

This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

ECHO AUDIT FRAMEWORK CONTRACT

HQ AUDIT REPORT

Partner name:	ADRA Denmark
Grant agreement:	ECHO/SYR/BUD/2014/91010 Syria
Audit assignment reference:	16-BA133-08

The views expressed herein are those of the independent auditor and do not necessarily represent any official view of the Commission.

CONTENTS

1	Executive Summary	3
2	Audit Opinion	7
3	Findings of Substantive Testing	9
4	Administrative Internal Control Systems	10
5	Logistical Internal Control Systems	23
6	Project Management	27
7	Conformity with external regulation, own procedures and the FPA	30
8	Partner Comments	34
	Annex 1 – Recommendations for Systems Improvement	35
	Annex 2 – Grant agreements	40
	Annex 3 – General Information	42
	Annex 4 – Purchasing thresholds and authorisation matrix	47
	Annex 5 – Methodology	49
	Annex 6 – Partner’s response and Letter of representation	52

1 Executive Summary

1.1 OBJECTIVES OF THE AUDIT

The objectives of the audit are to:

- Provide assurance to the European Commission as represented by ECHO that the funds claimed by the Partner have been used in compliance with the eligibility criteria as set out in the grant agreement and the governing FPA and the Council Regulation concerning humanitarian aid 1257/96. This assurance is needed to enable ECHO to assist those who are the most vulnerable, the beneficiaries, and to fulfil its accountability obligations arising from a variety of rules and regulations¹.
- In the spirit of partnership, to provide recommendations to the Partner to improve the Partner's systems and reduce the risks bearing on the use of EU funds based on the assessment of the procedures applied in their accounting, audit, internal control systems grant / IP management and procurement.
- Give advice to the Partners to assist in establishing a more effective and efficient aid delivery as required by the Financial Regulation applicable to the general budget of the Union.

1.2 SUMMARY OF SUBSTANTIVE TESTING FINDINGS

Substantive testing was carried out on this project.

The total expenditure identified as potentially disallowable is EUR 9 052.72, including indirect costs of EUR 592.23 and of which EUR 8 621.81 can be attributed to ECHO funding. The main reasons are given below and further details can be found in Chapter 3 and in Annex 2.

This total potentially disallowable figure can be attributed to the sole grant under audit, ECHO/SYR/BUD/2014/91010. The main reasons for this potentially disallowable figures include missing documentation, which accounts for a total potential disallowance of EUR 2 406.05 and the allocation basis of rent, which accounts for EUR 5 895.38 of the total potentially disallowance figure.

As a result of the above potential disallowances we have recalculated the indirect costs and calculated a potentially recoverable amount by ECHO of EUR 8 621.81 See the totals in Annex 2.

¹Rules and regulations include the governing FPA, the Financial Regulation and Rules of Application and article 1257/96 of the Council Regulation concerning humanitarian aid.

1.3 SUMMARY OF INTERNAL CONTROL SYSTEMS FINDINGS

1.3.1 Assessment of administrative internal control systems

Administrative internal control systems encompass organisation; planning; accounting, financial management and reporting; and personnel.

Individually these four areas have been assessed as follows:

- Organisation: inadequate
- Planning: adequate
- Accounting, financial management and reporting: adequate in most respects
- Personnel: adequate in most respects

Organisation has been assessed as inadequate as the NGO does not have any formal procedures in place to be followed when management finds it necessary to override established controls, the NGO does not regularly prepare a written report on adherence to the code of conduct, and the NGO does not have an internal audit function.

Accounting, financial management and reporting has been assessed as adequate in most respects as the organisation does not maintain country budgets, field offices do not have accounting software in place and this is undertaken at the country office, financial data to be used in ECHO related documents has to be extracted from the system and manipulated in excel, an organisation-wide cash flow system is not produced, consolidated management accounts are only prepared on a yearly basis and implementing partner transactions are only recorded on the HQ accounting system as being summarised per budget line and not individually per transaction.

Personnel has been assessed as adequate in most respects as salary levels are approved by management and not the board of directors, management are only appraised by written project objectives and at the time of the audit, the training policy did not include induction training specifically in relation to safety and security where necessary.

Overall this has resulted in an assessment of adequate in most respects for administrative internal control systems.

1.3.2 Assessment of logistical internal control systems

Logistical internal control systems encompass procurement, stock and fixed assets.

Individually these three areas have been assessed as follows:

- Procurement: adequate
- Stock: adequate
- Fixed assets: adequate

Overall this has resulted in an assessment of adequate for logistical internal control systems.

1.3.3 Assessment of project management internal control system

Project Management has been assessed as adequate in most respects, due to the fact that checks made to supporting information at implementing partner offices are made on an ad hoc basis.

1.3.4 Conformity with external regulation, own procedures and the FPA

Conformity with external regulation, own procedures and the FPA encompasses external compliance, quality and fraud and corruption prevention.

Individually these three areas have been assessed as follows:

- External Compliance: adequate
- Quality: adequate in some respects
- Fraud and Corruption Prevention: adequate

Quality has been assessed as adequate in most respects due to the fact that a formal quality system is implemented at HQ only and organisational quality reviews take place once a year or less.

Overall this has resulted in an assessment of adequate in some respects for conformity with own procedures and the FPA.

1.3.5 Overall assessment

Based on the audit findings the overall control environment has been assessed as adequate in most respects.

1.4 RECOMMENDATIONS FOR SYSTEMS IMPROVEMENTS

The most important recommendations² linked to the assessment of management and control systems are shown in the table below. All of the recommendations together with the comments/action proposed by the NGO are shown in Annex 1.

Rating	Recommendation	Assessment area	Accepted (Y/N)	Target date
4	It is recommended that the basis of allocation of costs to different projects by ADRA Denmark is clearly documented.	Substantive testing	Yes	Immediately
4	It is recommended that where there are changes to the payment schedules of suppliers, these changes are updated on the contract documentation, and that the adjusted terms are formally authorised.	Substantive testing	Yes	Immediately
4	It is recommended that ADRA Denmark implements a formal and specific awareness raising training programme for the identification and assessment of fraud and corruption risk.	Fraud and Corruption Prevention	Yes	6 months

1.5 FOLLOW-UP OF PREVIOUS AUDIT RECOMMENDATIONS

During this HQ audit, the auditors followed up all recommendations from the previous HQ audit (reference 12-BA58-003, June 2013) and the previous field audit (reference 07-FB05-005, September 2007 in Liberia) that were considered relevant to ADRA Denmark's operations at HQ. Further, we followed up on the statement given by the Partners in their annual assessment via the ECHO APPEL system on action taken to implement recommendations. In our opinion the statements given by the Partner represent a fair view on the implementation.

Of the 53 recommendations raised in the previous audits, 34 were deemed relevant to this audit, of which 27 have been implemented and 5 have not. The reasons for non-implementation given by the Partner are not acceptable in our opinion. The recommendations raised in the previous audits are in the process of being implemented but have not been as of yet. These recommendations are important in how the operations of the organisation are improved. The previous recommendations which have not yet been implemented have been included in Annex 1 and, where deemed significant, in section 1.4 above.

² Ratings are: 5 - very important
4 - important

2 Audit Opinion

We have audited the funds used in the implementation of the following ECHO grant agreements and periods as set out in the summary of the Final Financial Reports in Annex 2.

Grant agreement	Amount claimed	Amount accepted by ECHO	Amount accepted after audit	Amount potentially disallowable	Percentage of project costs tested
ECHO/SYR/BUD/2014/91010	524 368.47	524 368.00	515 315.76	9 052.72	55%

Our initial review of the systems of internal control in place at the time of the audit based on our Internal Control Questionnaire (ICQ) indicated a control environment that was adequate in most respects and resulted in a substantive testing level of at least 50%. This assessment was as stated in section 1.2 and the opinion hereafter.

The Final Reports are the responsibility of the management of the Partner. Our responsibility is to express an independent opinion on the Final Financial Reports, based on our audit.

This report is made to the European Commission represented by ECHO and remains the property of the European Commission. Our audit work has been undertaken within the framework of existing contractual arrangements and provides information to ECHO on the systems of internal control placed on the use of Union funds and on eligibility of the costs claimed.

Our audit work has been undertaken so that we might state to the European Commission, those matters we are required to state to it in our audit report and for no other purpose. We are thus responsible solely to the European Commission for our audit work and the audit opinions we have formed. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the European Commission unless such responsibility has been expressly accepted.

We conducted our audit in accordance with International Standards of Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Partner has complied with the appropriate sections of the relevant grant agreements. An audit includes examining appropriate evidence on a test basis, relevant to the amounts set out in the Final Financial Reports. We believe that our audit provides a reasonable basis for our opinion.

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the Partner. It is the responsibility of those charged with the governance of the Partner to ensure, through oversight of management, the integrity of the accounting and financial reporting systems and that appropriate controls are in place. It is the responsibility of the management of the Partner to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Partner's affairs. This responsibility includes implementing and ensuring the continued operation of accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems can only reduce but not eliminate the risk of misstatements, whether caused by fraud or error.

This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

Management retains responsibility for any remaining risk. It should be understood that if we detect fraud or other coercive practices we are obliged to report this to the responsible services.

In our opinion:

- The systems of internal control operated by the NGO are adequate in most respects, except for the matters listed in sections 1.3.1 to 1.3.5.
- Grant agreement funds covered by this audit have been used in accordance with the contractual basis as set out in the ECHO Framework Partnership Agreement and the relevant grant agreements, except for the matters listed in section 1.2.
- The Final Financial Reports, as identified above and audited by us, have been prepared, in all material respects, in accordance with the basis of preparation also described above, except for the amounts listed in section 1.2.
- Having regard to the limitations of our audit scope in this respect, refer to Annex 5.4, the partner is not in breach of the stipulations of the Council Regulation 1257/96 concerning humanitarian aid.
- Having regard to the limitations of our audit scope in this respect, refer to Annex 5.4, the partner is not in breach of the stipulations of the FPA 2014.



PKF Littlejohn LLP

10 April 2017

1 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

3 Findings of Substantive Testing

3.1 BACKGROUND INFORMATION ON GRANT AGREEMENTS AUDITED

ECHO/SYR/BUD/2014/91010

The overall objective of the project was to provide WASH facilities for displaced and affected individuals in Damascus and rural Damascus by the end of 2015. The project was completely implemented through an implementing partner, ADRA Syria, a member of the ADRA International network. The main activities included involved the improvement of both basic hygiene practices and safe water supply. The main costs involved included repairs to wash facilities, hygiene kits, travel and fuel, office rent, set-up and monitoring costs, and salary costs of monitoring staff.

3.2 GENERAL FINDINGS OF SUBSTANTIVE TESTING`

The final report was submitted by ADRA Denmark within the agreed deadlines (Article 10 of the General Conditions – Reporting).

The main recommendations that have resulted from the substantive testing include that all key procurement documents including invoices are translated into English or French, the basis of allocation of costs to different projects is clearly documented, that where there are changes to the payment schedules of suppliers, these are updated on the contract documentation, and that the adjusted terms are formally authorised.

Costs incurred in the field in foreign currencies are translated directly into Euro using the applicable spot rate of the foreign currency on the date of the transaction, specifically for ECHO reporting purposes.

As a result of our audit, 16 recommendations for improvement have been made overall and are set out in section 1.4 and Annex 1.

3.3 COMPLIANCE WITH THE BASIC PRINCIPLES OF ARTICLE 8 OF THE GENERAL CONDITIONS OF FPA 2014

ADRA Denmark has claimed its costs in accordance with the basic principles of Article 8 (Eligible Costs) of the General Conditions 2014 with the exception of the items listed in the table in Annex 2. Details of our testing methodology can be found in Annex 5.

4 Administrative Internal Control Systems

4.1 ORGANISATION

4.1.1 Management structure

A non-executive board of seven members is in place, including one member of the day-to-day management of the Adventist Church. The executive board supervises the activities of the organisation and the powers and rules of the Secretary General, who will be responsible for the day-to-day management of the organisation and the recommendation of the appointment of other employees, subject to the approval by the board. No board members are employees of ADRA Denmark or received any remuneration from the organisation.

ADRA Denmark maintains a list of executive committee members' other positions and activities and a statement as to whether there any conflicts of interest resulting from these positions, although this is not subject to a formal review. Each member is required to provide a statement regarding any conflicts of interest and any other positions held, which is reviewed by the board annually. There are no known related party transactions. It is recommended that the list of other director's positions is formally reviewed (recommendation 7).

ADRA Denmark maintains a written 'code of conduct' regarding ethics and conflicts of interest. All HQ staff, including expatriates, are required to sign the code of conduct. A written report on adherence to the code of conduct is not prepared regularly but ADRA Denmark outlines procedures and sanctions in its personnel handbook on areas such as fraud, abuse of power and sexual exploitation of minors. The code of conduct was forwarded to every staff and they are reminded of their responsibility in an accompanying letter. It is recommended that a written report on adherence to the code of conduct is prepared regularly (recommendation 8).

Management is centralised at headquarters with regard to the management of field operations.

Due to the size and small number of employees of ADRA Denmark, there are two authority levels within the organisation. The top level is that of Senior Management, comprising the Secretary General, Financial Director and the Programme Director. The second level comprises all other employees within the organisation. There aren't any formal authority limits in place at HQ level; instead, there is a layered system of authorisation between the two authority levels in place. As the number of staff members is relatively low, full segregation of duties is not possible and Senior Management is heavily involved in daily operations.

A formal organisational chart (Annex 3.4) is maintained and regularly updated, which includes the names and roles of the various personnel within the organisation and the hierarchy of responsibility within that structure. This organisational structure is reviewed on a regular basis by management at the Administrative Committee meetings.

ADRA Denmark does not have any procedures in place where established controls are overridden by management. Procedures are not in place under the reasoning that there are very few instance of such overrides and the general size of ADRA Denmark. In such instances where the controls have to be overridden, the Secretary General is advised and included in the decision-making. It is therefore recommended that a formal process is put in place when established controls are overridden and that an exemptions register is maintained (recommendation 9).

ADRA Denmark's humanitarian coordinator is responsible for ensuring that FPA requirements are met. This is implemented by quality assurance during planning and monitoring a project and during monitoring visits of the project in the field. Monitoring is also ensured through the review of the monthly reports that are produced by each field project and then shared with HQ.

4.1.2 Supervisory bodies

The executive board has agreed terms of reference and statutes of association. These detail the requirements and rules of the board ranging from the number of meetings that are required to take place to the roles they are required to fill.

The Executive Committee shall hold meetings at least five times a year, or at any time requested by either the Chairman or at least two of the members of the Executive Committee. The Executive Committee may set up specialist committees as the need arises.

Financial and operational staff have access to the board. The employees of ADRA Denmark shall nominate a representative who may attend the meetings of the Executive Committee with a right to speak. This person is elected for two-year terms and the staff can replace the representative and select a new one. After a board meeting, employees are informed of any issues or outcomes of the board meeting via a staff meeting, and they also have access to the board minutes on the organisation's intranet.

4.1.3 Internal control bodies

As documented in ADRA Denmark previous HQ audit report (12-BA58-003):

"Given the small size of the organisation it is not desirable to implement an internal audit function at ADRA Denmark. There is however access to independent expertise in the audit and risk areas through members of the Executive Committee. No remuneration committee or independent expertise in this area is available at ADRA Denmark."

There has been no change in this regard since this previous HQ audit report.

4.2 PLANNING

4.2.1 Strategy and long term planning

ADRA Denmark is a recognized member of the global ADRA network consisting of 130 independent nationally founded ADRA organisations, operating under the guidance of ADRA International. ADRA Denmark was established in 1987 as an independent organisation with its own board and bylaws.

The vision of ADRA Denmark is a world where:

- Social responsibility and compassionate service is the driving force;
- All people have equal rights and opportunities and hope for the future;
- All people have the possibility to reach their full potential for growth and development.

The mission of ADRA Denmark is based upon the teachings and the example of Jesus;

- To relieve human suffering
- To enhance personal dignity and contribute to social justice
- To build social capital and facilitate poverty reduction and sustainable development in poor and marginalized communities.

The long-term objectives of the organisation as stated in the draft global strategic plan, which are divided between the areas of humanitarian and development work.

The long-term objectives of the organisation with regards to humanitarian work are;

1. People affected by conflict and crises are provided with appropriate life-saving humanitarian assistance and protection.
2. People and communities affected by conflict and crises are supported to be resilient.

The long-term objectives of the organisation with regards to development work are;

1. Increased number of people living in poverty are empowered to participate in collective actions to enact social change
2. Increased number of people living in poverty access quality public services
3. Increased number of people living in poverty has improved their livelihood strategies.

ADRA Denmark has a global strategic plan from 2016-2018 which reflects the long-term vision and objectives of the organisation. The strategic plan for 2016-2018 was approved at the December 2016 board meeting.

The plan states that the main areas of issue for ADRA are:

- ADRA network and partnership
- Quality assurance through learning of reporting
- Staff and organisational development
- Popular ownership disclosure of fundraising.

Financial data is included in terms of yearly targets and performance indicators.

The business plans and global strategy are updated on an ad hoc basis by the general secretary.

Every year, the organisation reviews its long-term plans and updates its strategic considerations for the next three years. This review is undertaken by the Senior Management Team and is agreed by the board of directors.

The annual report contains information in relation to the general financial and performance of the organisation such as turnover levels and their sources, statistics on the number of visits to the organisations website, the geographical split of its spending, changes in its organisational structure, and the challenges it faces. Further reports produced include the Humanitarian Results report that is produced annually and its Framework report which details its results and performance against key indicators in each country that it has projects in. These are reports produced primarily for The Danish Ministry of Foreign Affairs (Danida) who is the primary donor to ADRA Denmark.

4.2.2 Risk assessment

ADRA Denmark carries out an annual risk assessment which documents and quantifies regulatory, financial and operational risks with regards to individual projects but are not organisational wide to include ADRA Denmark. The risk assessments for the projects cover the ADRA country office that the project is located in and includes a description of the risk factor, the overall risk assessment, the likelihood of the risk, the impact of the risk and mitigation measures for medium and high risk factors. This is prescribed in the guidelines for risk evaluation and management document that the NGO has produced and updated in April 2016. Risks are also identified and explained by the ADRA country office through their monthly report to ADRA Denmark.

Donors are informed immediately if any risks with serious impact on programmes and projects materialise. In addition, risks are documented and communicated to donors as part of the regular information sharing through monthly and annual reports. Risks are also regularly documented through specific donor reports, such as the Humanitarian Partnership Agreement (HPA) with Danida.

ADRA Denmark does not have an integrated risk management system but risk assessments are carried out on a project by project basis and evaluated in the monthly reports to HQ. In addition to the specific risks that are identified on a project by project basis, risks are discussed and assessed in general on an ongoing basis with staff and management. ADRA Denmark also has a 'Guidelines for Risk Evaluation and Management' document that outlines how to use the risk assessment matrix that is applied at project level and how this should be followed.

4.2.3 Organisation-wide short-term planning

The NGO produces an annual framework report for the Danish Ministry of Foreign Affairs (Danida), a main donor of ADRA Denmark that agrees the work strategies of the work programmes for the coming year in the relevant country. The information included in these reports comprises the achievements and challenges of projects in the different countries in the previous year as well as the financial figures of the previous year and budgets for future years. The most recent framework report was produced in September 2016.

The organisation-wide short-term plans are prepared on an annual basis and reviewed by the board. In the short-term, objectives are set in each country that a project is occurring in. These short-term objectives relate back to the long-term objectives of the organisation as described in the global strategy plan.

Needs assessments are carried out by partners of ADRA Denmark, which ADRA Denmark reviews. Needs assessments are included as part of project documentation. As each country office is an independent entity, the local ADRA office decides and approves its own operational objectives. For projects funded through ADRA Denmark, Senior Management approve the project objectives.

Key performance indicators (KPIs) are used at an organisational level. These KPIs are only qualitative and do not include quantitative measures and only monitor outputs and outcomes. Performance monitoring also includes relevant benchmark data. It is recommended that ADRA Denmark implements quantitative KPIs at the organisational level (recommendation 10).

4.3 ACCOUNTING, FINANCIAL MANAGEMENT AND REPORTING

4.3.1 Overview

The finance department at HQ is led by the Finance Director who reports to the Secretary General. All of the members of the finance team have recognised accountancy qualifications. The Finance Director has a M.Sc. in Accounting while the chief account and financial controller are both degree qualified, with all three having relevant finance experience.

The HQ finance team adheres to its own internal finance manual which details the accounting procedures and controls to be implemented. Local offices adhere to the specific financial management procedures handbook relevant to that particular country, which gives guidance on many different areas such as the process of payment requests, levels of payment authorisation and petty cash management. ADRA Denmark has additional procurement guidelines at both the HQ level (See Annex 4.1), which have been revised in 2015, and at field level, allowing the individual field office (see Annex 4.2) to implement their own procurement guidelines which ADRA Denmark reviews.

Weekly meetings are held amongst the finance team where discussions and training are given with regards to changes in procedures.

4.3.2 Budgets

Budgetary control exists at HQ and all local offices although country budgets are not prepared as these are left to the local ADRA office of each country. The head office and project budgets are approved by Senior Management.

Head office and project budgets are reviewed against actual reports on a monthly basis. For project budgets, this is reviewed through the monthly project reports (Budget Control Sheets) that are sent back to ADRA Denmark. Budget deviations are presented to the board on a quarterly basis. Actions will be recommended by Senior Management and are finally decided on by the board.

Formal forecasting of expected future costs over the remaining period is compared with actual costs using the monthly reports that the field office sends to HQ. This is reviewed by HQ and possible actions will be recommended if expected costs are likely to exceed the budget.

At the end of the project, a financial report detailing budgeted costs with actual costs is produced, and an analysis is provided of each budget line. The report shows the variance per budget line as a total and as a percentage and also highlights the overall difference between budget and total spend. This is reviewed by Senior Management at HQ and by the executive board with recommendations made based on the findings from the individual project. ADRA Denmark consults with its implementing partners on an ongoing basis, mainly through its monthly reports and at the end of the project, to implement learnings from the field to improve its budgeting process.

4.3.3 Accounting system

At HQ level, a computerised ERP software is used, while at ADRA country level, a worldwide ERP software is used along with double entry accruals accounting. At ADRA field level, no accounting software is used and double entry cash accounting is used instead. However, in many places, there is no office at the field level due to difficulty in having electronic equipment in the field as they are so remote. All transactions are taken to the country office and registered in that accounting system with double entry accruals accounting.

Formal authority limits are held at field level, as described in the guidelines followed by the local ADRA offices, which detail the required number of quotations, the required number of staff signatures, and the staff required to give authorisation, depending on the size of the individual project expense. Formal authority limits are also in place at HQ level.

At HQ, members of the finance team are responsible for accounting transactions within the field and at HQ, with separate persons responsible for project accounting and administration accounting. At HQ level the accounting software 'Navision' has been updated in December 2015 which includes an upgrade to Microsoft Dynamic NAV 2016.

The local implementing office maintains a chart of accounts, which specifies budget line items which will be used to allocate charges throughout the life of the project. Before authorising any expenditure, the project manager must indicate the account number of the line item and the account name of the line item, which are both contained within the chart of accounts. The chart of accounts specify that the donor, project name, project location, account code and account name must be recorded for each transaction.

At HQ level, the organisations accounting software "Navision" separates all of the projects (ADRA Denmark, ECHO, and other) across three ledgers. The chart of accounts allows for clear separation of income and expenditure by donor and project. The accounting software allows for the operation of separate fund accounting to keep donations with restricted use separate.

In the field, transactions are recorded individually in the accounting system so that the nature of the transactions can be readily identified. At HQ level, the transactions are not recorded individually but instead are recorded per budget line for the period in question. It is recommended that transactions (including with implementing partners) are recorded in the HQ accounting system individually (recommendation 11).

4.3.4 Allocation system and prevention of double counting

At HQ level, the only allocation system that is used is for staff costs, which are allocated to individual projects based on hours worked. The hours worked per project are identifiable by virtue of an online time registration system. For the project under audit, the HQ staff costs that were tested were compliant with the eligibility criteria for HQ staff (FPA 2014 guidelines, section 9.3.2) For staff at implementing partner level, staff costs are also allocated based on staff timesheets while car vehicle expenses are allocated based on logbook records.

Other expenses such as office rent are allocated according to use of office space, however, during the substantive testing, it was not possible to determine the basis of allocation of the office rental costs chosen as part of the sample (recommendation 2). Allocated costs are not based on budgets and an agreement on the design and administration of the allocation system is negotiated between the implementing partner and ADRA Denmark during the proposal stage.

Allocation systems are consistently applied. Adherence to the allocation system and testing of its reliability are carried out through regular visits by the Programme Coordinator, usually twice a year, with a monitoring report being prepared that documents whether there are any weaknesses in the systems in use. Some of these issues are dealt with in the monthly project reports that are produced by the field office to HQ. All Danida funded projects are audited by local external auditors annually.

4.3.5 Reporting

4.3.5.1 Financial reporting from the field to HQ

Country offices produce monthly reports for each project, which contain variance analysis between budget and actual costs across each individual budget line and any other issues that have been encountered during the period. The reports are prepared on a project by project basis by the local ADRA country office.

HQ finance staff visit field offices at regular intervals during the year and produce monitoring reports that detail the major issues encountered during the visit. If there are variations between budgeted and actual costs, HQ's Financial Controller or Project Coordinator can review documentation for the transaction and request detailed explanation for these variances.

4.3.5.2 Organisation-wide internal financial reporting

Organisational consolidated management accounts are prepared on an annual basis and contain a balance sheet and a statement of income and expenditure. Management accounts contain variance analysis, comparison with the budget and comparison with the same period last year. Brief commentary is also included explaining any large variances, issues during the year and expected future performance against certain performance metrics. It is recommended that consolidated management accounts for ADRA Denmark are prepared at least quarterly (recommendation 12).

The management accounts are prepared by the ADRA Denmark Finance Director. They are then reviewed by the Administrative Committee, made up of the Finance Director, the Secretary General and the Programme Director and also by the executive board.

This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

The Administrative Committee will recommend any actions that need to be implemented following their review of the management accounts. These will be presented to the executive board for approval if major issues are identified.

4.3.5.3 External financial reporting

As some of the project transactions are from the field and HQ, the data must be extracted from the different accounting systems and collated in excel before being sent to ECHO. The individual offices use a standard reporting format used to generate the financial information that is put into excel, which allows for easy extraction. It is entered into a standard excel format.

The audited annual report is available to all stakeholders upon request.

4.3.6 Cash management

4.3.6.1 Internal monitoring of liquidity and cash flow

ADRA Denmark does not prepare organisation-wide cash flow forecasts; instead, such forecasts are prepared monthly for each project as part of the reports prepared to HQ and at the end of each project. The monthly project cash flows are reviewed by the finance department at HQ. It is recommended that a formal, organisation-wide cash flow projection is prepared and reviewed at least quarterly (recommendation 13).

The board of ADRA Denmark has decided that equity should be maintained at approximately 10% of turnover. This represents approximately 12 months expenditure of administration costs. This policy is usually discussed by the board when the annual budget is approved. The organisation does not have any other formal liquidity indicators that it monitors.

4.3.6.2 Cash handling procedures

Formalised procedures for transferring funds from HQ to country offices through a 'Request for transfer of funds document' that is signed by the local office Project Manager, Country Director or Finance Director and is counter signed by ADRA Denmark's Project Coordinator and Finance Director. The local office also implements formal procedures for transferring cash between local offices.

Requests for cash are also accompanied with a full financial statement showing how the previous cash transfer was used and how much of it has been used. This financial statement is broken down by income and expense line to detail how the previous transfer has been utilised.

Transfers of funds to the field are kept as a debtor until financial reports are received and then booked as costs.

ADRA Syria documents in its "Financial Management Procedures Handbook" its formal procedures for cash handling. The procedures in place state that there is a permitted level of petty cash that can be held at the field offices and that petty cash must be replenished when it falls to 50% of their permitted level. Further procedures include a daily petty cash count and further audits of petty cash counts at least once a month by the Finance Director or Country Director. ADRA Denmark reviews these procedures during its monitoring visits of the field.

At HQ level, standard procedures with regard to cash management cannot be varied, largely due to the fact that there are such low cash transactions at ADRA Denmark. ADRA Denmark review any deviations from standard procedures of cash management at field level during its regular monitoring visits.

4.3.8 Data management

Due to its size, ADRA Denmark does not maintain its own IT Department; instead, it shares an IT staff member with the Danish Union of Adventist Churches (DAC), who is responsible for the daily functioning of the IT system. ADRA Denmark's IT policy, which has been updated in July 2015, states that a designated employee of ADRA Denmark will serve as the regular point of contact with the IT person. Only this IT person is able to install new software on computers.

ADRA Denmark's IT policy states the planning and safeguard policies it has in place. These include procurement rules for the purchase of hardware and software, the fact that ADRA Denmark will not use unauthorised software, will implement the best anti-virus software available, a daily back-up is to be taken of all servers and private installations of ADRA Denmark IT software or hardware.

The IT plan is distributed to all staff at ADRA Denmark. A backup of the accounting system is taken every day and these backups are tested on a regular basis. The main procedure in place regarding the prevention of the loss of documents is that all project documentation is kept in both hard copy and scanned format. The scanned versions of the documents are maintained on a shared drive, which retains all former versions of each document. This policy extends to all projects that ADRA Denmark are involved in.

The scanning of all documents ensures that ADRA Denmark is compliant with Article 23.2 c) of Annex III to the FPA 2014, as scanned copies allow immediate access to documentation by ADRA Denmark at HQ. This was evident in our substantive testing whereby hard copies and scanned copies of the required documentation were provided.

4.4 PERSONNEL

4.4.1 Management

ADRA Denmark does not have a separate personnel department due to the size of the organisation.

4.4.2 Recruitment

Generally, HQ staff recruitments are handled by the Administrative committee, which consists of the Secretary General, Finance Director and Programme Director. The appointment of the Secretary General and Directors, is undertaken by the executive board.

ADRA Denmark has a "Personnel Handbook" that has been updated in August 2016 that is approved by the board.

The 'Personnel Handbook' includes detailed steps on the recruitment process, such as selection committee deciding on where a post is to be opened, the selection criteria, how the committee screens applications, the number of people to be called to interview (typically three to five) and the fact that all references will be checked. There are no formal policies with regard to the avoidance of conflicts of interest although it is a stated policy in the handbook that each employee will be judged on their personal and professional skills. The personnel procedures include controls designed to prevent favouritism.

Salary scales are also approved by the administrative committee and is included in the 'Personnel Handbook' which is approved every three years by the board. The 'Personnel Handbook' also prescribes the general process of the approval of salary scales. Guidance includes the general make-up of salaries such as basic salary, pension, qualification allowance and a duty allowance. There are formal salary scale amounts and salaries are generally based on seniority and experience, with certain wage increases based on years of employment with ADRA Denmark.

It is also a requirement that all staff, both in the field and at HQ sign a legal contract. References are always checked, as outlined in the "Personnel Handbook" and are included on the employee's personnel file, along with documented notes taken at the time of recruitment. These are shared with the Administrative Committee.

There aren't any differences between recruitment procedures for ADRA DK HQ and ADRA local staff. There have not been any problems in recruiting qualified local staff.

Staff turnover at HQ was a reasonable 13% for the year 2015. See Annex 3.3 for details.

Once a project has been finished, ADRA Denmark will liaise with local ADRA offices to move staff to other projects if they are needed and if there are no issues regarding their performance.

4.4.3 Appraisal

Staff appraisals are documented and conducted annually for all ADRA DK staff at HQ as ADRA DK has no staff in the field. The documentation takes the form of a document, titled 'employee appraisal and development dialogues', which details the overall tasks that the employee performs and the professional and personal development of the employee, as well as the main tasks and goals and training wishes of the employee. Other parties are given responsibility for ensuring that each of these goals and training needs are enforced and a date of application is set for each agreement.

Managers are also assessed under this appraisal process. Furthermore, for each of the individual employee's appraisal, they are asked for feedback on what their manager can do less and more of. This ensures that all managers are adequately appraised.

4.4.4 Training

There is regular staff training but this is not formalised. Staff are chosen for training based on the training needs that are identified in their formal staff appraisal and through regular meetings between staff and management where such needs are identified on an ongoing basis.

There is no training policy that contains induction training in relation to safety and security, code of conduct, and fraud and corruption prevention. ADRA Denmark does however have a security and safety policy document and staff who visit the field are provided with this document before they leave. It is recommended that induction training specifically in relation to safety and security is undertaken for all new staff members (recommendation 14).

4.4.5 Procedures in case of conflict or dispute

Formal written procedures for dealing with staff grievances are documented in the ‘Fraud, Whistle-blowing and Complaints policy’.

The process for dealing with staff grievances is based on the four stages of raising concern, fact finding, investigation and findings. The employee is instructed to raise the matter with their immediate supervisor who will raise the matter with the Secretary General. If the matter involved the immediate supervisor or the employee would prefer the immediate supervisor not to know, they can raise the matter directly with the Secretary General. The staff member may also contact the chair of the executive board or the statutory auditor if they feel the issue should not be raised internally.

The Secretary General will conduct the investigation, the format of which will vary depending on the circumstances, with the findings communicated to the appropriate parties, such as the person raising the concern, management and the Board of Directors.

4.4.6 Security issues

A clause stating that ADRA Denmark has a duty of care towards all of its employees is contained in the ‘Personnel Handbook’.

The ‘Security and Safety policy for ADRA Denmark’ contains plans for emergency evacuation of field staff in case of civil or military unrest. The local implementing country office will also have its own procedures for its staff in such instances.

ADRA Denmark has insurance that covers staff visiting the field. ADRA Denmark’s ‘Security and Safety Policy’ contains general guidance on the how to act, react and learn from security incidents.

A security incident register is maintained in order to ensure that all security incidents are recorded. Details of security incidents are also recorded in the monthly projects reports.

Specific security arrangements are made depending on the security risk in the specific area. It is a stated policy of ADRA Denmark that armed guards are not to be used as a security measure, in order to prevent the independent status of the organisation from being undermined.

Staff are given assistance after a security incident where applicable, such as referral to a psychologist specialised in trauma incidents. Security incidents are fully investigated to determine who was responsible for the incident and how lessons can be learned. Formal disciplinary proceedings are commenced against any staff members not following security instructions.

Staff from ADRA Denmark who are visiting field locations are not required to sign risk liability disclaimers. ADRA Denmark has employment liability insurance that specifically covers safety and security risks.

4.5 AUDITOR'S ASSESSMENT OF ADMINISTRATIVE INTERNAL CONTROL SYSTEMS

4.4.7 Organisation

Organisation was initially assessed as inadequate from the ICQ. As a result of our audit we have confirmed this assessment.

There have been no significant changes since the previous HQ audit. Organisation has been assessed as inadequate as the NGO does not have formal procedures in place to be followed when management finds it necessary to override established controls, the NGO does not regularly prepare a written report on adherence to the code of conduct and the NGO does not have an internal audit function. ADRA Denmark has good written guidance and policies on internal control systems for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, three recommendations for improvement (running numbers 7, 8 and 9) have been made in relation to adherence to the code of conduct and the override of established controls, which are set out in Annex 1 and, where deemed significant, in section 1.4.

4.4.8 Planning

Planning was initially assessed as adequate in the ICQ. As a result of our audit we have confirmed this assessment.

Significant changes from the previous HQ audit include the fact that the strategic plan includes financial data, a formal written report is prepared of the comparison of outcomes to the strategic plan and risk assessments for projects are carried out which document and quantify regulatory, financial and operational risks. ADRA Denmark has acceptable written guidance and policies on planning for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, one recommendation for improvement (running number 10) has been made in relation to KPIs which are set out in Annex 1 and, where deemed significant, in section 1.4.

4.4.9 Accounting, financial management and reporting

Accounting, financial management and reporting was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have confirmed this assessment.

There have been no significant changes since the previous HQ audit. Accounting, financial management and reporting has been assessed as adequate in most respects as the organisation does not maintain country budgets, financial data to be used in ECHO related documents has to be extracted from the system and manipulated in excel, an organisation-wide cash flow system is not produced, consolidated management accounts are prepared on a yearly basis only, and implementing partner transactions are recorded on the HQ accounting system in aggregate per budget line and not individually per transaction.

ADRA Denmark has good written guidance and policies on accounting, financial management and reporting for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, four recommendations for improvement (running numbers 11, 12 and 13) have been made in relation to recording transactions in the accounting system and the preparation of cash flows and management accounts which are set out in Annex 1 and, where deemed significant, in section 1.4.

4.4.10 Personnel

Personnel was initially assessed as adequate in most respects from the ICQ. As a result of our audit we have confirmed this assessment.

Changes from the previous audits include the fact that HQ and expat staff are evaluated formally on a fixed term basis and regular training is provided. ADRA Denmark do not have a separate personnel department but has good written guidance and policies for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, one recommendation for improvement (running number 14) has been made in relation to safety and security and personnel procedures which are set out in Annex 1 and, where deemed significant, in section 1.4.

4.4.11 Overall assessment

As a result of our audit, we have assessed administrative internal control systems as adequate in most respects.

5 Logistical Internal Control Systems

5.1 PROCUREMENT

5.1.1 Domestic legal regulations for procurement

ADRA Denmark are not required to follow any national procurement guidelines.

5.1.2 Procurement procedures

ADRA Denmark has written procurement procedures, as outlined in its 'ADRA Denmark Procurement Guidelines' document, which also documents the relevant authorisation limits and thresholds (see annex 4.1).

Segregation of duties with regards to purchasing has been established at both HQ and at field level through the local implementing country office.

The formal procurement procedures also include guidelines on the formation of a tender committee for the assessment of submitted tenders, the process for which will differ depending on the nature of the transaction. These provide guidelines for the local implementing country office to implement, which ADRA Denmark monitors.

In most cases, the Procurement Officer/Assistant is required to obtain quotations for the requested items/services. Potential suppliers should receive the following standard information in the tender document:

- The goods, works and services to be procured specified in the Bill of Quantities.
- The expected timing of such procurement and required delivery lead times.
- The contact details of the staff in charge of the tender procurement procedure.
- The contact details pertaining to the submission of tenders.

The tender committee will approve the purchase requirement for a tender as well as award the contract to the supplier based on the specific selection criteria outlined in the tender documentation. ADRA Denmark is not formally involved in the tender process at field level but conducts checks on whether recommended guidelines are followed by the local implementing office through monitoring visits and review of documentation.

ADRA Denmark's implementing partners employ their own procurement guidelines, as recommended by ADRA Denmark, which included specific guidelines in order to meet the requirements of specific donor policies, including ECHO.

Procurement procedures are rarely overridden and they are not formally documented. If a procedure is to be overridden, then informal procedures are conducted – e.g. email from the finance director confirming that the override is approved.

Procurement guidelines are full integrated into project planning, as part of the Detailed Implementation Plan (DIP) which is implemented for all projects by the local ADRA implementing office.

5.1.3 Adherence to the Principles of Annex III of the Framework Partnership Agreement of 2014

ADRA Denmark's procurement procedures adhere to all of the principles of Annex III of the FPA, by virtue of both its own procurement guidelines and the monitoring of the procurement documentation of the local implementing country office. All tenders are completed by staff with the necessary knowledge and expertise and contracts are awarded to those suppliers who meet broad and detailed criteria, such as price-quality ratio, the proposed delivery time, the security of the transport staff and the goods and services to be implemented, and the respect of high ethical and environmental standards in the production procedures of the goods to be delivered.

ADRA Denmark does not have a specific clause in its contracts which state that supplier must adhere to the General Principles of Annex III of the FPA or that donors may conduct tests at the NGO's suppliers, as ADRA Denmark does not make direct contracts with suppliers. ADRA Denmark does however ensure that these clauses are inserted in the contract documentation of the local implementing ADRA office which were seen as being present during the audit testing.

5.1.4 Use of framework agreements, 'pre-validated' (favoured) suppliers and procurement centres

ADRA Denmark does not use framework agreements, favoured suppliers or procurement centres as they do not make contracts with suppliers directly.

5.1.5 Audit testing of procurement procedures

From our testing of the documentation provided for audit, there have been instances where procurement procedures have not been followed. These include the following:

- Supplier selected from tendering process different from the actual contracted supplier.
- Supplier contract not available.

In all other instances, compliance with the prescribed procurement guidelines had been followed. A sample of non-successful bidders were checked, with all of the sample found to be in existence. There weren't any instances of procurement bids having been split into smaller bids to avoid proper tendering.

5.2 STOCK CONTROL

Due to the fact that ADRA Denmark does not implement any projects directly, they have no formal stock controls in place. Stock control is maintained by the local implementing partner, which ADRA Denmark monitors through monitoring reports and stock reports sent back to HQ.

5.3 FIXED ASSETS

At the field level, all of the fixed assets are included in the fixed asset register by the implementing office and identify the donor of the fixed asset items, along with other information such as model/serial number, condition and location. A separate fixed asset register is maintained by ADRA Denmark for fixed assets held at HQ.

Fixed assets at both the HQ and field level are covered by an insurance policy. At field level, the implementing office insures assets under its own policy, which ADRA Denmark reviews.

The fixed assets of ADRA Denmark are depreciated in line with the NGO's depreciation policy, as detailed in the NGO's annual report, which reflects the useful life of the assets. In the field they are fully expensed at the time of purchase.

The handling of fixed assets that the NGO intends to carry over to another project depends on the rules of the donor of the projects. Normally this is done through signed documentation, detailing the exact assets that are to be transferred over. ADRA Denmark are informed of the assets remaining at the end of the project through the final report, with this being checked through regular monitoring and review of the submission of handover documents at the end of the project. The monitoring visits also serve the purpose of checking the reliability of the system in the field.

5.4 AUDITORS' ASSESSMENT OF LOGISTICAL INTERNAL CONTROL SYSTEMS

5.4.1 Procurement

Procurement was initially assessed as inadequate from the ICQ. As a result of our audit we have revised this assessment to adequate.

ADRA Denmark does not make direct contracts with suppliers, which is done through the local implementing ADRA office. ADRA Denmark ensures compliance by the local office through monitoring reports and formal guidelines.

As a result of our audit, no recommendations have been made.

5.4.2 Stock

Stock was initially assessed as inadequate from the ICQ. As a result of our audit we have revised this assessment to adequate.

ADRA Denmark does not have any formal stock controls as it does not handle any stock directly. This is done through the local implementing ADRA office.

As a result of our audit, no recommendations have been made.

5.4.3 Fixed assets

Fixed assets was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

ADRA Denmark has acceptable written guidance and policies on fixed assets and the on-site audit allowed for observations of these procedures in practice. These observations included copies of the fixed assets registers both at ADRA Denmark and in the field along with the documented procedures being in place.

As a result of our audit, no recommendations have been made.

This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

5.4.4 Overall assessment

As a result of our audit, we have assessed logistical internal control systems as adequate in most respects.

6 Project Management

6.1.1 Needs assessment

Needs assessments are performed in the field by the implementing partner, which ADRA Denmark formally reviews. Needs assessments are carried out as part of the project development phase and are updated on an annual basis or more often, as appropriate.

6.1.2 Beneficiary involvement

Local municipalities and councils, which act as the representatives of the communities, are involved at each stage of the implementation of the governance of the implementation process, from the identification of beneficiaries and monitoring of the status of the project to feedback from beneficiaries.

ADRA Denmark does have a complaints procedure but it is not formalised. The organisation has agreed to sign up for a CHS certification process by the Humanitarian Quality Assurance Initiative (HQAI) to be completed in April 2017 which is also documented in ADRA Denmark's Fraud, Whistleblowing and Complaints policy. This will help improve the beneficiary complaints procedure and feedback. We recommend to ADRA Denmark to formalise the complaints procedure for use by beneficiaries (recommendation 15)

ADRA Denmark does not report directly back to the beneficiaries but does so through the local implementing office. This is done through post-distribution surveys and formal monitoring forms, which are delivered to the local councils, highlighting the beneficiaries' uptake and usage of the relevant distribution or service, as well as providing a means to document complaints and possible improvements in the future.

ADRA Denmark monitors compliance by the local office in the implementation of its Safety & Security plan, which details the procedures in place to cover the three main security areas of personnel safety & security, office and asset protection and information and data safeguards.

6.1.3 Management of implementing partners

ADRA Denmark implements projects solely through its partners within its own umbrella group of organisations. In the example of the project that falls under this HQ audit, ADRA Syria is the sole implementing partner, with ADRA Denmark having a monitoring role in its implementation.

ADRA Denmark has a partnership agreement with other ADRA network organisations and has a general guidelines document for partnerships with other ADRA network organisations.

These partnership agreements contain specific reference to compliance with ECHO rules, including the right of access of ECHO and other EC auditors to partner records as well as compliance with financial management procedures.

Through monthly reports to HQ, ADRA Denmark are able to monitor the quality of information that is provided by the local office as well as whether the terms of the agreement are being adhered to. The ADRA network also has its own organisational assessment procedure called Country Operation Review for Excellence (CORE). Further monitoring visits to the field, at least annually, ensure compliance with the conditions of the grant agreement are adhered to.

ADRA Denmark conduct regular monitoring visits to the local field offices of its implementing partners on an ad hoc basis, although this is usually done 2-3 times per year. Monitoring also takes place from review of the monthly reports that are produced by the local office and given to headquarters. Financial reports are checked to their matching supporting documentation on an ad hoc basis, usually as part of the monitoring visits or through the monthly financial reports.

The local implementing ADRA country office is responsible for procurement and follows its own rules. ADRA Denmark provides general guidance on what these rules should be and insists on compliance to ADRA Denmark's guidelines, or that of an external donor, where these are stricter than that of that of the local implementing ADRA country office. In order to ensure the local office is adhering to the procurement guidelines, monitoring visits are undertaken at least annually. The monitoring visit serves to review the procurement procedures and files held in the field. The findings of these visits are formally reported.

The local implementing ADRA office is audited by local external auditors on yearly basis. These audit reports are shared with ECHO on request.

6.1.4 Reporting on operational performance

The local implementing country office reports quarterly to ADRA Denmark on operational performance. Operational reports include the general context of the project, the status of project activities and the fulfilment of specific objectives, indicators and outputs, a comparison of actual expenditure to budget based on the specific activities of the project and an assessment of the status of the risks of the project that have been identified.

6.1.5 Monitoring and evaluation of field operations

Projects are overseen by suitably qualified staff who monitor and report on progress and individual programmes are monitored by staff who are independent of programme implementation staff. Field offices are visited by HQ operational staff at least annually.

Post implementation monitoring takes place through post-distribution surveys and monitoring reports, that ensure that aid delivered to beneficiaries remain with them and has proved to be of sufficient quality.

ADRA Denmark select completed projects for internal evaluation on a risk basis, the results of which are made available to ADRA personnel only. When the projects are evaluated by external consultants, the results are communicated to relevant stakeholders, including beneficiaries, ADRA staff, and the relevant donors. Lessons learned are also communicated through other mechanisms such as cluster meetings.

6.1.6 Follow up of audit results stemming from field audits

The previous field audit (07-FB05-005) was published by CLB Littlejohn Frazer in September 2007 in relation to the grants ECHO/LBR/EDF/2006/01001 and ECHO/LBR/BUD/2007/01003.

The findings from the previous HQ audit were consistent with the findings and recommendations identified during the field audit. The recommendations made in the previous field report have been followed up in this HQ audit and have been implemented by ADRA Denmark.

6.1.7 Local VAT Status

ADRA Denmark does not maintain the VAT files for country offices. In Syria, where the project under audit was based, there is no VAT system in place.

6.2 AUDITOR'S ASSESSMENT OF PROJECT MANAGEMENT

Project management was initially assessed as adequate in some respects from the ICQ. As a result of our audit we have confirmed this assessment.

There have been no significant changes from the previous HQ audit, with all recommendations from the previous HQ audit implemented, aside from one. Project Management has been assessed as adequate in some respects, due to the fact that projects are selected for evaluation on an ad hoc basis and checks made to supporting information at implementing partner offices are made on an ad hoc basis. ADRA Denmark has acceptable written guidelines and policies on project management for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, one recommendation for improvement (running number I5) has been made in relation to a formal complaints procedure for beneficiaries which is set out in Annex 1 and, where deemed significant, in section 1.4.

7 Conformity with external regulation, own procedures and the FPA

7.1. EXTERNAL COMPLIANCE

7.1.1 Domestic legal and regulatory requirements

ADRA Denmark is a registered NGO that has been working with relief and development since 1987 and is a member of ADRA International. ADRA Denmark is not registered for VAT as an NGO.

The financial statements of the organisation are prepared in accordance with the Danish Financial Statements Act. These National/IAS standards are used without any variation.

7.1.2 External audit

ADRA Denmark is audited annually by a statutory auditor, Deloitte, Copenhagen. ADRA Denmark has submitted to ECHO information concerning the previous financial year based on the annual activity report and the annual statutory accounts certified by an approved external auditor within twelve months of the end of the financial year in compliance with article 6.2(b) of the FPA 2014. The audit opinion has been positive in each of the last three years.

The scope of the audit includes testing of individual field transactions, however, local field offices are not visited. Local external auditors conduct audits of the local field offices.

7.1.3 ECHO requirements

We have not found any evidence to suggest that the partner is in breach of any of the pre-selection questions.

We have not found any evidence to suggest that the partner is in breach of the FPA and its General Principles.

7.1.4 Other external control bodies

Danida, the Danish foreign ministry focused on Denmark's development cooperation, concluded a report on ADRA Denmark in 2015, the recommendations of which ADRA Denmark is currently following up.

7.1.5 Relationship with umbrella organisations

ADRA Denmark is a member of Globalt Fokus, a Danish group of humanitarian and development organisations. At European level, ADRA Denmark is a member of VOICE (Voluntary Organisations in Cooperation in Emergencies) and CONCORD (Confederation for Cooperation of Relief and Development). The ADRA network which ADRA Denmark belongs to is registered with ECOSOC (1997) and has global agreements with WFP and UNHCR.

Danida, with whom ADRA Denmark have two agreements, require an annual report on the activities of the organisation.

7.1.6 Relationship with institutional donors

Danida, as a donor of ADRA Denmark, carried out a report in the last year on the financial management and organisational capacity of ADRA Denmark, the recommendations of which ADRA Denmark is currently implementing. There were no major findings in the report that will affect ECHO.

7.2 QUALITY

The NGO has adopted both external and internal standards with regard to a formal quality standard system. The first is the CHS (Core Humanitarian Standards) certification process, which contains guidelines on quality, accountability and people management. The Finance Director is responsible for overseeing this certifications process. ADRA Denmark also complies with ADRA International's CORE certification, which is overseen by Secretary General. The quality of all projects and programmes is overseen by the Programme Director, with annual reports produced to certain donors such as Danida.

The process for reviewing the achievement of quality standard is integrated into other review processes such as internal audit, monitoring and evaluation, and external audit. The achievement of quality standards is reviewed at both a project level - mainly through monthly reports that are produced to ADRA Denmark and monitoring reports - and at HQ level through annual reviews of the entire organisation by certain donors and through external audits.

The reviews include both recommendations for improvement and the follow-up of previous recommendations. Reviews are formally reported to the Administrative Committee who in turn will report any major findings to the Board of Directors.

The primary responsibility for the achievement of quality standards lies with the Programme Director and the Administrative Committee, although the Board of Directors takes ultimate responsibility in ensuring that quality standards are met.

The Management Team conducts a regular quality assessment of all work done by ADRA Denmark to constantly improve performance.

7.3 FRAUD AND CORRUPTION PREVENTION

ADRA Denmark has a fraud and corruption policy available to staff at both HQ and in the field. This takes the form of a 'Fraud, Whistleblowing and Complaints policy' document that outlines the policies and guidelines in relation to fraud and corruption prevention.

The policy includes a statement of no tolerance and also includes more formal guidance on the steps to take in various instances of suspected fraud and corruption, in line with their employee code of conduct. ADRA Denmark also inserts a specific clause in its contracts with implementing partners in order to ensure that they adopt the same high ethical standards and zero tolerance approach towards corruption.

ADRA Denmark does not have a specific awareness raising programmes for the identification of fraud and corruption risk. It is therefore recommended that ADRA Denmark implements a formal and specific awareness raising training programme for the identification and assessment of fraud and corruption risk (recommendation 16).

ADRA Denmark formally reports on fraud and corruption risk in project needs assessments and project proposals internally and to donors.

A formal whistle-blowing policy is in place for all staff, which includes guidelines on definitions of malpractice, the responsibility of staff members who commit such malpractice, how to raise concerns, the investigation process and how findings are communicated. ADRA Denmark make the formal whistle-blowing policy available to implementing partners and consultants in an annex to the partnership agreements in place.

ADRA Denmark does not have any specific policies and procedures in place to safeguard funds from inadvertently contributing to terrorist activities. Instead, all ADRA country offices must sign a 'Certification Regarding Terrorist Financing' document, which is sent to ADRA International, which outlines the procedures and policies with regards to terrorist financing and a statement that the implementing office has adhered to the specific requirements of the policy.

7.4 AUDITOR'S ASSESSMENT OF CONFORMITY WITH EXTERNAL REGULATION, OWN PROCEDURES AND THE FPA

7.4.1 External compliance

External compliance was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

There have been no significant changes since the previous HQ audit. For an organisation of its size, ADRA Denmark has acceptable written guidance and policies on external compliance for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, no recommendations have been made.

7.4.2 Quality

Quality was initially assessed as adequate in some respects from the ICQ. As a result of our audit we have confirmed this assessment.

In the previous HQ audit, quality was assessed as adequate in most respect respects. The main reasons for the change in this assessment include the fact that ADRA Denmark do not make formal quality reviews of the field. General reviews taking place by virtue of monthly financial reports that are sent from the field, and through monitoring reports. Overall, for an organisation of its size, ADRA Denmark has reasonable written guidance and policies on quality; the on-site audit allowed for observation of these procedures in practice.

As a result of our audit, no recommendations have been made.

7.4.3 Fraud and corruption prevention

Fraud and corruption prevention was initially assessed as adequate from the ICQ. As a result of our audit we have confirmed this assessment.

The previous HQ audit report assessed Fraud and Corruption prevention as adequate in some respects. The main changes from the previous audit include the fact that the fraud and corruption policy contains formal guidance and is not just a statement of fact and the policies are shared with consultants and local partners, volunteers, and implementing partners' suppliers. Overall, ADRA Denmark has acceptable written guidelines and policies on fraud and corruption policies for an organisation of its size; the on-site audit allowed observation of these procedures in practice.

As a result of our audit, one recommendation for improvement (running number 16) has been made in relation to awareness raising training programmes for the identification of fraud and corruption risk which is set out in Annex 1 and, where deemed significant, in section 1.4.

7.4.4 Overall assessment

As a result of our audit, we have assessed Conformity with external regulation, own procedures and the FPA as adequate in most respects.

From the work that we have undertaken, and the responses received from the NGO, the NGO does not appear to be in breach of Articles 2.2(a), (c), (d) and (e) 2.3 and 2.4 of the FPA. We are unable to form a view on Article 2.2(b) as this is beyond the scope of our audit methodology.

From the work that we have undertaken, and the responses received from the NGO, we are not aware that the NGO is in breach of the conditions and criteria laid down in Article 7 of the Humanitarian Aid Regulation (Articles 7.1(a) and (b) and Articles 7.2(a), (b) and (c)). We are unable to form a view on Articles 7.2(d) to (h) as this is beyond the scope of our methodology and the exclusion criteria in Articles 106(1) and 107(1) of the Financial Regulation.

We did not find the partner to be in breach of articles 21 and 23 of the General Conditions.

8 Partner Comments

As we have stated in our response to recommendation 12 we do not agree to this recommendation.

Concerning the auditors disallowance of office rent (transaction 21, 75 and 160) we agree, that the sharing of costs in ADRA Syria between different project has not been documented correctly. The auditors are correct, but since there is no doubt that the ECHO project should pay part of the office rent, we appeal to ECHO that they will reduce the potential recovery for these transactions to 50%.

Auditor's response: The comments of the NGO have been noted, however, we believe that both recommendation 12 and the disallowances in respect of transactions 21, 75 and 160 should stand.

Annex 1 – Recommendations for Systems Improvement

We make the following recommendations³ for systems improvements. These recommendations stem from the answers in the Internal Control Questionnaire filled in by the Partner at the start of the audit. The recommendations highlight weaknesses in the system of internal controls of the NGO in the view of the auditors. ECHO would like the Partner to identify the actions necessary to address these weaknesses and to take such action, or to state why the recommendations will not be implemented. ‘Urgency’ in the table below refers to the time by which the Partner should **begin** the implementation process. * = previously raised recommendation.

Number	Rating	Recommendation	Urgency (months)	NGO Response, Action Planned, Timeframe Proposed
Substantive Testing				
1	3	It is recommended that all key procurement documents of ADRA Denmark, including invoices, are translated into English or French.	3 months	We agree. In April 2017, we will send revised written guidelines for our partners to ensure that they abide to the ECHO requirements in the future.
2	4	It is recommended that ADRA Denmark’s basis of allocation of costs to different projects is clearly documented.	Immediately	We agree. We will have more emphasis on this and include it in our written guidelines for our partners to ensure that all costs sharing is clearly documented in the future. Revised guidelines will be send to partners in April 2017.
3	3	It is recommended that the project term is provided and agreed for all new contracts that ADRA Denmark enters into with suppliers, in order to reduce the risk of suppliers delaying the beginning of the work.	Immediately	We agree. This is also our policy. We are aware that by mistake project terms were not clear in a single case.

³ Ratings are:

- 5 - very important
- 4 - important
- 3 - of concern
- 2 - requires attention
- 1 - needs review

Number	Rating	Recommendation	Urgency (months)	NGO Response, Action Planned, Timeframe Proposed
4	4	It is recommended that where there are changes to the payment schedules of suppliers, these are updated on the contract documentation by ADRA Denmark and that the adjusted terms are formally authorised.	Immediately	We agree. This is also our policy. Changes to the payment schedules of the suppliers is updated on contract documentation and authorized. But we will include this in our guidelines to ensure it is followed. Since we are working in very unstable countries changes will often happen, but should always be documented.
5	3	It is recommended that where bank payments are made for a number of different items, a full breakdown of the individual items that make up this overall amount is provided and reconciled by ADRA Denmark.	3 months	We agree. This should be standard procedure and will be included in the written guidelines to ensure that our partners do this in the future.
6	3	It is recommended that the supplier selected from a tendering process is the actual contracted supplier and that copies of all supplier contracts are kept.		We agree. In the case of transaction 113 the supplier selected could not deliver and they had to select the second best offer, which was authorized by AdCom. In the future, we will ensure that proper documentation is secured if changes are accepted.
Internal Control Systems – Administration				
<i>Organisation</i>				
7*	2	It is recommended that ADRA Denmark's list of other director's positions is formally reviewed.	12 months	We will prepare a form that are filled out and signed individually by every board member once a year. Next time in April 2017
8*	2	It is recommended that a written report on adherence to the code of conduct is prepared regularly by ADRA Denmark.	12 months	The Secretary General will report annually to the Board on adherence to the Code of Conduct as well as to ADRA Denmark's <i>Fraud, whistle-blowing and complaints policy</i> . All staff members will annually be reminded of their responsibility in this regard.

Number	Rating	Recommendation	Urgency (months)	NGO Response, Action Planned, Timeframe Proposed
9*	3	It is recommended that a formal process is put in place when established controls are overridden and that an exemptions register is maintained by ADRA Denmark.	3 months	If established controls are overridden, these are discussed at the weekly AdCom meetings and documented in the minutes.
<i>Planning</i>				
10*	2	It is recommended that ADRA Denmark implements quantitative KPIs at the organisational level.	12 months	ADRA Denmark's strategy 2017-19, which was approved in December 2016, includes quantitative KPI's, which will be monitored.
<i>Finance</i>				
11	3	It is recommended that transactions (including with implementing partners) are recorded in the HQ accounting system individually by ADRA Denmark.	12 months	<p>We disagree with this recommendation. All our partners use double entry accounting systems, and all transactions are recorded individually. It would increase the administrative burden if ADRA Denmark should repeat the work done by our partners. We do not understand the recommendation.</p> <p>Auditor's response: At HQ, transactions posted to one specific ledger were recorded in bulk rather than individually, based on the transactions recorded individually at field level per month. Transactions recorded correctly and individually at field level should remain so, because only then can the nature of the transaction be readily identified. This should not pose an additional administrative burden; to the contrary. Rather than aggregating individual transactions into bulk transactions, HQ could import the entries recorded individually at field level.</p>

Number	Rating	Recommendation	Urgency (months)	NGO Response, Action Planned, Timeframe Proposed
12	2	It is recommended that consolidated management accounts for ADRA Denmark are prepared at least quarterly.	12 months	<p>We have monthly accounts for all projects as well as for the organizational level. We find this fully sufficient for our financial monitoring and management, and we don't believe that quarterly consolidation will add anything to our monitoring. It would be an unnecessary administrative burden, and has not been requested by our Board.</p> <p>Auditor's response: The NGO's comments have been noted, however, this recommendation will remain because of the recognised value of short-term reporting on results against longer-term objectives.</p>
13	2	It is recommended that a formal, organisation-wide cash flow projection is prepared by ADRA Denmark and reviewed at least quarterly.	12 months	<p>All funding (except ECHO funding) is pre-paid by our donors. For each project we have a monthly cash flow projection. With the current project portfolio and our 10% equity, we do not see the need for quarterly cash flow projections. This will, however, be monitored closely and if necessary we will prepare organisation wide cash flow projections on a quarterly basis.</p>
<i>Personnel</i>				
14	2	It is recommended that induction training specifically in relation to safety and security is undertaken for all new staff members of ADRA Denmark.	12 months	<p>Our standard induction training includes health and safety at the work place as well as an online course in basic safety and security. This is included in our recently approved Safety & Security Policy and accompanying detailed manual.</p> <p>Auditor's response: The recently approved Safety and Security Policy has been provided by the NGO and the induction training section has been updated in this regard. This recommendation was relevant at the time of the audit.</p>

Number	Rating	Recommendation	Urgency (months)	NGO Response, Action Planned, Timeframe Proposed
Project Management				
15*	3	ADRA Denmark have a complaints procedure for use by beneficiaries. This procedure is however not formalised. We recommend to ADRA Denmark to formalise the complaints procedure for use by beneficiaries.	12 months	Our standard partnership agreement with implementing partners includes the following requirement: Beneficiaries must have access to an appropriate known and described mechanism through which they can have their complaints processed. ADRA Denmark follows up on this on a regular basis. We will contact our partners to ensure they have formalised complaints procedures.
Conformity with procedures and FPA				
<i>Fraud and Corruption Prevention</i>				
16	4	It is recommended that ADRA Denmark implements a formal and specific awareness-raising training programme for the identification and assessment of fraud and corruption risk.	6 months	We agree. We are currently looking for the best training opportunities to be implemented within the coming 6 months.

Annex 2 – Grant agreements

Name of partner: ADRA Denmark **Annex 2 1/1**
Grant agreement no: ECHO/SYR/BUD/2014/91010 **Amendments:** 2
FPA: 2014 No-cost-extension of the implementation period from 10 months to 17 months.
Country of operation: Syria No-cost-extension of the implementation period from 17 months to 21 months.
Agreement type: Ad hoc
Grant agreement period **Grant agreement amount EUR:** 525 000.00
From: 01/03/2014
To: 30/11/2015 **ECHO contribution %** 95.24%
Activities: Humanitarian assistance to the Syrian population affected by the conflict in Syria

Cost type	Budget	Contribution requested	Accepted as reimbursable by ECHO	Accepted after audit	Difference
	EUR	EUR	EUR	EUR	EUR
Programme Activities	333 419.21	345 531.19	345 531.19	345 531.19	-
Personnel	112 786.00	104 905.76	104 905.76	103 374.02	1 531.74
Monitoring and Evaluation	8 479.00	5 440.58	5 440.58	5 440.58	-
Equipment	16 070.00	15 548.83	15 548.83	14 630.88	917.95
Visibility, Communication and Info	1 000.00	415.51	415.51	300.09	115.42
Operating Costs	18 900.00	18 222.13	18 222.13	12 326.75	5 895.38
SUBTOTAL (Eligible direct costs)	490 654.21	490 064.00	490 064.00	481 603.51	8 460.49
Indirect costs	34 345.79	34 304.48	34 304.00	33 712.25	592.23
TOTAL	525 000.00	524 368.47	524 368.00	515 315.76	9 052.72
ECHO Contribution %	95.24%	Contribution requested	95.24%	95.24%	95.24%
ECHO Contribution €	500 000.00	500 000.00	499 408.08	490 786.73	8 621.81
Potential recovery					8 621.81

This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission represented by ECHO.

The table below shows each item of disallowed expenditure and the reason for its disallowance.

Budget Line	Transaction no.	Reason for Disallowance	Amount (EUR)
Personnel	37	This transaction relates to the salary of a finance assistant. The date of the contract and extension letter does not cover the transaction date. Contract stated base salary in US Dollar transaction and journal entry is in EUR and is the same amount as the US Dollar i.e. should be \$1 488.10 but stated as EUR 1 488.10.	1 488.10
Personnel	369	This transaction relates to August 2015 salary costs. The payslip amount is stated as 6 270 US dollars but does not agree to contract appendix A amounts, and there is no evidence or receipts to show the excess payments of salary above the base amount of 6 150 US dollars. Therefore, the difference of 120 US Dollars, translated into Euros and allocated based on the proportion applicable to ECHO, has been disallowed.	43.64
Equipment	373	This transaction relates to the purchase of a camera. No copy of cheque to show the payee being paid or evidence that the camera was required for the project. No invoice or receipt for the purchase of the camera has been provided.	917.95
Visibility, Communication and Info	537	This transaction relates to the cost of designing a banner and brochure. It is unclear how this cost is directly related to the project.	115.42
Operating costs	21	This transaction relates to office rent from April to June 2014 in Lebanon. It is unclear from the documentation provided as to how the expense is allocated to ECHO and therefore the total has been disallowed.	1 791.04
Operating costs	75	This transaction relates to office rent charges for August to October 2014. It is unclear from the documentation provided as to how the expense is allocated to ECHO and therefore the total has been disallowed.	2 352.00
Operating costs	160	This transaction relates to office rent charges for January to March 2015. It is unclear from the documentation provided as to how the expense is allocated to ECHO and therefore the total has been disallowed.	1 752.34
Subtotal			8 460.49
Indirect costs			592.23
Total disallowed by auditors			9 052.72

Annex 3 – General Information

A3.1 PARTNER'S DETAILS

Name of Partner audited:	ADRA Denmark
DG ECHO Reference:	16-BA133-08
Responsible Financial Officer at Partner:	Nils Rechter
Street and Number:	Concordiavei 16
District:	
Postal code:	2850
City:	Naerum
Country:	Denmark
Audit Date:	31 October - 4 November 2016

Closing Meeting:	28 March 2017
Audited Organisation:	Nils Rechter, Finance Director, ADRA Denmark Karen Andersen, Humanitarian Coordinator, ADRA Denmark
Auditors:	Claire Palmer, Partner, PKF Littlejohn Andrew Dawson, Manager, PKF Littlejohn Brian Kelly, Audit Senior, PKF Littlejohn Weina Chow, Audit Junior, PKF Littlejohn

A3.2 KEY FINANCIAL INFORMATION

Revenue (€)	2015	%	2014	%	2013	%
ECHO funding	341 577	100%	158 848	100%		0%
EU		0%		0%	11 085	100%
EU Revenue in % of Total	341 577	4%	158 848	2%	11 085	0%
Other major donors:		0%		0%		0%
Danida	8 415 905	87%	8 280 870	89%		0%
Non-institutional funding	910 739	9%	900 026	10%	8 570 660	100%
Total revenue	9 668 221	100%	9 339 743	100%	8 581 745	100%

Summary costs (€)	2015	%	2014	%	2013	%
HQ recurring (fixed costs)	803 816	8%	617 939	7%	700 630	8%
HQ non-recurring (project costs)	417 756	4%	463 797	5%	340 403	4%
Field recurring (fixed costs)		0%		0%		0%
Field non-recurring (project costs)	8 415 719	87%	8 112 361	88%	7 434 001	88%
Total costs	9 637 292	100%	9 194 097	100%	8 475 034	100%
Net surplus/deficit	30 930		145 646		106 711	

Balance Sheet (€)	2015	2014	2013
Assets:	2 764 784	3 377 181	2 479 329
Fixed Assets	28 631		
Stocks			
Cash and cash equivalents	2 402 127	3 175 973	2 081 477
Other current assets	334 027	201 208	397 852
Liabilities:	1 770 730	2 427 114	1 674 899
Short term creditors	570 161	327 919	357 852
Other liabilities	1 200 568	2 099 195	1 317 047
Long term creditors			
Net Assets	994 055	950 067	804 430

A3.3 SUMMARY PERSONNEL FIGURES

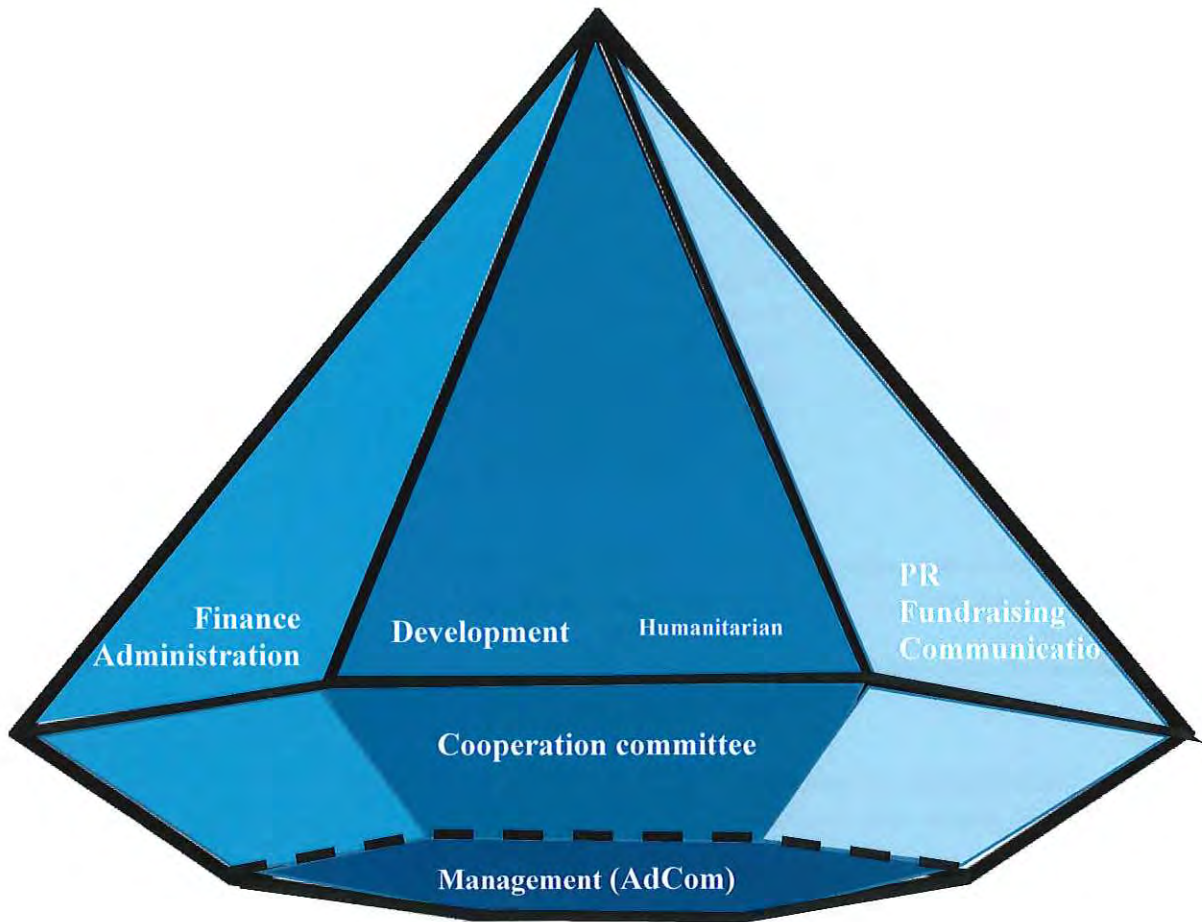
<i>20/09/2016</i>	Finance (including internal audit)	Operational/ Other	Admin	Total
HQ Staff (paid)	3	-	12	15
HQ Staff (volunteers)	-	-	-	-
Expat Field Staff	-	-	-	-
Local Field Staff	-	-	-	-
Total	3	-	12	15

Staff turnover at HQ was 13% for the year 2015.

ADRA Denmark do not have any staff based in the field.

A3.4 ORGANISATION CHART OF THE NGO

Organisational Chart for ADRA Denmark



ADRA Denmark staff September 2016

Secretary general

Lehnart Falk

Finance department

Nils Rechter

Finance director

Agnar Jacobsen

Chief accountant

Kristel Krøll Thomsen

Financial controller until September 21

Camilla Andersen

Financial controller from October 10

Programme department

Helene Ellemann-Jensen

Programme director

Ashton Mandrup

Programme coordinator (maternity leave until January 2017)

Bjørn Johansen

Programme coordinator

Christian Sørensen

Programme coordinator

Laura Nygaard

Programme coordinator

Signe Lund Christensen

Programme coordinator

Bettina Ravn

Programme coordinator

Karen G. Andersen

Humanitarian coordinator

Communication department Referring to Secretary General

Jacob Nue Sønderstrup

Communication coordinator

Bjørn Krøll

PR-coordinator

Maj-brit R. Rasmussen

Fundraiser

AdCom (Administrative Committee)

Lehnart Falk, Helene Ellemann-Jensen, Nils Rechter

Cooperation committee

AdCom plus Agnar Jacobsen, Bettina Ravn and Jacob Nue Sønderstrup

Annex 4 – Purchasing thresholds and authorisation matrix

4.1 Procurement procedures from ‘ADRA Denmark Procurement guidelines’, December 2015:

Type of Contract	Projected Expenses in DKK	Required Tender Procedure	Required Procurement Notification	Authorisation required
Supply contracts	Up to 700	Single quote ¹⁶	Place order on the basis on a single tender	None required for all in-house purchases (non-project related)
	700 to 70.000	Single quote	Place order on the basis of a negotiated procedure with a single tender	Department Directors will approve purchases undertaken by staff in their Departments ¹⁷ .
	70.000 to 750.000	Negotiated procedure	Consult in writing at least 3 suppliers of own choice and negotiate the terms of the contract. No need for publication.	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract and purchase.
	750.000 to 1.500.000	Open tender locally published	The procurement notice is published locally in all appropriate media (country where action is carried out).	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract and purchase.
	1.500.000 and above	Open tender internationally published	The procurement notice is to be published in all appropriate media: international press and www.adra.dk	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract and purchase. Final authorisation from ADCOM.
Service Contracts	Up to 75.000	Single quote	Place order on the basis of a negotiated procedure with a single tender	Department Directors will approve service contracts signed by staff in their Departments.
	75.000 to 300.000	Negotiated procedure	Consult in writing at least 3 suppliers of own choice and negotiate the terms of the contract. No need for publication.	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract
	300.000 to 1.500.000	Open tender locally published	The procurement notice is published locally in all appropriate media (country where action is carried out).	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract.
	1.500.000 and above	Open tender internationally published	The procurement notice is to be published in all appropriate media: international press and www.adra.dk	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract. Final authorisation from ADCOM.
Works Contracts	Up to 40.000	Single quote	Place order on the basis of a negotiated procedure with a single tender	Department Directors will approve service contracts signed by staff in their Departments.
	40.000 to 1.000.000	Negotiated procedure	Consult in writing at least 3 suppliers of own choice and negotiate the terms of the contract. No need for publication.	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract.
	1.000.000 to 1.500.000	Open tender locally published	The procurement notice is published locally in all appropriate media (country where action is carried out).	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract.
	1.500.000 and above	Open tender internationally published	The procurement notice is to be published in all appropriate media: international press and www.adra.dk	Three selected ADRA DK staff on an ad hoc basis based on their relevance to the type of contract. Final authorisation from ADCOM.

4.2 Procurement guidelines from “ADRA Denmark Procurement Policy”, April 2015:

Table 1: Purchase Authorization Guidelines

Projected expense in US\$ or its equivalent	Required Documents	Required # of Signatures	Authorization Required
1.00 - 100.00	1 quotation	One	Officer
101.00 – 500.00	1 quotation	Two	Officer/Project Manager and Department Head/Country Director
501.00 – 1,000.00	3 quotations	Two	Officer/Project Manager and Department Head/Country Director
1,001.00 - 5,000.00	3 quotations	Three	Officer/Project Manager and Department Head and Country Director
5,001.00 and above	4 closed bids	Three	Officer/Project Manager and Department Head and Country Director or with an ADCOM vote

Annex 5 – Methodology

A5.1 OBJECTIVES OF THE AUDIT

The objectives of the audit are to:

- Provide assurance to the European Commission as represented by ECHO that the funds claimed by the Partner have been used in compliance with the eligibility criteria as set out in the grant agreement and the governing FPA and the Council Regulation concerning humanitarian aid 1257/96. This assurance is needed to enable ECHO to assist those who are the most vulnerable, the beneficiaries, and to fulfil its accountability obligations arising from a variety of rules and regulations⁴.
- In the spirit of partnership, to provide recommendations to the Partner to improve the Partner's systems and reduce the risks bearing on the use of EU funds based on the assessment of the procedures applied in their accounting, audit, internal control systems grant / IP management and procurement.
- Give advice to the Partners to assist in establishing a more effective and efficient aid delivery as required by the Financial Regulation applicable to the general budget of the Union.

A5.2 AUDIT APPROACH

Our responsibility is to report to ECHO on the adherence by the Partner to the prevailing conditions of the governing FPA. We are not in a position to decide whether any mitigating circumstances arose during the implementation of the projects subject to audit. We report solely on the basis of regularity and legality – whether the conditions of the FPA and the grant agreements have been adhered to. Any mitigating circumstances drawn to our attention will be reported to ECHO who will make the final decision on the eligibility of the costs subject to such circumstances. Any such costs will be reported to ECHO as not eligible by the audit and therefore 'potentially recoverable', unless it has been clearly and willingly accepted by ECHO during the liquidation. The final decision on the eligibility of costs remains with ECHO.

Our audit approach is systems based. It involves a review of systems, structures and controls to identify the adequacy of internal control associated with the NGO and then substantive testing of transactions by reference to underlying documents taking into account the adequacy of internal control identified. To implement this approach an Internal Control Questionnaire (ICQ) is used. The completed ICQ gives an indication of the control environment assessed as adequate, adequate in most respects, adequate in some respects or inadequate, which is used to determine the level of substantive testing (see A5.3) of underlying documents, normally using a sample representing between 35 and 70 % of the grant agreement value.

⁴ Rules and regulations include the governing FPA, the Financial Regulation and Rules of Application and article 1257/96 of the Council Regulation concerning humanitarian aid.

The ICQ covers four areas with ten sub-sections, namely:

- i. Admin
 - a. Organisation
 - b. Accounting, financial management and reporting
 - c. Personnel
 - d. Planning
- ii. Logistics
 - a. Procurement
 - b. Stock
 - c. Fixed assets
- iii. Project management
- iv. Conformity with procedures and the FPA
 - a. External compliance
 - b. Quality
 - c. Fraud and corruption prevention

We have reviewed and evaluated the responses given to the ICQ together with the supporting evidence received from the ECHO Partner. Our primary purpose was to establish the adequacy of internal control or level of audit risk and our review cannot be relied upon to have detected all deficiencies and weaknesses that a full management audit might reveal. However, as a result of its completion and evaluation, we have identified some recommendations for systems improvements.

The ICQ was completed on the basis of current systems and controls in place at the organisation, which may not have existed at the time the grant agreements were running.

For any audited grant agreement already subject to detailed review and inspection at field level (and whilst still in progress), the final audit risk level adopted (for purposes of audit sample size determination only) will be the higher of the risk level assigned at field level originally and that determined as part of the planning and internal control assessment work conducted in overall terms for this HQ level engagement.

It should be emphasised that individual management actions will not be under particular scrutiny and the aim of the report is not to apportion blame to individuals or organisations. Descriptions of systems failures can best be understood as providing recommendations as part of the capacity building measures normal in a partnership for the future to ensure effective management of future grant agreements.

A5.3 SUBSTANTIVE TESTING

Substantive tests have been carried out in respect of selected transactions for each grant agreement submitted to audit. The substantive testing is intended to verify the validity of transactions by inter alia reference to original supporting documentation (e.g. invoices), accounting entries in the records maintained by the ECHO Partner and the procedural requirements of the grant agreement (e.g. in respect of tendering procedures). It also includes verification of cash and bank accounts to verify payment of the transactions claimed.

The sampling methodology used to select the expenses to be reviewed was based on the following guidelines:

- assessment of the adequacy of internal control of the NGO;
- setting a materiality level for each grant agreement;
- achievement of a minimum level of coverage on testing the costs claimed in each grant agreement;
- all items in excess of the materiality level were included in the sample and at least one transaction was chosen within each budget heading based on the final financial report in the ECHO liquidation statement;
- in case of not achieving the minimum coverage established we have increased the sample of transactions to be verified.

In conducting the substantive testing of the selected projects, the risk level established by the ICQ indicates the volume and amount of testing required. This means that for all budget lines a number of transactions could be tested throughout the process.

The work performed on personnel costs can be summarised as follows:

- we obtained the list of expatriate and local staff employed on the projects and agreed it to the final report;
- for the sample selected we verified the existence of employment contracts and proofs of payment;
- we verified that the direct costs claimed agree with payroll and personnel records.

For all other cost categories we obtained documents supporting the costs selected (e.g. orders, invoices, packing lists, payments, receipts, contracts, invitations to tender where necessary) and we verified that:

- the costs were incurred or committed during the project period and were necessary for its implementation;
- the costs were correctly recorded in the NGO's accounting system;
- the costs charged are eligible per the grant agreement and its Annexes.

A5.4 LIMITATION OF SCOPE

As stated in the audit opinion in Section 2, the audit is limited in its scope on some elements of the Council Regulation 1257/96 concerning humanitarian aid as well as some of the stipulations of the FPA 2014.

These limitations are related to issues outside the competence of the auditors. For Council Regulation 1257/96 concerning humanitarian aid, the limitation of scope is for Articles 7.1(d) to (h).

For the FPA these limitations are related to Article 2.2(b).

Annex 6 – Partner’s response and Letter of representation



Ceresvej 16
DK-2850 Nærum
Tel: +45 45587700
Email: info@adra.dk
www.adra.dk
CVR 2697 4035

PKF Littlejohn LLP
1 Westferry Circus
Canary Wharf
London
E14 4HD

DG Humanitarian Aid & Civic Protection (DG ECHO)
European Commission
B-1049
Brussels
Belgium

Dear Sirs,

**Audit of grant agreement ECHO/SYR/BUD/2014/91010 funded by the European Commission
Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO)**

As requested by you, we confirm that:

1. This letter is provided in connection with your audit of expenditure incurred in respect of the above grant agreements.
2. We note that your audit was carried out in accordance with the dispositions of Article 7 of the "Humanitarian Regulation" (Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid, OJ L 163, 2.7.1996) and in accordance with applicable International Standards on Auditing and has included:
 - 2.1. A review of the organisation's system of internal controls and procedures;
 - 2.2. Substantive testing of a sample of transactions relating to the grant agreements detailed above.
3. We acknowledge our responsibility for the following:
 - 3.1. Maintaining an adequate system of financial internal control and proper accounting records that record all financial transactions entered into by the organisation and all of its assets and liabilities;
 - 3.2. The prevention and detection of fraud;
 - 3.3. The safeguarding of the organisation's assets;
 - 3.4. Compliance with the requirements of the Framework Partnership Agreement and the conditions of the specific grant agreements referred to above;
 - 3.5. Providing DG ECHO and you as auditors acting on behalf of DG ECHO with all information and explanations required.

In relation to your substantive audit of the grant agreements noted above, having made such enquiries of the staff and officers of the organisation as we deemed appropriate and to the best of our knowledge, we confirm that:

- 1 We have provided you with all relevant accounting records and that details of all the transactions undertaken have been properly reflected and recorded in the accounting records.
- 2 All other records and relevant information which might impact upon or otherwise affect the contractual eligibility of the costs claimed under the various grant agreements noted above (including minutes of trustees/directors, and relevant management or committee meetings) have been made available to you and no such information has been withheld.
- 3 We have provided you with all the supporting documentation relating to the sample of costs claimed in the project financial statements selected for detailed testing by your firm.
- 4 There have been no transactions with or otherwise involving the trustees/directors, management or employees of the NGO (or other entities in which they have an involvement) which might otherwise be deemed or construed to be a "related party transaction" as defined by International Accounting Standard No. 24 (Related Party Disclosures) that are relevant to the audit of these grant agreements.
- 5 The expenditure transactions recorded in the grant agreements subject to audit were not claimed as costs from other donor agencies.

We have read the draft of your audit report of ADRA Denmark:

- In respect of the potential adjustments set out in your report, we have noted the amounts involved and the reason for these potential adjustments.
- We have also noted the recommendations you have made
- We are in agreement with:
 - the content;
 - the proposed adjustments;
- We partially agree with:
 - the recommendations made and will respond in accordance with the action plan in the report.Please see our comments in section 8 of the report to recommendation 12.

Yours faithfully,



Nils Rechter, Finance Director
For and on behalf of **ADRA Denmark**