**ECHO AUDIT FRAMEWORK CONTRACT**

**HQ AUDIT REPORT**

<table>
<thead>
<tr>
<th>Partner name:</th>
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<tbody>
<tr>
<td>Grant agreements:</td>
<td>ECHO/PSE/BUD/2011</td>
</tr>
<tr>
<td></td>
<td>ECHO/PSE/BUD/2012</td>
</tr>
<tr>
<td>Audit assignment Reference:</td>
<td></td>
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</table>

The views expressed herein are those of the independent auditor and do not necessarily represent any official view of the Commission.
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1 Executive Summary

1.1 Objectives of the Audit

The objectives of the audit are to:

- Provide assurance to the European Commission as represented by ECHO that the funds claimed by the Partner have been used in compliance with the eligibility criteria as set out in the grant agreement and the governing FPA and the Council Regulation concerning humanitarian aid 1257/96. This assurance is needed to enable ECHO to assist those who are the most vulnerable, the beneficiaries, and to fulfil its accountability obligations arising from a variety of rules and regulations1.

- In the spirit of partnership, to provide recommendations to the Partner to improve the Partner’s systems and reduce the risks bearing on the use of EU funds based on the assessment of the procedures applied in their accounting, audit, internal control systems grant/IP management and procurement.

- Give advice to the Partners to assist in establishing a more effective and efficient aid delivery as required by the Financial Regulation applicable to the general budget of the Union.

1.2 Summary of Substantive Testing Findings

The total expenditure identified as potentially disallowed is EUR 25 580.42 of which EUR 18 290.04 can be attributed to ECHO funding. The former includes indirect costs of EUR 1 673.49. The main reasons are given below and further details can be found in Chapter 3 and in Annex 2.

The potential disallowances relate to agreement ECHO/PSE/BUD/2011 [Redacted] for EUR 10 424.51 and to agreement ECHO/PSE/BUD/2012 [Redacted] for EUR 15 155.91

- The potential disallowances relating to agreement ECHO/PSE/BUD/2011 [Redacted] were due to the lack of bank statements to support payment, and erroneous charge of VAT.

- The potential disallowances relating to agreement ECHO/PSE/BUD/2012 [Redacted] were due to the application of incorrect procurement procedures, lack of bank statements to support payment, and erroneous charge of VAT.

As a result of the above disallowances we have recalculated the indirect costs and calculated a potentially recoverable amount of EUR 7 226.83 all relating to agreement ECHO/PSE/BUD/2011 [Redacted], as the sum of expenses accepted relating to agreement ECHO/PSE/BUD/2012 [Redacted] exceeds the maximum contribution by ECHO. See the totals in Annex 2.

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1Rules and regulations include the governing FPA, the Financial Regulation and Rules of Application and article 1257/96 of the Council Regulation concerning humanitarian aid.
1.3 SUMMARY OF INTERNAL CONTROL SYSTEMS FINDINGS

1.3.1 Assessment of administrative internal control systems

Administrative internal control systems encompass organisation, planning, accounting, financial management and reporting, and personnel. Individually these four areas have been assessed as follows:

- Organisation: adequate
- Planning: adequate
- Accounting, financial management and reporting: adequate
- Personnel: adequate

Overall this has resulted in an assessment of adequate for administrative internal control systems.

1.3.2 Assessment of logistical internal control systems

Logistical internal control systems encompass procurement, stock and equipment.

Individually these three areas have been assessed as follows:

- Procurement: adequate in most respects
- Stock: inadequate
- Equipment: adequate

The assessment of procurement as adequate in most respect is caused by:

- not maintaining a list of favoured suppliers selected after an open process, and consequently not reviewing this non-existent list;
- having only informal procedures to prevent conflicts of interest.

The assessment of stock as inadequate is caused by:

- organising stock counts only yearly or every 6 months, both at HQ and in field (which is actually the responsibility of the implementing partner), and
- For receiving stock reports from the field infrequently.

Overall this has resulted in an assessment of adequate in most respects for logistical internal control systems.

1.3.3 Assessment of project management internal control system

Project Management has been assessed as adequate.

1.3.4 Conformity with external regulation, own procedures and the FPA

Conformity with external regulation, own procedures and the FPA encompasses external compliance, quality and fraud and corruption prevention.
Individually these three areas have been assessed as follows:

- External Compliance: adequate
- Quality: adequate in most respects
- Fraud and Corruption Prevention: adequate

The assessment of quality as adequate in most respect is caused by:

- **Not having a third party accreditation of quality standards system, it should be noted that many of standards and assessments are based on standards and tests:**
- **Not having the Board formally and regularly involved in the reviews of adherence to quality standards.**

Overall this has resulted in an assessment of adequate for conformity with own procedures and the FPA.

### 1.4 Recommendations for Systems Improvements

The most important recommendations\(^2\) linked to the assessment of management and control systems are shown in the table below. All of the recommendations together with the comments/action proposed by the NGO are shown in Annex 1.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Recommendation</th>
<th>Assessment area</th>
<th>Accepted (Y/N)</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>We suggest that includes in its procurement guidelines criteria for assessing the tenderers' financial, economic, technical and professional capacity.</td>
<td>Procurement</td>
<td>Y</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>We suggest that introduces regular planned stock controls at implementing partners' warehouses, and that checks on stock control systems are carried out.</td>
<td>Stock control</td>
<td>Y</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>We suggest that check financial information to supporting documentation at implementing partners' offices on a regular basis.</td>
<td>Project management</td>
<td>Y</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>We suggest that requires all implementing partners to translate at least key parts of documentation to English.</td>
<td>Project management</td>
<td>Y</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>We suggest that reviews transactions listings prior to preparing the cost claims to ensure that VAT is not being reclaimed from ECHO as well as the government in countries where it is not exempt.</td>
<td>Project management</td>
<td>Y</td>
<td>Now</td>
</tr>
</tbody>
</table>

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\(^2\) Ratings are:  
5 - very important  
4 - important
1.5 **FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS**

During this HQ audit, the auditors followed up all recommendations from the previous HQ audit (reference [redacted]) and the previous field audit (reference [redacted] in Occupied Palestinian Territory) that were considered relevant to [redacted] operations at HQ.

The Partner has made an annual assessment via the ECHO APPEL system.

Of the 37 recommendations raised in the previous audits, 12 were deemed relevant to this audit, of which 10 have been implemented and the remaining 2 are under consideration. The reasons for non-implementation given by the Partner are acceptable in our opinion.

Recommendations in respect of each of the latter have been included in Annex 1 and, where deemed significant, in section 1.4 above.
2 Audit Opinion

We have audited the funds used in the implementation of the following ECHO grant agreements and periods as set out in the summary of the Final Financial Reports in Annex 2.

<table>
<thead>
<tr>
<th>Grant agreement</th>
<th>Amount claimed</th>
<th>Amount accepted by ECHO</th>
<th>Amount accepted after audit</th>
<th>Amount potentially disallowable</th>
<th>Percentage of project costs tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECHO/PSE/BUD/2011</td>
<td>1130582.40</td>
<td>1130582.40</td>
<td>1120157.89</td>
<td>10424.51</td>
<td>59%</td>
</tr>
<tr>
<td>ECHO/PSE/BUD/2012</td>
<td>985607.57</td>
<td>985607.57</td>
<td>970451.66</td>
<td>15155.91</td>
<td>43%</td>
</tr>
</tbody>
</table>

Our initial review of the systems of internal control in place at the time of the audit based on our Internal Control Questionnaire (ICQ) indicated a control environment that was adequate in most respects and resulted in a substantive testing level of at least 50%. This assessment was not confirmed rather [BLANK] was reassessed as adequate, as stated in section 1.2 and the opinion hereafter.

As can be noted above the testing level for project ECHO/PSE/BUD/2012 does not meet the initial testing level, this is due to a very large number of low value entries in the accounts. This approach was agreed with ECHO in advance.

The Final Reports are the responsibility of the management of the Partner. Our responsibility is to express an independent opinion on the Final Financial Reports, based on our audit.

This report is made to the European Commission represented by ECHO and remains the property of the European Commission. Our audit work has been undertaken within the framework of existing contractual arrangements and provides information to ECHO on the systems of internal control placed on the use of Union funds and on eligibility of the costs claimed.

Our audit work has been undertaken so that we might state to the European Commission, those matters we are required to state to it in our audit report and for no other purpose. We are thus responsible solely to the European Commission for our audit work and the audit opinions we have formed. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the European Commission unless such responsibility has been expressly accepted.

We conducted our audit in accordance with International Standards of Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Partner has complied with the appropriate sections of the relevant grant agreements. An audit includes examining appropriate evidence on a test basis, relevant to the amounts set out in the Final Financial Reports. We believe that our audit provides a reasonable basis for our opinion.

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the Partner. It is the responsibility of those charged with the governance of the Partner to ensure, through oversight of management, the integrity of the accounting and financial reporting systems and that appropriate controls are in place. It is the responsibility of the management of the Partner to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as
possible, the orderly and efficient conduct of the Partner’s affairs. This responsibility includes implementing and ensuring the continued operation of accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems can only reduce but not eliminate the risk of misstatements, whether caused by fraud or error. Management retains responsibility for any remaining risk. It should be understood that if we detect fraud or other coercive practices we are obliged to report this to the responsible services.

In our opinion:

- The systems of internal control operated by the NGO are adequate, except for the matters listed in sections 1.3.1, 1.3.2, 1.3.3 and 1.3.4.

- Grant agreement funds covered by this audit have been used in accordance with the contractual basis as set out in the ECHO Framework Partnership Agreement and the relevant grant agreements, except for the matters listed in section 1.2.

- The Final Financial Reports, as identified above and audited by us, have been prepared, in all material respects, in accordance with the basis of preparation also described above, except for the amounts listed in section 1.2.

- Having regard to the limitations of our audit scope in this respect, refer to Annex 5.4, the partner is not in breach of the stipulations of the Council Regulation 1257/96 concerning humanitarian aid.

- Having regard to the limitations of our audit scope in this respect, refer to Annex 5.4, the partner is not in breach of the stipulations of the FPA 2014.

3 November 2015
3 Findings of Substantive Testing

3.1 Background Information on Grant Agreements Audited

Project ECHO/PSE/BUD/2012 [redacted] is a follow-up project to project ECHO/PSE/BUD/2011 [redacted]. The purpose of both contracts was to provide psychosocial support for children and families in Palestine. They were both implemented by the [redacted], with [redacted] providing guidance and oversight. There is no significant procurement in any of the projects; they are instead heavy on personnel costs and running costs. The targeted population was by and large reached and the objective of reducing stress and trauma was measurably achieved.
3.2 General Findings of Substantive Testing

Final reports for each project were submitted as listed below:

<table>
<thead>
<tr>
<th>Project Code</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECHO/PSE/BUD/2011</td>
<td>10/09/2012 (10 days after expiration of the 3 month period for reporting)</td>
</tr>
<tr>
<td>ECHO/PSE/BUD/2012</td>
<td>30/08/2013 1 day before deadline</td>
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Repatriation of documents from Palestine has been rather difficult, further most of the documentation was in Arabic needing translation which added to delays, and in fact we did not receive the last pieces documentation until 06/07/2015.

As a consequence of the above we have recommended that [redacted] require all partners to translate at least key parts of any and all documentation to English (recommendation 8).

Transfers to partners are recorded at the exchange rate at the time of transfer. Foreign exchange differences are recorded on non-project accounting codes unless otherwise requested by the donor and therefore generally not included in reported costs.

As a result of our audit, recommendations for improvement have been made and are set out in Annex 1 and where deemed significant, in section 1.4.

3.3 Compliance with the Basic Principles of Article 8 of the General Conditions of FPA 2014

The [redacted] has claimed its costs in accordance with the basic principles of Article 8 (Eligible Costs) of the General Conditions 2014 with the exception of the items listed in the tables in Annex 2. Details of our testing methodology can be found in Annex 5.
4 Administrative Internal Control Systems

4.1 ORGANISATION

4.1.1 Management structure

There are no material differences to the previous report dated January 27th 2012 with batch reference [redacted]. The management structure can be summarised as follows:

- The Governing Board of [name redacted] is responsible for overall management and activity of the organisation between general meetings, taking place every second year in October or November.
- The Board consists of the President, Vice President, Chairman of the Finance and Audit Committee and 13 other members, members of the Board are unpaid and at least 6 meetings are held annually.
- Members of the Board are elected by the General Assembly for a term of four years; re-election is possible but only once, and thereafter a third term requires a recess of at least one full term.
- The Board appoints the Secretary General who is responsible for daily operations.

The Finance and Audit Committee has been established: tasked with review of the annual budget, the annual accounts, and advising the Board on matters of finance and accounting, including salaries and pensions. The Committee further reviews and approves the annual audit plan, and is responsible for liaison with external auditors.

- The Board undertakes with the Secretary General a review of objectives and organisational structure, changes are implemented if deemed necessary.
- A list of directors’ and Board members other positions is maintained and regularly updated, it is independently reviewed by internal or external auditors.
- A contractual compliance officer has been named and is organisationally placed in the International Support.
- A written code of conduct regarding ethics and conflicts of interest is maintained, and a written report on adherence to the code of conduct is prepared every year.
- All staff members are required to sign the code of conduct. Sanctions for infractions will follow the “employee act”.
- There are no known related party transactions.
- Management is [redacted] decentralised. The organisation has laid down detailed written procedures for delegation of authority and responsibility throughout the organisation, ensuring segregation of duties at all levels of the organisation.
- The management of [redacted] finds it rarely necessary to override established controls; controls can generally be easily adhered to.

4.1.2 Supervisory bodies

- Supreme authority of [redacted] rests with the General Meeting of representatives, taking place in uneven years.
- The assembly is made up of a representative from each local branch along with members of the Board, Chairman of the regional organisations and one representative from each of the [redacted].
- The Board of [redacted] has agreed terms of reference.
• The Supervisory board meets six times a year and access to the Board of financial or operational staff members is in the hand of the Secretary General.

4.1.3 Internal control bodies

An Audit Committee and a Risk Committee has been set up as sub-committees of the financial committee, and is tasked with liaising with the external auditors and reviewing plans for the internal audit.

Internal audit of all international projects has been outsourced to the independent external auditors, who report to the Board on a yearly basis. The latest report pertaining to 2014 was submitted on 19/05/2015, which concluded that generally appropriate written procedures and internal controls are in place and that adherence to procedures and controls are satisfactory. No country or field offices are visited by the internal auditors.

The plan for the coming year is laid down in co-operation with the committee, and adherence to major donors’ requirements and procedures are part of the TOR.

4.2 Planning

4.2.1 Strategy and long term planning

The main aim of ... as regards the three International Departments is stated in the strategic plan presently in force covering the period 2015-20 and is to increase and strengthen humanitarian impact that inspires and promotes human dignity, resilience and social cohesion.

The plan states the following strategic ambitions:

• Resilient communities;
• Strong civil society with strong ...;
• Protection and social cohesion;
• Humanitarian engagement.

A midterm review in 2017-18 is foreseen in the plan, and all stated ambitions will be reported against. The plan is drawn up by the International Departments and eventually adopted by the Board.

The plan does not in itself include financial data, but the annual budget includes a separate section with the budget for various strategic projects.

An annual follow up and review is carried out by International Programmes based on yearly contracts setting development targets.

The plan does not set organisation wide financial goals, and no quantification of goals for strategic objectives on an organisation wide level is laid down.

Based on the strategic plan regional strategies are prepared and rolled over annually, the regional plans include detailed and quantified targets for various areas of activity facilitating follow up and comparison of outcomes to plan.
4.2.2 Risk assessment

An organisation wide risk assessment is carried out annually and a risk register is maintained. No strict limit has been defined but [redacted] has a conservative policy for dealing with excess liquidity, thus reducing financial risk.

For each project a separate risk assessment is undertaken as part of the planning process, assessing probability, impact and overall risk related to various issues in planning and execution of the project.

It lays down who is responsible for dealing with the perceived risk, and a follow up in the course of the project is undertaken.

4.2.3 Organisation-wide short-term planning

An annual operational and financial budget is drawn up through a result based management system at all levels; it incorporates the yearly framework agreement with [redacted] on humanitarian interventions. The budget is submitted to the Board for final approval.

Monthly monitoring and mid-year revision by Heads of region and HQ are undertaken.

The monthly report includes regional and country results with regional and country budgets. Results are compared to budget for the whole year or expressed as percentages of amounts budgeted.

KPIs incorporating both quantitative and qualitative data have been developed which report on

- Inputs
- Outputs
- Outcomes and
- Impact.

4.3 ACCOUNTING, FINANCIAL MANAGEMENT AND REPORTING

4.3.1 Overview

The Accounting Department consists of a Chief Financial Officer, and 5 assistants tasked with accounting, 4 controllers for national activities, 6 controllers for international activities, and three staff members responsible for financial reporting.

The current quality of the financial staff is considered adequate by management. All financial staff have recognised accountancy qualifications. The number of staff is considered sufficient although some overtime is required at peak periods.

An internal manual detailing accounting and control procedures is available on the internal network, the manual deals with the following issues:

- Financial planning – budget;
- Funds management including payment procedures;
- Financial monitoring;
4.3.2 **Budgets**

Budgetary controls are established at HQ and all regional offices, HQ, regional and projects budgets are submitted to senior management for approval.

Performance is measured against budgets on a monthly basis for all levels of the organisation.

When budgetary targets are not met clarification is sought through a dialogue between budget holders, senior management and donor, leading to either budget revision or variance explanation.

On a quarterly basis expenditures are measured against budget and variances are calculated both in absolute numbers and as percentages of total budget.

Total spending is reviewed against budget at the end of the period, and experience over discrepancies is utilised for future budgets.

4.3.3 **Accounting system**

operates an integrated worldwide ERP accounting system that is applied both at HQ and all regional and country offices. The accounting software has been updated in the last 2 years.

The accounting convention is double entry cash accounting, but the annual accounts are prepared on an accruals basis as regards earmarked funding and spending, and in accordance with governmental regulations accounting for asylum activities is prepared on a costs based accounting principle.

Full written procedures for segregation of duties are in place, and as a general rule all transactions require acceptance from 2 staff members.

The accounting system complies with national regulations and allows for integrated project accounting, separating income and expenditure by donor and project, as well as separating donations restricted for specific purposes; however, as most projects are implemented by local partner organisations, the number of transactions incurred directly by is relatively low.

Transfers to implementing partners are directly expensed as one lump sum but when required by donor expenses will be recorded individually.

4.3.4 **Allocation system and prevention of double counting**

In order to prevent costs being charged to more than one project, HQ controllers and regional finance officers perform controlling and reconciliation of financial reports, including vouchers, on a regular basis.
A system for allocation costs between different projects has been set up by HQ. Personnel costs are allocated between HQ/regional offices/country offices by the Head of region, taking into the consideration availability of funding and flexibility of the projects in the region. Timesheets are used for charging HQ personnel costs directly to projects. Vehicle logbooks are used and costs expensed at projects accordingly. Personnel costs in field incurred by partners are generally allocated based on time sheets, and logbooks are used for allocating vehicle expenses.

Allocation of costs are checked by HQ controllers on a monthly or quarterly basis.

4.3.5 Reporting

4.3.5.1 Financial reporting from the field to HQ

Country offices report "own" recurring costs on a quarterly basis, while project costs are to be reported following a pre-planned timetable on a quarterly basis.

The timetable specifies deadlines for the submission of reports. Reports and requests for fund transfers from HQ to the field are checked by HQ controllers before being accepted (or otherwise).

Detailed extracts from the accounts are submitted, showing expenses by line for the actual period and balance for year to date. Actual data is compared to budget for the corresponding period and the budget for the whole year is shown as well as percentage of budget, both for the period and for the whole year.

Written explanations on variances in excess of 10% are explicitly required.

Field offices are regularly (more than once yearly) visited by HQ financial staff.

Reports to ECHO are prepared manually combining financial data from implementing partner, Regional Office expenses if any and HQ expenses. Use of a standard format for reporting is required.

4.3.5.2 Organisation-wide internal financial reporting

Consolidated management accounts are prepared by the financial staff and submitted to senior management and the Board on a monthly basis, the accounts include a statement of income and expenses and balance sheet.

A comparison of aggregate realised results are measured against budget for the same period, and compared to prior year.

Extensive written comments are included, and significant variances are explained and dealt with through consultation with senior management, and head of the relevant department.

4.3.5.3 External financial reporting

Financial reports to ECHO must be produced manually combining data from accounting records and those of the implementing partners; hence an automated system cannot be set up.
As far as is possible a standard format for reporting is applied, when needed it is adapted to reporting requirements, and also takes into consideration the data format received from partners. Based on our limited experience the reports have proved to be reliable.

Audited annual financial reports are available on the [website] web-site.

4.3.6 Cash management

4.3.6.1 Internal monitoring of liquidity and cash flow

The credit available is continuously monitored, and cash flow forecasts are prepared and reviewed on a monthly basis.

A reserves policy has been laid down by the Board setting various targets for discretionary reserves in addition to a general policy stating that reserves should cover 6-12 months operation.

The reserves policy is subject to review on an annual basis in connection with preparation of the annual financial report.

4.3.6.2 Cash handling procedures

There are no material differences from the previous report which stated:

There are full written procedures for transfer of funds from HQ to country offices and subsequently to the field as follows:

- The Regional office receives the cash request from field operations, the request is checked and signed off by the Regional Financial Delegate and Head of Region;
- The request is then logged in the system for approval by the designated controller, who checks that all documents and signatures are correct;
- Finally the request is approved and booked by the Finance Department.

Unused funds from the previous quarter as detailed on the attached spending report are deducted from the amount requested.

Procedures for cash transfers between local offices are laid down in the country finance manual. Cash handling procedures may only be altered upon approval from HQ, and generally cash is sought kept at a minimum in field.

4.3.8 Data management

IT management is a separate section in the Shared Services Department, consisting of 5 staff members who are responsible for daily operations and 2 staff members responsible for project implementation.

A formal IT plan is prepared annually and is part of the annual budget; all personnel have access to the plan.

Disaster recovery and back-up procedures are in place, but no regular testing is undertaken.
A separate archiving procedure for ECHO funded projects has been laid down ensuring that documentation is filed according to standardised indexation both at HQ and in the field.

Procedures are in place to keep documents securely in the field, and scans/copies are kept separately. Back-ups are taken on a daily basis and stored off-site. Documents are repatriated on a needs basis.

Measures have been taken to ensure that documentation pertaining to ECHO funded projects is accessible within 30 days, in accordance with article 5c of the FPA.

4.4 PERSONNEL

4.4.1 Management

The personnel department is a separate unit in the Shared Services branch, with a total of 14 staff members. It deals with recruitment, contracts, salaries, training, and international placement of staff.

4.4.2 Recruitment

HQ staff requirements are decided by management and a detailed personnel manual has been approved by the Board which covers:

- Formalised procedures for recruitment of staff ensuring fair recruitment and avoidance of conflicts of interest;
- standardised contracts of employment both for headquarter staff and expatriate staff;
- salaries which for headquarter staff follow the scales set for civil servants in accordance with collective labour agreements, while expatriates are accorded additional pay as appropriate and approved by management;
- the requirement to sign a legal contract and a code of conduct; and
- the documented checking of references for expatriate and local staff.

The manual does not include procedures for hiring local staff, as this is the province of the local implementing partner, as well as ongoing employment at end of project.

4.4.3 Appraisal

Both management and staff at HQ as well as expats are appraised on an annual basis according to formalised procedures. Appraisals are not performed by expats for local staff as these individuals are employed by the implementing partners. We have therefore raised a recommendation that [REMOVED] ensures that its implementing partners are appraising their staff (Recommendation 1).

Appraisals are carried out by the immediate superior, and both sign a memo setting down agreed upon career plans, planned training etc., the memo is filed in the HR department as part of the staff member’s case file.

Management is further appraised against numerical targets agreed upon in advance.
4.4.4 Training

A formal training policy has been drawn up with HR coordinating all training activities at HQ. The line-manager is responsible for making a qualified assessment - together with the staff - for any need for training. The line-manager brings the request forward to HR who give the final approval.

Training of expats is decided in the region together with the Head of Region; Head of Region gives the final approval.

The aim of the training policy is to build the employees’ capacity and competences both to enable them to perform well and to make sure that has the capacity and competences needed to fulfil and implement the organisational strategy and goals.

The training policy is provided for HQ Staff including expatriate delegates, since the responsibility for training of local staff is the responsibility of the hiring national or

The training policy includes training on:

- Safety and security;
- employee code of conduct
- fraud and corruption prevention.

4.4.5 Procedures in case of conflict or dispute

There is no formal written procedure for solving conflicts or staff grievances, but has a staff committee, where grievances can be discussed and handled. In addition an HR-partner structure is established which staff can use as facilitators in solving the issues.

Preferably issues are resolved by discussion between the staff member in question and immediate superior.

Many issues will be covered either by collective labour agreements or the Employee Act, and union representatives who can represent the employee’s point of view and enter in discussion with the management in the individual cases are available.

4.4.6 Security issues

The personnel policy at includes a clause that the organisation has a duty of care towards all employees.

Plans for evacuation and repatriation of field staff have been drawn up in all regions and countries in which works. The evacuation/repatriation of local staff is the responsibility of the expats can choose to lay down their own security procedures or seek cooperation through to support evacuation.

Insurance is taken out covering expatriate staff and visiting HQ staff both as regards health and repatriation.
As mentioned in section 4.4.4 training on security issues is part of the standard training policy; a security incident register is maintained and used as basis for learning.

As a matter of policy [redacted]-staff are protected only by the [redacted]-emblem, and not working under the protection of security guards. Most of their residences have a local security guard guarding the property or residential area.

After an incident all staff involved are debriefed by a psychologist. The incident is reported to the security board and appropriate actions are taking.

All staff sign a Code of Conduct where it is clearly stated, that they have to follow all security guidelines and instructions and if they do not it is grounds for terminating their employment contract with [redacted].

Staff are not required to sign a risk liability disclaimer and insurance is taken out to cover safety and security risks.

4.5 Auditors Assessment of Administrative Internal Control Systems

4.5.1 Organisation

Organisation was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have reassessed Organisation as adequate, as in the previous audit.

For an organisation of its size, [redacted] has extensive written guidance and policies on organisation. In addition, the on-site audit allowed observation of these procedures in practice, and it seems that [redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

4.5.2 Planning

Planning was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment; there is no change in the assessment from the previous audit.

For an organisation of its size, [redacted] has extensive written guidance and policies on planning. In addition, the on-site audit allowed observation of these procedures in practice, and it seems that [redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

4.5.3 Accounting, financial management and reporting

Accounting, financial management and reporting was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have reassessed Accounting, financial management and reporting as adequate.

In the previous audit accounting, financial management and reporting was assessed as adequate in most respects as [redacted] had not set up a cost allocation system which is now in force.
For an organisation of its size, [redacted] has extensive written guidance and policies on planning. In addition, the on-site audit allowed observation of these procedures in practice, and it seems that [redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

4.5.4 Personnel

Personnel was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have reassessed Personnel as adequate; there is no change from the previous audit.

For an organisation of its size, [redacted] has extensive written guidance and policies on personnel. In addition, the on-site audit allowed observation of these procedures in practice, and it seems that [redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

4.5.5 Overall assessment

As a result of our audit, we have assessed administrative internal control systems as adequate.
5 Logistical Internal Control Systems

5.1 PROCUREMENT

5.1.1 Domestic legal regulations for procurement

No national regulations govern procurement by [redacted].

5.1.2 Procurement procedures

[redacted] has written Procurement Guidelines ensuring segregation of duties and assigning authorisation levels to individual staff members. A staff member can only be authorised to either accept purchase commitments or approve disbursements, not both. This means that even for the smallest of purchases the involvement of at least two staff members is required.

The guidelines state that [redacted] will always follow any specific procurement rules laid down by any given donor, and that implementing partners’ procurement procedures may apply if they have been approved and registered by [redacted] HQ. The auditors were informed that purchasing procedures are rarely overridden.

Tender documents are prepared by the Head of Region supported by national society and technical experts in accordance with the guidelines; the decision is taken by the tender committee or Head of Unit/Head of Region in collaboration with Head of Finance.

Procurement procedures are agreed upon in the contract with implementing partner and integrated within the project planning.

A Tender Committee is required when the purchase exceeds a given level which varies according to the type of contract, be it works contracts or supply of material or services.

See Annex 4 for information on procurement thresholds.

5.1.3 Adherence to the Principles of Annex III of the Framework Partnership Agreement of 2014

The Partner adheres to the principles of Annex III of the FPA with the exception of the procedures providing for:

- the assessment of candidates’ or tenderers’ financial, economic, technical and professional capacity (Recommendation 2).

All deviations from procedures, including justification for using only one supplier, must be approved by the Head of International Partners or Disaster Management at [redacted] HQ, following a written application to explain the need for a deviation.

There is no formalised procedure in place to avoid conflicts of interest; it is instead subject to informal review and monitoring by senior management, and dealt with on a case by case basis.

Written confirmation is sought from suppliers to assure adherence to the General Principles of Annex III to the FPA.
5.1.4 Use of framework agreements, ‘pre-validated’ (favoured) suppliers and procurement centres

There are no material differences in this section compared to the previous report ref. section 10.1.4 which was as follows:

“In cooperation with has entered into framework agreements with favoured suppliers for certain items, and the procurement manual states that framework agreements must not have a duration in excess of 4 years, and must be drawn up following an open tender procedure.

Occasionally uses humanitarian procurement centres where orders are placed through These HPCs are approved by ECHO.

regularly check the market prices for goods purchased from HPCs”

does not maintain a list of favoured suppliers.

5.1.5 Audit testing of procurement procedures

We found no instances of non-compliance with procurement rules in any of the contracts audited; however, it should be noted that there is no major procurement in any of the projects subject to audit.

5.2 STOCK CONTROL

Approximately 95% of equipment at HQ is sorted and stored according to Emergency Response Units (ERU). Stock lists are pre-made for each unit and deliveries to and from the warehouse are archived and reported annually.

For smaller items like t-shirts, caps and delegate handout equipment, bin cards are kept to record stock movements.

Stock in the field is handled by local implementing partners or the.

The stock records at the HQ warehouse include:

- location of items;
- price;
- serial numbers;
- dates of entry and exit; and
- mode of transportation used.

Stock records for field warehouses include the same information and are updated frequently by the owner/operator of the warehouse, which is usually the implementing partner or the.

Stock counts at HQ are performed by warehouse staff on a sample basis with a total count at least yearly. In practice, this does not appear to be more frequent than every 6 months. We have raised recommendation 4 in this respect.
Stock counts in the field warehouses are monitored by the partner according to the partner's guidelines. We make no checks on the reliability of the system applied. We have raised recommendation 5 in this respect.

Stock in the field is monitored from HQ on a project level with regular follow ups to ensure that any remaining stocks are discussed during implementation. In the final report annexes to the financial reporting all remaining stock is detailed and decisions are made as to whether it is carried over to another project or handed over to the local partner, in which case proper gift certificates are issued.

We may make use of shared warehousing facilities as long as it can satisfy itself that stock can be kept separately.

All stock is covered by an insurance policy, except stock in high risk countries where it is not possible to take out insurance.

5.3 EQUIPMENT

Buildings and major acquisitions of equipment (in excess of [REDACTED] and with a life expectancy of at least 5 years) are treated as assets in the balance sheet and depreciated over their useful life; all other assets are treated as expenses in the year of acquisition.

There is no depreciation of buildings.

A register of fixed assets is maintained at HQ which includes all fixed assets; the list holds the following information:

- Unique asset number;
- Donor;
- Location;
- Date of purchase; and
- Purchase price.

The fixed assets register is regularly reconciled to the accounting system.

A fixed asset register is maintained in the field identifying the donor, but no field assets are included in the balance sheet as all acquisitions are treated as expenses.

Assets in the field are continuously monitored from HQ and the register is reconciled to the accounts. Any remaining project equipment is listed and checked by field staff reporting to HQ.

Not all fixed assets at HQ and field are covered by an insurance policy. Fixed assets in the field offices under [REDACTED] or local partner contracts will be insured by the contracting partner.

Assets remaining at the end of project are either carried over to a subsequent project with same donor or donated to the local partner, in which case proper gift certificates are issued.
5.4 AUDITORS’ ASSESSMENT OF LOGISTICAL INTERNAL CONTROL SYSTEMS

5.4.1 Procurement

Procurement was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have confirmed this assessment; the assessment is unchanged from the previous audit.

The auditors found that generally adheres to internal standards and procedures and that procedural changes from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, has extensive written guidance and policies on procurement. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that adheres to laid down procedures.

As a result of our audit, 2 recommendations for improvement have been made in relation to including guidelines for assessing tenderers financial, economic, technical and professional capacity, and formalising procedures to identify possible conflicts of interest, in procurement regulations. These are set out in Annex 1 and in section 1.4 where applicable.

5.4.2 Stock

Stock was initially assessed as inadequate from the ICQ. As a result of our audit we have confirmed this assessment.

We find that generally adheres to internal standards and procedures and that procedural change from the previous audit are minor and have no negative bearing on internal controls. The primary reason for the inadequate rating is that the stock counts both at HQ and in the field are carried out on an infrequent basis and that no checks are carried out on the reliability of the IP’s systems in the field.

For an organisation of its size, has extensive written guidance and policies on stock. In addition, the on-site audit allowed observation of these procedures in practice, and it seems that adheres to laid down procedures.

As a result of our audit, 2 recommendations for improvement have been made in relation to planned regular stock counts at HQ, and in the implementing partners’ warehouses. These are set out in Annex 1 and section 1.4 where applicable.

5.4.3 Equipment

Equipment was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment, the assessment is unchanged from the previous audit.

The auditors found that generally adheres to internal standards and procedures and that procedural changes from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, has extensive written guidance and policies on equipment. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that adheres to laid down procedures.
As a result of our audit, no recommendations have been made.

5.4.4 Overall assessment

As a result of our audit, we have assessed administrative internal control systems as adequate in most respects.
6 Project Management

6.1.1 Needs assessment

Needs assessments are carried out by the local partner and field staff and are reviewed by technical advisors from HQ. The assessments are updated during the projects only if the operational context changes considerably.

6.1.2 Beneficiary involvement

Implementing projects through local partners invariably leads to the involvement of the local population to identify beneficiaries. An informal complaints procedure is in place for use by beneficiaries. The guidelines for implementation of humanitarian programmes are applied to ensure the safety and security of beneficiaries during implementation.

6.1.3 Management of implementing partners

There are no material differences from the previous report ref. which read as follows:

Maintains a standard contract to be signed by all implementing partners. The contract lays down tasks and obligations of the contracting partners including standard reporting formats and reporting periods, the contract includes the right of access for ECHO and other EC auditors and that compliance with ECHO rules is imperative.

Financial and narrative reports are to follow the budget coding and reports are submitted on a monthly or a quarterly basis; for contracts lasting more than one year an overall financial report must be submitted.

At termination of the project an audited final financial report must be prepared; audit reports are made available to ECHO or other relevant donors. Auditors will most often be local external auditors preferably affiliated with one of the big international audit firms.

Financial reports are to be approved by the Programme Manager on a monthly basis, and monitoring of the project is carried out through ad-hoc visits from HQ and end of project evaluations; for projects with a duration of three years or more a mid-term review is undertaken as well.

Generally procurement is only left in the hands of the implementing partner if the partners' procedures have been approved by thereby ensuring compliance with and ECHO or other relevant donors' regulations. Implementing partners' procurement is overseen by the Programme Manager.”

checks financial reports to supporting documentation on an ad hoc basis.
6.1.4 Reporting on operational performance

On a quarterly basis the implementing partner submits reports on operational performance for review and approval by HQ. Performance is measured against individual project indicators and data is collected through a web based Partner and Project management platform which includes reporting tools.

6.1.5 Monitoring and evaluation of field operations

Projects are overseen by suitably qualified staff, and food and other distribution programmes are monitored by staff members who are independent of programme implementation staff. Field offices are visited by HQ operational staff at least yearly.

[Redacted] does not undertake post implementation monitoring for all projects. Rather, for a defined selection of completed projects (based on size/duration) a post implementation evaluation is carried out either by external consultants or internal advisors to ensure that aid delivered has been of sufficient quality and to identify possible improvements from the perspective of beneficiaries. The evaluation may lead to the revision of the project or the findings may be integrated into subsequent projects to demonstrate organisation wide learning. The reports are not shared with third parties.

6.1.6 Follow up of audit results stemming from field audits

A field audit has been carried out for only one of the projects subject to audit ECHO/PSE/BUD/2012 [Redacted]

For this project the system of controls were considered adequate in some respects and a number of recommendations were made. In particular, the recommendation that key information is translated to English, and that all instances of non-adherence to [Redacted] procurement rules as approved by [Redacted] is supported by a waiver from [Redacted] is relevant for this audit.

The field audit identified the following potentially disallowable costs:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount €</th>
<th>Amount NIS</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent three cars</td>
<td>19 050</td>
<td>88 800</td>
<td>Potential disallowance: Inadequate support for the rental agreement between [Redacted] [Redacted]. Refer to Section 10.1.6 for further details.</td>
</tr>
<tr>
<td>Office rental 6-1</td>
<td>3 432</td>
<td>16 000</td>
<td>Potential disallowance: Inadequate support for the rental agreement between [Redacted] [Redacted]. Refer to Section 10.1.6 for further details.</td>
</tr>
<tr>
<td>Rent two cars</td>
<td>1 587</td>
<td>7 400</td>
<td>Potential disallowance: Inadequate support for the rental agreement between [Redacted] [Redacted]. Refer to Section 10.1.6 for further details.</td>
</tr>
<tr>
<td>Description</td>
<td>Amount €</td>
<td>Amount NIS</td>
<td>Notes</td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------</td>
<td>------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Statistician contract</td>
<td>4 290</td>
<td>20 000</td>
<td>Potentially disallowable: Procurement process does not adhere to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>policy. Refer to Section 10.1.6 for further details.</td>
</tr>
<tr>
<td>Theatre group contract</td>
<td>5 363</td>
<td>25 000</td>
<td>Potentially disallowable: Procurement process does not adhere to</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>policy. Refer to Section 10.1.6 for further details.</td>
</tr>
<tr>
<td><strong>Total Disallowances</strong></td>
<td><strong>33 722</strong></td>
<td><strong>157 200</strong></td>
<td></td>
</tr>
</tbody>
</table>

We have noted that the rental of cars followed a procurement process that appeared to be (most documentation is in Arabic which we do not understand, we were however assisted by an Arabic speaking temporary staff member, hired by [redacted] for the occasion) in compliance with [redacted] rules, and that the other are well within the limit of single quote laid down by [redacted], but clearly not within the limit laid down by [redacted].

We find that since [redacted] is the procuring party renting the cars and office it must be [redacted] rules that apply in this case, and as we have received satisfactory explanations from [redacted] we have accepted these costs, but disallow the other as [redacted] is the procuring party.

### 6.1.7 Local VAT Status

Generally all partners are requested to seek VAT exemption, but as VAT is a matter for the local implementing partner no specific VAT file is kept at HQ.

The local VAT status in the countries of operation is as follows:

- In Palestine [redacted] is granted VAT exemption;

During our audit work, it was noted that [redacted] had included VAT in the costs claimed in respect of the Palestine projects. Recommendation 9 has been raised in this respect.

### 6.2 Auditor’s Assessment of Project Management

Project management was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

The auditors found that [redacted] generally adheres to internal standards and procedures and that procedural change from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, [redacted] has extensive written guidance and policies on the project management. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that [redacted] adheres to laid down procedures.
As a result of our audit, 4 recommendations for improvement have been made in relation to:

- Setting up a formalised complaints procedure;
- Checking supporting documentation to financial reports by partners;
- Requiring all partners to translate documentation to English;
- Review costs claimed for incorrect inclusion of VAT.

These are set out in Annex 1 and section 1.4 where applicable.
7 Conformity with external regulation, own procedures and the FPA

7.1. EXTERNAL COMPLIANCE

7.1.1 Domestic legal and regulatory requirements

[Entity] is an independent legal entity organised as an association. It is recognised by the [Government] as the [Regulatory Authority] for [Regulatory Field].

The [Entity] is under [Regulatory Authority] registered with [Tax Authorities] for VAT and withholding tax.

The [Regulatory Standard] on Presentation of Financial Statements applies only to commercial enterprises therefore as [Entity] is a charitable organisation it is exempt.

The annual financial statements are prepared in accordance with what is considered generally accepted accounting practice for organisations [Regulatory Authority]. The basis of accounting is an accrual basis and assets are depreciated over their expected useful lives.

7.1.2 External audit

The accounts are audited by qualified independent auditors in compliance with internationally recognised standards.


The accounts have received an unqualified audit opinion for the last three years.

The scope of the audit includes testing of individual field transactions. Field offices are regularly visited by local auditors, who, where possible, are associated with recognised international audit firms.

7.1.3 ECHO requirements

We have not found any evidence to suggest that the partner is in breach of any of the pre-selection questions.

We have not found any evidence to suggest that the partner is in breach of the FPA or the General Principles.

7.1.4 Other external control bodies

[Entity] has entered into a framework agreement with [Agency] aid agency [Agency], and is as such subject to review; [Entity] has received a positive opinion from the latest review.
7.1.5 **Relationship with umbrella organisations**

Internationally, [redacted] works with the [redacted] to assist refugees and provide relief to victims of natural disasters and with the [redacted] in war and conflict zones. [redacted] is a member of the national Forum [redacted] concerning humanitarian and development work.

As mentioned above, [redacted] has entered into a framework agreement with [redacted], but no other oversight bodies require formal reporting.

7.1.6 **Relationship with institutional donors**

As stated above it follows from the framework agreement with [redacted] that [redacted] is subject to reporting and oversight requirements, but this relates only to [redacted] funded activities and therefore has no impact on ECHO.

7.2 **Quality**

[redacted] adheres to the [redacted] Code of Conduct, and [redacted] has adopted SPHERE standards as regards field work.

Achievement of quality standards is monitored at organisational, sector of intervention and country and regional level in a dedicated process for which a responsible staff member is named.

Reviews are carried out on a quarterly basis and include recommendations for improvement and follow ups on previous recommendations, they are formally reported and submitted to the senior management team; the reports are reviewed and discussed at Board meetings.

7.3 **Fraud and Corruption Prevention**

[redacted] has zero tolerance for fraud and corruption. The Anti-Corruption Policy laid down by [redacted] applies to all staff members including local staff members in the field and partner organisations, as well as to consultants and suppliers with whom [redacted] may interact.

[redacted] has laid down detailed written procedures on prevention and detection of fraud and corruption, it includes a whistle blowing policy and a plan for investigation of suspected fraud.

Prime responsibility for preventing fraud rests with the Head of International Programmes and procedures state that all managers are responsible for implementation of measures to prevent and detect fraud and corruption.

There is no specific training on the issue but the manual includes lists of:

- Indicators which may flag potential exposure to fraudulent and corrupt practices;
- Example of risk areas;
- Examples of potential fraudulent or corrupt practices.

Recommendation [10] has been made in this respect.
Procedures state that donors are to be informed of possible cases of fraud and corruption and an annual report on incidents of corruption and fraud is publicly available on the internet.

Through the Integration Agreement with [Redacted] follows the procedures and guidelines laid down by [Redacted] to prevent contributing inadvertently to terrorist activities.

7.4 AUDITOR’S ASSESSMENT OF CONFORMITY WITH EXTERNAL REGULATION, OWN PROCEDURES AND THE FPA

7.4.1 External compliance

External compliance was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

We find that [Redacted] generally adheres to internal standards and procedures and that procedural change from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, [Redacted] has extensive written guidance and policies on external compliance. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that [Redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

7.4.2 Quality

Quality was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have confirmed this assessment.

We find that [Redacted] generally adheres to internal standards and procedures and that procedural change from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, [Redacted] has extensive written guidance and policies on Quality. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that [Redacted] adheres to laid down procedures.

As a result of our audit, no recommendations have been made.

7.4.3 Fraud and corruption prevention

Fraud and corruption prevention was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

We find that [Redacted] generally adheres to internal standards and procedures and that procedural change from the previous audit are minor and would not appear to have a negative bearing on internal controls.

For an organisation of its size, [Redacted] has extensive written guidance and policies on fraud and corruption prevention. In addition, the on-site audit allowed observation of these procedures in practice, and from the work performed it seems that [Redacted] adheres to laid down procedures.
As a result of our audit, one recommendation has been made in respect of the provision of formal training on fraud detection and prevention.

7.4.4 Overall assessment

As a result of our audit, we have assessed Conformity with external regulation, own procedures and the FPA as adequate.

From the work that we have undertaken, and the responses received from the NGO, the NGO does not appear to be in breach of Articles 2.2(a), (c), (d) and (e) 2.3 and 2.4 of the FPA. We are unable to form a view on Article 2.2(b) as this is beyond the scope of our audit methodology.

From the work that we have undertaken, and the responses received from the NGO, we are not aware that the NGO is in breach of the conditions and criteria laid down in Article 7 of the Humanitarian Aid Regulation (Articles 7.1(a) and (b) and Articles 7.2(a), (b) and (c). We are unable to form a view on Articles 7.1(d) to (h) as this is beyond the scope of our methodology) and the exclusion criteria in Articles 106(1) and 107(1) of the Financial Regulation.

From the work that we have undertaken, and the responses received from the NGO, we are not aware that the NGO is in breach of any clauses of articles 21 and 23 of the General Conditions.
8  **Partner Comments**

The Partner’s comments have been incorporated into the report.
Annex 1 - Recommendations for Systems Improvement

We make the following recommendations for systems improvements. These recommendations stem from the answers in the Internal Control Questionnaire filled in by the Partner at the start of the audit. The recommendations highlight weaknesses in the system of internal controls of the NGO in the view of the auditors. ECHO would like the Partner to identify the actions necessary to address these weaknesses and to take such action, or to state why the recommendations will not be implemented. ‘Urgency’ in the table below refers to the time by which the Partner should begin the implementation process.

*R = previously raised recommendation.

<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>Urgency (Months)</th>
<th>NGO Response, Action Planned, Timeframe Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Internal Control Systems – Administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>It is recommended that [ ] ensures that implementing partners are appraising staff on a regular basis.</td>
<td>12</td>
<td>[ ] will work closer with partners in the coming years to ensure more stringent appraisal of staff and staff policies in general.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal Control Systems – Logistics</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*R2</td>
<td>5</td>
<td>We suggest that [ ] formally includes in its procurement guidelines criteria for tenderers’ financial, economic, technical and professional capacity.</td>
<td>12</td>
<td>[ ] will formally include such criteria in the procurement guidelines in the future. [ ] are currently reviewing the procurement guidelines and this will be included in a finalised version ready in first quarter of 2016.</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>We suggest that [ ] includes guidelines a formalised procedure to help identify potential conflicts of interest.</td>
<td>12</td>
<td>Potential conflicts of interest procedures will be looked at and incorporated in the procurement guidelines where possible.</td>
</tr>
</tbody>
</table>

Ratings are:
5 - very important
4 - important
3 - of concern
2 - requires attention
1 - needs review

In case of recommendations putting at risk respect of FPA eligibility criteria and procurement rules this is meant to be the deadline for finalisation of mitigating measures.
This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>Urgency (Months)</th>
<th>NGO Response, Action Planned, Timeframe Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>3</td>
<td>We suggest that [Redacted] implements procedures to insure regular planned running stock control at HQ warehouses.</td>
<td>6</td>
<td>[Redacted] agrees. Updated procedures will be made.</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>We suggest that [Redacted] introduces regular planned stock control at implementing partners’ warehouses, and that checks on stock control systems are carried out.</td>
<td>6</td>
<td>[Redacted] agrees. Delegates and finance staff will set up a formalised structure to look at handling of stocks by partners.</td>
</tr>
</tbody>
</table>

### Project Management

**R6** 3 We suggest that [Redacted] considers setting up a formalised complaints procedure. 6 [Redacted] will consider how to include this in an updated version of the financial guidelines/PPM. In 2016, [Redacted] will do a self-assessment in accordance with recommended steps on the new Core Humanitarian Standards (CHS). In the core humanitarian standards complaint procedures is an element. [Redacted] will take the result of the full self assessment and devise an action plan accordingly for improvement of our overall coherence to CHS.

7 4 We suggest that [Redacted] check financial information to supporting documentation at implementing partners’ office at a regular basis. 6 [Redacted] agrees. Even closer cooperation between [Redacted] programme and finance staff in the coming years will achieve this.

8 4 We suggest that [Redacted] requires all implementing partners to translate at least key parts of documentation to English. 6 [Redacted] partially agrees. It is acknowledged that translation is needed in some instances. However, [Redacted] will only incorporate this requirement with partners where it is deemed necessary.

9 4 We suggest that [Redacted] reviews transactions listings prior to preparing the cost claims to ensure that VAT is not being reclaimed from ECHO as well as the government in countries where it is not exempt. | Now [Redacted] agrees and have started detailed instruction of this to all programme and finance staff. |
Conformity with procedures and FPA

<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>Urgency (Months)</th>
<th>NGO Response, Action Planned, Timeframe Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>3</td>
<td>We recommend that formal training is provided to management in respect of fraud detection and prevention.</td>
<td>6</td>
<td>□ agrees and we are currently planning the training to take place in 2015 &amp; 2016.</td>
</tr>
</tbody>
</table>
Annex 2 – Grant agreements

<table>
<thead>
<tr>
<th>Name of partner:</th>
<th>[Redacted]</th>
<th>Amendments:</th>
<th>0</th>
<th>Annex 2 1/4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant agreement no:</td>
<td>[Redacted]</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FPA:</td>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country of operation:</td>
<td>Palestine - occupied</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agreement type:</td>
<td>Ad hoc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant agreement period</td>
<td></td>
<td>Grant agreement amount EUR:</td>
<td>800 000.00</td>
<td></td>
</tr>
<tr>
<td>From:</td>
<td>01/06/2011</td>
<td>ECHO contribution</td>
<td>70.41%</td>
<td></td>
</tr>
<tr>
<td>To:</td>
<td>31/05/2012</td>
<td></td>
<td></td>
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</table>

Activities:

<table>
<thead>
<tr>
<th>Cost type</th>
<th>Budget</th>
<th>Claimed</th>
<th>Accepted as reimbursable</th>
<th>Accepted after audit</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td></td>
</tr>
<tr>
<td>International personnel costs</td>
<td>84 758.00</td>
<td>81 427.58</td>
<td>81 427.58</td>
<td>81 427.58</td>
<td>-</td>
</tr>
<tr>
<td>National personnel costs</td>
<td>502 776.00</td>
<td>445 635.16</td>
<td>445 635.16</td>
<td>445 635.16</td>
<td>-</td>
</tr>
<tr>
<td>Transport and accommodation</td>
<td>20 830.00</td>
<td>14 078.64</td>
<td>14 078.64</td>
<td>14 078.64</td>
<td>-</td>
</tr>
<tr>
<td>Equipment costs (small)</td>
<td>4 975.00</td>
<td>5 251.61</td>
<td>5 251.61</td>
<td>5 251.61</td>
<td>-</td>
</tr>
<tr>
<td>Subcontracted costs and services including evaluation and audit</td>
<td>54 114.00</td>
<td>27 936.24</td>
<td>27 936.24</td>
<td>27 936.24</td>
<td>-</td>
</tr>
<tr>
<td>Consumables and supply costs</td>
<td>66 910.00</td>
<td>71 734.34</td>
<td>71 734.34</td>
<td>71 734.34</td>
<td>-</td>
</tr>
<tr>
<td>Transport and running costs</td>
<td>324 631.00</td>
<td>407 625.02</td>
<td>407 625.02</td>
<td>397 882.49</td>
<td>9 742.53</td>
</tr>
<tr>
<td>Communication / visibility / information</td>
<td>2 887.00</td>
<td>2 930.48</td>
<td>2 930.48</td>
<td>2 930.48</td>
<td>-</td>
</tr>
<tr>
<td>SUBTOTAL (Eligible direct costs)</td>
<td>1 061 881.00</td>
<td>1 056 619.07</td>
<td>1 056 619.07</td>
<td>1 046 876.54</td>
<td>9 742.53</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>74 331.00</td>
<td>73 963.33</td>
<td>73 963.33</td>
<td>73 281.35</td>
<td>681.98</td>
</tr>
<tr>
<td>Reserve</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1 136 212.00</td>
<td>1 130 582.40</td>
<td>1 130 582.40</td>
<td>1 120 157.89</td>
<td>10 424.51</td>
</tr>
<tr>
<td>ECHO Contribution %</td>
<td>70.41%</td>
<td>70.41%</td>
<td>70.41%</td>
<td>70.41%</td>
<td>70.41%</td>
</tr>
<tr>
<td>ECHO Contribution €</td>
<td>800 000.00</td>
<td>795 930.00</td>
<td>795 930.00</td>
<td>788 703.17</td>
<td>7 339.00</td>
</tr>
<tr>
<td>Potential recovery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7 226.83</td>
</tr>
</tbody>
</table>

The table below shows each item of disallowed expenditure and the reason for its disallowance.

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Reason for Disallowance</th>
<th>Amount (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport and running costs</td>
<td>Cost relates to travel costs in respect of mental health workers. No bank statement was provided. (Transaction reference 01203-0113)</td>
<td>8 712.41</td>
</tr>
<tr>
<td></td>
<td>Cost relates to travel costs to [Redacted], VAT had been claimed however [Redacted] is exempt under local legislation (Transaction reference 01204-0206)</td>
<td>1 030.12</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>9 742.53</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>Calculated as 7% of disallowance</td>
<td>681.98</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10 424.51</td>
</tr>
</tbody>
</table>
The table below shows each item of disallowed expenditure and the reason for its disallowance.

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Reason for Disallowance</th>
<th>Amount (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontracted costs</td>
<td>Costs relate to a theatre group and statistician contract. The procurement process applied did not adhere to procurement regulation.</td>
<td>9 479.36</td>
</tr>
<tr>
<td>Transport and running costs</td>
<td>Cost relates to car rental. No evidence of bank payment provided. (Transaction refs: 496, 497, 499)</td>
<td>4 301.75</td>
</tr>
<tr>
<td></td>
<td>Cost relates to car rental. VAT was included in the costs claimed however passengers are exempt under local legislation (Transaction refs: Melenum November invoice, 405)</td>
<td>383.29</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>14 164.40</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>Calculated as 7% of disallowance</td>
<td>991.51</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15 155.91</td>
</tr>
<tr>
<td>Column 1</td>
<td>Column 2</td>
<td>Column 3</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Row 1</td>
<td>Row 2</td>
<td>Row 3</td>
</tr>
<tr>
<td>Row 4</td>
<td>Row 5</td>
<td>Row 6</td>
</tr>
<tr>
<td>Row 7</td>
<td>Row 8</td>
<td>Row 9</td>
</tr>
</tbody>
</table>

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Annex 3 – General Information

### A3.1 PARTNER’S DETAILS

<table>
<thead>
<tr>
<th>Name of Partner audited:</th>
<th>[Redacted]</th>
</tr>
</thead>
<tbody>
<tr>
<td>DG ECHO Reference:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>Responsible Financial Officer at Partner:</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Street and Number:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>District:</td>
<td></td>
</tr>
<tr>
<td>Postal code:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>City:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>Country:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>Audit Date:</td>
<td>20-21 May 2015</td>
</tr>
<tr>
<td>Closing Meeting:</td>
<td>23-10-2015</td>
</tr>
<tr>
<td>Audited Organisation:</td>
<td>[Redacted]</td>
</tr>
<tr>
<td>Auditors:</td>
<td>[Redacted], [Redacted], [Redacted]</td>
</tr>
<tr>
<td></td>
<td>[Redacted]</td>
</tr>
</tbody>
</table>

Chief Financial Officer
International Controller

, Responsible Partner,
, Assignment Leader,
### A3.2 Key Financial Information

<table>
<thead>
<tr>
<th>Revenue (€ 000)</th>
<th>2014</th>
<th>%</th>
<th>2013</th>
<th>%</th>
<th>2012</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECHO funding</td>
<td>7 455</td>
<td>79%</td>
<td>4 448</td>
<td>51%</td>
<td>3 911</td>
<td>83%</td>
</tr>
<tr>
<td>Other EU funding</td>
<td>1 990</td>
<td>21%</td>
<td>4 198</td>
<td>49%</td>
<td>810</td>
<td>17%</td>
</tr>
<tr>
<td><strong>EU Revenue in % of Total</strong></td>
<td>9 445</td>
<td>6%</td>
<td>8 645</td>
<td>6%</td>
<td>4 721</td>
<td>3%</td>
</tr>
<tr>
<td>Other major donors:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government donors</td>
<td>43 145</td>
<td>26%</td>
<td>41 876</td>
<td>28%</td>
<td>30 066</td>
<td>22%</td>
</tr>
<tr>
<td>Non-institutional funding</td>
<td>3 329</td>
<td>2%</td>
<td>3 259</td>
<td>2%</td>
<td>2 925</td>
<td>2%</td>
</tr>
<tr>
<td>Total revenue</td>
<td>164 678</td>
<td>100%</td>
<td>148 830</td>
<td>100%</td>
<td>139 781</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary costs (€)</th>
<th>2014</th>
<th>%</th>
<th>2013</th>
<th>%</th>
<th>2012</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ recurring (fixed costs)</td>
<td>6 604</td>
<td>4%</td>
<td>6 141</td>
<td>4%</td>
<td>5 588</td>
<td>4%</td>
</tr>
<tr>
<td>HQ non-recurring (project costs)</td>
<td>1 530</td>
<td>1%</td>
<td>1 573</td>
<td>1%</td>
<td>3 194</td>
<td>2%</td>
</tr>
<tr>
<td>Field recurring (fixed costs)</td>
<td>9 532</td>
<td>6%</td>
<td>8 495</td>
<td>6%</td>
<td>7 739</td>
<td>6%</td>
</tr>
<tr>
<td>Field non-recurring (project costs)</td>
<td>65 368</td>
<td>40%</td>
<td>60 139</td>
<td>40%</td>
<td>46 713</td>
<td>33%</td>
</tr>
<tr>
<td>Total costs</td>
<td>161 020</td>
<td>98%</td>
<td>146 586</td>
<td>100%</td>
<td>137 265</td>
<td>98%</td>
</tr>
<tr>
<td>Net surplus/deficit</td>
<td>3 658</td>
<td>2%</td>
<td>2 244</td>
<td>2%</td>
<td>2 515</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance Sheet (€)</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>101 179</td>
<td>82 212</td>
<td>78 023</td>
</tr>
<tr>
<td>Stocks</td>
<td>11 497</td>
<td>11 609</td>
<td>12 067</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>190</td>
<td>94</td>
<td>195</td>
</tr>
<tr>
<td>Other current assets</td>
<td>56 463</td>
<td>39 975</td>
<td>29 152</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>33 029</td>
<td>30 534</td>
<td>36 609</td>
</tr>
<tr>
<td>Short term creditors</td>
<td>75 963</td>
<td>60 168</td>
<td>56 760</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>30 009</td>
<td>21 227</td>
<td>22 134</td>
</tr>
<tr>
<td>Long term creditors</td>
<td>44 811</td>
<td>37 621</td>
<td>33 279</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>25 216</td>
<td>22 044</td>
<td>21 263</td>
</tr>
</tbody>
</table>

Net effect of change in accounting policy from 2013 to 2014: 486
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**A3.3 SUMMARY PERSONNEL FIGURES**

<table>
<thead>
<tr>
<th></th>
<th>25-01-2015</th>
<th>Finance (including internal audit)</th>
<th>Operational/Other</th>
<th>Admin</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ Staff (paid)</td>
<td>19</td>
<td>160</td>
<td></td>
<td>46</td>
<td>223</td>
</tr>
<tr>
<td>HQ Staff (volunteer)</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Deputy Field Staff</td>
<td>1</td>
<td></td>
<td>85</td>
<td>0</td>
<td>88</td>
</tr>
<tr>
<td>Local Field Staff</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>247</td>
<td>48</td>
<td></td>
<td>317</td>
</tr>
</tbody>
</table>

Staff turnover at HQ was 5% for the year 2014.

24 internal delegates/expats ended their missions/changed contract in 2014.

Staff turnover for field offices is unavailable as local staff is hired by implementing partners.
A3.4 ORGANISATION CHART OF THE NGO
Annex 4 – Purchasing thresholds and authorisation matrix

Procurement levels for supply of items/equipment and service contracts e.g. consultancy and freight forwarding are listed below:

<table>
<thead>
<tr>
<th>Funding source</th>
<th>EURO</th>
<th>Procedure</th>
<th>Publication</th>
<th>COC needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>&gt;300 000</td>
<td>Open tender</td>
<td>Internationally</td>
<td>Yes</td>
</tr>
<tr>
<td>All</td>
<td>150 000-299 999</td>
<td>Open tender</td>
<td>Locally</td>
<td>Yes</td>
</tr>
<tr>
<td>All</td>
<td>10 000-149 999</td>
<td>Negotiated</td>
<td>None</td>
<td>No</td>
</tr>
<tr>
<td>All</td>
<td>&lt;10 000</td>
<td>Single quote</td>
<td>None</td>
<td>No</td>
</tr>
</tbody>
</table>

Procurement in relation to works contracts:

<table>
<thead>
<tr>
<th>Funding source</th>
<th>EURO</th>
<th>Procedure</th>
<th>Publication</th>
<th>COC needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>&gt;3 000 000</td>
<td>Open tender</td>
<td>Internationally</td>
<td>Yes</td>
</tr>
<tr>
<td>All</td>
<td>300 000-2 999 999</td>
<td>Open tender</td>
<td>Locally</td>
<td>Yes</td>
</tr>
<tr>
<td>All</td>
<td>5 000-299 999</td>
<td>Negotiated</td>
<td>None</td>
<td>Yes</td>
</tr>
<tr>
<td>All</td>
<td>&lt;4 999</td>
<td>Single quote</td>
<td>None</td>
<td>No</td>
</tr>
</tbody>
</table>
Annex 5 – Methodology

A5.1 Objectives of the Audit

The objectives of the audit are to:

- Provide assurance to the European Commission as represented by ECHO that the funds claimed by the Partner have been used in compliance with the eligibility criteria as set out in the grant agreement and the governing FPA and the Council Regulation concerning humanitarian aid 1257/96. This assurance is needed to enable ECHO to assist those who are the most vulnerable, the beneficiaries, and to fulfil its accountability obligations arising from a variety of rules and regulations.
- In the spirit of partnership, to provide recommendations to the Partner to improve the Partner’s systems and reduce the risks bearing on the use of EU funds based on the assessment of the procedures applied in their accounting, audit, internal control systems, grant / IP management and procurement.
- Give advice to the Partners to assist in establishing a more effective and efficient aid delivery as required by the Financial Regulation applicable to the general budget of the Union.

A5.2 Audit Approach

Our responsibility is to report to ECHO on the adherence by the Partner to the prevailing conditions of the governing FPA. We are not in a position to decide whether any mitigating circumstances arose during the implementation of the projects subject to audit. We report solely on the basis of regularity and legality – whether the conditions of the FPA and the grant agreements have been adhered to. Any mitigating circumstances drawn to our attention will be reported to ECHO who will make the final decision on the eligibility of the costs subject to such circumstances. Any such costs will be reported to ECHO as not eligible by the audit and therefore ‘potentially recoverable’, unless it has been clearly and willingly accepted by ECHO during the liquidation. The final decision on the eligibility of costs remains with ECHO.

Our audit approach is systems based. It involves a review of systems, structures and controls to identify the adequacy of internal control associated with the NGO and then substantive testing of transactions by reference to underlying documents taking into account the adequacy of internal control identified. To implement this approach an Internal Control Questionnaire (ICQ) is used. The completed ICQ gives an indication of the control environment assessed as adequate, adequate in most respects, adequate in some respects or inadequate, which is used to determine the level of substantive testing (see A5.3) of underlying documents, normally using a sample representing between 35 and 70% of the grant agreement value.

5 Rules and regulations include the governing FPA, the Financial Regulation and Rules of Application and article 1257/96 of the Council Regulation concerning humanitarian aid.
The ICQ covers four areas with ten sub-sections, namely:

i. Admin
   a. Organisation
   b. Accounting, financial management and reporting
   c. Personnel
   d. Planning

ii. Logistics
   a. Procurement
   b. Stock
   c. Equipment

iii. Project management

iv. Conformity with procedures and the FPA
   a. External compliance
   b. Quality
   c. Fraud and corruption prevention

We have reviewed and evaluated the responses given to the ICQ together with the supporting evidence received from the ECHO Partner. Our primary purpose was to establish the adequacy of internal control or level of audit risk and our review cannot be relied upon to have detected all deficiencies and weaknesses that a full management audit might reveal. However, as a result of its completion and evaluation, we have identified some recommendations for systems improvements.

The ICQ was completed on the basis of current systems and controls in place at the organisation, which may not have existed at the time the grant agreements were running.

For any audited grant agreement already subject to detailed review and inspection at field level (and whilst still in progress), the final audit risk level adopted (for purposes of audit sample size determination only) will be the higher of the risk level assigned at field level originally and that determined as part of the planning and internal control assessment work conducted in overall terms for this HQ level engagement.

It should be emphasised that individual management actions will not be under particular scrutiny and the aim of the report is not to apportion blame to individuals or organisations. Descriptions of systems failures can best be understood as providing recommendations as part of the capacity building measures normal in a partnership for the future to ensure effective management of future grant agreements.

A5.3 Substantive Testing

Substantive tests have been carried out in respect of selected transactions for each grant agreement submitted to audit. The substantive testing is intended to verify the validity of transactions by inter alia reference to original supporting documentation (e.g. invoices), accounting entries in the records maintained by the ECHO Partner and the procedural requirements of the grant agreement (e.g. in respect of tendering procedures). It also includes verification of cash and bank accounts to verify payment of the transactions claimed.
The sampling methodology used to select the expenses to be reviewed was based on the following guidelines:

- assessment of the adequacy of internal control of the NGO;
- setting a materiality level for each grant agreement;
- achievement of a minimum level of coverage on testing the costs claimed in each grant agreement;
- all items in excess of the materiality level were included in the sample and at least one transaction was chosen within each budget heading based on the final financial report in the ECHO liquidation statement;
- in case of not achieving the minimum coverage established we have increased the sample of transactions to be verified.

In conducting the substantive testing of the selected projects, the risk level established by the ICQ indicates the volume and amount of testing required. This means that for all budget lines a number of transactions could be tested throughout the process.

The work performed on personnel costs can be summarised as follows:

- we obtained the list of expatriate and local staff employed on the projects and agreed it to the final report;
- for the sample selected we verified the existence of employment contracts and proofs of payment;
- we verified that the direct costs claimed agree with payroll and personnel records.

For all other cost categories we obtained documents supporting the costs selected (e.g. orders, invoices, packing lists, payments, receipts, contracts, invitations to tender where necessary) and we verified that:

- the costs were incurred or committed during the project period and were necessary for its implementation;
- the costs were correctly recorded in the NGO’s accounting system;
- the costs charged are eligible per the grant agreement and its Annexes.

**A5.4 LIMITATION OF SCOPE**

As stated in the audit opinion in Section 2, the audit is limited in its scope on some elements of the Council Regulation 1257/96 concerning humanitarian aid as well as some of the stipulations of the FPA 2014.

These limitations are related to issues outside the competence of the auditors. For Council Regulation 1257/96 concerning humanitarian aid, the limitation of scope is for Articles 7.1(d) to (b).

For the FPA these limitations are related to Article 2.2(b).
Annex 6 – Partner’s response and Letter of representation

Audit of grant agreements ECHO/PSE/BUD/201[...]

14th October 2015

Dear Sirs,

As requested by you, we confirm that:

1. This letter is provided in connection with your audit of expenditure incurred in respect of the above grant agreements.

2. We note that your audit was carried out in accordance with the dispositions of Article 7 of the “Humanitarian Regulation” (Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid, OJ L 163, 2.7.1996) and in accordance with applicable International Standards on Auditing and has included:

   2.1. A review of the organisation’s system of internal controls and procedures;
   2.2. Substantive testing of a sample of transactions relating to the grant agreements detailed above.

3. We acknowledge our responsibility for the following:

   3.1. Maintaining an adequate system of financial internal control and proper accounting records that record all financial transactions entered into by the organisation and all of its assets and liabilities;
   3.2. The prevention and detection of fraud;
   3.3. The safeguarding of the organisation’s assets;
   3.4. Compliance with the requirements of the Framework Partnership Agreement and the conditions of the specific grant agreements referred to above;

50
3.5. Providing DG ECHO and you as auditors acting on behalf of DG ECHO with all information and explanations required.

In relation to your substantive audit of the grant agreements noted above, having made such enquiries of the staff and officers of the organisation as we deemed appropriate and to the best of our knowledge, we confirm that:

1 We have provided you with all relevant accounting records and that details of all the transactions undertaken have been properly reflected and recorded in the accounting records.

2 All other records and relevant information which might impact upon or otherwise affect the contractual eligibility of the costs claimed under the various grant agreements noted above (including minutes of trustees/directors, and relevant management or committee meetings) have been made available to you and no such information has been withheld.

3 We have provided you with all the supporting documentation relating to the sample of costs claimed in the project financial statements selected for detailed testing by your firm.

4 There have been no transactions with or otherwise involving the trustees/directors, management or employees of the NGO (or other entities in which they have an involvement) which might otherwise be deemed or construed to be a “related party transaction” as defined by International Accounting Standard No. 24 (Related Party Disclosures) that are relevant to the audit of these grant agreements.

5 The expenditure transactions recorded in the grant agreements subject to audit were not claimed as costs from other donor agencies.

We have read the draft of your audit report of and:

- In respect of the potential adjustments set out in your report, we have noted the amounts involved and the reason for these potential adjustments.

- We have also noted the recommendations you have made

- We are in agreement with the proposed adjustments

- We partially agree with the content and the recommendations made and will respond in accordance with the action plan in the report.

Please see our comments and suggested changes in section 1, 4, 5, 7 of the report.

[Signature]
Name of Auditor