Partners must report their NORHED 2 project costs according to their usual cost accounting practices.

A Partner's reported costs must be Identifiable and verifiable, in particular recorded in their accounts in accordance with the accounting standards applicable in the country where they are established and in accordance with the partner's usual cost accounting practices.

Auditors must conduct their audit of the financial statement(s) in accordance with laws, regulations, and auditing standards and practices generally accepted in the country where they are established, including International Standards on Auditing (ISAs).

This means that:

- If a partner's usual cost accounting practice is that they operate the cash accounting principle, the partners must make their project financial reports on the same basis.
  - The corresponding audit report must specify that the financial statement is prepared on a cash accounting basis
  - The auditor must review appropriate evidence for the statement of project costs on a cash accounting basis. The auditor will review cash and bank accounts, cash and bank statements, invoices, receipts, and all other relevant documentation as required by the in accordance with the accounting standards applicable in the country where they are established and in accordance with the partners' usual cost accounting practices.
- If a partner's usual cost accounting practice is the accruals principle (also known as the transaction principle), the partners must make their project financial reports on that same basis.
  - The corresponding audit report must specify that the financial statement is prepared on a transaction/ accruals accounting basis
  - The auditor must review appropriate evidence for the statement of project costs on a transaction/ accruals accounting basis. The auditor will review accounts payable, balance sheet, invoices, receipts and all other relevant documentation as required in accordance with the accounting standards applicable in the country where they are established and in accordance with the partners' usual cost accounting practices. The auditor will also review cash and bank accounts, cash and bank statements as appropriate.

Partners may not adopt an accounting principle for the financial reporting in the NORHED 2 project which varies from their normal cost accounting practices.

Reporting costs of equipment Acquired with NORHED 2 funding

Planned investment in equipment agreed as funded by NORAD in the NORHED 2 project is shown in the project agreement and the budget. In some cases, NORAD have agreed under the terms of the NORHED II project to fund the acquisition cost of investment items in the period of acquisition.

Acquisitions of equipment ('the item') in accordance with the project agreement will be reported in the period the cost is incurred.

- The period a cost is incurred for a partner operating cash accounting is the period in which the remittance for the item is recorded in the accounts.

- The period a cost is incurred for a partner operating accruals accounting is the period in which the cost is entered on the balance sheet.

Reporting costs of use of equipment not acquired with NORHED 2 funding

Planned **use** of equipment which has not been *acquired* with NORAD funding but the use of which will be funded in the project will be shown in the project agreement and the budget.

The partner may only charge the annual depreciation costs that corresponds to the part of the equipment's use for the action. This depreciation must be calculated in accordance with normal depreciation method of the partner if they operate accrual-based cost accounting, and in accordance with international accounting standards (i.e. notably spread over the equipment's useful life) if the partner does not normally calculate depreciation costs (because the Partner's usual cost accounting method is cash based). 'Useful life' means the time during which the equipment is useful for the beneficiary. If the beneficiary does not normally calculate depreciation it may refer to its national tax regulations to define the useful life of the equipment

In all cases, the auditor will obtain assurance that the reported value of the item is in accordance with

1. the terms of the partnership agreement; and

2. the application accounting, reporting and documentation standards for the reporting of the cost

Currency

1. For the purposes of reporting, expenses must be converted to NOK, with the average exchange rate for the reporting period.
   For each reporting period, the University of Bergen will make a list over all the south partner's exchange rate, to be used in the financial annual report. This list will be sent to the project leader.

The auditor will review that the costs in foreign and/ or local currency are converted to the reporting currency in accordance with the conditions set out above. The auditor will check that conversion of local currency to foreign currency is based on a credible source of spot rates (preferably an identifiable financial institution or other credible source of spot rates) and that conversion to reporting currency is at the rate at which the remittances were liquidated to the partner when they were transferred.

2. Retained balances of unused funds at the reporting date will be reported according to the spot rate applicable on the final day of the period of the report (see para 9.2 h) of the partnership agreement).