Audit of external Aid Health-Programmes in ACP-countries
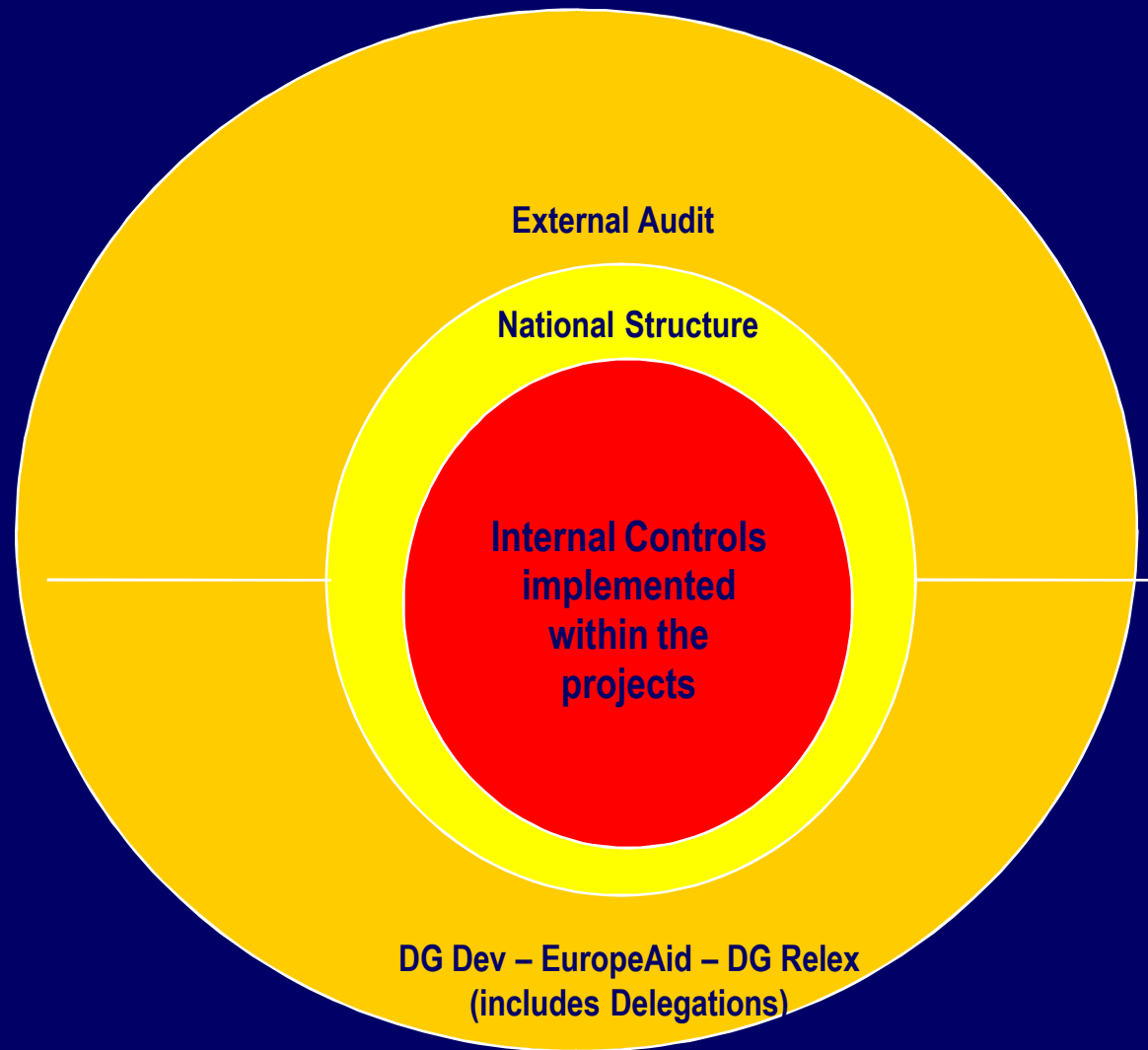
Agenda

- **Introduction**
- **Terminology and types of audits applicable to health projects**
- **Roles of the various persons involved**
- **Organisation of an audit**
- **The focus of an audit**
- **The audit report**

The position of External Audit

External Audit

National Structure

Internal Controls
implemented
within the
projects

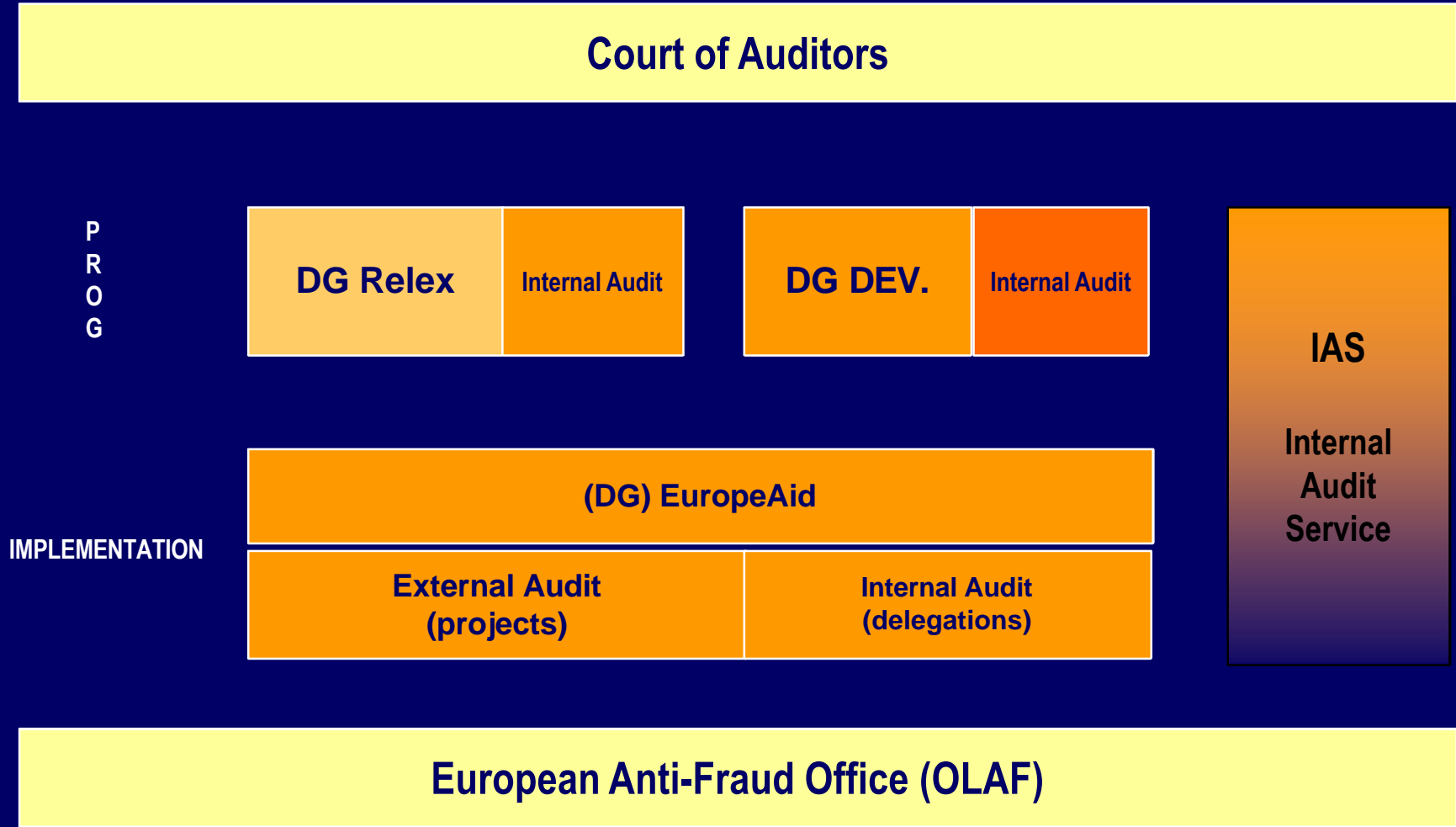DG Dev – EuropeAid – DG Relex
(includes Delegations)

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Different types of audits

Legal and Statutory audits	Contractual Audits		Others
Based on Standards	Based on Terms of reference		Based on Terms of reference
Giving an audit opinion	**Financial Audit**	**System Audit + Technical**	Performance
	Institutional Assessments	**Expenditure Verification**	Evaluation

Contractual audits

Financial audits

- Analysis of the accounting and safeguarding of the project's assets
- Analysis of the nature and existence of the operations performed
- Examination of the eligibility of the expenses
- Analysis of the financial statements and activity reports

$\Rightarrow$ Must present a « true and fair view » of the project

$\Rightarrow$ Contractual « certification »

The scope of these « financial » audits also includes the <u>compliance</u> with the regulations of the European Commission.

Contractual audits

System audits

- Analysis of the management structures (internal control, …) implemented in order to comply with the obligations regarding the adequate financial management of the European funds and with the transparency and reporting criteria of the European Commission

Contractual audits

Certification audit / Expenditure verification report

http://www.cc.cec/dgintranet/europeaid/contract/implementation/grants/annexes_standard_document s/index_en.htm (E3h_8)

General conditions:

- Contracts signed before 1.02.2006 : audit certificate
- Contracts signed after 1.02.2006: Expenditure verification report (date of the new PRAG)

What is a Certification Audit ?

- An audit of the eligibility of expenditures
    - Claimed for reimbursement by benef/contract
    - With conditions in grant and services contracts (only for Budg)
    - By professional external audit firms
- A verification tool in support of payments for:
    - Grant contracts (Budget and EDF)
    - Fee-based service contracts (Budget)
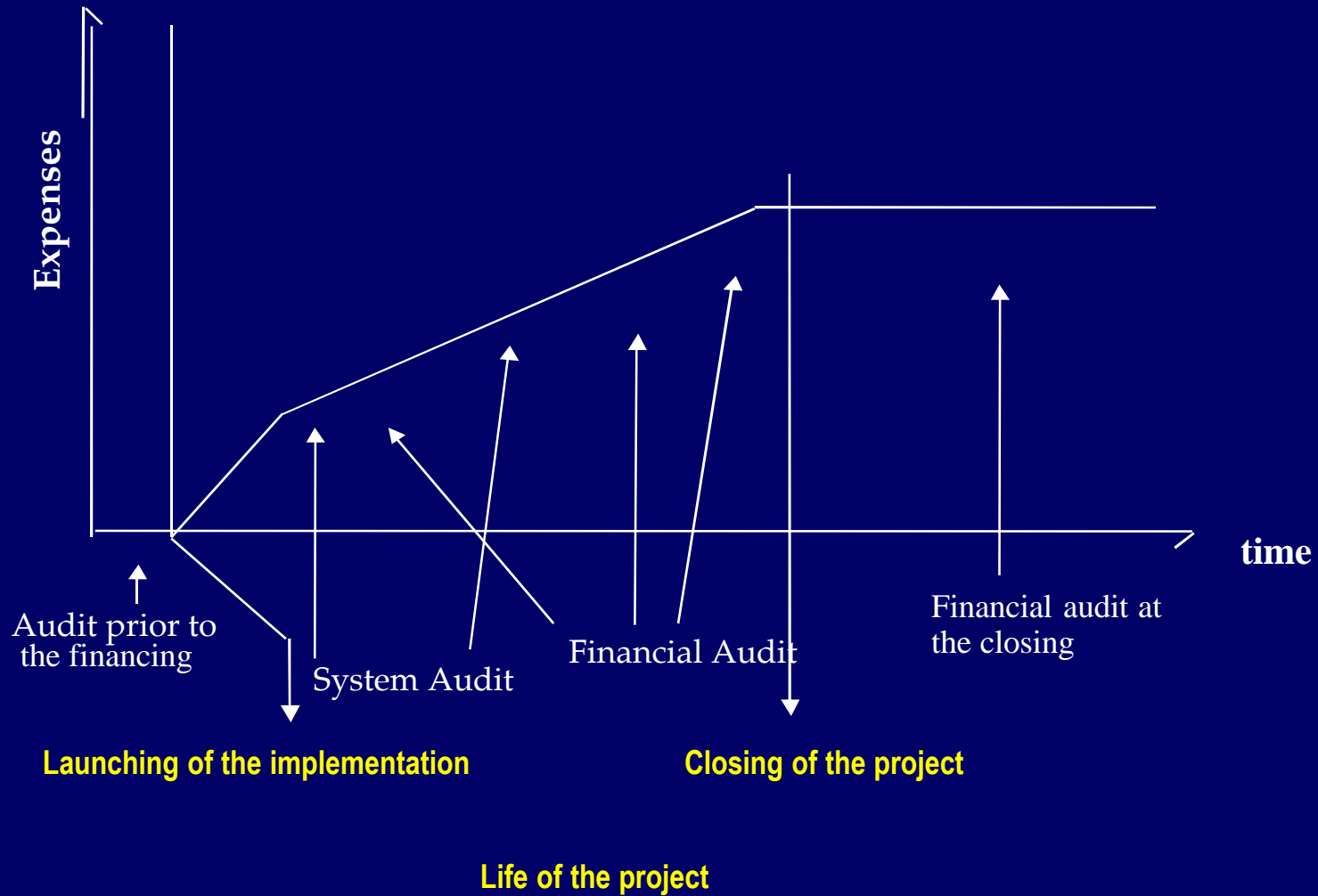   - Programme estimates (direct labour part, EDF)

Terminology and types of audits

✓ Other types of contractual audits :

  ▪ Forensic audit

  ▪ Technical

Terminology and types of audits

Expenses

time

Audit prior to
the financing

Launching of the implementation

System Audit

Financial Audit

Closing of the project

Financial audit at
the closing

Life of the project

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Roles of the various persons involved

Audit Task Manager:	**The Delegation**
The auditor:	**A local audit company/Delegation**
The selection:	**Mandatory/Risk analysis**
Required by:	**The Delegation and the NAO**
Copy to:	**Request from (C5/G2) and Summary table (activity report)**

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Organisation of an audit

✓ **Preparation of the audit**

- ▪ Prepare the documents necessary for the audit, for instance :
  - Accounting records
  - Supportive documents for the resources used
  - Official publications
  - Contracts, amendments, …
  - Documents used for the procurement procedures,…
- ▪ Ensure appropriate working conditions for the auditors (telephone, copier, …)
- ▪ Auditors have to take into account local habits and practices

Organisation of an audit

- ✓ Meetings
    - Briefing
    - Opening meeting
    - Possibly, work-meeting(s) during the audit
    - Debriefing
    - Contradictory procedure

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The focus of an audit

✓ Types of tests specific to development/health projects:

- Legality, regularity and conformity of the documents supporting the expenses
- Controls of existence/reality
- Testing the reasonableness of the prices charged, compensations, rents,…
- Examination of the respect of the competition procedures (tenders,…)
- Comparing actual expenses with the budget and the limits applicable
- Compliance with local legislation (social legislation, taxes, …)
- Circularisation / third parties requests (for instance to banks, in case of incomplete sequence of bank statements)

Specifically for financial audits the auditor classifies the expenses between "eligible" or "ineligible"

Some possible sources of ineligibility of expenses :

- Budget overrun (without the preliminary approval of the fund providers)
- Absence of supporting documents
- Inappropriate supporting documents
- Copied supporting documents instead of originals
- Expenses made outside the period covered by the contract

Some possible sources of ineligibility of expenses (continued)

- Journeys whose usefulness is questionable

- No mission orders relative to journeys made

- No boarding tickets

- Accommodation expenses charged, while they exceed the per diems

- Payroll journal not signed for receipt by the employees

Some possible sources of ineligibility of expenses (continued)

- Failure to comply with the tendering procedures
- Breaking-down expenses in smaller amounts to escape competition procedures
- Invoices without indications legally required (address of the supplier, VAT number,…)
- Significant payment in cash (or check payable to the bookkeeper)
- Problems with the exchange rates
- Charges invoiced twice
- Over-invoicing

Some possible sources of ineligibility of expenses (continued)

- Problem with dates :
    - Pro forma invoice posterior to order form
    - Order form issued before the financial commitment
    - Invoice posterior to payment
    - Invoice carrying no date

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✓ Distribution of the report

▪ The Opinion of a statutory audit report is public

▪ The contractual audit reports are for the client of the auditor (i.e. the European Commission). Consequently, they are delivered to the Audit Task Manager. In order to allow a discussion (contradictory procedure), the audit reports will be given by the Commission to all parties concerned.

Pages of AIDCO 's external audit website :

Internet :

http://ec.europa.eu/europeaid/work/framework-contract/audit2006/index_en.htm

Thank you very much for your attention and participation!!

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