

AUDITOR'S REPORT

Project: „ Building capacities for design and delivery of the first CD products in the frame of the Regional Capacity Development Network in Water and Sanitation Sector (RCDN)“

Network of Associations of Local Authorities of South-East Europe (NALAS)

Auditor's report

Recipients:

Network of Associations of Local Authorities of South-East Europe (NALAS)

Country:

Republic of North Macedonia

Project title:

Building capacities for design and delivery of the first CD products in the frame of the Regional Capacity Development Network in Water and Sanitation Sector (RCDN)

Contract number:

81222390

0. Summary of main audit results

Recipient has well organized financial system and coordinates the activities of other organizations within the Network. During the audit process there has been delay of the audit engagement due to prolonged period of securing documentation requested by the Auditor which the NALAS office was acquiring from the offices of other organizations. This time-consuming process in communication contributed to significant increase of the period for the Audit engagement.

1. Management and administration in terms of clearly defined roles, responsibilities, separation of tasks and an internal and/or external audit function (insofar as required under the agreement)

Objections/recommendations:

An internal control system is established by management to ensure that risks such as the loss or mismanagement of funds, or the misuse of assets are foreseen and minimized. Recipient's internal control system also helps to ensure compliance with laws and regulations and protect those responsible for handling the financial affairs of the Recipient.

The Recipient's rules and procedures have the following key features:

- Segregation of duties and responsibilities. Different people authorize purchase orders, authorize payments and check the accuracy of the financial transactions;
- Simple, effective and practical book-keeping. Accounting and record-keeping systems corresponds to the capacity, size and complexity of the Recipient (the Accounting is in-house);

- Documentation of all financial procedures are presented in accessible manuals which are followed rigorously. Aside from procedures applied by the Organization's, in case of difference of the procedures from the Contracting Authority (in Grant Contract funding), the Recipient applies the prescribed procedures as per the certain Agreement;
 - There is consistency of financial systems over the years so that comparisons can be made, trends analysed and transparency facilitated; and
 - Financial procedures are developed (adapted) to support different or overlapping reporting systems and requirements (for example, when a Recipient needs to report to two donors at different periods of time, using different reporting formats).
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2. Integrity and anti-corruption regulations, including the obligation of employees to adhere to a code of conduct, regulations on dealing with conflicts of interest when awarding contracts, an external or internal reporting procedure for fraud and corruption, and an independent and objective system for investigating cases of alleged corruption (insofar as required under the agreement)

Objections/recommendations:

The Recipient is aware of the requirements of the Grant Agreement and ensures that the persons it entrusts with the preparation and implementation of the Project and the awarding of contracts for the provision of materials and services to be financed do not demand, accept, provide, grant, promise or accept promise for illegal payments or any other advantages in connection with these tasks.

3. Proper use of funds as stipulated in the agreements, with random auditing of vouchers and bank accounts

Objections/recommendations:

The Recipient developed procedures and systems to manage the disbursement and monitor the use of grants to ensure that they are in compliance with donor restrictions and statutory obligations.

The grant agreement between the Recipient and the donor defines:

- how budgets and work plans should be developed and in what format;
- the start and end dates of the projects covered by the grant;
- the amount of the grant and the schedule of disbursement;
- contractual details, including responsible signatories;

- monitoring, reporting, accounting and audit requirements;
 - donor restrictions on the use of the grant, and how to adhere to these.
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4. Rendering of any agreed partnership contributions by contractual partners

Objections/recommendations:

N/A

5. Regularity and efficiency of accounting processes set up for the agreements

Objections/recommendations:

The accounting of the Recipient is in-house. The recording of all financial transactions is in a consistent, practical and accessible format which is essential for good financial management. Accounting records provide valuable information about how funds have been used and whether the organization is achieving its objectives.

The Recipient keeps an accurate record of financial transactions which shows how funds have been used. Regular reconciliation of bank and cash is conducted. Financial records and systems are regularly verified and authorized to ensure that the procedures are being followed correctly. Every transaction in the Recipient is documented, authorized, verified and recorded.

6. Regularity of the contract award procedure for goods and services in the scope of the agreements

Objections/recommendations:

Contract awarding procedures which are prescribed in Annex 4 of the Grant Agreement and are followed by NALAS.

7. Proper project implementation, including documentation of delivery and acceptance, documentation of whereabouts of procured materials and documentation of performance

Objections/recommendations :

A system of clear financial reporting is performed for donors who require a financial report (with evidence of the proper use of funds) to justify further disbursement of funds. Actual expenditure can be tested against the budget and work plan and in the event of significant potential variance, authorization can be sought. Financial reports also form part of the internal controls by giving a summary of the broad picture of income and expenditure.

The financial reporting is linked to the programmatic reporting and to the monitoring and evaluation framework in order to match the money spent to the beneficial results achieved.

The resources and time to meet required reporting form is structured into the budget and work plan. It is usual for the donor to give the format of reporting to the Recipient.

8. Transparent file management

Objections/recommendations :

The Recipient is aware that the records have a definite life cycle that involves various stages. When a record is created, it must be filed according to a well-defined file plan so that it will be easily accessible to authorized users.

The Recipient complies with the requirements required by local regulation, while complying with specific donor requirements as well.

9. Formal correctness of annual statements of accounts (in general and with respect to agreements)

Objections/recommendations:

N/A. Annual statements of account are not subject of audit. The engagement refers to Audit of Project Financial Report.

10. Description of improvements to accounting, the contract award procedure and settlements with GIZ

Objections/recommendations:

N/A. First reporting period.

11. Differences from past financial statements

Objections/recommendations:

N/A. First reporting period.

12. The documentation of project implementation meets the requirements of the local stakeholders and at GIZ (planning, actual payments)

Objections/recommendations:

The financial working considers overall monitoring and execution of the finances at the Recipient starting with signing up the agreement with the Donor, payment of the first instalment, through developing the final report on certain projects as well as on the program support.

a) Funds allocation

In the planning phase, the budget is prepared based on the program activities included in the Operational Plan, and forecasted staff and office costs. During this preparation process, the Program and Finance Managers are in charge of the fund's allocation, which at the end should be approved by the Executive Director, before the final submission to the GIZ. The funds allocation is approved by the Executive Director (or Program manager).

b) Financial transactions

b.1. Bank Transfer - This type of transaction is done by a payment order (payment of current obligations, expenses, and payment of the expenses for procurement of high prized goods). This type of transaction has to be previously approved by the Executive Director.

b.2. Cash Transactions - These types of transactions include order for cash withdrawal from the Recipient's accounts. This type of transaction has to be previously approved by the Executive Director.

In the frames of each program, the Program manager in coordination with the Executive Director, are responsible for monitoring the transaction of the funds on the bank account of the project and the transactions of the funds out of the project petty cash which is part of the program.

c) Reporting

Financial Reporting - The Financial manager is responsible for producing periodical and final reports on project; and producing periodical and final reports on programs that framed the implementation of the project.

13. Formal correctness for accounting entries

Objections/recommendations:

The Recipient is using the double-entry book-keeping and keeps track of different budget lines. The accounting system complies with the national accounting standards and requirements and donor's standards and requirements.

14. Other comments (advisory services provided, etc.)

Notes/other objections:

Recommendation to the Management when implementing projects with different partners is that when the Recipient is the Lead Partner it should collect all documents related to the project including but not limited to invoices, banks statements, contracts, and any other supporting documentation as regulated with the Grant Agreement, as well as additional project related documents, such as: letters of invitation in regards to purchases, purchase orders, dispatch notes, all kinds of deliverables no matter if they are for supply, works or services provided, supporting documentation regarding events etc.

This will address the Risk afterwards in case of controls of any kind because the responsibility towards the donor and local authorities remains within the Lead Partner of the project.

Proper use and settlement of the aforementioned grant agreement is confirmed

Skopje, 14.11.2019

Certified Auditor, Partner

Darko Kalin

