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DG ECHO

AUDIT INFORMATION TO THE

ECHO CERTIFIED PARTNERS

(Formerly FPA partners)

DG ECHO E/2 EXTERNAL AUDIT SECTOR (EAS)

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1. PREFACE

The purpose of this document is to inform and explain to the partners the procedures governing audits planned and undertaken by the External Audit Sector of DG ECHO (EAS).

The document starts by describing the background to the audits, then it explains the types of audit, the respective methodologies, and what DG ECHO expects from its partners when preparing for an audit.

Annex 1 contains a flowchart indicating the time estimated for a timely completion of an ECHO external audit.

This document describes the situation in May 2022 and the reality might have changed in some minor points to reflect the continuing development of the audit process. Any suggestions for improvement can be addressed to DG ECHO External Audit Sector via its functional mailbox (ECHO-AUDIT@ec.europa.eu).

2. GENERAL INFORMATION

This paper describes the working methodology for the different types of audits currently foreseen in the 2021-2027 ECHO Audit Strategy (see chapter 6) The audit methodology is being continuously developed in order to ensure more efficient, productive and effective audits.

All audits should be carried out with openness and transparency with the involvement of the partners at each stage of the process. The audits are facilitated by exchanges of information not only from the partners to DG ECHO, but also from DG ECHO to the partners. The results of the audits should be discussed at the draft stage, by the auditors with the responsible senior management of the partner concerned, including the actions that they intend to take, in response to recommendations in the audit report.

Experience shows that most reports finalised without agreement between DG ECHO and the partner are due to a lack of management involvement during the planning and execution phase of the audit. For this reason, DG ECHO EAS would expect partner's responsible senior management to be fully involved in all stages of the process to avoid any unforeseen difficulty in the final draft report.

In line with the principles of internal control, DG ECHO's management safeguards the external audit sector's operational independence by ensuring the separation of operational and decisional authority from the discharge of audit activities. The responsibility of the auditors is to conduct their work in accordance with the agreed methodology and report their findings. Thereafter any operational decisions that arise from the findings are the responsibility of other Units/actors within DG ECHO.

3. BACKGROUND - WHY DO WE CONDUCT AUDITS?

Under the 2021-2027 MFF, the budget for humanitarian aid managed by DG ECHO shall be 11.569 billion EUR (current prices). As from 2021 DG ECHO delivers its humanitarian aid through its certified partners (previously delivered under the Framework Partnership Agreement (FPA)). Furthermore, aid is delivered through International Organisations (ICRC, IFRC) via Framework Partnership Agreements and through the Financial and Administrative Framework Agreement (FAFA) for UN organisations. DG ECHO is accountable for the use of these funds to the Discharge Authority (European Council and European Parliament). Its activities are also subject to scrutiny by the European Court of Auditors, the European Council and the European Parliament.

Humanitarian Aid 2021-2027 MFF

	2021	2022	2023	2024	2025	2026	2027	Total
<i>Heading 6 – Neighbourhood and the World</i>	1.478	1.599	1.631	1.665	1.698	1.732	1.767	11.569
Humanitarian Aid								

To discharge this responsibility, DG ECHO must be able to confirm each year that funds (see above MFF profile) have been spent as intended and in compliance with the applicable regulatory and contractual framework. The audit process is a part of the overall control process by which DG ECHO receives information that enables it to give that confirmation. The results of the audit work **underpin** inter alia the **Director General's Annual Declaration** that the funds at his or her disposal have been used **regularly** and **legally** for the purposes intended.

The results also contribute to DG ECHO's annual assessment of partners process and partners control risk.

Furthermore, the audits also provide DG ECHO with information about its certified partners internal control system and so serve to build the confidence that is needed in the organisations that are essential to DG ECHO's mission. Field Audits results also provide advice to partners and early warning to DG ECHO of potential difficulties or problems.

Finally, insofar as they provide assurance and are a confidence building measure, the audits help maintain support for humanitarian aid as funded by the Commission. This is because the budget for this support is allocated the following year on the basis of the positive results of the audits. The audit programme gives assurance to the Council, the European Parliament and the wider public that the Commission support for Humanitarian Aid is effective and efficient. **Therefore, the audits are an essential part of securing the continuing availability of humanitarian aid funds.**

4. LEGAL BASIS

The requirement for audits is prescribed in Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid (Official Journal L 163, 02/07/1996) in Article 12. Here it is stated that: “*All financing contracts concluded under this Regulation shall provide in particular that the Commission and the Court of Auditors may conduct checks on the spot and at the headquarters of humanitarian partners according to the usual procedures established by the Commission under the rules in force, and in particular*

those of the Financial Regulation applicable to the general budget of the European Communities.”

In the FPA 2014, the right to undertake audits is laid down in Article 23 of the General Conditions. The Humanitarian Organisation shall take all necessary steps to facilitate the Commission's work. Checks or audits made by the Commission may be carried out either directly by the Commission's own staff or by any other external body expressly authorised by the Commission to do so on its behalf. Checks or audits may be initiated during the implementation of the Specific Grant Agreement and up to a period of five years starting from the date of the payment of the balance due to the Humanitarian Organisation.

According to Article 5.6 of the EU Humanitarian Partnership Certificate, the partner undertakes to ensure transparency and accountability, compliance with applicable rules, policies and procedures, and internal control, notably by facilitating access to project sites and activities by EU representatives for needs assessment, evaluation, monitoring and control purposes.

According to Article 25.1.3 of the Humanitarian Aid Model Grant Agreement (HAMGA), the granting authority may carry out audits on the proper implementation of the action and on compliance with the obligations under the agreement. The granting authority may use its own audit service, delegate audits to a centralised service or use external audit firms. If it uses an external firm, the beneficiary concerned will be informed and have the right to object on grounds of commercial confidentiality or conflict of interest.

5. WHAT IS AN ECHO AUDIT?

Throughout their duration, the activities financed by the Commission can be subject to audits as well as evaluations and monitoring. One should not confuse the objectives of an audit with those of an evaluation or monitoring exercise.

The aim of an audit is to allow auditors, in the light of their examination of the financial documents of the organisation and of other items, to express a considered opinion on compliance with the FPA (signed until 31 December 2020) and EU Humanitarian Partnership Certificate/Humanitarian Aid Grant Agreement and identify expenditure that is ineligible according to rules set out therein.

The objective of an ECHO audit in general is to enable the auditor to express an opinion as to whether:

- The funds have been used in accordance with the applicable legislation and the terms and conditions of grant agreements, and
- The funds have been used for their intended purpose.

Compliance is the ability to reasonably ensure conformity and adherence to the applicable legislation and rules. It generally covers one or more of the following aspects:

- Compliance with the contractual basis (FPA, certificate, grant agreement...);
- Compliance with financial and accounting standards (in order to verify the legality and regularity of the expenses);

- Compliance with procedural terms and conditions (e.g. procurement procedures);
- Compliance with systems requirements for internal and management control systems (Council Regulation (EC) No 1257/96, especially Article 7).

Different types of audits may be carried out during a project's life, such as performance audits, forensic fraud audits, desk reviews. Additionally, a compliance audit can be combined with a financial, technical and/or forensic audit. This depends not only on the project's specific aspects and features but also on the circumstances and audit objectives to be achieved.

DG ECHO may want to verify that:

- The organisation set-up meets the agreed terms and conditions;
- The expected procedures exist, are applied and abided by;
- The system introduced for accounting and reporting purposes is reliable and relevant;
- In case of Emergency Operations minimum levels of procedures exist to fulfil the accountability criteria towards beneficiaries, donors and other stakeholders;
- The project's technical facilities have been set up and work according to the agreement.

6. AUDIT STRATEGY AND AUDIT PLAN

6.1. Audit Strategy

On 29 April 2021 DG ECHO adopted a new 2021-2027 Audit Strategy.

The main objective of this multi-annual strategy is to contribute to a sound financial management of DG ECHO budget implementation in relation to the grants/contribution agreements, by:

- i. Assessing the legality and regularity of financial transactions under the grants implemented by the DG, and ensuring an adequate support to the Director General for the Annual Declaration of Assurance;
- ii. Addressing specific ECHO risks through risk-based audits;
- iii. Assessing partners' compliance with eligibility rules, such as ECHO 2021 Certificate.

According to the Audit Strategy, for humanitarian actions, the following types of audits of partners are foreseen:

- **Random-based HQ financial audits** comprise checks of legality and regularity of declared expenditure (finalised projects). Partners are randomly selected and the results of these audits are used:
 - to build assurance that costs claimed under the Actions funded by the EU comply with the eligibility criteria as set out in the FPA and Annexes/ECHO certificate and the Specific Grant Agreement;

- for the purpose of calculating the residual error rate and of recovering ineligible expenditure to protect the EU budget, in the framework of the assurance to be provided to and by the Director General of DG ECHO.
- **Risk-based HQ financial audits** comprise checks of legality and regularity of declared expenditure (finalised projects). Partners are selected based on risk, whereby several criteria are taken into account: legality and regularity (high error rate), operational risks, fraud, internal controls, specific aspects of ECHO certification, Terms of Reference for ex-ante assessment, etc.
- **Field audits** combine financial/system audits of ongoing projects in the field (interim audits). They fulfil an accountability function and also provide advice to partners and early warning to DG ECHO on potential difficulties or problems. Partners are selected based on risk, whereby several criteria are taken into account: legality and regularity (high error rate in the past for the partner), country of operation, operational risks, fraud, internal controls, specific aspects of ECHO certification, etc.
- **Compliance audits.** These are system audits aimed at verifying continued compliance by the partner with certain eligibility and additional suitability criteria as set out in ECHO Certificate, the Humanitarian Aid grant agreement and Council Regulation No 1257/96 concerning humanitarian aid, throughout the lifetime of the ECHO Certificate. The selection is risk-based (see selection criteria in chapter 11.3).
- **Desk reviews** are ad-hoc system reviews for specific part of partners' control environment (Anti-fraud capacity, Safeguarding capacity, Follow-up of audit recommendations).

6.2. Audit plan

DG ECHO External Audit Sector strives to prepare the audit plan for year N in the first quarter of the year N as follows:

Indicative timeline for the audit planning cycle:

Action	Timeline (year N)
Sample selection	February N
Audit plan approval	Mid-March N
Conflict of Interest check, Contracting with external audit contractors	Mid-April N
Initiation letters sent to selected partners by DG ECHO	End of April N

7. AUDIT CONTRACTORS

DG ECHO External Audit Sector (DG ECHO EAS) is supported by Audit Contractors; an international network of audit companies or a consortium of independent audit firms operating in the countries of the Union that are members of an international accounting and auditing association, which is responsible for the audits. The Audit Contractors are appointed by means of a framework contract (FWC) following an open call for tenders.

DG ECHO EAS works in very close cooperation with the assigned audit contractors. This is done on developing and agreeing the audit methodology, participating in the training that the audit contractor and its Central management team (CMT) assigned for cooperation with DG ECHO provides to its audit teams, and in general discussions on issues and technical matters that arise during audits. Formal meetings are held with the CMTs each month or more frequently if there is a need. Apart from the monthly meetings with the responsible audit contractors, an annual training session is organised with all the auditors involved to discuss problems encountered, share information (e.g. on best practice) and discuss potential changes to the templates to be used.

DG ECHO EAS approves each audit report before issue. It also carries out quality assurance reviews of the work of the audit contractors, which involves a scrutiny of the audit working papers and files. DG ECHO EAS is also subject to periodic reviews, as are the audit contractors, by the European Court of Auditors.

Being part of the European Commission, DG ECHO upholds the highest ethical standards and operates processes and controls to ensure no conflict of interest exists, be it real or perceived. Therefore, the audit contractors owe a duty of care to DG ECHO and must remain independent and free from conflict of interests at all times.

A conflict of interest will always be assumed if the audit contractor has been involved in preparing the Financial Statement(s) of the partner or providing consultancy advice on the related operations and underlying transactions. Any commercial relationship in the past three years with the partner needs to be disclosed to DG ECHO, with an analysis of the risk of an actual or perceived conflict of interest. DG ECHO will take the final decision regarding the existence of a conflict of interest based on the information provided.

In case all selected audit contractors under DG ECHO FWC for audit services declare conflict of interest with the partner to be audited, request for service (RFS) under another FWC of the European Commission will be launched. In such case, the procedure or reporting templates can differ from the usual practice of DG ECHO.

8. WHAT ARE THE AUDITORS' OBJECTIVES?

It depends on the type of audit the partner has to undergo. As regards HQ financial audits and Field audits, the auditors primary task is to verify the expenditure of funds granted by DG ECHO to ensure that expenditure is supported by appropriate documentary evidence that is in compliance with Council Regulation (EC) No 1257/96, the prevailing Financial Regulations, the FPA/EU Humanitarian Partnership Certificate and the individual grant or contribution agreement with DG ECHO. The auditors will seek evidence on a sample basis and in accordance with the principles of legality and regularity.

In performing their work, the auditors will also ascertain and assess the partner's systems and procedures, to the extent that they are relevant, to check whether these controls are adequate and to establish the minimum number of transactions selected for substantive testing during the audit of the partner. The extent of these system controls will vary based on the type of audit. Most extensive review will be carried out during **compliance audits**, aimed at verifying the partner's continuing compliance with requirements to become an ECHO partner. For **field audits**, the system part will encompass a verification review of systems, structures and controls to assess the relative strength of the control environment associated with the field operations of the partner. For **HQ financial audits** it involves a review of systems, structures and controls to identify the adequacy of internal control of the partner, insofar as they are relevant for the substantive testing of transactions. During **desk reviews** the scope of systems and procedures tested will be determined on an ad-hoc basis.

The results of this review of the systems in place at the partner are used by DG ECHO as one element of the annual partner assessment as required by the FPA/ECHO certificate to ensure compliance with the requirements of Article 7 of the Humanitarian Aid Regulation.

The auditors will also make recommendations for improvements to the partner's systems and procedures, which should be expected to be relevant to the specific circumstances. These recommendations are made in the spirit of partnership between DG ECHO and its partners to assist their development through an external independent review of the organisation without extra cost and to share best practices within the partner community. It is important to understand that auditors' recommendations are not mandatory – they are intended to be helpful and constructive in assisting partners in meeting their obligations towards DG ECHO. The decision to follow a recommendation lies with the partner; however, DG ECHO would expect that there is a good reason if a recommendation is not accepted and implemented.

Apart from expecting such explanations, the partner should be aware that the systems may remain less strong and therefore testing levels will not be reduced. Also, if the partner does not take proper remedial action over a number of years, its ability to conform with the requirements stipulated in Article 7 of the Humanitarian Aid Regulation and the partnership principles could be questioned.

Where expenditure is not supported by sufficient documentary evidence, or where it is not properly incurred, the audit contractors have no discretion; they must report the matter and the amounts as a proposed disallowance. If this would have resulted in a lower payment to the partner if this expenditure had not been included in the Final Report, the difference will be reported as a potential recovery of the excess grant payment by the European Commission to the partner. The subsequent decision as to whether to issue a recovery order is one made by DG ECHO.

9. WHAT SHOULD THE PARTNER EXPECT FROM THE AUDITORS?

The aim is to make the audit process transparent. The partner should expect to receive an Initiation letter/email¹ from DG ECHO informing them of the audit, and who will be

¹ Initiation email from HOPE for direct management

performing the audit. The auditors will then send an Opening letter – this will inform the partner of:

- Internal Control Questionnaire that the partner must fill in (if applicable);
- Preferred timing for audit;
- Expected documentation standards for different types of audit/expenditure;
- Risk Assessment Questionnaire to fill in and return;
- Request to provide a detailed list of expenditure from which the auditors will draw their sample.

The auditors will then inform the partner of the sample, at least 30 calendar days before the start of the audit, such that the partner have all the documentation available at the start of the audit fieldwork, as required by the FPA/Humanitarian Aid grant agreement. It is essential that the partner complies with this mandatory deadline.

The partner will participate in a planning meeting including senior audit personnel some time in advance of the audit fieldwork itself. The purpose of this meeting is to plan the audit with the partner, to advise the partner of the documentation that will need to be provided to the auditors and to finalise the dates of the fieldwork and reporting timetable.

At the end of the field work the partner will receive a provisional list of disallowances and recommendations (aide memoire). The partner will be invited to attend an exit meeting to discuss the preliminary audit findings (which are subject to review within the audit contractor form, and may therefore change), and any outstanding work to be performed by the partner in relation to the audit. The auditors will then provide the partner with a draft report for comments. In case of disagreement with a recommendation or disallowance, the partner has to give the reasons why and provide any supporting evidence. The partner has 30 calendar days to respond to the report, after which no further documentation/evidence will be accepted.

These comments will be included in the draft final report together with any additional comments from the auditors. The auditors may not agree with these comments but the partner should certainly expect them to correct any real errors of fact that are found in the draft report. The auditors will consult with DG ECHO EAS on technical and contentious issues so that these can be resolved at the earliest point in time.

DG ECHO EAS will review the draft report/draft final report (requesting any changes to be made) and approve it for issue. The auditors will provide the partner with a copy of the report.

Finally, the partner should expect the audits to be conducted efficiently, professionally and with courtesy at all times.

10. WHAT DO THE AUDITORS EXPECT FROM THE PARTNER?

Both DG ECHO EAS and the audit contractors expect the partner's full and timely cooperation throughout the audit. It is very rare that partners do not provide this. Nevertheless, the audit contractors are instructed to inform DG ECHO of any difficulties that they are experiencing as soon as they arise. DG ECHO will then assess the difficulties and decide whether to intervene.

In detailed terms, audit contractors expect the partner to provide a detailed transaction listing which reconciles to the final financial reports submitted to DG ECHO, and provide the supporting documentary evidence for the sample of transactions selected for testing by the start of the audit visit. The auditors will inform of the documentation standards expected before the start of the fieldwork (see previous chapter). **It is not the audit contractor's job to undertake the reconciliations or search for documentation, and failure to provide these is likely to result in a disallowance.** They also expect the partner to respond to and comment on the draft audit report on a timely basis, within 30 calendar days of receipt.

The partner should keep in mind the contractual obligations as stated in the General Conditions to the FPA/Humanitarian Aid grant agreement, where the ability of the partner to provide documentation on a timely basis is a contractual obligation (**i.e. within 30 calendar days from the initial request by DG ECHO or by the audit contractors**).

Non-adherence to the retrieval of documents / access to documentation might be inferred as a breach of contract with all possible consequences, including recovery of associated expenditure.

Access to documentation does not only mean the handing over of the documents but also accessibility concerning language. The members of the contracting consortium are based throughout Europe and use various European languages. This means that partners should have a summary translation of key documents available in a European language that the auditors can understand. It is not the responsibility of the auditors to translate documents drafted in a local language. If a translation is not available from the partner, this means that the partner is not exercising proper control, and expenditure might be considered as not verifiable. Depending on the circumstances, DG ECHO EAS may give instructions to disallow these costs and to make recommendations concerning lack of internal control and/or weak financial systems in place. These recommendations might be used later during the partner's annual assessments.

In certain cases, there may be restrictions to export original documentation outside the country of operation. In these cases DG ECHO EAS accepts (digital format) copies of originals, provided that these are supported by a cover letter stating that the attached documents are true and fair copies of the originals. The copies need to be listed and explicitly referenced. The cover letter and list should be signed at the appropriate level (e.g. Head of Mission or Head of Finance of the Country Office).

11. TYPES OF AUDIT

11.1. DG ECHO partners – HQ audits

As the headquarters of an organisation plays a key role in defining procedures to be applied both at field and HQ levels and generally includes a team in charge of controlling financial returns submitted to donors, it is inevitable that the majority of auditing effort of DG ECHO focus on the control systems and supporting documents at the partners' headquarters. In reality, many of the project expenses incurred are contracted at HQ level and as such full documentation should be available at HQ level (e.g. international staff and international procurement).

A DG ECHO **HQ Audit** is a detailed review of procedures and validation of expenditure claimed from DG ECHO and is undertaken by audit staff who have specific in-depth knowledge of DG ECHO's procedures, practices and outlook.

The audits performed by DG ECHO are required to give a level of assurance that funds made available have been used for the purposes intended in compliance with the rules and regulations in force. They will also identify claimed expenditure that is ineligible according to FPA/ECHO certificate and Grant Agreement rules.

The DG ECHO audit sector supervises the process and takes delivery of the audit results, which are then actioned, as appropriate, by DG ECHO staff. The HQ audit process is presented by means of a flow chart in Annex 1.

Selection procedures

The selection of Actions to be audited for that partner should be sufficient to enable DG ECHO to obtain reasonable assurance that the partner adheres to the principles of the FPA/ECHO certificate. Based on recommendations from Internal Audit Service (IAS) and DG BUDG Guidance on sampling, the selection of partners for HQ audits is:

Random-based:

- The auditable population is the **whole population of closed grants**, paid and processed in Year N-1;
- The sampling unit is, in principle, the total amount of the grant, paid by DG ECHO, for which a final payment took place in Year N-1;
- For cost-efficiency reasons, DG ECHO might decide to include in the audit scope additional grant agreements (to obtain a total of three on average, and in certain circumstances, up to five grant agreements at HQ level) related to the same partner paid in the year N-1 or , if justified, up to the three preceding years.

Risk-based:

This selection addresses specific concerns, risks or issues, detected and raised through one of the following sources:

- previous audits, based on the significance of the ineligible amounts that have been recovered, a high error rate and/or on the criticality of the recommendations issued;
- the financial and operational teams of DG ECHO;
- the anti-fraud and/or safeguarding teams;
- the results of the ex-ante assessment to become an ECHO certified partner;
- the results of the periodic assessment of partners, with regards to the replies received from partners on how they addressed the critical recommendations;
- the results and recommendations of IAS or European Court of Auditors (ECA) audits.
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11.2. DG ECHO Partners – Interim Field audits

The partner implements the activities that are the subject of grants from DG ECHO by means of field projects or actions. This is therefore an essential area of audit as this is where the real work is carried out by the partner. Audits cover financial, administrative and operational aspects of the projects with visits and testing at on-going projects and local and regional partner offices and various project locations (e.g. refugee camps, health structures and distribution points).

The projects to be audited are subjected to a multi-criterion analysis combined with a risk assessment. In general, these audits are outsourced to the external audit contractor. However, in case of specific needs or requests, these audits may also be undertaken by DG ECHO EAS. These field audits may also involve direct discussions with partner's staff and beneficiaries.

The auditors will test a sample of expenditure, and identify any potentially ineligible expenditure. This should provide the partner some time to implement corrective actions before the implementation period is finished.

The Field audit will focus on internal control systems and processes operating at Field level.

A Field audit may also analyse the project implementation (indicators and results), notably how the indicators and results are to be reported are measured.

It is a general practice that each of the field audited grant agreements is selected for a final audit at HQ level.

Selection procedure

The selection of partners subjected to field visits is established on the basis of the following criteria:

- Value of total DG ECHO funds awarded (e.g. per annum);
- Value of individual grant agreements;
- Results of HQ audits;
- Country of operation;
- Most recent field audit by DG ECHO EAS or the audit contractor;
- Perceived risks (e.g. concerns raised by desks/experts).

Based on these criteria and the audits undertaken in the previous year, a provisional plan is prepared as part of the annual audit plan. This plan might change over the year, for example where a selected partner is no longer working in the selected country of operation and has therefore to be substituted, the funding for a selected country diminishes, or the security risk is sufficiently high as to prevent access.

11.3. Compliance audits

These audits aim at gaining assurance that the partner ensures continued compliance with eligibility and additional suitability criteria as set out in the ECHO Certificate, the

Humanitarian Aid grant agreement and the Council Regulation concerning Humanitarian Aid No 1257/96, throughout the lifetime of the ECHO Certificate. The follow-up of recommendations from the ex-ante assessment of the partner will be carried out during this audit.

Selection procedure

The selection of partners subjected to compliance audits is established on the basis of the following criteria:

- financial weight, i.e. volume of grants received from ECHO;
- ECHO’s exposure to reputational risk;
- significance of ineligible amounts recovered;
- systemic weakness noted through audits or flagged by operational units;
- any other risk criteria that would justify an audit of the partner’s systems.

11.4. Desk reviews

These thematic reviews can be conducted on an ad-hoc basis and will cover a specific part of the partner’s control environment:

- The partner’s capacity to manage fraud allegations;
- The partner’s capacity to manage Sexual Exploitation Abuse and Harassment (SEAH) allegations. Confirmed cases can also be assessed ad-hoc;
- Desk review regarding the implementation of recommendations of previous audits, including the ex-ante assessment, or the extension of audit findings to non-audited periods/projects;
- Desk review regarding the shared-cost allocation methodology of one given partner.

12. METHODOLOGY

Each audit is conducted in line with internationally accepted auditing standards to the degree applicable and other such practices and procedures as deemed necessary and agreed upon, based on the framework audit contractual terms with the appointed audit contractor. For each type of audit, different programmes addressing each of the specific types of audit have been developed to guide the audit; files are drawn up with supporting documentation leading to conclusions and a report template is issued for each type of audit. The detailed audit working papers are constantly reviewed and updated by the audit contractors working in close collaboration with DG ECHO EAS.

Concerning HQ and Field audits, there is a special need to link the findings of each type of audit by, for example, comparing procedures established at HQ and their application on the ground.

The auditors should not be in a position of conflict of interest regarding the audit work to be done. A statement is given at the signing of each Specific Agreement between DG ECHO and the selected audit contractor that no conflict of interest exists.

The audit contractor’s report is solely based on regularity and legality – whether the conditions of the FPA/ECHO certificate and the grant agreements have been adhered to.

Any mitigating circumstances of which the audit contractor becomes aware will be reported to DG ECHO.

Where ineligible expenditure is identified, the auditors will report on this. If the exclusion of this expenditure from the Final Report would have resulted in a lower payment to the partner, the difference will be reported as a potential recovery by the European Commission of the excess grant payment to the partner.

At each audit visit, the actions taken as a result of the recommendations made from previous audits are also subject to an audit review.

13. AUDIT FOLLOW-UP

The follow-up on audit reports is carried out in various ways; the annual overview of audit activities report of DG ECHO EAS includes sections on the work done and the results achieved; recommendations made by the auditors and the actions taken as a result of these recommendations will be subject to an audit review at the next audit visit. The follow-up within DG ECHO is done by the respective Units involved.

Concerning the financial disallowances, the geographical unit responsible for the action is consulted by EAS at the draft-final report stage whenever the report contains disallowances questioned by the partner. The Authorising Officer (Head of Unit) may consider that the audit findings supporting the proposed disallowances are factually or legally incorrect with the consequence that the related expenditure is in effect eligible under the FPA rules/ECHO certificate/grant agreement. Any mitigating circumstances shall also be listed. The opinion would then be considered by the EAS; if it agrees, the EAS will contact the audit contractor to find a solution.

Upon finalisation of the audit report, the EAS will send a closing letter informing the partner of the proposed recovery and asking for comments. The EAS will not review any additional documentation that the partner may wish to submit at this stage. If the partner objects to the recovery proposed, the EAS will seek the views of the geographical unit and the Contracts and Finance unit and present a summary note to the Director of Directorate E (as Internal Control Co-ordinator), who will decide on the recovery to be made. The EAS will notify the partner of the final decision.

The DG ECHO Contract and Finance unit will take care of the administrative aspects of the recovery procedure and will enter the amounts recoverable in the Commission accounts. The partner will then receive a debit note for the amount to be repaid.

The EAS will follow up on the findings of the audit in the frame of the annual partner periodic assessment concerning the adherence to the principles of the FPA/ECHO certificate.

How to minimise recovery orders?

DG ECHO's objective is that the money be spent for its intended purpose. A recovery order therefore indicates a failure to achieve that objective. DG ECHO is bound by terms and conditions set out in the Commission's own internal Financial Regulation and its Implementing Rules, as well as those set out in Council Regulation No 1257/96. The

Commission will determine the amount to be reduced on the basis of costs unduly declared as eligible for each grant concerned.

It is therefore essential that:

1. The partner's systems and procedures ensure that the money is spent in compliance with the grant agreement between DG ECHO and the partner.
2. The partner keeps good supporting documentary evidence and accounting records. It is expected that the partner will have robust document retention policies, including electronic copies of key documents (for the programmatic partners also an electronic archiving system).
3. The partner cooperates fully and timely throughout the audit – provision of transaction listing, supporting documentary evidence for the sample of transactions selected by the auditors.
4. The partner communicates to the auditors on time any difficulties encountered that might prolong the collection of documents (a delay shall be for objective reasons out of hands of the partner, other delays might be considered as weakness in the partner control systems).

DG ECHO EAS also works closely with the DG ECHO partners training team (Punto Sud) to provide input on common causes of disallowances and documentation standards, in order to ensure that training courses reflect current issues. Participation of relevant partner's staff is highly recommended.

14. RELATIONSHIP WITH THE EUROPEAN COURT OF AUDITORS, OLAF AND EPPO

DG ECHO EAS co-operates with the European Court of Auditors (ECA), the European Anti-Fraud Office (OLAF) and the European Public Prosecutor's Office (EPPO).

Joint field audits have been undertaken with the ECA and DG ECHO EAS. As part of its normal actions, the ECA undertakes quality assessments of the Audit Contractor.

Under the terms of the FPA/Humanitarian Aid grant agreement, the audit contractor is obliged to inform DG ECHO immediately where cases of fraud and potential irregularities are identified. Where sufficient grounds exist, DG ECHO will then provide this information to OLAF, that should decide on the next steps.

15. WORKING PRACTICE

15.1. Description of standard documents

Initiation letter/email: The purpose of the initiation letter from DG ECHO is to inform the partner that an audit will be carried out. In case of sub-contracted audits, the partner will be informed of this and that they will be contacted soon by the audit contractor for precise arrangements.

Opening Letter from audit contractor: This document sets out in more details the specific information needed for each partner, the audit process cycle and the planned timetable for the audit. Depending on the type of audit, it might include a requirement to fill in and return an internal control questionnaire (the ICQ, see below) needed to prepare the specific type of audit (e.g. compliance audit), and a RAQ questionnaire for each Action audited. The auditors will also request a transaction listing for each Action, which reconciles to the amounts declared as Action costs in the Final Report. This listing is used to draw the sample of transactions for the audit, therefore it is in the partner's interest to supply it as soon as possible, as the earlier it is submitted, the earlier the partner will be informed of the sample, and the more time the partner will have to collate all necessary documentation. The auditors will also communicate a list of documentation they will be expecting to review for each type of transaction as well as notify the partner when a preliminary planning meeting will be arranged.

Sample communication: The auditors will send to the partner the sample to be audited. This is the start of the 30 calendar-day period to submit the necessary documents as stated in Article 23.2 of the General Conditions of the FPA².

ICQ and RAQ: The purpose of the Internal Control Questionnaire and Risk Assessment Questionnaire is primarily to get an overview of the internal control systems of the partner. The responses given to the ICQ/RAQ, together with the supporting evidence sent by the partner, will be reviewed and evaluated, primarily to establish the level of sampling. The audit review cannot be relied upon to have detected all deficiencies and weaknesses that a full investigative audit might reveal. However, as a result of its completion and evaluation, recommendations for systems improvements can generally be identified.

The recommendations stemming from the answers given to the ICQ/RAQ and from the audit tests undertaken should be considered helpful for the partner to improve the management of their organisation. They should not be seen as orders; however, if a partner does not accept the recommendation, they should provide a reasonable explanation. Partners should also note that the recommendations are intended to propose improvements to internal control systems and procedures. Therefore, if recommendations are not implemented without a good reason, the auditors are likely to continue to consider the audit risk (as defined) as high, with a continuing corresponding high level of transaction testing.

The ICQ is always filled in on the basis of current systems and controls in place at the organisation, which may not have existed at the time the grant agreements subject to substantive testing were running. It is used for system-based audits, i.e. field audits, compliance audits, and if needed for desk reviews.

The RAQ should be filled in for each Action audited.

In conducting the substantive testing of the selected projects, the risk level established by the ICQ/RAQ indicates the volume and amount of testing required. This means that for all budget lines a number of transactions can be tested throughout the process. The substantive testing is intended to verify the validity of transactions by inter alia reference

² In the Article 25.3.1 HA MGA the deadline for submission of documents is not exactly set and will be determined by the audit contractors in agreement with EAS.

to original supporting documentation (e.g. invoices), accounting entries in the records maintained by the partner and the procedural requirements of the grant agreement (e.g. in respect of procurement procedures). It also includes verification of cash and bank accounts to verify payment of the transactions claimed.

As a result of the audit process, DG ECHO EAS is able to identify and disseminate best practices and benchmarks amongst all of its partners.

Report: For each type of audit a specific report template has been created. The Report includes recommendations for improvements to processes and controls and the results of the substantive testing. The substantive testing part of the HQ report will show all the non-adherence to the obligations stemming from the FPA/ECHO certificate as potential disallowance. The potential recovery is also indicated. The template also includes a specific section for the partner's comments, and the partner should note agreement/disagreement with each disallowance and recommendation, providing justification and supporting evidence where relevant. When the report is drafted by a different audit contractor than the one used under DG ECHO's FWC (see Conflict of Interest section), the report template might differ from the ECHO common template.

Working Papers: Standard sets of working papers have been prepared to assist the auditors in undertaking the audits. These will be used during the audit to prepare before the on-site visit as well as to be filled in during the on-site visit. They are also used for Quality Review by the audit firm partner to sign off that they are content with the work done.

Letter of Representation: A letter of representation must be filled in by the partner. This letter contains a number of assurances from the partner (for example, all information has been made available to the auditors). The letter shall be signed by the partner and will be attached to the report. If the partner accepts the recoveries proposed, these can immediately be acted upon by the Finance sector and no opinion of the geographical unit shall be sought at the draft final report stage.

Cover note to operational unit: Before finalisation of the audit, in case of disagreement between the auditors and the partner on the proposed disallowances, the draft final report will be submitted to responsible geographical units for opinion. The Authorising Officer (Head of Unit) may consider that the audit findings supporting the proposed disallowances are factually or legally incorrect, with the consequence that the related expenditure is in effect eligible under the FPA rules/grant agreement opinion. Any mitigating circumstances shall also be listed. The opinion will then be considered by the EAS, and if in agreement, the EAS will contact the audit contractor to find a solution. However, as the external auditors provide an independent opinion, they will ultimately rule on FPA/ grant agreement interpretation and make the ultimate decision on ineligibility for the purposes of their audit report.

Closure letter: closure letters are sent to the partner informing them that the audit is finalised and on the amount of recovery proposed (if any), and giving the possibility to comment on the audit results. Additional documents that were not submitted during the audit will not be reviewed, unless the partner can prove that they were submitted but they were not taken into account by the auditors.

Debit Note: Once the amount of the recovery is established, the Contract and Finance unit will issue a Debit note indicating the reasons for the recovery and the deadline by which the amount has to be paid to the Commission.

15.2. Headquarter Audits

The total time for the completion of an HQ batch of audits as from 2022 (new Framework contract of DG ECHO for audit services) is eight months from the start date of the specific contract signed with the auditor. In this period the audit needs to be finalised and DG ECHO should have received the final reports.

The standard DG ECHO procedure is that after signature of the specific agreement DG ECHO sends initiation letters to its partners selected for audit. After this, other than for exceptional reasons or in case of clarifications, all direct contacts will be taken over by the audit contractors. Nevertheless, in case of persistent or recurring difficulties, the partner is encouraged to contact DG ECHO EAS, as is the auditor. The auditors will request a transaction listing from which to draw a sample.

RAQ/ICQ (if applicable) is sent by the Audit Contractor to the partner for filling in.

The RAQ contains a number of questions relating to the Action itself.

The auditors will arrange a time schedule to undertake the audit, and hold a pre-audit planning meeting.

Once the partner provides the transaction listing, the auditors will send the expenditure sample to the partner. This is the start of the 30 calendar-day period to submit the necessary documents as stated in Article 23.2 of the General Conditions to the FPA.

After this, the on-site visit is undertaken by the auditors. The audit objectives and the working method are outlined in the opening meeting.

There will be an on-site exit meeting with a formal agenda, and the partner will be provided with an aide memoire summarising the recommendations and provisional disallowances. The auditors will also identify documentation that is still outstanding. A deadline will be agreed for the receipt of the documentation, after which the report will be drafted and no further documentation considered. At this closing meeting, which should also normally be attended by the audit contractor partner, the main findings and recommendations in the draft report previously sent to the partner for comment will be discussed.

Usually within eight weeks following the end of work at partner's HQ, DG ECHO EAS and the Partner receive a Draft Report (electronic version), to which the Partner is given 30 calendar days to reply, with supporting evidence for any disagreements. After receiving the reviewed Draft Report, the audit contractor finalises the report and sends an electronic copy to DG ECHO (PDF and Word) as well as to the partner (PDF).

The linkage between HQ and Interim Field audits has been strengthened by allowing the audit contractor to undertake Interim Field audits and then carry the results through to the audits carried out at the partner's HQ. A project that has been audited in the field will usually be subject to HQ audit and the procedures known from HQ audits will be verified

during the field visit at the project location. This helps the partners as it provides them with a quasi-internal audit - identifying system weaknesses and/or errors and making recommendations for improvement - of the specific project.

15.3. Interim Field Audits

The usual duration of Field audit batches is eight months. During this period, which starts normally at the signature of the Specific Agreement, the audits have to be finalised. In this timeframe the auditors have to organise the audits and deliver the reports (one report per partner audited). Partners have 30 calendar days to reply to the draft reports.

Due to the sometimes complex situations in locations of the DG ECHO projects, the contract contains a clause concerning termination of the respective specific Agreement in cases of *force majeure*. This safeguard clause can be used in those cases where a continuation of the Field Audit could cause security problems for the auditors or where the beneficiary country creates unforeseen visa problems. In any case, a continuous dialogue between the audit contractor and DG ECHO EAS takes place to give guidance as well as to discuss problems that may arise.

The standard procedure is that after signature of the specific agreement DG ECHO sends an information notice or initiation letter to its partners selected for audit. Thereafter, all direct contacts are undertaken by the auditors.

Once a detailed programme is agreed, it is forwarded to DG ECHO EAS, the DG ECHO Desk Officer, the DG ECHO Security Advisor and the DG ECHO Field Office for information. Soon after the first contacts are made, the ICQ is sent to the partners to be filled in and documentation is requested together with an opening letter from the audit contractor, usually within two weeks, with a request for the ICQ to be returned filled in within a further three weeks.

The ICQ for field audits contains the following sections:

- Organisation;
- Accounting Systems and IT;
- Cash and Bank;
- Personnel;
- Fixed Assets;
- Procurement;
- Stocks;
- Fraud and Corruption Policies;
- Field Operational Practices.

Upon arrival in the beneficiary country the audit contractors:

- Visit the DG ECHO Office (if one exists) for briefing by the DG ECHO expert;
- Hold a meeting at the outset of the mission with all partners to be audited to present the audit to them (reason, objective, methodology, reporting etc.) and to raise/discuss and agree the detailed programme (particularly logistics) for the fieldwork and security issues;

- Visit the partner's main in-country office. The exact organisational structure of each partner will vary and should have been ascertained during the initial meeting with the Desk Officer. In general, partners have an office that is often (but not always) based in the capital of the country and is generally the link between the partner's EU HQ and the in-country operations;
- Visit the project location. This is generally, but not always, away from the main in-country office and is supported by a dedicated field office;
- Hold end-of-fieldwork meetings with the partner to review findings and recommendations. This is very important as sometimes the remaining period of the project comes to an end before the report can be finalised, but there might be action needed beforehand. The partner will be provided with an aide memoire summarising the recommendations and provisional disallowances.

After the field audit has taken place, a draft report should be submitted normally within eight weeks to the partner both at HQ and at Field level for their comments/factual corrections. The reply deadline is set at 30 calendar days, after which the comments received are taken into account and added to the report as an annex. Possible disagreements are to be explained in the report before submitting the final draft to DG ECHO for approval and finalisation. After DG ECHO approval, the final report is submitted to the partner by the Audit Contractor.

DG ECHO.E.2 External Audit Sector
Brussels, May 2022

Annex 1

