

ECHO AUDIT FRAMEWORK CONTRACT

HQ AUDIT REPORT

Partner name:	Finn Church Aid ("FCA")	
Grant agreements:	ECHO/-WF/BUD/2011/92009	Liberia
	ECHO/COD/BUD/2013/91018	Democratic Republic of Congo
Audit assignment Reference:	15-BA123-06	

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

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 103 244.10 of which EUR 102 866.13 can be attributed to ECHO funding. The former includes indirect costs of EUR 6 754.29. Further details can be found in Chapter 3 and in Annex 2:

As a result of the above disallowances we have recalculated the indirect costs and calculated a potentially recoverable amount of EUR 102 793.15. See the totals as per Annex 2.

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; and
- Personnel: adequate.

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

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.

1.3.2 Assessment of logistical internal control systems

Logistical internal control systems encompass procurement, stock and fixed assets.

Individually these three areas have been assessed as follows:

- Procurement: adequate in most respects;
- Stock: inadequate; and
- Fixed assets: adequate in most respects.

Procurement is assessed as adequate in most respect because:

- Purchasing procedures are sometimes overridden;
- Favoured suppliers arrangements are not regularly reviewed;
- FCA does not use HPCs; and
- FCA's contract documentation does not include a clause that states donors may conduct tests at its suppliers.

Stock has been assessed as inadequate because:

- FCA only performs HQ and Field stock counts on an ad hoc basis;
- Field Stock reports are not received on a timely basis for reconciling to the accounting information at HQ; and
- HQ's approved insurance policy provided does not cover all stock held.

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 in most respects because:

- FCA's results from the evaluation of completed projects are only made accessible to its staff; and
- FCA does not report back to the beneficiaries after the project to identify possible improvements from the beneficiaries' perspective.

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 in most respects;
- Quality: adequate in some respects; and
- Fraud and Corruption Prevention: adequate.

External compliance has been assessed as adequate in most respects because:

- FCA’s audit scope does not include testing of individual field transactions and is limited to the testing of lump sum payments from HQ to the field only; and
- Country offices are not regularly visited by local and / or European based External statutory auditors.

Quality has been assessed as adequate in some respects because:

- FCA does not have a formal quality standard system in place;
- FCA’s quality reviews undertaken are limited to once a year or less;
- FCA’s quality reviews undertaken are only reported informally; and
- Quality reviews are limited to involvement of quality department and does not involve those charged with governance (Board of Directors / Trustees).

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

1.3.5 Overall assessment of the control environment

Based on the audit findings the overall control environment has been assessed as adequate in most respects.

1.4 RECOMMENDATIONS FOR SYSTEMS IMPROVEMENTS

The most important recommendations² 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.

Rating	Recommendation	Assessment area	Accepted (Y/N)	Target date
5	It is recommended that FCA prepares calculations specific to each ECHO project to demonstrate that the costs charged to ECHO using the average estimated FTE are a fair reflection of the actual costs incurred by the project in accordance with Article 8 of Annex II to the FPA 2014.	Finance	Y	31/12/17
4	It is recommended that FCA includes a clause within its contracts that donors may conduct tests on their suppliers in accordance with Article 3.4b of Annex III to the FPA 2014.	Procurement	Y	01/10/16
4	It is recommended that FCA obtains stock reports from the field on a timely basis for reconciling to accounting information held at HQ.	Internal Control Systems: Stock control	Y	31/12/16
4	It is recommended that FCA’s Board of Directors participate more extensively in the quality review process.	Conformity with procedures and FPA: Quality	Y	31/10/16

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 06-BA28-016, September 2006) and the previous field audit (reference 14-FB84-001, June 2014 in Democratic Republic of Congo) that were considered relevant to NGO's operations at HQ.

Of the 25 recommendations which were raised in the previous audits 14 were deemed to be relevant to this HQ audit. It has been confirmed that all relevant recommendations have been duly implemented.

Furthermore, we followed up on the statement given by the Partners in their annual assessment via the ECHO APPEL system on action taken to implement recommendations. In our opinion the statements given by the Partner were a fair view on the implementation.