

## 12. AUDITS, CHECKS, AND INSPECTIONS<sup>111</sup>

ECHO is accountable for the use of the humanitarian aid funds. To discharge this responsibility, ECHO must be able to confirm each year that funds have been spent as intended and in compliance with the appropriate Regulations. The audit process is a part of the overall control process by which ECHO receives information that enables it to give such assurance.

The audits also provide ECHO with information about its partners and so serve to build the confidence that is needed in the organisations that are essential to ECHO's mission.

Audits, checks and inspections can be considered as an essential part of securing the continuing availability of humanitarian aid funds.

### 12.1 RECORD KEEPING

The partner will make sure that information is available for audits, checks and inspections carried out by the Commission and other institutions. This information should be available at all time, and sufficiently detailed to facilitate the verification of the nature, value and necessity of individual transaction and of the eligibility of costs.

Upon request by ECHO, the partner shall ensure that at least a copy of all the relevant information for inspection, checks and audits at the level of the partner's HQ can be made available within 30 days.

Record keeping details	Rules	Comments
Nature of documents	<b>All documents</b> necessary to verify transactions and justify eligibility	<ul style="list-style-type: none"> <li>Especially accounting and tax records but not only</li> </ul>
Means	<b>Originals documents</b> kept under any appropriate secure medium at HQ or field level.	<ul style="list-style-type: none"> <li>At least a copy available at HQ upon Commission/ auditors request.</li> <li>A digitalised original format is possible, instead of paper copy, if authorised by or if in compliance with the national law of the partner signing the agreement.</li> </ul>
Record keeping duration	<b>5 years</b> from the date of payment of balance	<ul style="list-style-type: none"> <li>except when national regulation foresees longer duration</li> <li>except on-going audits on the Specific Grant Agreement, or when there are pending appeals, litigation or pursuit of claims, until such cases are closed.</li> </ul>
Deadline to send document to ECHO	<b>30 calendar days</b> from the date of receipt of the request	<ul style="list-style-type: none"> <li>unless the Parties agree in writing to extend the deadline.</li> </ul>

<sup>111</sup> Article 23 of the General Conditions FPA NGO

## 12.2 AUDITS BY THE COMMISSION

ECHO can carry out audits in the field and at Headquarter level. An audit is neither an evaluation nor a monitoring of the action. ECHO Audit Sector is supported in its audits by contractors: an international network of audit companies or a consortium of independent audit firms operating in the countries of the Union who are members of an international accounting and auditing association. The Audit contractors are appointed by means of a framework contract.

ECHO Audit Sector works in very close cooperation with the team of external auditors to develop audit methodology, to ensure training of the auditors so as to ensure quality and coherence in the audits.

The field audits and HQ audits can be carried out either by the external auditors or by ECHO Audit Sector team or both.

### 12.2.1 FIELD AUDIT

#### A) OBJECTIVES OF FIELD AUDIT

- To provide assurance to ECHO that funds are used for purposes intended by ascertaining:
  - adequacy of internal control governing project activities
  - expenses tested are supported by evidence, incurred during eligibility period and properly accounted
  - existence of declared equipment and goods
  - adequacy of procurement procedure and supporting documentation
- To provide assurance to ECHO that operations are carried out in accordance with agreement by undertaking:
  - physical verification of implementation of activities;
  - interviews with ECHO and NGO staff, implementing partners, beneficiaries, local authorities, other stakeholders;
  - links the activities to the administration.

#### **THE BENEFICIARY: THE KEY FOCUS**

One of the key elements is to link the beneficiaries back to Partner's administration. The beneficiary must be seen in distribution records and these must add up to the warehouse stock management systems. Key questions in this process are: does exit of warehouse follow entry into warehouse? Is warehouse entry properly tendered for the right quality and according to needs established? This goes both ways: from needs assessment to procurement to warehousing to distribution to beneficiary and from beneficiary back to needs assessment.

#### B) SELECTION PROCEDURE

Partners to be audited at field level are selected on the basis of:

- the country of the action,

- the date of previous field audits,
- the value of total ECHO funds awarded,
- the number of individual grant agreements,
- the perceived risk (based on inputs from desks and/or experts) and
- specific findings at HQ audits.

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### 12.2.1 HQ AUDIT

An ECHO audit at HQ level consists of a review of systems, structures and controls to identify the level of audit risk associated with the partner. It also involves a substantive testing of transactions supporting documents.

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#### A) HQ AUDIT OBJECTIVES

The first aim of HQ audit is to ensure that funds have been spent in accordance with applicable rules.

Moreover, ECHO must ensure that the quality of its partners and of their actions reaches high-level targets, in particular in terms of efficiency and accountability. For this reason, HQ audits include the provision of recommendations to improve the financial management of ECHO partners and their procedures applicable to grant management.

Although not their primary function, the auditors may also make recommendations for improvements to the partner's systems and procedures, which should be expected to be relevant to the specific circumstances. These recommendations are made in the spirit of partnership between ECHO and its partners to assist their development through external independent review of the organisation without extra cost and to share best practices within the partner community.

It is important to understand that auditors' recommendations are not mandatory – they are intended to be helpful and constructive in assisting partners meeting their obligations to ECHO. The decision to follow a recommendation lies with the partner although ECHO would expect there to be a good reason if a recommendation is rejected entirely. During the Periodic Assessment, ECHO will do a follow-up of the most important recommendations made during previous audits<sup>112</sup>.

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#### B) HQ AUDIT PLANNING

Annually it is foreseen to carry out between 40 and 60 Headquarter Audits of NGOs. Each partner is audited every 2 to 4 years. HQ audits may take place during the action and for a period of 5 years after the date of the final payment.

The frequency of HQ audits depends on the date of the previous HQ audit and on the identified risk level. This risk level could be:

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<sup>112</sup> See section 4.1.3 Partner Assessment.

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- **real**, i.e. based on amount and number of Grant Agreements signed;
  - **hypothetical** on risk identified in previous audit/periodic assessment;
  - **perceived** i.e. based on concerns raised by desks and/or experts.
- Actions to be tested are selected according to a specific timeframe, as the agreements selected for audit should cover period between the last HQ audit and the date of preparation of the new HQ audit. Once these considerations have been made, the selection of agreements will take into consideration special requests or concerns raised by Desks Officers or Field Experts, an overall coverage of partners' countries of operation, ongoing programmes and actions already audited at field level. This means that for smaller ECHO partners there is the possibility that all grant agreements are selected for audit, while for bigger ECHO partners a sample of actions is selected.



For more information on audits, consult ECHO information paper on audits  
<http://dgecho-partners-helpdesk.eu/audit/start>

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### C) AUDITS AND CONSORTIUM

When HQ audits review actions implemented in consortium, the review will cover the entire consortium and not just the lead Partner.

The audit of the lead partner will usually be a standard HQ audit, i.e. both systems and financial. The audit of consortium members will be restricted to a financial audit.

In order to be prepared for the audit, it is essential to ensure a clear audit trail from the final financial report (submitted to ECHO) to the financial reports, accounting entries and underlying transactions of each consortium member. Impossibility to reconcile the figures may result to disallowances.

To avoid this situation, it is recommended that the lead partner retains:

- the final financial report submitted to ECHO,
- the underlying financial reports received from each consortium member,
- a reconciliation between the final financial report and the underlying financial reports,
- the lists of transactions contained within each of the underlying financial reports,
- supporting documentation in respect of transactions incurred by the lead partner
- in addition, the lead partner may (but is not legally required to) hold copies of the supporting documentation for the transactions included within the consortium members' underlying financial reports.

Each of the consortium members is advised to retain:

- copies of the underlying report sent to the lead partner (in respect of their own expenditure, not that of the other consortium members);
- a list of transactions that makeup the amounts contained in the underlying financial reports;
- supporting documentation in respect of each transaction (which they should be ready to forward to the lead partner in the event of it being requested for audit purposes).

Auditors will not visit the consortium members' offices. The lead partner will be responsible for providing the auditors with all information required by the auditors. This information can be in electronic format (with a certification from a suitably senior official from the consortium member concerned that the scans are copies of the originals). The auditors may still retain the right to request original documentation should they consider this to be necessary.

### 12.3 CHECKS BY ECHO

ECHO may carry out checks<sup>113</sup> of the eligibility of expenditure outside of the context of an audit and beyond the documents submitted with the final report.

For instance in the context of the final payment, the liquidation can go further than just the review of the ledger. ECHO may ask for additional information such as copies of invoice, procurement files, etc. These checks can be done at headquarters or in the field.

### 12.4 CHECKS AND INSPECTION BY OLAF AND COURT OF AUDITORS

- **The European Anti-Fraud Office (OLAF)** is charged by the European Union with protecting the financial interests of the European Union. Its tasks are to fight fraud affecting the EU budget, as well as corruption and any other irregular activity. OLAF may intervene if there is a **suspicion of fraud or irregularity in an ECHO-funded action** that may impact the EU financial interests. OLAF may check all documents concerning the award of the grant financed by the Union, accounting records or supporting documents and administrative documents relating thereto and other documents that OLAF considers necessary for auditing. Following the OLAF report's findings, a recovery order may be issued or any other appropriate action may be taken.
- The checks and inspections by the **European Court of Auditors** are related to the examination of whether the European Union funds have been incurred in a lawful and proper manner and in accordance with the principle of sound financial management. **It is not an audit as such of the partner but of the Commission.** The European Court of Auditors may check all documents concerning award of the grant financed by the Union, accounting records or supporting documents and administrative documents relating thereto and other documents that the Court considers necessary for auditing.

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<sup>113</sup> Article 23.2 of the General Conditions FPA NGO

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Both organisations have the same rights as the Commission, i.e. right of access for checks and investigation. They can carry out their checks both at headquarter and field.

### 12.5 AUDITS BY PARTNERS

Audit by auditors contracted by the partner may be eligible only in exceptional cases, i.e. where the national authorities require an external audit of the organisation or the project in order to grant the necessary authorisation to work in the country.

Requests to carry out such audits must be made in section 8.2 of the Single Form and agreed by ECHO. The agreement will be translated in an Article 6(1) of the Specific Grant Agreement.