

## Report on Financial and Management Audit of CCPA

In accordance with the Terms of Reference, Ernst & Young's assignment covers procedures agreed upon with Sida as regards the funding of a programme managed by Cross Cultures Project Association (CCPA).

The procedures have been carried out in Copenhagen 23 – 26 October 2006 by one representative from the Stockholm office of Ernst & Young (EY).

### 1 Introduction and Background

CCPA started its activities in 1998 by organising an Open Fun Football School in Bosnia. Subsequently, CCPA expanded these activities to other countries in former Yugoslavia and Trans Caucasus as well as in the Levant and Moldova.

CCPA's objectives of the Open Fun Football Schools are to promote tolerance, peaceful coexistence and social cohesion between different ethnic groups, to promote the concept of football based on democratic principles like openness, non-discrimination and participation, and to stimulate the development of an active civil society.

CCPA activities require local CCPA operational offices in each new country where the football schools concept is introduced. These offices interact with national football associations, local football clubs, national ministries and local municipalities. To carry out the Open Fun Football Schools concept, CCPA provides equipment, such as footballs, sports accessories and pitch material, education of local leaders and coaches, and the actual activities for children.

The CCPA activities are mainly financed by the Union of European Football Associations (UEFA) and Danish, Norwegian and Swedish governmental bodies. In 2005, when the scope of activities were significantly enlarged, additional contributions were made by the Danish, Norwegian and Swedish donors and Finland joined as a new contributor.

The relevant Swedish contribution is stipulated in an agreement between Sida and CCPA dated 28 June 2005 for the period 17 June 2005 through 1 July 2008. The contribution is based on a DKK 54 million three-year budget, limited to CCPA activities in South Eastern Europe (the Balkans) and South Caucasus (Caucasus). Sida's support for the full period is SEK 20.7 million, equalling DKK 16.8 million at budget exchange rate, to be paid in three instalments.

### 2 Scope and Methodology

In accordance with the Terms of Reference dated October 2006, EY was asked to carry out procedures covering the following areas:

- Financial management
- Project management
- Human resources management
- Other supporting processes

Our procedures were performed at Copenhagen head office only, however including locally prepared records and documentation.

Given our time restraints, we have limited our review of CCPA financial records to the period 1 January 2006 through 30 June 2006, i.e., the part of the Sida twelve-month activity period that was not covered by statutory auditor procedures. Similarly, review procedures relating to activity management were brief.

We have made preliminary evaluations of the status of internal controls based on interviews with head office representatives of CCPA. These evaluations were to a significant extent verified while performing limited review procedures; however, no regular walkthroughs were performed. To support our evaluations, we have studied reports issued by the statutory auditors.

### 3 Executive Summary

CCPA is a small organisation, however represented by branch offices in several countries. By maintaining a lean operations focused organisation, administration expenses are kept low. Despite the relatively small size of CCPA, head office management has as an ambitious attitude toward internal control systems and external reporting.

The accounting and reporting is supported by an accounting system well adapted to CCPA's need to supervise and follow operations by activity, country or region. The system also enables reporting of different projects during different periods meeting various donors' requirements. External reporting is presented in CCPA's Annual Report, meeting both statutory Danish requirements and donor interim reporting requirements (some additional arrangements are made for Denmark). In addition, full narratives and statistics are presented in CCPA's elaborative sustainability report.

CCPA's approach to monitoring and controlling is manifested in the Administrative Guidelines, giving clear detailed directions and objectives to personnel at all CCPA locations. The guidelines' prototype has been taken from a much larger NGO, ensuring that CCPA by way of procedures is prepared for a larger scope of activities and funding.

The guidelines are regularly updated, and we appreciate that CCPA management is aware of several necessary procedure enhancements. Throughout our procedures, we discussed improvements of procedures and the control environment, and found management to have an open attitude toward our recommendations. Our recommendations cover the following areas:

- Measures to counterbalance lack of segregation of duties at head office
- Scheduled formalised local office internal on-site reviews
- Written procurement guidelines meeting donor requirements and ensuring full documentation of procurement considerations made
- Amendment of future procedures for managing and safekeeping of fixed assets
- Reinforcement of local office voucher filing procedures by introduction of standard expense report templates and driver's log books.

Our review of accounting records for the six-month period ending 30 June 2006 did not reveal any irregularities or inconsistencies and supports our evaluation of the internal control environment.

During our procedures, we have only briefly touched the subject of monitoring and evaluation of activities. Project managers and other head office personnel participate in all instructor, leader and trainer seminars. Qualitative evaluation of activity objectives are reported through narratives and statistics. Similarly, local part-time engaged instructors are assigned to monitor that criteria set for local activities, such as football schools and street events, are met. Their reporting form the basis for statistics presented in the sustainability reports.

Our conclusion is that the conditions of the Sida and CCPA agreement are met and that Sida funds have been handled in accordance with the financial and the organisational routines of the agreement.

### 4 Financial Management

Financial management and other administrative procedures are conveyed in CCPA's Administrative Guidelines. These guidelines form the backbone of CCPA's common approach to administrative routines and are updated regularly. The comprehensive Administrative Guidelines go into particulars about safekeeping of money, employment and personnel expenses, procurement and safeguarding of non-monetary assets, and accounting and reporting. Areas covering investments, budgeting and legal registration are under preparation.

#### 4.1 Local offices accounting

All locations are required to maintain an excel spreadsheet reflecting a record of local bank and cash transaction on a daily basis. Each location has an amount of petty cash not exceeding EUR 4 thousand and one bank account. Total liquid resources must not exceed EUR 20 thousand. Locations are required to reconcile petty cash to cash report twice a week and bank account to cash report monthly. Petty cash is used for reimbursements. All invoice payments exceeding EUR 500 should be made by bank transfer and all invoice payments exceeding EUR 5,000 should be made by the Copenhagen head office. Salaries are paid using bank transfers, whereas allowances and expenses are reimbursed cash. By keeping cash transactions to a minimum and by assigning large bank transfers to head office, CCPA has managed to reduce the risk for irregularities significantly.

#### 4.2 System of accounting

All general ledger accounting is presently carried out centrally. Local transactions are compiled and accounted for locally. Preliminary classification of local transactions is made by local administrative assistants. Monthly, a cash report is prepared using an excel spreadsheet and the cash report, supporting documentation and bank statement copies are forwarded to the head office. The Financial Controller reviews the transactions for completeness, reasonableness, budget compliance, and classification, makes necessary inquiries and corrections, and enters the transactions into the general ledger. Local office supporting documentation is filed using separate voucher number series.

Generic CCPA and head office related transactions are accounted for by the Financial Controller on a daily basis. All local transactions and day-to-day head office transactions are accounted for on a cash basis. However, head office fixed assets acquisitions, such as computers and vehicles are capitalised and depreciated at year-end. In addition, head office personnel related year-end transactions are accounted for using the accruals concept. Grants with full donor commitment may in exceptional cases be accrued.

Each year-end, local offices provide the head office with a list of fixed assets. Head office and local office bank accounts are reconciled to bank statements on a monthly basis by the head office financial controller. No petty cash is maintained centrally.

As from 1 January 2006, a new accounting system, Axapta, was introduced, facilitating accounting by project or region. The accounting system is licensed and hosted by Deloitte, i.e., necessary back-ups are made by Deloitte on a regular basis. Annual license cost is DKK 4 thousand per user. Initially, there is only one user located at the head office; however, starting November 2006, two local offices will enter the system. CCPA's ambition is to have all local transactions entered into the general ledger by local administrative assistants. However, review of the transactions will be maintained centrally.

In all, there are approximately 6,000 transactions accounted for during a twelve-month period. All transactions are classified in relation to type of cost, region/country, and function/activity, facilitating full income statement reporting by activity, project, country or region as well as relevant budget comparisons. Consequently, the accounting system meets the requirements of project accounting, enabling full reconciliation to CCPA's total accounting, reducing the risk of duplication of expenses.

#### 4.3 Segregation of duties

As pointed out in the statutory auditor's reporting, CCPA's financial organisation could be characterised by a lack of a segregation of duties. The Financial Controller is accountable for CCPA's accounting and financial reporting. He personally is responsible for executing duties such as preparing head office supporting documentation, reviewing and approving local offices' vouchers, entering all vouchers into the accounting system, approving expenses, preparing salary statements, authorising payments, and performing reconciliation of bank accounts.

This lack of segregation of duties constitutes a significant weakness in the head office's control environment. However, given the size of the head office operations and the nature of the activities, we appreciate that a complete segregation of duties is not feasible. To counterbalance the control deficiencies, CCPA has introduced a procedure whereby all vouchers supporting payments should be jointly approved by the Financial Controller and the Managing Director, either prior to the payment is effected or in arrears.

Nevertheless, we believe that CCPA at a minimum should consider two additional modifications of the procedures. Firstly, two out of three people could be assigned to jointly authorise bank payments, whereby the payments could be authorised while the Managing Director is travelling. Secondly, bank reconciliation should be assigned to somebody at the head office other than the Financial Controller.

#### **4.4 Control of local offices**

As illustrated above, the Administrative Guidelines is an important and well-adapted instrument for controlling and directing local offices. The guidelines impose strict procedures for cash management, authorisation of expenses and payments, personnel expenses, and classification and reporting of expenses. Procurement procedures are yet to be formally communicated, although there are instructions on procurement imbedded in the accounts classification section of the guidelines.

During the budgeting processes, objectives and terms of references are communicated centrally and agreed upon locally. Budget compliance evaluation as well as review of relevance and accuracy of period expenses is made in connection with monthly reporting. Representatives of the head office visit local offices throughout the year and participate regularly in activities. Part-time engaged instructors supervise local activities.

However, there is no formalised on-site control and monitoring of local offices. We believe that internal control would benefit from structured "internal audit" procedures imposed by head office representatives. Such procedures would include physical count of petty cash, review of transaction-by-transaction reconciliation of bank accounts, inspection of fixed assets reconciled to registers, review of local authorisation, and review of documents filed locally, e.g. employment agreements and procurement evaluation, etc.

### **5. Aspects of Internal Control**

#### **5.1 Personnel**

CCPA head office employs six people full-time, one country coordinator, one head of office/secretary, one financial controller, two project managers and one project assistant/interpreter. In addition, an intern is employed part time. Caucasus and the Levant are assigned to the project managers, respectively, whereas the Balkans is self-sufficient as regards to project management. The employment agreements for the personnel at the head office comply with Danish regulations and salaries are individually negotiated with the Managing Director. The Managing Director's salary is settled in agreement with the Chairman of the Board of Directors.

Local offices typically have a country coordinator, an administrative assistant and one or several project assistants. A full standard, time-limited and Short-Term Appointment template is provided in the Administrative Guidelines for local office employments. The guidelines stipulate fixed monthly salaries based on position and region (the Balkans and Caucasus, respectively), detailing salaries, allowances, and tax and social charges. Total 2006 full time monthly remuneration, including social charges, varies between EUR 650 and EUR 1,075. The salary component of the monthly remuneration is required to be paid by bank transfer, whereas the fixed allowance component is paid in cash.

Instructors (or monitors) are not formally employed. An agreement is entered into with each instructor. This agreement gives these people a EUR 200 seminar participation cash compensation provided that provisions in the agreement are met. A standard agreement template is provided in the Administrative Guidelines. Engaged leaders, trainers and coaches are not compensated.

The guidelines include detailed directions and conditions for per diem and other travelling expenses. Only office staff and instructors are reimbursed. Compensation is paid in cash.

To ensure that the local offices comply with local employment and tax regulations, the Balkans and Caucasus offices have engaged accounting expertise to calculate tax and social charges to be reported to local authorities. The local offices are in most of the countries subject to mandatory statutory review or audit procedures.

## **5.2 Procurement procedures**

CCPA guidelines imply that payments in excess of EUR 5 thousand should be made by head office. In addition, local offices are instructed not to maintain liquid assets in excess of EUR 20 thousand. Amounts transferred to local office bank accounts do normally not exceed EUR 15 thousand. Therefore, it is safe to assume that head office personnel have full control over all CCPA significant procurements, whether local or central. However, written CCPA procurement procedures are still to be circulated locally and communicated centrally.

From our review of documents supporting transactions during the first six months of 2006, we identified several goods and services disbursements that exceed limits stipulated in Sida's procurement guidelines for foreign non-governmental partners. Such disbursements comprise of travel and accident insurance policy, tailor's evaluation of sportswear, CCPA sales promotion material, seminar board and lodging, sportswear and footballs, etc.

We have no reason to believe that any procurement has been done at prices above market. Contrary, several agreements seems to be favourable to CCPA. Nevertheless, there is no audit trail to suggest written price comparisons were made or that open bidding procedures were followed.

We have discussed procurements with head office management and understand that procurements often are negotiated over time with several parties. To make sure that CCPA can verify that Sida's and other procurement requirements are met, we recommend CCPA to fully document considerations made and to file narratives with supporting documentation with a clear cross-reference to cash reports and general ledger vouchers.

Although all significant procurement is monitored by the head office, we believe that procurement policies should be included in the Administrative Guidelines at the earliest possible date.

## **5.3 Fixed assets safekeeping**

An investment policy has yet to be included in the Administrative Guidelines. However, the guidelines for the chart of accounts give implicit instructions on how to account for investments in three different categories; computer equipment, furniture and fixtures, and tools and machinery. During our review of the six-month period ending 30 June 2006, we were able to verify that fixed assets acquired during the period have been assigned to these accounts.

At year-end, local offices are requested to update a fixed assets register with the divestments and new investments made during the year. From our discussion with head office management, we understand that fixed assets register updates are not reconciled with investments expensed during the year.

We believe that CCPA could take several measures to increase the control over fixed assets. However, CCPA argues that due to limited investments made over time, and in consideration of CCPA's payment procedures whereby all significant payments are made by head office, sufficient control is maintained. We concur in CCPA's position under the existing circumstances.

Nevertheless, given the prospect of a considerable enlargement of CCPA's scope of activities, we believe that the organisation should be prepared for a future adoption of the following: Relevant procedures, such as the kind of investments local offices are entitled to make, authorisation policies, storage instructions, etc. need to be put in writing. Additionally, local offices should be instructed to regularly update fixed assets registers with references and an identification tag that is attached to each fixed asset. Reconciliation between the register and period cash report expenses should be performed monthly locally, and at least annually on a head office level (general ledger to CCPA assets compilation). The chart of accounts will have to be updated with a new expense account for vehicles.

## **6. Coordination of Funds**

The Sida contribution relates to the CCPA 2005 application of DKK 54 million for the three-year period ending 31 December 2007. In addition to these funds, Norway has committed to DKK 0.9 million for 2006 activities in Moldova and Denmark has committed to 4.9 million for 2005 and 2006 activities in the Levant. As discussed in section 4.2, all expenses incurred locally are reported by country and region, enabling distinction between different programmes/projects.

For annual reporting purposes, expenses incurred locally for the co-financed Balkans and Caucasus activities are allocated to each donor's support in relation to the amount paid during the year. Similarly, general administration expenses incurred centrally are allocated based on grants from all donors recognised during the year, regardless of programme or project.

We find the reporting procedures to be in line with Sida's agreement with CCPA. Due to the fact that the Swedish contract period diverges from the CCPA budget period and other donors' contract periods, expenses incurred prior to the date of the agreement could to some extent have been assigned to the Sida contribution. However, local activities peak during the summer months and expenses incurred during a calendar year tend to arise primarily in the second half of a year.

## **7. 2005 Annual Report and Related Audit**

The 2005 annual report has been subject to an audit in accordance with Danish generally accepted auditing standards (GAAS). Such standards are similar to Swedish and international GAAS. An Audit Report/Management Letter has been prepared by the auditing firm Deloitte, and we have obtained management's response to the Management Letter. In consideration of this and CCPA's comprehensive annual Sustainability Report, we believe that all Sida agreement reporting and auditing provisions have been met.

The following significant conditions are reported by the auditors and have been considered during our procedures (reference to our comments within brackets):

- Allocation of general expenses to projects (section 6)
- Lack of segregation of duties at head office (section 4.3)
- Authorisation of payments (section 4.3)
- Scope of audit procedures limited to Denmark (section 4.4)

## **8. Findings from Review of Financials**

As CCPA prepares its financial statements on an annual basis, no hard period-end closing is performed other than on 31 December. However, each office is required to report within six days following a month-end, and financials, broken down by country or region could be analysed on a monthly basis. As the first six months of Sida's cooperation with CCPA is covered by full audit procedures, our review of CCPA financials was limited to the six-month period ending 30 June 2006.

Our review has been carried out by analysing the reasonableness of expenses and through testing head office and local office expenses on a sample basis for all expense accounts. Our scope includes all classes of expenditures incurred in all CCPA locations during the period, however with emphasis on locations related to the Sida agreement. In general, we found the local procedures, disbursements and

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management of funds to be in agreement with the Administrative Guidelines and found reviewed expenditures to be eligible. Findings and where applicable recommendations and management comments are presented below.

*Retained documentation.* Documentation supporting the Serbian local office's June cash report is still to be obtained by the head office. Serbian transactions have been entered into the general ledger based on the cash report. We understand that head office's review of local supporting constitutes a key detect control and that any delay in reviewing and recording supporting documentation will slow the detection of errors. Therefore, CCPA should enforce adherence to the reporting requirements.

*Transactions supported by photo copies.* Due to statutory requirements in Croatia, original records have to be retained locally and mere photo copies are forwarded to head office to support the general ledger transactions. Nevertheless, an audit trail is maintained, although head office's control is reduced. We understand that the procedure is in line with the Danish book-keeping requirements.

*Social charges.* All salary expenses accounted for and reported include social charges, i.e., social charges are deducted from salary expensed, where applicable. In most countries, social charges are paid to the tax authorities by CCPA. Conditions and requirements vary from time-to-time and from country-to-country. To overcome risks of unexpected expenses, CCPA have included employee agreement provisions limiting total salary expenses. In the Balkans, expert services are contracted to compute social charges due. Nevertheless, it cannot be ruled out that CCPA could face additional charges.

*Reimbursement of expenses.* A standard template for expense reporting is in use for reimbursing travelling expenses and per diem at head office. We have observed that local employees and instructors have been reimbursed merely upon presentation of receipts, tickets or private car mileage information with limited reference to activity or project. By introducing the Danish standard expense reporting template, we believe that local and central review of reasonableness and evaluation of effectiveness would improve (according to the Financial Controller, a template was distributed in 2005; however, this template is evidently not in use locally).

*CCPA vehicle expenses.* Some local office employees make use of CCPA owned vehicles. All CCPA vehicle drivers are supposedly required to maintain a driver's log-book, detailing purpose of use, destination, mileage, etc. Petrol and other car related expenses are presently reimbursed upon presentation of receipts. We believe that CCPA's control over the use of vehicles and related expenses would increase if no expenses were reimbursed unless an expense report is prepared by the driver with a copy of the log-book and relevant receipts attached.

*Travel and accident insurance.* A general travel and accident insurance policy covering all CCPA personnel in Denmark and abroad has been purchased centrally. The annual policy fee amounts to DKK 73 thousand and has been included in donor reporting line item "Administration Denmark". These expenses may just as well have been allocated to local office expenses.

*Missing reference to procurement documentation.* Vouchers supporting procurement transactions rarely contain a reference to documented procurement procedures. For further discussion, refer to section 5.2.

## 9. Conclusion

Our conclusion is that Sida funds have been handled in accordance with the financial and the organisational routines in the agreement.

Stockholm, 10 November 2006

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