



EUROPEAN COMMISSION

EuropeAid Co-operation Office

Resources

Audit and Control Policy

EUROPEAID CO-OPERATION OFFICE

ADDITIONAL GUIDELINES

FOR ON-THE-SPOT-MISSIONS

(Covering financial aspects for operational staff)

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Introduction

This document is intended as a supplementary guide to Reference Document No3 "*Strengthening Project Internal Monitoring – How to enhance the role of EC task managers*" of June 2007 and especially to its chapter 4.4 Making "useful" field visits. Its purpose is to support delegations' operational staff in performing **basic** financial checks during on-the-spot missions of external aid projects and programmes at the level of beneficiaries, contractors and intermediaries. However, each time when it is possible Delegations are expected to organize joint missions, i.e. including staff of operational and of finance & contracts sections. The present guidelines are not inclusive or restrictive and they do not relieve staff from exercising judgement in determining the type, nature and extent of verification tests and procedures.

General Objectives

In general, the aim of an on-the-spot mission is to support effective project monitoring at the level of each EC Delegation and to contribute to improving the management of projects and implementing organizations.

Specific Objectives

As far as the financial aspects are concerned, on-the-spot missions aim to:

- Verify that Commission rules and financing /contractual agreements are respected;
- Check management and internal control systems of the projects, including for accounting operations and safeguarding of assets;
- Share, harmonize and disseminate "good practices" within the Delegation and with our contracting partners based on mission results, identified problems and solutions;
- Propose improvements intended to correct potential weaknesses, reduce risks as well as increase the effectiveness and quality of the work carried out.

Mission Plan

The planning of the mission with schedule, scope, length and running should be established and communicated to the project.

In preparation of the visit, it is recommended to get acquainted with the following documentation: contract and annexes; financing proposal; recent work plan and budget; previous monitoring/progress reports, relevant financial statements.

For the overall planning and conduct of the visit, refer to chapter 4.4. Making "useful" field visits of Reference Document No3 "*Strengthening Project Internal Monitoring – How to enhance the role of EC task managers*" of June 2007. Box 3 – Checklist of things to do/consider in planning the field visit provides an easy to use tool.

On-site visit

The main aspects to be reviewed are:

- Respect for the obligations of the Financing Agreement;
- Respect of the Financial Regulation requirements.

The information can be obtained by:

- Interview with the accountant or another person responsible for the financial side of the project;
- Analysis of the financial documents;
- Review of the organizational regulations, procedures/guidelines and tools, ect.

The on-site visit should provide an understanding about:

Management and control aspects

- Compliance with the principle of segregation of duties: the recording in the bookkeeping system, the payment and the control over the financial assets are, each, entrusted to a separate individual or maintained separately (for small entities it may not be possible to designate different individuals). The objective of the segregation of duties is to increase the quality of internal control and protection against risks of errors and/or frauds.

The basic requirement is that one employee should not have responsibility to execute all stages of a transaction from initiation and processing to recording payment or receipt of funds into the accounting system. Apart from weakening financial control, placing too much responsibility for a particular function on one person creates a risk for functional continuity if she/he leaves the organization or is absent for long periods.

You should consider if the person who records expenditure in the bookkeeping system is different from the one who carries out the payments.

- Regular preparation of the financial statements and fund utilization sheets in order to ensure transparency in the use of the means made available by fund providers.
- Double-entry bookkeeping: this is a system that ensures the integrity of the financial values recorded in a financial accounting system. Each individual transaction is recorded in at least two different (sections) nominal ledgers of the financial accounting system, so implementing a double checking system for every transaction.

Check in the contract if it is obligatory for the beneficiary to have double-entry bookkeeping, then what kind of software it uses. The fact that they sometimes use "spreadsheet accounting" (MS excel) should not necessarily be considered as a weakness (provided that signed copies are kept and timely updated, because MS excel as such can easily be altered). For small operations accounts can properly be maintained with double-entry bookkeeping in MS excel if the environment is favorable/adequate (competent staff and control environment).

- Use of a manual specific to the project/programme, which describes the procedures to be followed (not for small projects).
- Register of durable investment goods disclosing: (i) the nature of the good, (ii) the acquisition price, (iii) the invoice reference and (iv) the place of utilisation and numbering (both in register and on asset). Random physical inspection of goods recommended in order to check existence.
- Personnel register and personal files. Random interviews with staff recommended in order to check presence.

- Registers containing cash transactions and checks, as well as the security measures put in place
- The use of work contracts for each member of the personnel, allowing for a clear identification of their job description. You might verify if staff is actually being paid or if their work is considered as a contribution in kind.
- Control over purchases ensured by filing delivery notes and bulletins of inspection of the supplies, and by applying tender procedures.
- Control over advances to staff and suppliers.
- Any litigation issues.
- Project Managers' and financial staff's understanding of EC financial management requirements (like for example General Conditions and control environment; documentation, filing and record keeping; control activities; financial reporting; accounting; computerised information systems; tendering and procurement procedures; asset management; cash and bank management; payroll process and time management).

Advancement of the project aspects

- Financial execution (against budget and time) and implication of the contracting deadline.
- Any modifications between budget headings after the signature of the agreement must be within the variation limit defined in the applicable Guide to financial procedures or, if more significant, formalized by an amendment to the Financing Agreement . It is also important to check that the budget is still realistic and try to analyse the specific reasons for modification, as well as the implications for the total project.
- If a co-financing by the beneficiary is contractually foreseen, verify that the beneficiary has actually provided their share. You may try to clarify with the beneficiary where the funding comes from and if they have already received it or if they have encountered any problems in this respect.
- Existence of project revenues (participants' / beneficiaries' fees, sale of fixed assets of the project, sale of tender documents, etc) - if so, verify whether they have been reported in the project's financial report.
- Treatment of taxes (e.g. sales taxes, VAT, import and customs duties may not be eligible). Verify if the applicable regulations, rules and practices in the country concerned allow the coverage of these taxes in the expenditure. After that you may check whether selected invoice(s) are reported with or without taxes.
- For selected transactions it is useful to verify if: 1) they have been properly authorized; 2) relate to the project and are foreseen in the project activities; 3) comply with the required procurement rules, if applicable (have public procurement procedures been used for items or services above the threshold limits?).

Reporting and Follow-up

The findings of the visit should be included in a report and circulated among the interested parties in the delegation, especially F&C section. Follow up measures might need to be established and a letter to the beneficiary outlining them should be prepared. This report should be analysed before another visit on the spot and should be given to the auditors

carrying out the audit. In case findings during the visit give rise to fraud suspicions, OLAF should be informed to allow for further investigation¹.

N.B. For further guidance and explanations the guidelines for auditors² could be used as an additional reference for the financial monitoring if deemed appropriate.

¹ For more details see Note 2007/19396 on "Serious Irregularities" – Procedures to be followed

² http://www.cc.cec/dgintranet/europeaid/activities/audit/methodology/terms_of_reference_en.htm