



EMPACTA Quality Standard No. 2 (english)

Context

When auditing projects in accordance with ISA 700 or ISA 800, auditors frequently face the problem how they can give a reasonable assurance that funds were used thriftily for the purpose of the project under audit. Usually this would include an assurance that the project expenses are charged only to one donor, to one project or to one programme. The phenomenon that expenses are charged to different donors, projects or programmes is sometimes called “double charging”, “double funding” or “double dipping”.

Double charging is a major issue from the perspective of donors or grantors. Donors or grantors usually have a high level of expectation that - if a double charging has occurred - it will be identified by auditors. Donors might seek to recover grant funding to the extent that there has been double charging. This could represent a material unprovided liability or, at least a material contingent liability, which may be sufficiently large to threaten the going concern assumption, especially for a smaller organisation.

Differentiation of Fraud, Gross Negligence, Negligence and Error

- ◉ Double charging, when done intentionally, is fraud.
- ◉ Unintentional double funding is misuse of grant funding.
- ◉ As responsibility for internal control rests with management, it would be gross negligence, if management does not take appropriate measures to exclude with reasonable assurance a double charging.
- ◉ If such procedures are in place but not applied, this could be considered negligent.
- ◉ If procedures are applied, but double charging still occurs, or if the double charging is insignificant and unintentional, this could be considered an error.

EMPACTA E.V. ®

Board: Thomas Werner, Riad al Zouki (Chairmen), Frank Fabel (Secretary), Etleva Dhamo (Treasurer)

Registered in Berlin, VR 33086 B, tax N°27/664/56771

Entitled to issue confirmations of donation in acc. with § 52 Abs 2, Satz 1 Nr. (n) 7 AO (charitable purposes)

Thielallee 113, 14195 Berlin, Germany, www.EMPACTA.org Tel. +49 30 84 31 68 44, Tel. +355 67 20 66 161

Fax: +49 89 84 00 23 17 e-mail: dhamo@EMPACTA.org

Bank account: Commerzbank IBAN DE 53 1004 0048 0433 4769 00, BIC: COBADEFFXXX



Duties

in case of audits of projects in the framework of ISA 700 or ISA 800, EMPACTA® members must:

- ◉ consider double charging a high risk fraud area unless there is an exceptional reason for lowering that risk assessment (such as a single donor funding all operations);
- ◉ respond to this risk by designing audit procedures that will have a strong probability of identifying material double charging, and with a lower probability of detecting immaterial double charging. These audit procedures could be time consuming and, in many cases, it will take more time than originally foreseen. In this case we recommend either to renegotiate the time budget or to modify the opinion, as described below;
- ◉ consider whether, as a result of their audit work, members can conclude with reasonable assurance that double charging of expenses to different donors has not occurred;
- ◉ If not, members should consider whether they should modify the audit report, either in the section “key audit matters” or, if the matter is material, in the opinion paragraph. This might lead even to a categorical rejection of an opinion (disclaimer of opinion), in cases where the auditor is not able to establish an unequivocal audit trail from documentation to the report;
- ◉ If the financial accounting records and/or financial reporting is so fragmented and disconnected that it is not possible to gain sufficient assurance that there is no material double charging, then the auditor should consider qualifying the audit report on the basis of restriction of scope; and
- ◉ address the deficiency in the management letter and to explain to donors and auditees the negative impact of fragmentized accounting.