and patterns of non-compliance should be described in the Management Letter.

3. Compliance with Conflicts of Interests policies, Related Party transactions

The purpose of procedures required herein are to help OSI, FPOS and FOSI establish if the Foundation maintains a reliable system for **identifying** and **resolving** Conflicts of Interests (COI) situations at the levels of the Board (and at the levels of other bodies who have decision-making power delegated by the Board), the Officers⁵ and the Staff of the Foundation, in accordance with applicable policies circulated within the Open Society Foundations.

Section 4 of the 2013 Instruction Kit contains Appendix 10 and 11 of the Financial and Administrative Procedures (FAAP) circulated within the Open Society Foundations, which discuss the relevant policies on Conflicts of Interests.

⁴ Foundations who do not have the ED status (as per footnote 8) and received a grant from OSI/FPOS are required to comply with certain US "Expenditure Responsibility" (ER) requirements, which are referred to as ER grants.

⁵ As determined in the By-Laws of the Foundation (for instance Executive Director etc.). This should also include the Finance Director and the Managing or Administrative Director even if they are not listed as officers in the By-Laws.

The Auditor should:

- a. In conjunction with the work detailed in section 2 above, establish if the sample selected for the Grants Review and Operational Project Review⁶ was handled in accordance with the policies and principles laid down in the COI policies. Namely, if
 - i. the existence of COI of the decision-makers with the grant applicant or with the potential contractor was checked before making decisions on grants and before procuring goods and services during grant-giving and during the completion of Operational Projects.
 - ii. any conflicts identified were resolved satisfactorily in accordance with the COI policies⁷.

The results of this test should be documented in the relevant columns provided for this purpose in the tables shown under Appendix 3.2. “Yes” should be inserted if conflict Identification⁸ and Resolution processes were both followed (latter if applicable). “No” (non-compliance) should be indicated in any of the following circumstances, or their combination:

- if the existence of Conflicts of Interests was not checked for the item selected
- if conflicts identified were not resolved in accordance with the procedures required under the COI policies and the Foundation’s local internal procedures
- if the Auditor identified a conflict which was not treated as such, based on the listing of affiliations (see point b. below) furnished by the Foundation, or,

⁶ Regarding Operational Projects, Conflicts of Interests may typically arise when goods and/or services are procured as part of the project. Thus when reviewing Operational Projects the Auditor should identify goods and services procured by the Foundation under the project and establish if Conflict of Interests was handled properly for the two largest purchases (by dollar amount) made by the Foundation under the project during the year.

⁷ A conflict situation identified at the level of the Board should be assessed as “not satisfactorily resolved” if it was not referred to the Conflicts of Interests Committee of the Open Society Foundations, or to the Global Advisory Board of the Open Society Foundations for resolution. Conflicts identified below the level of the Board (including sub-boards, expert committees and other bodies who have decision-making power delegated by the Board and Officers) should be assessed as “not satisfactorily resolved” if it was not referred to the Board for resolution.

⁸ For instance if the list of affiliations disclosed by Board Members and Foundation Staff on an annual basis is compared with the potential grantees’/contractors’ key contact information.

- if the Foundation has no formalized local COI procedures developed, or, if its policies are silent on concrete conflict identification and resolution requirements with respect to Board Members, Members of other decision making bodies, Officers and Staff.

“No” marks should be explained in a footnote to the chart shown under Appendix 3.2 to document which of the above scenarios were applicable to a concrete item.

- b. Obtain from the Foundation a listing of all Officers and Board members (including recent ex board members) and members of other decision making bodies (e.g. sub-boards and expert committees, where applicable) and details of their commercial and other organisational interests and names of close family members. The Auditor should compare this list with key contact information available at the Foundation for the grantees and suppliers selected for the purposes of any other testing carried out as part of the audit of the Financial Reporting Package of the Foundation.

The Auditor should also select the three largest (by dollar amount) procurements made by the Foundation during the year for administrative purposes and determine if the existence of conflict was checked and if conflicts were resolved for the selected items by the Foundation.

Based on the testing under a. and b. above, the Auditor should highlight the details of transactions where there was a conflict which was neither identified nor resolved by the Foundation in any form.

- c. Each Foundation should be asked to disclose its written policies covering conflicts of interests and self-dealing to the Auditor. The Auditors should establish IF such local policies:
 - i. Require all Board level conflicts to be referred to the Open Society Foundations Conflicts of Interests Committee, as required under FAAP Appendix 10 (included in Section 4 of the 2013 Instruction Kit)
 - ii. Require below-the-Board (including sub-boards, expert committees, other bodies and Officers who have decision-making power delegated by the Board of the Foundation as discussed in footnote 5) conflicts to be referred to the Board
 - iii. Are developed for handling conflicts related to decision-making processes involving both Grant-giving as well as Procurement of goods and services
 - iv. Contain procedures for conflict identification and resolution “for all” (including Board Members, Management and Staff) (refer to FAAP Appendix 11; included in Section 4 of the 2013 Instruction Kit)

- v. Contain requirements:
 - “for all” to, upon joining the Foundation disclose, and subsequently periodically update (e.g. on an annual basis), the list of affiliations which serves as the basis for conflict identification routines within the Foundation and
 - that during the Pre-Grant-Inquiry stage, and, when suppliers are selected for a tender, and, prior to awarding a contract to a supplier when the purchase is below the threshold for tendering, a designated individual (e.g. Board Secretary, General Counsel) vets grant applicants and potential suppliers data against the lists of affiliations mentioned in the previous bullet, and, that such vetting process is documented.
- vi. Prohibit instances of self-dealing (as defined under FAAP Appendix 11, included in section A.4 of the 2013 Instruction Kit).

The Auditor should document his observations by stating “yes” or ”no” answer in response to the questions raised under i.-vi. above.

Based on the testing under c. above, the Auditor should highlight if the Foundation’s local policies do not address one or more of the above areas or if the Foundation’s local policies differ in any of the above aspects from Open Society Foundations Conflicts of Interests policies (as discussed in FAAP Appendix 10 and 11, included in Section A.4 of the 2013 Instruction Kit).

4. Compliance with the Statutes

The purpose of procedures discussed below is to help assess if the Foundation continued activities during the year which were not in compliance with the scope of operations determined by its Statutes:

The Auditors should obtain a copy of the Foundation’s Statutes and identify the scope of operation prescribed in the document (e.g. grant-giving in the fields defined in the Statutes, carrying out in-house projects in the fields defined in the Statutes, or providing support by other means such as facilitating financing schemes to eligible parties to achieve specific objectives etc.).

The Auditor should assess compliance as follows:

- i. Perform testing for the sample selected for the Grant Review and Operational Project review (see sections 2.a and 2.b above) and
- ii. When carrying out transaction testing as part of the financial statement audit, the Auditor will be alert to instances of non-compliance with the Statutes and he should report exceptions identified herein.
- iii. Inspect Board minutes for the year (focus on decisions regarding the mission and the purpose of Grants, Operational Projects and other transactions approved by the Board)
- iv. Inspect correspondence with the Authorities (to identify any concerns regarding compliance, which may have already been raised by the Authorities).

In deciding whether or not the purpose of a particular grant (as stated in the grant letter), or the purpose of an operational project (as stated in the project description), or other transactions, is within the scope of operations stated in the Statutes, the Auditor should apply common sense.

5. Procedures to ascertain if the audited Statement of Assets, Liabilities and Fund Balance (as stated in the Financial Reporting Package) as at December 31, 2013 is in sync with the accounting records maintained by the Foundation locally and with the reports generated from the Central records as at the same date, based on monthly management reports submitted by the Foundation

These procedures may be additional to the Audit of the Financial Reporting Package of the Foundation; however, they will help ensure that during the subsequent year's audit the Trial Balance drawn from the records for the previous year (current year's opening status) will correspond to the audited financial statements of the previous year.

At the end of the audit process, after the Foundation processed ALL entries into the 15th (final) accounting period, which are necessary to bring its accounting records in line with the audited figures, the auditor should request a printout of the Trial Balance covering accounting periods 1-15. The auditor should ascertain if the Trial Balance received agrees to the numbers stated in the audited Statement of Assets, Liabilities and Fund Balance of the current year, at the level of detail requested in the Notes to the Financial Reporting Package.

Accordingly, the Trial Balance produced for this purpose should be prepared in a format that corresponds to the note-level-detail of the Financial Reporting Package. The objective of this exercise is to identify any adjustments that may have been missed from or erroneously recorded in the accounting records of the Foundation to ensure that the audited Financial Reporting Package corresponds to the underlying records.

Exceptions, if any, identified by the Auditor during the exercise should be summarised in a suitable schedule by the Auditor, and this schedule should be submitted back to the Foundation. The Foundation must adjust its records to address the variances identified by the Auditors between the Trial Balance and the audited Financial Reporting Package (still in period 15) and it should resubmit the Trial Balance for final review by the Auditor.

Once the Auditor has satisfied himself that the Trial Balance agrees to the audited financial statements, **ONLY** then the Foundation should report period 15 to AdminGroup ZRt. Submitting period 15 report after the exercise above is supposed to be the final moment of the audit and the closure of the year.

Set forth below, please find examples for potential typical exceptions noted during the above process:

- differences between the split of items in the Statement of Assets, Liabilities and Fund Balance (typically cash, accruals and liabilities) to FOSI, OSI, FPOS and Third parties, as per the audited Financial Reporting Package and the local records (it is the most typical concern)
- differences between total balances of cash, accruals and liabilities as per the audited Financial Reporting Package and as per the local records
- differences between the balances of FOSI/OSI/FPOS Receivable and FOSI/OSI/FPOS Income as per the audited Financial Reporting Package and as per the local records (mainly due to not recording the relevant entries demonstrated in the Accounting Example included in the Instruction Kit).

The Auditor should report, in the Management Letter, any exceptions to the following:

- **if the above exercise has been satisfactorily accomplished and that the local records are now in sync (by OSF donor entity -OSI, FPOS and FOSI) with the numbers detailed in the audited Financial Reporting Package as detailed in the disclosure Notes to the Statement of Assets, Liabilities and Fund Balance lines and on the face of the Statement of Financial Position, as of December 31, 2013.**

Please find below the policy for the use of accounting periods that Foundations are required to follow, compliance to which is essential for the successful completion of this exercise:

- Period 1-14 represents data for the year as agreed and mutually confirmed as accurate by the Foundation and AdminGroup ZRt. Period 1-14 is used as a basis for the draft reporting package submitted for the audit.

- Period 15 represents all entries, including entries initiated by the auditors, as well as entries initiated by the Foundation, which are necessary to bring the accounting records in line with the audited Financial Reporting Package at a note-level-detail. After the submission of the draft Financial Reporting Package for the audit, the Foundations should not touch any periods of 1-14.
- **The Foundation should submit period 15 report to AdminGroup Zrt once the exercise under this point has successfully been completed. No further periods should be opened for the year and no further entries should be made for the audited year after this date. Further errors identified for the year should be recorded in subsequent periods, when noticed.**

Any audit adjustments required by the Auditors that the Foundation disagrees with and which, therefore, remain unadjusted in the records (and for this reason, unrecorded in the Financial Reporting Package), should be reported separately as shown in section 6 of the Financial Reporting Package.

6. Incremental requirements related to OSI's and FPOS's support

The Auditors of Foundations who are awarded Equivalency Determination⁹ (ED) status for 2013 are not required to perform the procedures outlined below.

The following procedures should be performed only for the Foundations that received Expenditure Responsibility¹⁰ (ER) grants from OSI and/or FPOS during 2013 and only for those transactions and events which are charged against OSI's or FPOS's 2013 grant.

Sampling instructions: at the minimum, in total, 25 (OSI and FPOS funded) grants should be selected for testing under b)-d) below. The sample of 25 should include the OSI and FPOS funded grants that were selected under 2.a) above. The Auditor should select the 12 largest (OSI and FPOS funded) grants, and the remaining 13 may be selected on a random basis. It is at the discretion of the auditor to determine the split of the sample of 25 to OSI and FPOS funded grants (if applicable).

- a) The Auditor should obtain the list of equipment purchased and charged against OSI's and FPOS's 2013 grant and check that capital purchases (fixed assets), where the individual purchase cost of the asset exceeds USD 750, are not charged against OSI's and FPOS's grant and that they are excluded from the OSI/FPOS Income calculation. Capital purchases where the individual purchase cost exceeds USD 750 should be charged against FOSI's grant and should earn Income from FOSI.

In the Summary of Unadjusted Differences (Section 6 of Part II. of the FRP), the Auditor should report any capital items (fixed assets) whose individual purchase cost exceeds USD 750 and whose purchase cost have not been eliminated from the OSI/FPOS related Income and Expenditures.

- b) For the sample of OSI and FPOS funded grants selected in accordance with the sampling instructions described above, the Auditors should establish if, by March 31, 2014, the Foundation collected the financial and narrative reports which were due from sub-recipients whose 2013 grant was financed from OSI's and/or FPOS's grant.

⁹ Equivalency Determination (ED) status means that the Foundation has been determined to be equivalent of an organization exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code of 1986, as amended (the "Code"), and not a private foundation or supporting organization as defined in Section 509 of the Code.

¹⁰ Foundations who do not have the ED status (as per footnote 8) and received a grant from OSI/FPOS are required to comply with certain US "Expenditure Responsibility" (ER) requirements, which are referred to as ER grants.

In the Management Letter the Auditors should report any instances where such reports have not duly been collected by the Foundation and describe Management's actions (if any) that have been made to collect such outstanding reports.

- c) For the sample of OSI and FPOS funded grants selected in accordance with the sampling instructions described above, the Auditor should also verify that the terms agreed by the Foundation with the Grantees mirror the terms of the agreement between the Foundation and OSI/FPOS in the following areas:
- i.) **Use of Grant Funds:** all funds paid to the Grantee pursuant to the respective Grant Agreement and any income earned thereon must be expended solely for charitable, scientific, literary, or educational purposes as described in the project. In addition, the Grantee agrees:
 - (1) not to use any grant funds for any attempt to influence legislation;
 - (2) not to use any grant funds for any attempt to influence the outcome of any specific public election or to carry on, directly or indirectly, any voter registration drive;
 - (3) not to use the grant funds to make any grants to other organizations — except United States public charities — unless the Grantee both receives the prior written approval of the Grantor and complies with applicable United States tax law with regard to such grants; and
 - (4) not to use any grant funds to make grants to individuals for travel, study, research, or similar purposes, unless the Grantee both receives prior written approval from the Grantor and complies with applicable United States tax law with regard to such grants.
 - ii.) **Capital Equipment.** The Grantee is prohibited from using the grant funds to purchase any capital equipment (e.g., computers, furniture, buildings, etc.) totalling more than US\$750, per transaction, during the term of the grant.
 - iii.) **Segregation of Grant Funds.** During the period in which any portion of the grant funds remains unexpended, those funds must be shown separately, as a distinct fund, on the Grantee's books for ease of reference and verification.
 - iv.) **Return of Unused Funds.** This grant is made solely for the purposes stated in this Agreement, and the grant funds may not be expended for any other purpose without the prior written approval of the Grantor. Any grant funds that are not expended or committed for the purposes of the grant must be returned by the Grantee to the Grantor.

- v.) **Reporting.** The Grantee agrees to provide full and complete reports accounting for the expenditure of all grant funds during every calendar year (or part of a calendar year) in which it retains or expends the grant funds (the “Reporting Period”). The reports must include a narrative account, confirming compliance with the terms of the grant and describing the progress made and how the expenditure of the grant funds achieved or furthered the goals of the grant. In addition, the Grantee agrees to provide a financial statement itemizing how the grant funds were spent. Reports must be submitted to the Grantor as soon as possible (and in no case later than three months) after the conclusion of each whole or partial calendar year in the Reporting Period. For multi-year grants, a final cumulative report must also be submitted at the conclusion of the Reporting Period. The Grantee additionally agrees to provide any interim report(s) requested by the Grantor on the dates required.

- vi.) **Record Retention.** The Grantee must keep written records of receipts and expenditures under the grant adequate to readily check the use of the grant funds, as well as copies of reports submitted to the Grantor, for at least four (4) years after completion of the use of the grant funds. These records must be made available to the Grantor or its designees for inspection at reasonable times upon request.

If the above terms are not mirrored, in substance, in the Foundation’s grant agreements financed from OSI’s and FPOS’s support (as applicable), the Auditor should mark it as exception (in Appendix 3.2 Grant review table), **and the issue should also be described in the Management letter.**

- d) The auditor should perform the following two tests to ensure that (a) FPOS’s grants are not charged by the Foundation with expenses related to “*grants to individuals*” (as defined below), as these are ineligible under FPOS’s grants, and that (b) OSI's grants are charged by the Foundation with expenses related to "grants to individuals" only if the requisite approval has been received from OSI to fund these expenses as grants to individuals.

- (i) The Auditor should request the full list of grants provided by the Foundation to individuals during 2013, as taken from the general ledger that underlies the Financial Reporting Package (FRP); they should examine (a) if the list contains any grants to individuals that are erroneously charged against FPOS, in light of the definition of individual grants provided below, and (b) if the list contains any grants to individuals that are charged to OSI and were not approved by OSI until the audit is completed.

In the Management Letter the Auditors should report if they identified grants to individuals that are erroneously charged against FPOS, or, if they identified grants to individuals charged against OSI without OSI's approval. The Auditors should also ensure that the Financial Reporting Package and the underlying accounting records are corrected as necessary¹¹.

- (ii) For the sample of grants selected in accordance with the sampling instructions provided above (under the present Section 6), the Auditors should review the interim and final financial reports submitted by the Foundation's sub-recipients until the date of the audit, and assess if those reports include any grants to individuals (as defined below) that have been erroneously charged against FPOS sources, or, against OSI's sources where the item was disapproved or not approved by OSI until the audit is completed.

In the Management Letter, the Auditors should report if they identified grants to individuals that are erroneously charged by the Foundation's sub-recipient against FPOS's grant, or against OSI's grant without the Foundation's/OSI's approval. The Auditors should also ensure that the Financial Reporting Package and the underlying accounting records are corrected as necessary¹².

- e) The Auditors should assess if FPOS or OSI are charged with service expenses, which in substance, qualify as "*grants to individuals*", in accordance with the definition provided below. This test should be completed by selecting a sample of service fees from the population of service expenses charged against OSI's and FPOS's grants, and examining if any of the sampled items qualify as "*grants to individuals*" in accordance with the definition provided below. The sample size for this test should

¹¹ The correction should involve (a) eliminating grants to individuals charged to FPOS and eliminating grants to individuals charged to OSI (where the item was disapproved or not approved by OSI by the time the audit is completed), from the revenues, expenditures and balance sheet items related OSI or FPOS (as applicable), and (b) ensuring that those grants are charged to FOSI, and that the relevant FOSI, FPOS or OSI Revenue, Expense and Balance sheet accounts, as applicable, are adjusted accordingly. Where the Foundation has not obtained approval or disapproval from OSI for a grant to individual, it should apply for that approval during the audit process, so that the eligibility of the item under OSI's grant can be determined by the end of the audit process.

¹² The correction should involve (a) eliminating grants to individuals charged to FPOS and eliminating grants to individuals charged to OSI (where the item was disapproved or not approved by the Foundation/OSI by the time the audit is completed) from the revenues, expenditures and balance sheet items related OSI or FPOS (as applicable), and (b) ensuring that those grants are charged to FOSI, and that the relevant FOSI, FPOS, or OSI Revenue, Expense and Balance sheet accounts, as applicable, are adjusted accordingly. The correction may also necessitate amendments to relevant OSI or FPOS (as applicable) and FOSI grant terms (e.g. grant amount, budget) concluded with the grantee, or it may necessitate the creation of a FOSI grant letter for the grantee to accommodate the grant expense so charged to FOSI.

be as follows: 30% of the number of the joint OSI-FPOS service expenses population should be examined, but at the minimum five service expenses should be selected from the joint OSI-FPOS population.

In the Management Letter, the Auditors should report if they identified any service expenses that, in substance, qualify as “grants to individuals” in accordance with the definition provided below, and were erroneously charged to FPOS or OSI. The Auditors should also ensure that the Financial Reporting Package and the underlying accounting records are corrected as necessary¹³.

Definition of “Grants to Individuals”: for the purposes of the tests required under d)(i-ii) and e) above, grants to individuals include grants provided by the Foundation or by its sub-recipient to a private individual to cover his or her expenses associated with his or her travel, study or research activities.

If the individual’s travel grant is provided in connection with an event that the Foundation, or an OSF affiliate, “owns” or organizes under its own program activities, then such arrangement is, in substance, a service relationship under U.S. tax law and it is not an “individual travel grant” relationship.

The same applies for research grants. If an individual is engaged by the Foundation to carry out research where the benefit of the research clearly accrues to (directly benefits) the Foundation (e.g. to facilitate the development of the Foundation’s strategy), rather than the society or groups within the society, then such arrangement is regarded as service relationship, and it is not an “individual research grant” relationship.

In addition to the U.S. tax law principles articulated above, the auditor should apply common sense and prudent¹⁴ approach in assessing whether a transaction qualifies as a service arrangement or as a grant to the individual, under the above definitions.

¹³ The correction should involve (a) eliminating service expenses (which were charged against OSI or FPOS which, in substance, qualify as “grants to individuals), from the revenues, expenditures and balance sheet items related OSI or FPOS (as applicable), and (b) ensuring that those items are charged to FOSI, and that the relevant FOSI, FPOS or OSI Revenue, Expense and Balance sheet accounts, as applicable, are adjusted accordingly.

¹⁴ In this context prudent should be understood as, if there is doubt, the item should be charged against FOSI or OSI, as appropriate (and not FPOS).

RESULTS OF THE REVIEW OF GRANTS AND OPERATIONAL PROJECTS (Standard layout for the presentation)

Recommended Headings for Grants Review 2013

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Grant code	Grantee name and description	Period of grant	Grant amount as per the grant letter	Were the grant amount and the liability confirmed by the grantee? ¹⁵ (Yes/No)	Budget application on file? (Yes/No)	Budget justification and proposal narrative in place? (Yes/No)	Evidence that possible conflict of interests has been monitored and treated properly ¹⁶ on file? (Yes/No)	Evidence of grant proposal evaluation on file? (Yes/No)	Evidence of Pre-grant inquiry on file ¹⁷ ? (Yes/No)	Evidence of approval/recommendation by the Expert Committee on file? Applicable if such bodies are established (Yes/No)	Evidence of Board of Directors' approval on file? (Yes/No)	Signed grant letter on file? (Yes/No)	Are OSI's/FPOS's grant terms substantively mirrored in the Grant contract? ¹⁸	Detailed budget attached to the grant letter, on file? (Yes/No)	Evidence of approved modification to original budget or other grant letter terms (where applicable) (Yes/No)	Evidence of money transfer and proper approval of payments on file? (Yes/No)	Evidence of Grant Monitoring and required interim reporting from grantee on file? (Yes/No)	Evidence of Grant Closeout process and final report (for completed grants) on file? ¹⁹ (Yes/No)

The auditor should refer to section A.3 in the 2013 Instruction Kit, Containing OSF's "Best Practices in Grants Management" and the local Grants management manual to understand the grants management procedures that should be followed by the Foundation, for instance, as part of the Pre-Grant-Inquiry, Grant Monitoring and Grant Closeout processes.

The Auditor should document all instances of non-compliance (marked as "No" in the above table) in narrative notes below and reference them to the table. Where "N/A" (Not Applicable) is inserted the Auditor should document the reasons why he believes the control in question is not applicable. Where there is a pattern of non-compliance (systemic failure to comply with a requirement shown above in the table), we expect that the matter is also raised in the Management Letter.

¹⁵ Please refer to Section 2 for more details on the confirmation procedure. Any un-reconciled differences should be referred to in the Highlights Memorandum and they should be discussed in the Management Letter.

¹⁶ Any exceptions should be explained in narrative notes on a case by case basis. Please refer to section 3.a above for the test to be performed.

¹⁷ Full pre-grant-inquiry may not be necessary for existing grantees in good standing. In such instances the Foundation must be able to demonstrate the basis for its decision to not undertake pre-grant inquiry process and that it acted with due care when doing so.

¹⁸ This test should only be performed for Foundations, who received "Expenditure Responsibility" (ER) grant from OSI/FPOS and for grants which are charged against OSI's/FPOS's grant. See 6.c of Appx. 3.1

¹⁹ Please also refer to section 6.b in Appendix 3.1 regarding the test required for OSI's/FPOS's "ER Recipient Foundations" connected to grants which are charged against OSI's/FPOS's Grant.

Recommended Headings for the 2013 Review of Operational Projects

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Program code	Project name and short description	Total expense of the project	Preliminary detailed budget on file? (Yes/No)	Evidence of approval/ recommendation by the Expert Committee on file (if such body is established)? (Yes/No)	Evidence of due approval by the Board of Directors or the Executive Director on file? (Yes/No)	Evidence that possible conflict of interests has been monitored and treated properly on file? (Yes/No)	Evidence of review of the detailed budget by a Finance person on file ⁷ ? (Yes/No)	Evidence of approval of the detailed budget by Executive Director or Program Director on file? (Yes/No)	Detailed invoices (e.g. services performed or number of participants, food per person, and accommodation per person should be shown on the invoice) on file? (Yes/No)	Evidence that services were received by beneficiaries of the Program (e.g. attendance sheets signed by the participants) on file? (Yes/No)	Evidence of approved modification to original budget on file? (where applicable) (Yes/No)	Evidence of money transfer and proper approval of payments on file? (Yes/No)	Evidence of evaluation (for completed projects) on file? (Yes/No)

The Auditor should document all instances of non-compliance (marked as “No” in the above table) in narrative notes below and referenced to the table. Where "N/A" (Not Applicable) is inserted the Auditor should document the reasons why he believes the control in question is not applicable.

Where there is a pattern of non-compliance (systemic failure to comply with a requirement shown above in the table), we expect that the matter is also raised in the Management Letter.

PRO-FORMA HIGHLIGHTS MEMORANDUM

Addressed to: Management of the Foundation

Open Society Foundations Audit Manager

The audit of the 2013 Financial Reporting Package of XX FOUNDATION included those procedures as requested in the “Instructions for the Areas of Specific Focus”, except as noted in this memorandum.

As a result of performing the procedures requested in the “Instructions for the Areas of Specific Focus”, we have not observed any matters which would indicate that there are significant weaknesses in the internal controls of XX FOUNDATION, except as noted in the Management Letter.

As a result of performing the procedures requested in the “Instructions for the Areas of Specific Focus”, we have not observed any administrative and financial policies and procedures of XX FOUNDATION which differ from those identified in the “Instructions for the Areas of Specific Focus”, except as noted in the Management Letter.

[Auditors’ signature]

[Date of the Highlights Memorandum]

[Auditors’ address]

SPECIMEN MANAGEMENT LETTER

To: (Foundation's address)

[IMPORTANT: the Management Letter issued by the auditor should contain both, the observations identified by the Auditor during the audit of the Financial Reporting Package and the observations identified during the completion of the works required under the Instructions for the Audit Areas of Specific Focus.]

Dear

As part of our audit of the 2013 Financial Reporting Package of the [*name of the Foundation*], we examined the internal controls of the Foundation and the Financial Reporting Package for the year ended 31 December 2013. The accounting and control systems were considered only to the extent necessary to determine the auditing procedures to report on the Financial Reporting Package and not to determine the adequacy of internal control for management purposes or to provide assurance on the accounting or internal control systems.

In addition, we have carried out the procedures as detailed in the "Instructions for the Audit Areas of Specific Focus".

During our procedures above we noted certain matters involving the internal control system and the accounting system and submit for your consideration related recommendations to help the Foundation make improvements and achieve operational efficiencies.

The accompanying comments and recommendations are intended solely for the information and use within the organisation.

We would like to thank you and your staff for the co-operation and support during the audit.

Yours sincerely,

(Audit firm)

cc.: Antal Vincze, Open Society Foundations Audit Manager

[Name of Foundation]
Management Letter 2013

Summary of Recommendations

Recommendation	Priority of improvement ^X
1. Matters from prior year(s) now resolved	
1.1. ...	
2. Matters outstanding from prior year(s)	
2.1 ...	
3. Accounting procedures and internal control system	
3.1. ...	
4. Financial statements and accounting policies	
4.1.. ...	

^X Key: A Urgent action required
B Control weakness exists with medium risk of financial loss
C Minor control weakness

Note: The Management Letter should separately identify:

- 1 matters from prior year(s) now resolved**
- 2 matters outstanding from prior year(s)**
- 3 issues arising in 2013**

[Name of Foundation]
 Management Letter 2013

Observation/risk	Recommendation	Management comment
1. Matters from prior year(s) now resolved 1.1.
2. Matters outstanding from prior year(s) 2.1
3. Accounting procedures and internal control system 3.1.
3.2
4. Financial statements and accounting policies 4.1.
4.2.

Table of contents:

The Instruction Kit is an integral part of the 2013 Audit Instructions issued for the Open Society Foundations.

A. Key Policies and Templates relevant to the 2013 audit process:

1. The Open Society Foundations' Accounting Policy to be followed in the Open Society Foundations 2013 Financial Reporting Packages
2. The Financial Reporting Package template (Part I-II.)
3. Best Practices in Grants Management (*FAAP* Appendix 4*)
4. Conflicts of Interests policies (*FAAP* Appendix 10 and 11*)

B. Policies related to OSI's, FPOS's and FOSI's funding

5. The Funding Policy Chart and the Accounting example which demonstrates how the balances of the OSI/FPOS/FOSI Income and the Receivable from OSI/FPOS/FOSI should be calculated and tested in the 2013 Financial Reporting Package. Foundations receive the Accounting example, which is relevant to their funding and functional currency scenario, in a separate Excel file.

C. Supplemental policies discussing technical aspects of selected areas of accounting and reporting (*extracts from the FAAP)**

6. Payments by one Foundation ("NF") on behalf of another Foundation (POB)
7. Treatment of refunds and returned grants
8. Policy on foreign exchange.

** Financial and Administrative Policies for the Open Society Foundations*