

# Mercy Hands for Humanitarian Aid

## External and Internal Audit Policy

### 1. PURPOSE

The purpose of this policy is to establish the framework for external and internal audit services for Mercy Hands for Humanitarian Aid “abbreviated in here as Mercy Hands”.

### 2. DEFINITIONS

**“External audit services”** services intended to formulate an independent opinion as to whether Mercy Hands’ financial statements prepared by management are accurate and complete, prepared in accordance with Generally Accepted Accounting Principles and present fairly Mercy Hands’ financial position and results of its financial operations.

**“External auditor”** an independent, objective, third-party individual or organization that performs external audit services for Mercy Hands or on Mercy Hands for a donor.

**“Internal audit services”** independent and objective services intended to evaluate risks and internal controls, check the accuracy of financial records, assess the means of safeguarding assets, evaluate operational efficiency and performance and review compliance with laws, regulations, policies and procedures.

**“Internal auditor(s)”** Mercy Hands staff or independent contractors who perform internal audit services for Mercy Hands. The internal audit leader is the senior Mercy Hands employee or contractor’s representative having responsibility for providing such services.

**Finance and Audit Committee (“FAC”):** A Board committee headed by the Chief Internal Auditor with Finance Director and Executive Director as members.

### 3. SCOPE

This policy applies to employees of Mercy Hands involved in engagement of internal and external audit services and to the external and internal auditors for Mercy Hands.

### 4. POLICY STATEMENT

#### *External audit services*

4.1 Mercy Hands will

- a) engage an external auditor to audit its financial statements, books and records for each fiscal year and to prepare an external auditor's report in respect thereof in accordance with appropriate national and international standards;
  - b) assist the external auditor in the performance of the external audit as required and ensure that accounting records and supporting documents are available; and
  - c) provide the financial statements and the external auditor's report to the Directorate of NGOs, no later than three months after the end of each fiscal year.
- 4.2 The Board will appoint an external auditor to audit the accounts of the Mercy Hands each year.
- 4.3 Contracting with and selecting the external auditor,
- a) external audit services will be procured in accordance with Mercy Hands' Procurement Policy;
  - b) The limit for contracting with the same external auditor is three years. Once the limit is reached, the same external auditor should not be invited to the audit tender for at least the next two years;
  - c) the appointment of the external auditor will be recommended by FAC and approved by the Board.
- 4.4 When the external auditor is appointed and each year thereafter, the FAC will review and evaluate the reasonableness of the external auditor's assertions of independence. When evaluating such independence, the FAC will:
- a) ensure that the external auditor confirms its independence in writing as defined by the rules of professional conduct or independence standards established by the external auditor's professional association; and
  - b) review, assess and/or confirm assertions by the external auditor that it
    - i) maintains quality controls providing reasonable assurance that its independence is not impaired;
    - ii) adheres to a rotation policy for the lead engagement partner of no more than three years; and
    - iii) does not involve individuals in the external audit who were employed in a managerial capacity at Mercy Hands the period covered by the external auditor's report.

- 4.5 The FAC is responsible for
- a) reviewing and recommending that the Board approve the annual audit plan, audit fees and the external audit engagement letter with the external auditor;
  - b) reviewing and advising the Board with respect to the planning, conduct and reporting of the annual audit;
  - c) meeting with the external auditor to discuss the annual financial statements and auditor's report, including the appropriateness of accounting policies and estimates; and
  - d) making recommendations to the Board regarding the external auditor's report and management letter.
- 4.6 The external auditor may be engaged to provide other services ("non-audit services") only if threats to its independence arising from performing such services, whether actual or perceived, are either insignificant or can be mitigated to acceptable levels by the application of appropriate safeguards. The provision of non-audit services must be reviewed and recommended by the FAC and approved by the Board.
- 4.7 The following types of non-audit services are incompatible with the independence of the external auditor and must be avoided unless the outcome as of such services will not be subject to audit procedures during the annual external audit
- a) managerial functions and/or making management decisions;
  - b) preparing financial statements;
  - c) accounting, bookkeeping, valuation and actuarial services,
  - d) internal audit services;
  - e) hardware/software design and implementation services,
  - f) human resource services;
  - g) expert services relating to legal proceedings or investigations; and
  - h) services relating to the custody of financial assets.
- 4.8 The Director of Finance will provide an annual report to the FAC each year, identifying any non-audit services that have been performed by the external auditor.
- 4.9 An individual who provides external audit services to Mercy Hands may not be hired by Mercy Hands in a senior financial or management capacity within a 24-month period following the period covered by the last external audit in which the individual participated.

#### 4.10 External Audit of Individual Projects or Partnerships

- a) The Director of Finance will serve as the focal point for external audits for individual projects or partnerships; all communications with the donor requesting the audit and the auditor will be done through the Director of Finance;
- b) The Director of Finance will ensure the timely response of Mercy Hands to audit requests made by the donor or the auditor; the Director of Finance will lead and coordinate Mercy Hands' response to the audit and all employees involved in the audit shall follow the instructions and directives of the Director of Finance;
- c) The Director of Finance reports the progress and outcome of the audit to the Executive Director;
- d) The Executive Director is responsible to follow and act upon the recommendations of the External Auditor, in coordination with the Board.

#### ***Internal audit services***

4.10 The FAC is headed by the Chief Internal Auditor, who is assigned by the Board as a non-voting Board member. The Chief Internal Auditor is responsible for

- a) reviewing and recommending that the Board approve the appointment of the internal audit leader;
- b) reviewing and recommending that the Board approve the annual internal audit plan;
- c) overseeing internal audit services and the relationship with the internal auditor; and
- d) receiving internal audit reports and making recommendations to the Board regarding such audits;
- e) reviewing and approving the internal audit charter on an annual basis; and
- f) reviewing and approving the budget for delivery of the audit plan.

4.11 Internal audit services may be performed the Chief Internal Auditor or provided by suitably qualified third parties who have been selected in accordance with Mercy Hands' procurement policy and appointed by the Board.

4.12 The internal auditor will report to the Board with respect to their responsibilities for internal auditing; and

4.13 The internal auditor is authorized to direct a broad, comprehensive program of internal auditing within Mercy Hands in accordance with an internal audit plan approved each year by the Board.

4.14 The internal auditor is responsible for

- a) developing, in consultation with management and FAC, a flexible annual internal audit plan using appropriate risk-based methodologies, for review and recommendation by the FAC and approval by the Board;
- b) implementing the Board approved internal audit plan;
- c) maintaining quality assurance and improvement program regarding internal audit services;
- d) preparing detailed internal audit reports on a timely basis at the completion of each engagement for distribution to the FAC and relevant Mercy Hands staff members;
- e) following-up on identified risk exposures, control, performance and governance issues and remedial actions implemented by Mercy Hands;
- f) attending and participating in FAC meetings;
- g) keeping the FAC informed of emerging trends and successful practices in internal auditing;
- h) liaising with the external auditor as appropriate to provide more efficient audit coverage and better understanding of risks; and

4.15 Mercy Hands' staff will respond to internal audit observations on a timely basis. Furthermore, under the direct supervision of the Executive Director, the Director of Finance will ensure that appropriate action is taken to address internal audit recommendations. Responses to internal audit recommendations will include a timetable for implementing corrective action or explanations for recommended actions that will not be implemented.

4.16 Internal audit services encompass all elements of Mercy Hands that support the achievement of its strategies, goals and plans, including its resources, systems, processes, programs, organization structure, staff, relationships with third parties and culture. However, internal audit services exclude the evaluation of services provided by Mercy Hands.

4.17 Internal audit services include examining, evaluating and/or monitoring

- a) the effectiveness of governance, planning and risk management processes;
- b) the effectiveness of internal controls encompassing governance, finance, operations and related systems;
- c) the quality, efficiency and effectiveness of activities, processes, programs, policies systems and human resources;
- d) processes used to measure and ensure compliance with plans, policies, laws and regulations;

- e) programs and/or activities confirming that results/outcomes are accurate and consistent with goals and objectives;
- f) significant risk exposures and internal control issues, including fraud risks; and
- g) specific activities or investigations requested by the Executive Director or FAC.

#### 4.18 Internal auditors must

- a) comply with professional standards established by the laws and regulations of Iraqi State and professional organizations as appropriate;
- b) possess appropriate knowledge, skills and technical proficiency essential to the performance of internal audit services;
- c) exercise due professional care when performing internal audit services;
- d) exhibit the highest standards of objectivity in gathering and evaluating information;
- e) maintain an appropriate degree of independence and not be unduly influenced by their own interests or those of others; and
- f) comply with the requirements for confidentiality as prescribed by professional standards, the Mercy Hands' policies and any contractual provisions.

4.19 Internal auditors must have no existing or prior managerial responsibility or authority over any activities programs, systems, procedures, records or events that are selected for audit.

4.20 Internal auditors will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity with Mercy Hands that may impair their independence or judgment when providing internal audit services.

4.21 Internal audit services will be conducted independently and free of influence from Mercy Hands staff. The internal auditor will confirm their independence on an annual basis to the Board.

4.22 The FAC will review and advise the Board of any proposed changes to the responsibilities and organizational reporting relationships relating to the provision of internal audit services at Mercy Hands.

4.23 Mercy Hands staff will provide internal auditors with full, free and unrestricted access to all Mercy Hands activities, programs, policies, procedures, records, property, systems and staff. Mercy Hands staff will assist internal auditors in fulfilling their responsibilities subject to the approval of the Executive Director.



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