Webinar on Audit Information for Beneficiaries of Civil Protection Grants

DG ECHO External Audit Sector (DG ECHO E.2)

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The objectives of this Info-Session

- Familiarise with the audit process
- Understand what you could expect from the auditors
- Understand what the auditors expect from you
- Understand the most common errors detected in previous audits

DG ECHO Audit Info Paper

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EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR EUROPEAN CIVIL PROTECTION AND HUMANITARIAN AID OPERATIONS (ECHO)
General Affairs
Programming, Control and Reporting

Brussels
ECHO.E.2/AD

DG ECHO

AUDIT INFORMATION TO THE EU

CIVIL PROTECTION GRANT BENEFICIARIES

DG ECHO E/2 EXTERNAL AUDIT SECTOR (EAS)

- Main reference document
- Distributed by DG ECHO operational units via e-mail or other channels to stakeholders and beneficiaries of Civil Protection Grants

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What is a DG ECHO Civil Protection Audit?

Objectives & Legal Basis

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Objective of DG ECHO Civil Protection Audits

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

1. The funds have been used in accordance with the **applicable legislation** and the **terms and conditions of grant agreements**, and
2. The funds have been used for their **intended purpose**.
3. To provide **assurance** about the **legality** and **regularity** of the expenditure paid by the Commission (error rate for Annual Activity report)

Legal Basis

Article 27.1 of the General Conditions (mono beneficiary grant agreements)

Article 17.3 of the General Conditions (multi beneficiary grant agreement

- Checks or audits made by the Commission's own staff or by other external body authorised by the Commission.
- **During the implementation of the Agreement** or **during a 5 years period starting from the date of the balance payment**. (3 years if grant ≤ EUR 60 000).

DG ECHO Audit Strategy 2021-2027

Types of Audits foreseen & Audit Planning cycle

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Types of Audits

Random-based financial audit

- Comprise checks of legality and regularity of declared expenditure (finalised projects).
- Beneficiaries are randomly selected.
- 10 – 15 grants per year (closed in year N-1)

Risk-based financial audit

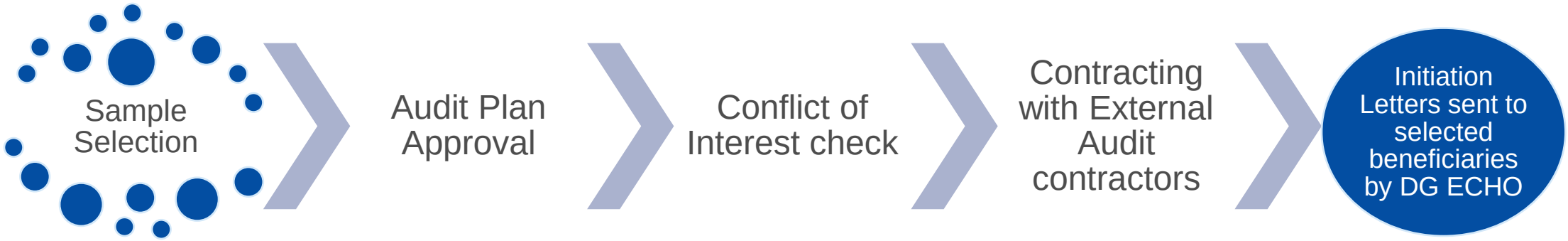
- Comprise checks of legality and regularity of declared expenditure (finalised projects).
- Beneficiaries are selected based on risk, whereby several criteria are taken into account: legality and regularity (high error rate), level of operational risks, action management irregularities, risk of fraud, etc.
- On a needs basis

Desk reviews

- Follow up of critical recommendations

Audit Planning Cycle

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



(*) Indicative Timeline

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How is the Audit Process?

The Audit Process Flowchart

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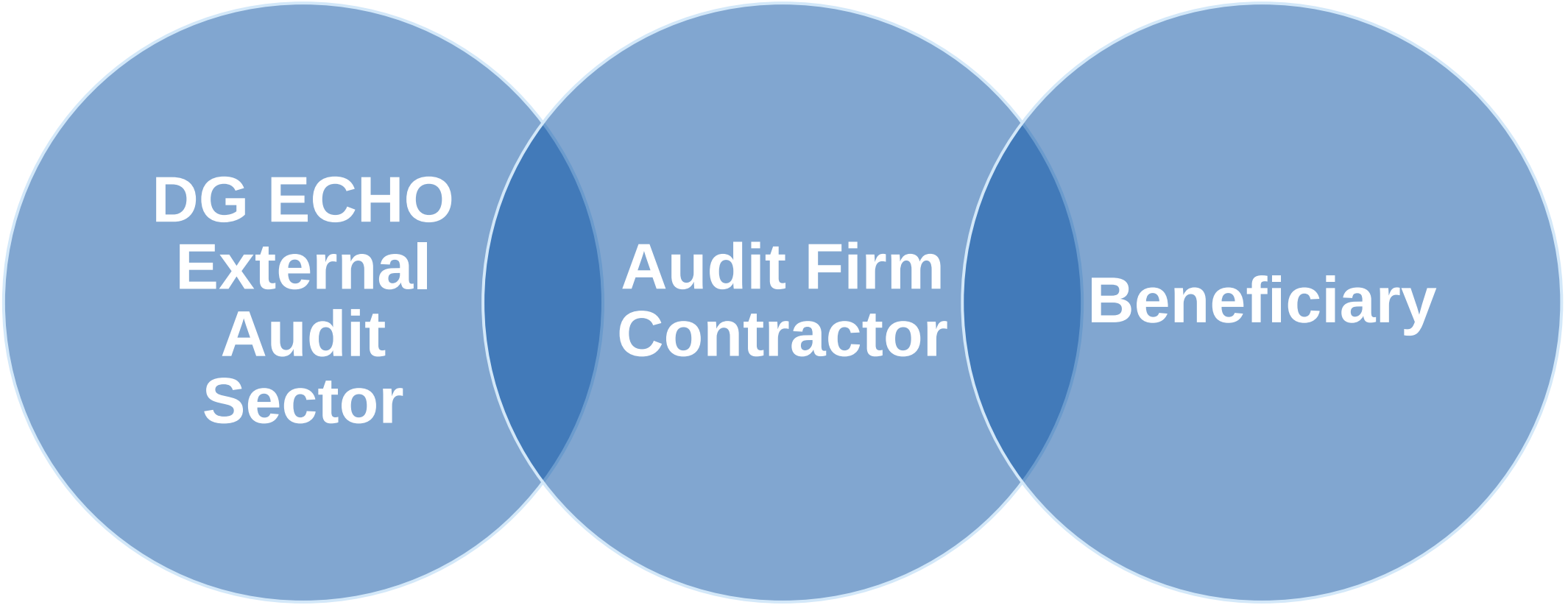
Main Actors in the Audit Process



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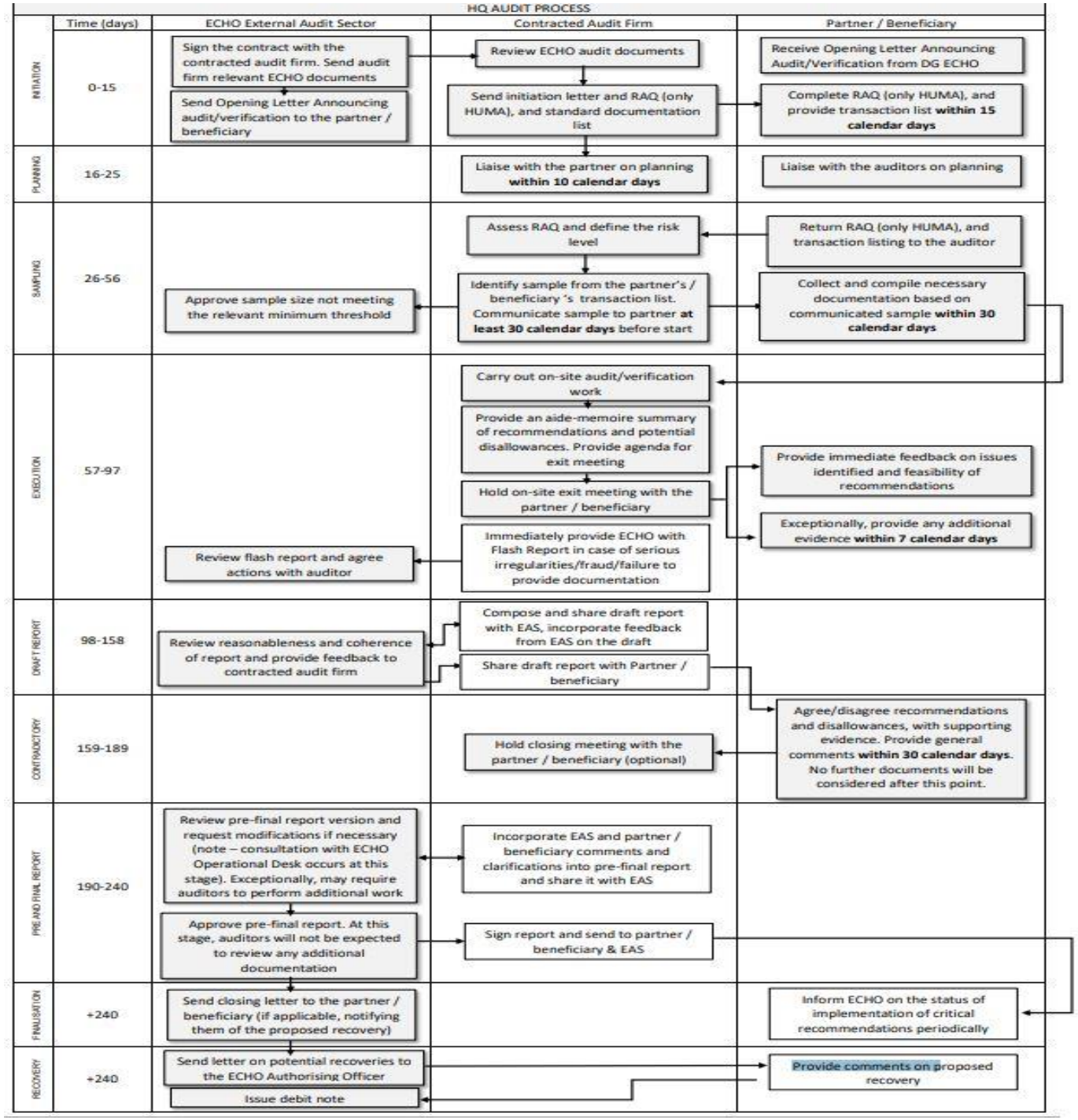

Audit process flowchart

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Let’s talk about expectations

What beneficiary should expect from the auditor

& what the auditor expects from the beneficiary

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What you should expect from the auditors

Planning Phase

- Informing of **the audit** and **who will be performing** such audit.

Receive an initiation letter / email from DG ECHO

Receive an Opening Letter from the auditors

- Informing of:
  - **Preferred timing** for audit;
  - Request to provide a **detailed list of expenditure** from which the auditors will draw their sample;
  - Expected documentation standards for different types of expenditure:
    - **List of documents which should be sent in a digital format to the auditor before the fieldwork** to enable the auditor to prepare the audit in the most efficient manner;
    - **List of documents which should be available to the auditors upon arrival on-the-spot**.

- At least **30 calendar days before the start of the audit**,
- Such that **the beneficiary has all the documentation available at the start of the audit** fieldwork, as required by the Grant agreement.

Be informed of the Sample

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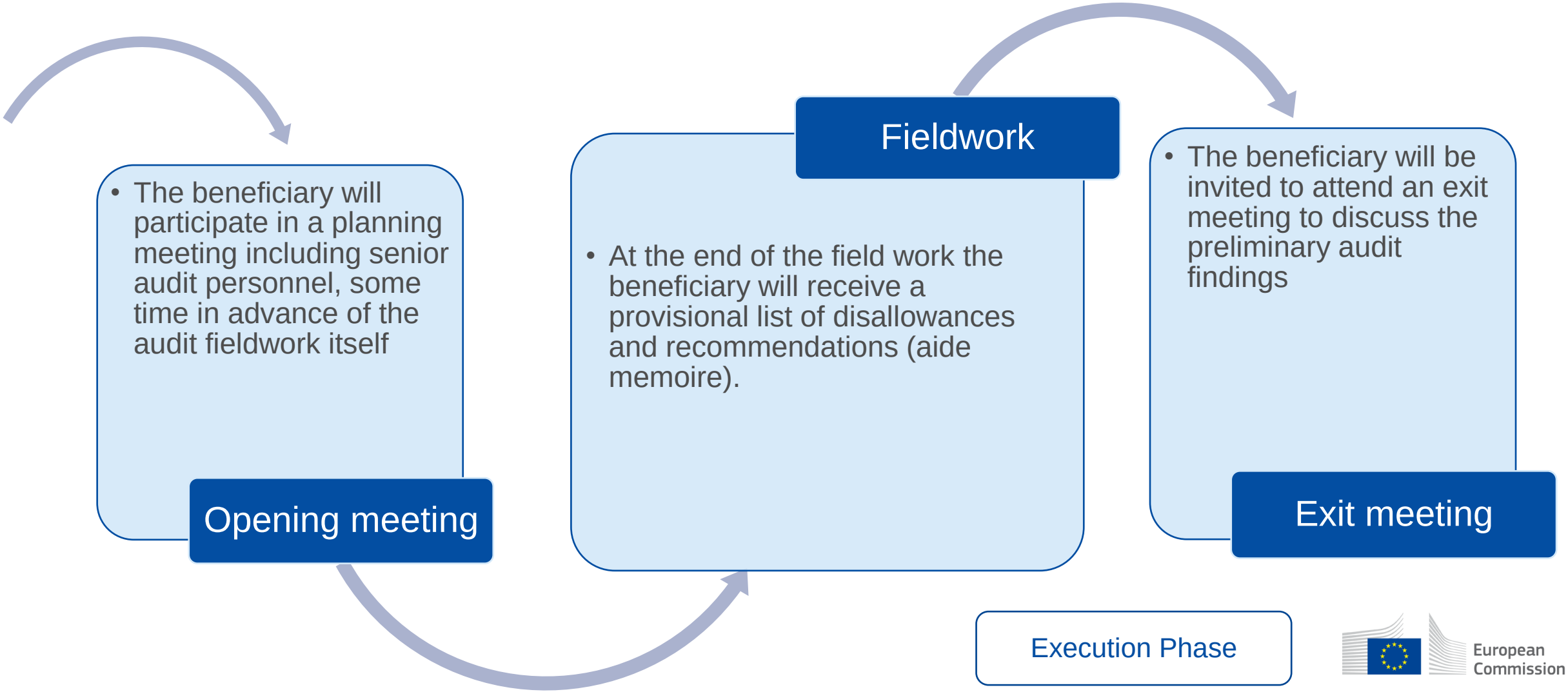
What you should expect from the auditors



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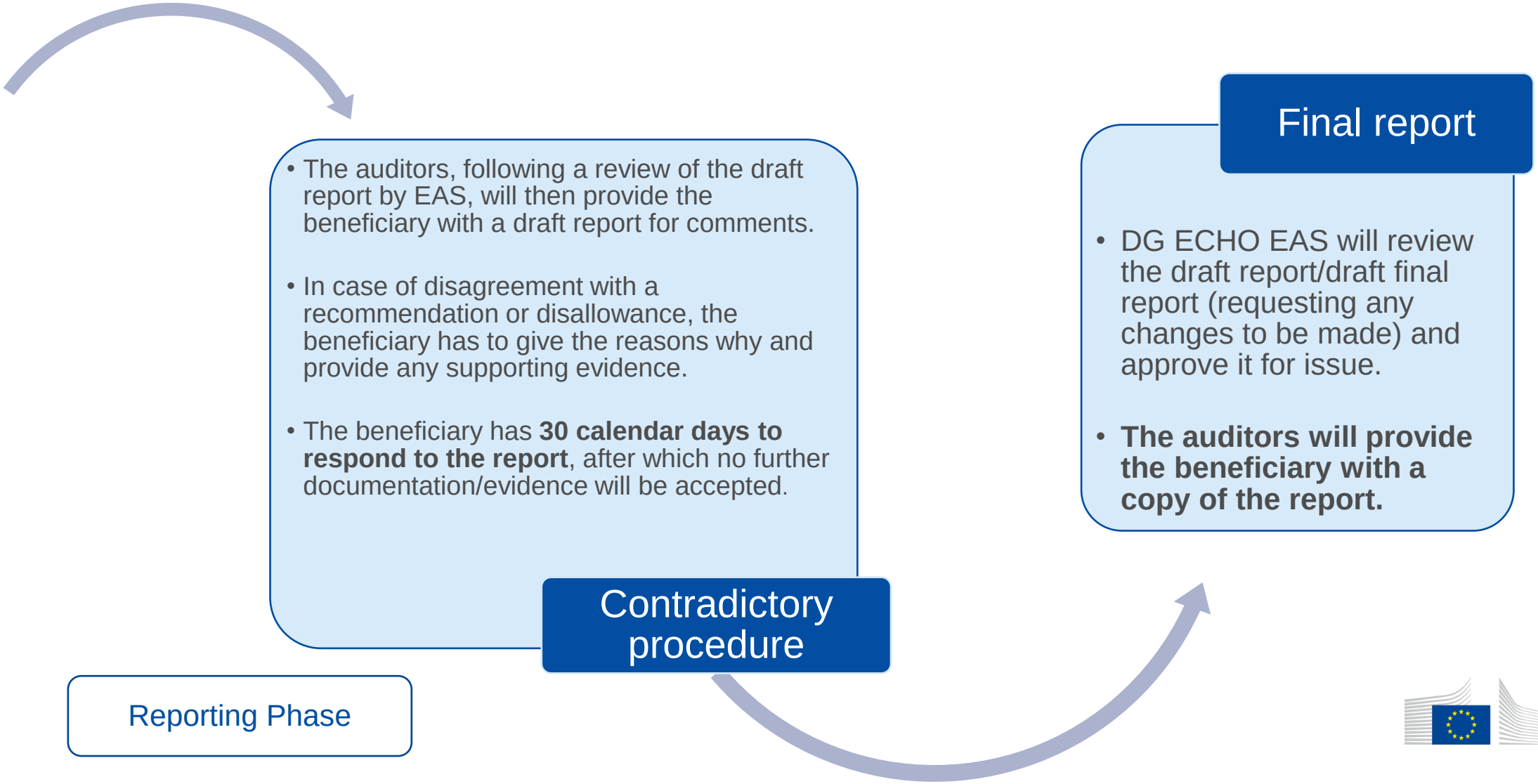
What you should expect from the auditors



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What the auditor expects from you

- Both DG ECHO EAS and the audit contractors expect the beneficiary's **full and timely cooperation** throughout the audit.
- The audit contractors expect the beneficiary to provide a **detailed transaction listing which reconciles to the final financial reports submitted to DG ECHO**, and provide the **supporting documentary evidence** for the sample of transactions selected for testing by the start of the audit visit.
- **It is not the audit contractor's job to undertake the reconciliations or search for documentation, and failure to provide these is likely to result in a disallowance**.

Most frequent errors resulting in disallowances

Examples in light of the previous civil protection audits carried out by DG ECHO External Audit Sector

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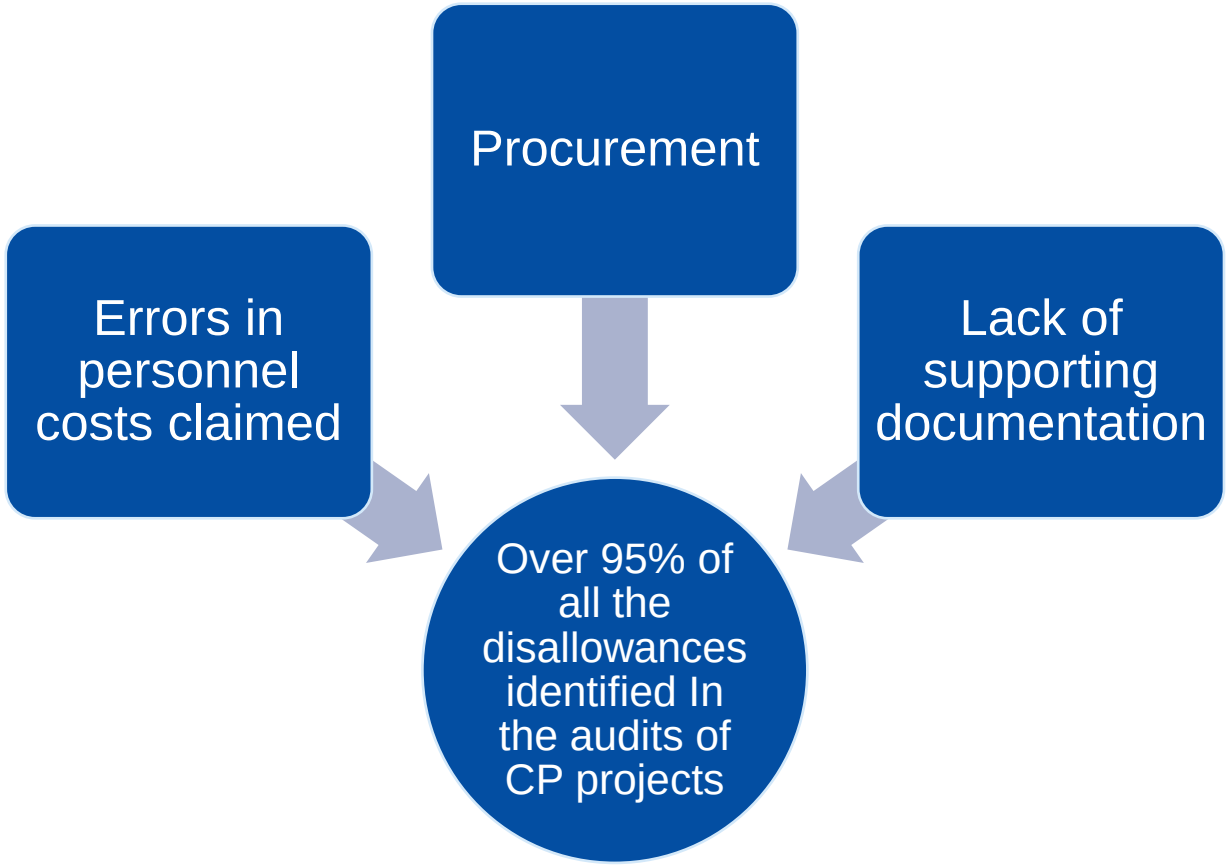

Are there some recurrent errors?

- Over **95 % of the disallowances** identified in the previous audits of Civil Protection Grants, are **due to the same three reasons.**
- We consider the most common source of the errors remarked is the lack of understanding of the Grant Agreement rules during the project implementation

Errors in personnel cost claimed

a) **Incorrect calculation of the annual personnel cost**:

- Salary scale grades used as employees' gross salaries in the hourly rate calculation rather than actual salaries paid.
- Calculation of annual productive hours presented to the auditors differed from the annual productive hours applied in the hourly rate calculation used to compute personnel costs charged to the project.
- Inconsistencies between actual days worked for the project as recorded on timesheets and days declared to the project
- Inconsistencies between productive days used in the calculations and the number of productive days actually recorded in the time records presented;
- Differences between the time reported and the time recorded in the time records provided;

Errors in personnel cost claimed

b) <u>Inadequate documentation supporting the annual personnel cost</u>:

- Missing employment contract, pay slips, bank statement;
- Not possible to reconcile the amounts recorded on the payrolls with the annual gross salaries declared in the confirmation letter and/or claimed to the project;

Procurement

- Breach of national procurement rules - incorrect procedure followed (direct purchase instead of open tender)
- Inappropriate records to document the procurement process
- Internal procurement procedures were not adhered to, documentation with appropriate approval and reasoning for non-compliance could not be provided either;
- Contracts with suppliers not provided

Other common errors resulting in disallowances

- **Travel Costs**:
  - Cost claimed outside the eligibility period
  - Double-claim by co-beneficiaries
  - Travel policy not provided to the auditors in order to justify the per diems claimed and wrong exchange rate used
  - Excessive cost claimed

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Other common errors resulting in disallowances

- **Equipment**:
  - Cost claim that were not budgeted such as translation services, emergency food ration packs;
  - Full cost claimed instead of depreciation

- **Incorrect VAT claimed**

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Thank you

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Information on anti-fraud

DG ECHO Compliance Sector (DG ECHO E.2)

Rui Tarraço Margalha, Deputy Head of Unit ECHO.E2

What is fraud?

- A deliberate act of deception intended for personal gain.
- Fraud in ECHO grants contains the following components:
  1. Illegality
  2. Impact on ECHO funds
  3. intentionality

What to do if I suspect fraud in an ECHO grant?

- Inform us: echo-reportfraud@ec.europa.eu
  - Fill in the Fraud Allegation Reporting Form
  - Confidential treatment of your report
- Or inform the European Anti-Fraud Office (OLAF): https://fns.olaf.europa.eu/

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Thank you

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Questions & Answers

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