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DG ECHO

AUDIT INFORMATION TO THE EU

CIVIL PROTECTION GRANT

BENEFICIARIES

DG ECHO E/2 EXTERNAL AUDIT SECTOR (EAS)

INDEX

1. Preface	3
2. General information	3
3. Background - Why do we conduct audits?.....	4
4. Legal basis.....	4
5. What is an ECHO Audit?	5
6. Audit Strategy and Audit Plan.....	5
7. Audit Contractors	7
8. What are the auditors' objectives?	7
9. What should the beneficiary expect from the auditors?	8
10. What do the auditors expect from the beneficiary?.....	9
11. DG ECHO CP Audit	10
12. Methodology	11
13. Audit follow-up	12
14. Relationship with the European Court of Auditors, OLAF and EPPO	14
15. Working practice	14

1. PREFACE

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

The document starts by describing the background to the audits, the audit methodology and what DG ECHO expects from its beneficiaries when preparing for an audit. Common errors leading to disallowances in the past are also listed.

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

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

2. GENERAL INFORMATION

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

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

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

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

3. BACKGROUND - WHY DO WE CONDUCT AUDITS?

Under the 2021-2027 MFF, the budget for the Union Civil Protection Mechanism (RescEU) managed by DG ECHO shall be 3.319 billion EUR (current prices). This encompasses the MFF allocation of 1.263 billion EUR and an additional Next Generation EU allocation of 2.056 billion EUR as a temporary reinforcement to address the recovery needs of the EU and its Member States due to COVID-19 outbreak. DG ECHO implements different types of Civil Protection operations under direct management mode, through national authorities of the Member States and European Neighbourhood Policy and Enlargement countries, International Organizations, and public and/or private entities from the Member States.

DG ECHO is accountable for the use of these funds to the Discharge Authority (European Council and European Parliament). Its activities are also subject to scrutiny by the European Court of Auditors, the European Council and the European Parliament.

Union Civil Protection Mechanism 2021-2027 MFF

	2021	2022	2023	2024	2025	2026	2027	Total
<i>Heading 2 – Union Civil Protection Mechanism (rescEU)</i>	90	95	102	237	242	246	251	1.263
<i>Next Generation EU (EU recovery Instrument)</i>	686	679	694					2.057
Total Civil Protection								3.32

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

The audits provide DG ECHO with information about its beneficiaries internal control system and so serve to build the confidence that is needed in the organisations that are essential to DG ECHO's mission.

Furthermore, insofar as they provide assurance and are a confidence building measure, the audits help maintain support for civil protection and emergency response actions as funded by the Commission. This is because the budget for this support is allocated the following year on the basis of the positive results of the audits. The audit programme gives assurance to the Council, the European Parliament and the wider public that the Commission support for Civil Protection is effective and efficient. **Therefore, the audits are an essential part of securing the continuing availability of the Union Civil Protection Mechanism (rescEU) funds.**

4. LEGAL BASIS

In the Grant Agreement for actions funded under the Union Civil Protection Mechanism (UCPM) and the Emergency Support Instrument (ESI), the right to undertake audits is laid down in Article 27.1 of the General Conditions (Annex II to the Grant Agreement). Checks or audits made by the Commission may be carried out either directly by the Commission's own staff or by any other external body expressly authorised by the Commission to do so on its behalf. The Commission may initiate such checks, audits or evaluations during the implementation of the Agreement and during a period of five years starting from the date of the balance payment. This period is limited to three years if the *maximum amount of the grant* is not more than EUR 60 000.

According to Article 27.3 of the General Conditions of the Grant Agreement for actions funded under the UCPM and ESI, the beneficiary must provide any information, including information in electronic format, requested by the Commission or by any other outside body authorised by the Commission. By failing to do so, the Commission may consider any cost insufficiently substantiated by information provided by the beneficiary as ineligible, and any financing not linked to costs, unit, lump sum or flat-rate contribution insufficiently substantiated by information provided by the beneficiary as undue.

5. WHAT IS AN ECHO AUDIT?

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

The aim of an audit of an UCPM/ESI grant is to allow auditors, in the light of their examination of the financial documents of the organisation and of other items, to express a considered opinion on the audited financial statements, on financial management of the action in compliance with the requirements of the grant agreement and identify expenditure that is ineligible according to rules set out therein.

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

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

DG ECHO may want to verify that:

- The expected procedures exist, are applied and abided by;
- The system introduced for accounting and reporting purposes is reliable and relevant.

6. AUDIT STRATEGY AND AUDIT PLAN

6.1. Audit Strategy

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

The main objective of this multi-annual strategy in regard to actions financed under Union Civil Protection Mechanism (UCPM) and the Emergency Support Instrument (ESI) is to contribute to a sound financial management of DG ECHO budget implementation in relation to the grants/contribution agreements, by:

- i. Assessing the legality and regularity of financial transactions under the grants implemented by the DG, and ensuring an adequate support to the Director General for the Annual Declaration of Assurance;
- ii. Addressing specific ECHO risks through risk-based audits.

The following types of audits of beneficiaries are foreseen:

- **Random-based financial audits** comprise checks of legality and regularity of declared expenditure (finalised projects). Beneficiaries are randomly selected and the results of these audits are used:
 - to build assurance that costs claimed under the Actions funded by the EU comply with the eligibility criteria as set out in the Grant Agreement;
 - for the purpose of calculating the residual error rate and of recovering ineligible expenditure to protect the EU budget, in the framework of the assurance to be provided to and by the Director General of DG ECHO.
- **Risk-based financial audits** 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.

6.2. Audit plan

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

Indicative timeline for the audit planning cycle:

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

7. AUDIT CONTRACTORS

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

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

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

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

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

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

8. WHAT ARE THE AUDITORS' OBJECTIVES?

The auditors primary task is to verify the expenditure of funds granted by DG ECHO to ensure that expenditure is supported by appropriate documentary evidence, that is in compliance with European Parliament and Council Decision 1313/2013/EU in case of UCPM actions, and with Council Regulation (EU) 2016/369 in case of ESI actions, the prevailing Financial Regulations, and the individual grant agreement with DG ECHO. The auditors will seek evidence on a sample basis and in accordance with the principles of legality and regularity.

In performing their work, the auditors will also ascertain and assess the beneficiary's systems and procedures, to the extent that they are relevant, to check whether these controls are adequate and to establish the minimum number of transactions selected for substantive testing during the audit of the beneficiary. It involves a review of systems, structures and controls to identify the adequacy of internal control of the beneficiary, insofar as they are relevant for the substantive testing of transactions.

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

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

9. WHAT SHOULD THE BENEFICIARY EXPECT FROM THE AUDITORS?

The aim is to make the audit process transparent. The beneficiary should expect to receive an Initiation letter/email from DG ECHO informing them of the audit, and who will be performing the audit. The auditors will then send an Opening letter – this will inform the beneficiary 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.

The auditors will then inform the beneficiary of the sample, 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. It is essential that the beneficiary complies with this mandatory deadline.

The beneficiary will participate in a planning meeting including senior audit personnel some time in advance of the audit fieldwork itself. The purpose of this meeting is to plan the audit with the beneficiary, to advise the beneficiary of the documentation that will

need to be provided to the auditors and to finalise the dates of the fieldwork and reporting timetable.

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

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

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

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

10. WHAT DO THE AUDITORS EXPECT FROM THE BENEFICIARY?

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

In detailed terms, audit contractors expect the 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. The auditors will inform of the documentation standards expected before the start of the fieldwork (see previous chapter). **It is not the audit contractor's job to undertake the reconciliations or search for documentation, and failure to provide these is likely to result in a disallowance.** They also expect the beneficiary to respond to and comment on the draft audit report on a timely basis, within 30 calendar days of receipt.

The beneficiary should keep in mind the contractual obligations as stated in the General Conditions to the Grant Agreement, where the ability of the beneficiary to provide documentation on a timely basis is a contractual obligation.

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

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

11. DG ECHO CP AUDIT

A DG ECHO CP Audit intends to express an independent opinion on the financial statements of the audited grant agreement(s), and based on the audit procedures, only as to whether the costs have been properly incurred and are eligible costs, as defined under the grant agreement.

In this regard, the auditors' work is limited to verifying, to the extent that they are qualified and able to, that costs incurred within the framework of the funded action have been incurred solely for the intended purpose of the grant agreement. This normally implies verifying that specific costs are provided for in the budget proposals sent to the European Commission services prior to grant agreement signature and that those costs when actually incurred are processed, validated and approved within an accounting system and related internal control structure that would meet or exceed the generally accepted international principles of sound financial management.

Therefore, the audit work to be performed relates to the verification of the economy of the costs and it is limited to:

- Verifying that claimed costs are incurred in line with the usual administrative and management practices of the Beneficiary; and
- Assessing whether these costs, in pure monetary terms, are evidently reckless or unreasonable as defined within the grant agreement terms and conditions

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

Selection procedures

The selection of CP actions to be audited should be sufficient to enable DG ECHO to obtain reasonable assurance that the beneficiary adheres to the provisions of the Grant Agreement. Based on recommendations from Internal Audit Service (IAS) and DG BUDG Guidance on sampling, the selection of beneficiaries for CP audits is:

Random-based:

- The auditable population is the **whole population of closed grants**, paid and processed in Year N-1;
- The sampling unit is, in principle, the total amount of the grant, paid by DG ECHO, for which a final payment took place in Year N-1;

Risk-based:

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

- previous audits, based on the significance of the ineligible amounts that have been recovered, a high error rate and/or on the criticality of the recommendations issued;
- the financial and operational teams of DG ECHO;
- the anti-fraud and/or safeguarding teams;
- the results and recommendations of IAS or European Court of Auditors (ECA) audits.

12. METHODOLOGY

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

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

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

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

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

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

13. AUDIT FOLLOW-UP

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

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

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

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

Please note that DG ECHO generally does not accept positive adjustments during audits (i.e. adjustments in favour of the beneficiary) resulting from understatement of cost by the beneficiary at final report stage. Positive adjustments during audit are only possible if the beneficiary claimed certain cost at final report stage that were not paid by the Commission due to an error/omittance/negligence at Commission side.

In case the audit report contains positive adjustments resulting in payment due to the beneficiary, the beneficiary can claim this amount by way of written request addressed to the Contract and Finance unit of DG ECHO.

How to minimise recovery orders?

DG ECHO's objective is that the money be spent for its intended purpose. A recovery order therefore indicates a failure to achieve that objective. DG ECHO is bound by terms and conditions set out in the Commission's own internal Financial Regulation and its Implementing Rules, as well as those set out in the Decision No 1313/2013/EU of the European Parliament and of the Council on a Union Civil Protection Mechanism and the Council Regulation (EU) 2016/369 on the provision of emergency support within the union. The Commission will determine the amount to be reduced on the basis of costs unduly declared as eligible for each grant concerned.

It is therefore essential that:

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

Most frequent errors resulting in disallowances

Based on an analysis of audits carried out on beneficiaries in 2019-2021, the major reasons for ineligible expenditure discovered by the auditors and subsequent recoveries are the following:

1. Errors in personnel cost claimed

- a) incorrect calculation of the annual personnel cost
 - salary scale grades were used as employees' gross salaries in the hourly rate calculation rather than actual salaries paid;
 - the 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;
 - ineligible elements as part of personnel cost (not foreseen in the agreement)
- b) inadequate documentation supporting the annual personnel cost
 - 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;

2. Procurement

- a) breach of national procurement rules - incorrect procedure followed (direct purchase instead of open tender)
- b) inappropriate records to document the procurement process,

- c) internal procurement procedures were not adhered to, documentation with appropriate approval and reasoning for non-compliance could not be provided either;
- d) contracts with suppliers not provided.

3. Lack of supporting documentation in general – medical equipment, food, fuel.

These three categories of breaches of contractual provisions amount into over **95 %** of all disallowances identified in the audits of CP projects.

Additional breaches of rules that lead to more limited percentage of disallowances:

4. Travel cost

- a) cost claimed outside of eligibility period,
- b) double-claim by co-beneficiaries,
- c) travel policy not provided to the auditors in order to justify the per diems claimed and wrong exchange rate used,
- d) excessive cost claimed

5. Equipment

- a) cost claim that were not budgeted such as translation services, emergency food ration packs;
- b) full cost claimed instead of depreciation

6. Incorrect VAT claimed

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

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

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

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

15. WORKING PRACTICE

15.1. Description of standard documents

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

Opening Letter/email from audit contractor: This document sets out in more details the specific information needed for each beneficiary, the audit process cycle and the planned timetable for the audit. The letter will detail the documents that need to be sent to the

auditor in digital form prior to the start of the fieldwork and a list of documents that need to be prepared upon arrival on-the-spot. The auditors will also request a transaction listing for each Action, which reconciles to the amounts declared as Action costs in the Final Report. This listing is used to draw the sample of transactions for the audit, therefore it is in the beneficiary's interest to supply it as soon as possible, as the earlier it is submitted, the earlier the beneficiary will be informed of the sample, and the more time the beneficiary will have to collate all necessary documentation. The auditors will also communicate a list of documentation they will be expecting to review for each type of transaction as well as notify the beneficiary when a preliminary planning meeting will be arranged.

Sample communication: The auditors will send to the beneficiary the sample to be audited. The beneficiary shall submit the necessary documents as stated in Article 27.3 of the General Conditions of the Grant Agreement¹.

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

Working Papers: The auditors have standard sets of working papers to assist them in undertaking the audits. These working papers have been tailored in collaboration with DG ECHO EAS to ensure their relevance to CP Grant Audits. These will be used during the audit to prepare before the on-site visit as well as to be filled in during the on-site visit. They are also used for Quality Review by the audit firm partner to sign off that they are content with the work done.

Letter of Representation: This letter contains a number of assurances from the beneficiary (for example, all information has been made available to the auditors). A letter of representation must be filled in and signed by the beneficiary and will be attached to the report. In case that there are several beneficiaries/co-beneficiaries, specific letter has to be signed by every beneficiary. If the beneficiary accepts the recoveries proposed, these can immediately be acted upon by the Finance sector and no opinion of the operational unit shall be sought at the draft final report stage. In the case the letter(s) of representation are not signed by the beneficiaries, this may lead to a financial recovery.

Cover note to operational unit: Before finalisation of the audit, in case of disagreement between the auditors and the beneficiary on the proposed disallowances, the draft final report will be submitted to responsible operational units for opinion. The Authorising Officer (Head of Unit) may consider that the audit findings supporting the proposed disallowances are factually or legally incorrect, with the consequence that the related expenditure is in effect eligible under the grant agreement opinion. Any mitigating

¹ In the Article 27.3 of the General Conditions to the GA the deadline for submission of documents is not exactly set and, therefore, will be determined by the audit contractors in agreement with EAS.

circumstances shall also be listed. The opinion will then be considered by the EAS, and if in agreement, the EAS will contact the audit contractor to find a solution. However, as the external auditors provide an independent opinion, they will ultimately rule on grant agreement interpretation and make the ultimate decision on ineligibility for the purposes of their audit report.

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

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

15.2. CP Audits schedule

The total time for the completion of a CP batch of audits as from 2022 (new Framework contract of DG ECHO for audit services) is eight (8) months from the start date of the specific contract signed with the auditor. In this period, the audit needs to be finalised and DG ECHO should have received the final reports.

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

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

Once the beneficiary provides the transaction listing, the auditors will communicate the expenditure sample. The beneficiary shall submit the necessary documents as stated in the General Conditions to the Grant Agreement².

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

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

Usually within eight (8) weeks following the end of work at beneficiary premises, DG ECHO EAS and the beneficiary receive a Draft Report (electronic version), to which the

beneficiary is given 30 calendar days to reply, with supporting evidence for any disagreements. After receiving the reviewed Draft Report, the audit contractor finalises the report and sends an electronic copy to DG ECHO (PDF and Word) as well as to the beneficiary (PDF).

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

Annex 1

