

Annex 2 Listing of Verification Procedures to be performed

Part I - REVIEW OF THE ACCOUNTABILITY SYSTEM	
1	Agreement and Pillar Assessment
2	Control environment
3	Accounting (including IT systems)
4	Reporting
5	Procurement
6	Asset management
7	Recruitment, payroll and time management
8	Expenditure control
9	Cash and bank management
10	Other compliance issues (including visibility)

Part II – SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES

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|---|---|
| 1 | Key process 1: Procurement |
| 2 | Key process 2: Recruitment, Payroll and Time management |
| 3 | Key process 3: Budget management and Expenditure control |
| 4 | Key process 4: Disbursements (including cash and bank management) |
| 5 | Key process 5 : Reporting |
| 6 | Key process 6 : Logistics or other key process |
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Attachment 1	Compliance criteria for declared costs
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Part I _ REVIEW OF THE ACCOUNTABILITY SYSTEM - 1 Agreement and Pillar Assessment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
1.1 Agreement		
1.1.1	Obtain from the Commission's Audit Task Manager (ATM) a copy of the original Agreement signed by the Entity and the EC including annexes. <i>=> see question E1 in Annex I of the present ToR.</i>	
1.1.2	Obtain a sufficient understanding of the contractual conditions for the Action by reviewing the Agreement and annexes, and by inquiry of Commission staff (i.e. the ATM and/or other Commission staff involved).	
1.2 Pillar assessment (PA)		
1.2.1	Obtain from the ATM a copy of the latest PA report for the Entity and review for findings and recommendations related to the accountability system of the Entity. <i>=> see question H5 in Annex I of the present ToR.</i>	
1.2.2	Are there any findings and/or recommendations in the PA report which affect or may affect the review of the accountability system of this Entity? <i>=> see question H5 in Annex I of the present ToR,</i>	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.1 Control Environment		
2.1.1	Review the Entity's organisation chart and obtain a sufficient understanding of the organisational set up of the Entity in general and for this Action specifically. Identify Entity key staff assigned to the Action (including functions / tasks).	
2.1.2	Obtain an understanding of the programme/Action management cycle (programming, implementation and closing) for the Action and document it.	
2.1.3	What policies and procedures are in place for this Action (e.g. manual of operating procedures, internal control, accounting, reporting, human resources, etc.)?	
2.1.4	Is this is a multi-donor Action? If yes are relations with other donors clear and formalised?	
2.1.5	Has the Entity adopted specific internal control measures for the purpose of managing the Action and for ensuring that the contractual conditions of the Agreement (notably for eligibility of expenditure, procurement and reporting) are respected? Identify and document key controls.	
2.1.6	Are tasks and responsibilities for the Action clearly described? Are job descriptions available (see II.2.2 Sample tests for payroll)?	
2.1.7	Has the Entity allocated the staff foreseen in the Agreement?	
2.1.8	Does the Entity have a risk assessment system in place for the Action? Are risks at the level of implementing partners and/or grant beneficiaries and if relevant Sub-Delegates (including Financial Intermediaries) taken into account?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.1 Control Environment (continued)		
2.1.9	<p>Does the Entity have clear and formal reporting guidelines? Identify and document the reporting lines for the Action, including objectives, purpose, frequency, recipients of the report, approval procedures. This may concern:</p> <ul style="list-style-type: none"> - the Entity and the Entity's Headquarters - the Entity and its decentralized locations or field offices - the Entity and implementing partners or Sub-Delegates (including Financial Intermediaries) or third party Recipients - the Entity and Grant Beneficiaries - the Entity and other donors - the Entity and the Commission (i.e. the EU Delegation) 	
2.1.10	Does the Entity have a monitoring system (e.g. dedicated managers, steering committee) in place for the Action?	
2.1.11	<p>Has the Entity monitored the progress of the Action?</p> <p>Are monitoring reports / memos available?</p>	
2.1.12	<p>Does the Entity have (minimum) requirements for internal controls for implementing partners and/or Sub-Delegates (including Financial Intermediaries) and/or grant beneficiaries?</p> <ul style="list-style-type: none"> - If yes, identify and document key requirements for internal control. - How are these requirements communicated (e.g. contracts, terms of reference)? - How does the Entity ensure that they comply with internal control requirements (e.g. monitoring reports)? 	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.2 Segregation of Duties		
2.2.1	Is there segregation of duties for <i>key functions</i> with regard to the Action? Identify and document segregation of duties for key functions which may include: <ul style="list-style-type: none"> - authorizing officer (i.e. mandate to authorise transactions for operational and/or financial issues) and accounting officer (i.e. authority to execute payments); - authorization, processing, recording and reviewing of transactions; - operational and financial supervision for the Action 	
2.2.2	Are there measures in place for the <i>safeguarding of assets</i> such as: <ul style="list-style-type: none"> - segregation of duties; - prevent controls (e.g. a separate treasury function, double signature system for bank accounts, earmarked bank accounts for specific Actions) - access rights and restrictions? - regular inventory control (e.g. physical inventory, confirmations). 	
2.2.3	Does the Entity have <i>supervisory controls</i> in place for the Action? Identify and document key supervisory controls.	
2.3 Documentation, filing and record keeping		
2.3.1	Is there a filing system in place? Identify and document key features of the filing system / procedures	
2.3.2	Have specific and dedicated filing procedures been put in place for the Action?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.4 Audit and oversight		
2.4.1	Identify and document type and nature of audits to which the Entity is subject. Indicate by whom these audits are performed and whether the audits are relevant for the Action subject of this verification.	
2.4.2	Obtain a copy of the latest internal and external audit reports of the Entity (Head Office and/or Country Office) and review for internal control findings which affect or may affect the Action => see question H3 in Annex I of the present ToR.	
2.4.3	Obtain a copy of the latest verification report issued to the EC (I.e. to DG DEVCO, DG ECHO or to any other DG) and review for any financial and internal control findings which affect or may affect the Action.	
2.4.4	What are the Entity's audit requirements for implementing partners and/or Sub-Delegates (including Financial Intermediaries) or third party Recipients? Does the Entity use established terms of reference and report templates? Are audits performed by professional external audit firms which meet relevant professional and ethical standards?	
2.4.5	What are the Entity's audit requirements for <i>Grant Beneficiaries</i> (e.g. NGOs)? Does the IO use established terms of reference and report templates? Are audits performed by professional external audit firms which meet relevant professional and ethical standards?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.5 Evaluation		
2.5.1	<p>Is the operating performance of the Action regularly evaluated?</p> <ul style="list-style-type: none"> - Does the Entity have ex-ante, on-going and/or ex-post evaluation procedures for policies, programmes and activities? - Who performs these evaluations? What are the reporting lines? - What elements do these evaluations cover? Efficiency? Effectiveness? Impact? 	
2.6 Procedures for implementing partners and/or Sub-Delegates (including Financial intermediaries)		
2.6.1	<p>Does the Entity make use of implementing partners and/or Sub-Delegates (including Financial Intermediaries) for the Action?</p> <p>Have contracts / agreements been signed with them?</p>	
2.6.2	<p>Do these agreements or contracts cover objectives, expected results, activities, budget for the Action, accounting and reporting requirements, procurement procedures, eligibility of expenditure, requirements for reporting and audit or verification and other issues (e.g. EC visibility)?</p>	
2.6.3	<p>What procedures does the Entity have to assess implementing partners and/or Sub-Delegates (including Financial Intermediaries) before signing an agreement with them?</p>	
2.6.4	<p>What measures exist to ensure that implementing partners and/or Sub-Delegates (including Financial Intermediaries) comply with contractual conditions of the Agreement and requirements set by the Entity?</p>	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 2 Control Environment		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2.7 Procedures for beneficiaries of grants		
2.7.1	Does the Entity provide grants to beneficiaries in the context of this Action? Have contracts / agreements been signed with these beneficiaries?	
2.7.2	Do these agreements or contracts cover objectives, expected results, activities, budget for the Action, accounting and reporting requirements, procurement procedures, eligibility of expenditure, requirements for reporting and audit or verification and other issues (e.g. EC visibility)?	
2.7.3	What procedures does the Entity have to assess grant beneficiaries before signing an agreement with them?	
2.7.4	What measures exist to ensure that grant beneficiaries comply with contractual conditions of the Agreement and requirements set by the Entity?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 3 Accounting (including IT systems)		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
3.1 Accounting		
3.1.1	Obtain a sufficient understanding of the Entity's accounting system	
3.1.2	What are the rules for preparing and presenting the Entity's accounts?	
3.1.3	Does the Entity have a double-entry bookkeeping system in place?	
3.1.4	Obtain and review the chart of accounts of the Entity.	
3.1.5	Has the Entity ensured an accounting trail for the Action (identification of transactions, costs (allocated), payments, etc. in the IO's regular accounting system). => see also procedure 4.6.	
3.1.6	Obtain an understanding of how EC advance payments are accounted for in the Entity's accounting records. Agree payments to records and supporting documents.	
3.1.7	Does the Entity have procedures for 'clearing' advances paid/used on the basis of audit reports relating to implementing partners and/or Sub-Delegates (including Financial Intermediaries) and/or grant beneficiaries? => see questions 2.4.4 and 2.4.5	
3.1.8	How does the Entity account for commitments and payment transfers for selected Actions?	
3.1.9	Does the Entity have rules for the preparation and presentation of accounts in respect of funds granted to grant beneficiaries?	
3.1.10	How does the Entity communicate these rules? (E.g. contracts, terms of reference)?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 3 Accounting (including IT systems)		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
3.2 Budget		
3.2.1	Does the Entity have a budget system in place?	
3.2.2	Does the budget for the Action provide a coherent and clear presentation of the Actioned / estimated costs for the Action and is it in line with the description of the Action?	
3.2.3	How has the budget for the Action been established (procedures and sources, approval, main principles including costs allocation principles)?	
3.2.4	How often do Entity management / staff review budget vs. actual reports for the Action financed by the Agreement?	
IMPORTANT – Reference to requirements and guidelines for the Budget <ol style="list-style-type: none"> The report shall be laid out in such a way as to allow comparison of the objective(s) of the Action, the means envisaged and employed (if relevant), the results expected and obtained and the budget details for the Action. The level of detail in any report shall match that of Annexe Description of the Action to the present ToR and of the Budget for the Action. If relevant, check the applicable guidelines. 		

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 4 Reporting		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
4 Reporting		
4.1	Obtain a copy of the latest financial and narrative report for the Action	
4.2	Have the applicable requirements and guidelines for reporting been respected by the IO. See reference below.	
<p>IMPORTANT – Reference to requirements and guidelines for Reporting</p> <p>Check the applicable rules on information and reporting in the General Conditions of the Agreement.</p>		

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 4 Reporting		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
4 Reporting (continued)		
4.3	Have specific and dedicated reporting procedures been put in place for the Action?	
4.4	What are the main reporting lines for this Action? Briefly explain report types and (internal and external) recipients of the reports.	
4.5	Inquire with the Entity and/or the EC whether any compliance issues have arisen with the submission of the progress reports and/or the final report (i.e. both financial and narrative) for the Action (e.g. report format, timing and reporting deadlines, quality issues).	
4.6	Obtain a sufficient understanding of how the financial information (i.e. expenditure) for the Action has been accounted for in the Entity's accounting system (i.e. key assumptions, allocation principles) and how this information has been extracted and included (automatically/manual adjustments) in the financial report for the Action. => see procedure 3.1.5.	
4.7	Obtain from the Entity a detailed reconciliation by budget / expenditure heading and where possible by budget sub-heading of the financial report with the Entity's accounting system and review / re-perform the reconciliation. If a reconciliation is not available, request the Entity to prepare one and review / re-perform the reconciliation. If the Entity does not provide a reconciliation, the verification team should report this as a factual finding and perform a reconciliation itself.	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 4 Reporting		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
4 Reporting (continued)		
4.8 Reporting Procedures established by the Entity for implementing partners and grant beneficiaries and if relevant Sub-Delegates (including financial intermediaries)		
4.8.1	Does the Entity provide reporting requirements to implementing partners and grant beneficiaries and if relevant Sub-Delegates (including financial intermediaries)?	
4.8.2	How are these requirements communicated by the Entity to implementing partners and grant beneficiaries and if relevant Sub-Delegates (including financial intermediaries) (e.g. contracts, guidelines)?	
4.8.3	Are reporting requirements clear?	
4.8.4	What measures exist to ensure that implementing partners and grant beneficiaries and if relevant Sub-Delegates (including financial intermediaries) report timely and in line with the reporting requirements?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 5 Procurement		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
5.1 Procurement procedures		
5.1.1	What are the applicable procurement procedures for this Action? Describe the applicable procedures and indicate references to relevant regulatory and/or policy documents.	
5.1.2	What types of procurements (e.g. works, assets (i.e. equipment etc.), services and supplies were foreseen in the Agreement and used for the Action?	
5.1.3	Which procurement procedures for goods, services or works (and how many times) were undertaken during the period covered by the financial report?	
5.1.4	Review whether shortcomings in procurement procedures have or can have an impact on the PA report. => see procedures 1.2.1 and 1.2.2.	
IMPORTANT – Reference to requirements and guidelines for Procurement If relevant, check the applicable Procurement procedures in the signed Agreement.		

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 5 Procurement		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
5.2 Procurement procedures applied by grant beneficiaries and implementing partners or/and Sub-Delegates (including financial intermediaries) and/or third party recipients		
5.2.1	If grant beneficiaries and implementing partners or/and Sub-Delegates (including financial intermediaries) and/or third party recipients have used their own procurement rules, describe the applicable procedures and indicate references to relevant regulations, rules and practices.	
5.2.2	Are these regulations, rules and practices clear?	
5.2.3	How has the Entity assessed and approved the procurement regulations, rules and practices used by grant beneficiaries and implementing partners or/and Sub-Delegates (including financial intermediaries) and/or third party recipients?	
5.2.4	What measures has the Entity taken to ensure that grant beneficiaries and implementing partners or/and Sub-Delegates (including financial intermediaries) and/or third party recipients comply with the applicable procurement regulations, rules and practices?	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 6 Asset Management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
6.1 Assets		
6.1.1	Obtain a sufficient understanding of the Entity's asset management system (practices and procedures for the acquisition and management of land and buildings, machinery, vehicles, equipment) insofar this pertains to the Action. => Note: for acquisition procedures refer to Section 5 Procurement if applicable.	
6.1.2	Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's asset management system. <i>Relevant issues include:</i> roles and responsibilities for management of assets, asset registration (use of asset registers, vehicle logbooks), control and monitoring procedures, safeguard and access procedures, asset disposal and transfer of assets (contractual conditions in the Agreement).	
6.2 Inventories (supplies)		
6.1.1	Obtain a sufficient understanding of the Entity's inventory management system (practices and procedures for the acquisition, purchase and management of supplies such as materials, tools, spare parts, office supplies etc.) insofar this pertains to the Action. => Note: for acquisition and purchase procedures refer to Section 5 Procurement if applicable.	
6.1.2	Document the above procedure (with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the 's inventory management system. <i>Relevant issues include:</i> roles and responsibilities for the management of inventories, inventory records; safeguard, access and use; control and monitoring procedures, stock takings and reconciliations; stock disposal and transfer of stocks (contractual conditions in the Agreement).	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 7 Recruitment, Payroll and Time Management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
7.1 Recruitment		
7.1.1	<p>Obtain a sufficient understanding of the Entity's recruitment system (practices and procedures for the management of expatriate, local and other staff) insofar this pertains to the Action.</p> <p>Identify staff recruited specifically for the Action and perform a walkthrough of the recruitment process starting with the approval of the selection procedure to the signing of the employment contract.</p>	
7.1.2	<p>Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's recruitment procedures.</p> <p><i>Relevant issues include:</i> roles and responsibilities for the management of staff; selection and approval procedures; determination and approval of salaries, allowances and other conditions of employment; use of employment contracts; job descriptions.</p>	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 7 Recruitment, Payroll and Time Management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
7.2 Payroll and Time Management		
7.2.1	Obtain a sufficient understanding of the Entity's payroll system (practices and procedures for payroll and time management) insofar this pertains to the Action.	
7.2.2	Does the Entity have a system to allocate staff and salaries and related costs to the Action? <i>Relevant issues include:</i> plausibility of basic assumptions used and allocation keys.	
7.2.3	If the Entity uses a time management system to allocate salary-related costs to the Action, review this time management system and more particularly how time spent for the Action was recorded, approved and reported.	
7.2.4	Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's payroll and time management systems. <i>Relevant issues include:</i> roles and responsibilities for the payroll and time management; recording, calculation and approval of salaries and salary components (fixed / variable; overtime; social security. Special attention required for time management system: time keeping procedures and records (use of timesheets), supervision control and approval procedures.	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 8 Expenditure control		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
8 Expenditure Control		
8.1	Obtain a sufficient understanding of the Entity's system for expenditure control (practices and procedures for expenditure control) insofar this pertains to the Action.	
8.2	<p>Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's procedures for expenditure control.</p> <p><i>Relevant issues include inter alia:</i> roles and responsibilities for expenditure control; management procedures in place at the Action level which ensure that expenditure control is in line with Entity's procedures; were the specifics of the EU Agreement taken into account (if relevant); authorisation and approval of expenditure; performance of regular budget / actual comparisons of expenditure.</p>	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 9 Cash and Bank Management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
9.1 Bank Management		
9.1.1	Obtain a sufficient understanding of the Entity's bank management system (practices and procedures for the management of bank accounts) insofar this pertains to the Action.	
9.1.2	Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's bank management procedures. <i>Relevant issues include inter alia:</i> roles and responsibilities for management of bank accounts, type of accounts (e.g. interest bearing, currencies used), use of dual signature procedures, regular bank reconciliations, supervision and control, use of dedicated bank accounts (as required in the Agreement); treasury policies .	
9.2 Cash Management		
9.2.1	Obtain a sufficient understanding of the Entity's cash management system (practices and procedures for cash management) insofar this pertains to the Action.	
9.2.2	Document the above procedure with descriptions and references to relevant source material (e.g. systems, flowcharts, manuals etc.) and identify any shortcomings in the Entity's cash management procedures. <i>Relevant issues include inter alia:</i> roles and responsibilities for cash management; procedures for cash handling and limits of cash to be held; regular petty cash counts and reconciliations; management of cash advance (use, authorisation, limits, monitoring and clearance.	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 9 Cash and Bank Management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
9.3 Cash flow reconciliation		
9.3.1	<p>Obtain from the Entity cash flow reconciliation and review / re-perform the reconciliation.</p> <p>=> note: is a separate bank account being used for the Action?</p> <p>If a reconciliation is not available, request the Entity to prepare one and review / re-perform the reconciliation.</p> <p>If the Entity does not provide a reconciliation the verification team should report this as a factual finding and perform a reconciliation.</p>	

Part I REVIEW OF THE ACCOUNTABILITY SYSTEM - 10 Other Compliance Issues		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
10.1 Visibility		
10.1.1	What measures has the Entity taken to promote the EC contribution to the Action?	
10.1.2	Are these measures in line with the contractual conditions (General Conditions annexed to the Agreement) and the visibility requirements (see below)?	
IMPORTANT – Reference to requirements and guidelines for Visibility If relevant, check the applicable document governing Visibility of the Action.		
10.2 Visibility requirements for the partners namely : grant beneficiaries and implementing partners and/or Sub-Delegates (including financial intermediaries) or third party Recipients		
10.2.1	Does the Entity provide requirements for visibility to its partners?	
10.2.2	How are these requirements communicated by the Entity to the partners? (e.g. contracts, guidelines)?	
10.2.3	Are the visibility requirements clear?	
10.2.4	What measures exist to ensure that the partners respect the visibility requirements for the Action?	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES

General

The verification team performs walk through and compliance tests for a sample of transactions to be determined for each key process (maximum of 5 transactions per key process for UN entities). The objective is to verify whether:

- Systems and procedures put in place are operating as intended (operational effectiveness);
- Expenditure for the transaction is eligible in accordance with the terms and conditions of the Agreement and with any relevant provisions.

Sample

The level of sampling must be appropriate to the nature of the verification and its corresponding objectives and scope. It is not intended to carry out an audit of the entity. The **actual level** of sampling to be applied for the verification shall, in line with the objectives of the Action, the objectives and scope of each verification, the entity's resources to support the verification team and the control systems in place be **determined by the verification team and the Entity**.

The verification team may where deemed necessary or appropriate **add additional procedures and tests** to the ones specified for key processes 1 to 5.

Limitations:

Relevant limitations, procedures and rules set out in general agreements (if any) between the EC and the Entity have to be respected.

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Identification of Key Processes		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
0 Identification of key processes		
0.1	<p>Discuss and agree with the Entity the key processes to be reviewed for this Action. It is essential that key processes are clearly and properly defined.</p> <p>Key processes must:</p> <ul style="list-style-type: none"> - relate to and affect the Action; and - relate to the expenditure incurred for the Action. 	

Note:

Without prejudice to the application of overarching agreements concluded with the Entity the existence and applicability of which need to be checked by the auditor, the following **key processes** are normally identified:

- **Procurement** (e.g. of works, equipment and supplies, services): not to be retained if there has been no procurement of goods or services.
- **Recruitment / Payroll / Time management**
- **Budget management** including expenditure control and approval which maybe part of the key process **disbursements** or may be defined as a separate key process.
- **Disbursements** including cash and bank management
- Logistics (UN),
- **Reporting.**

Other key processes may be defined (or the existing ones replaced) taking into account the specific engagement circumstances (for example include **grants** awarded to beneficiaries or **financial instruments**) and relevant provisions in overarching agreements with the Entity. In such cases the verification team can design and perform the procedures which it considers appropriate for other key processes and prepare a listing of procedures in Part II Section 6.

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 1: Procurement		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
1.1 Assets		
1.1.1	Obtain a list of the assets allocated to or acquired / purchased for the Action.	
1.2.1	Perform a detailed sample review of asset acquisitions and test: The operational effectiveness of the acquisition procedures and compliance with the applicable procurement and origin rules; The operational effectiveness of the asset management procedures; The eligibility of the expenditure incurred for these acquisitions. => see compliance criteria for declared costs in attachment 1 of the present annex.	
1.2 Supplies		
1.2.1	Obtain a list of the supplies acquired / purchased for the Action.	
1.2.2	Perform a detailed sample review of purchases of supplies (inventories) and test: The operational effectiveness of the purchase procedures and compliance with the applicable procurement and origin rules; The operational effectiveness of the inventory and supplies management procedures; The eligibility of the expenditure incurred for these purchases. => see compliance criteria for declared costs in attachment 1 of the present annex.	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 1: Procurement		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
1.3 Services		
1.3.1	Obtain a list of the services contracted for the Action.	
1.3.2	<p>Perform a detailed sample review of these services and test:</p> <p>The operational effectiveness of the acquisition procedures and compliance with the applicable procurement and origin rules;</p> <p>The operational effectiveness of the expenditure control procedures;</p> <p>The eligibility of the expenditure incurred for these services.</p> <p>=> See compliance criteria for declared costs in attachment 1 of the present annex.</p>	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 2: Recruitment, Payroll and Time management		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
2 Payroll		
2.1	Obtain a list of salaries and related costs for all expatriate and local staff assigned to the Action (names, function / job title and the % time spent).	
2.2	Verify with employment contracts (and on a sample basis if appropriate) that staff are employed by the Entity. <i>Relevant issues in employment contracts include inter alia:</i> grade or position, job description, start date, basic salary, overtime, tax/social security contributions (if specific), insurances, allowances, working hours, holidays and other leave.	
2.3	Review the system (allocation keys used) for allocating staff costs to the Action and verify whether the allocation is plausible (e.g. % time spent etc.) on a sample basis.	
2.4	Perform a detailed sample review of salaries and related expenditure and test: The operational effectiveness of the payroll and time management procedures; The eligibility of the salaries and related expenditure. => See compliance criteria for declared costs in attachment 1 of the present annex. <i>Relevant issues include inter alia:</i> Agree salaries and related costs to payroll and accounting system / records, employment contract and time management system (e.g. attendance records or timesheets) and verify payment (e.g. bank transfer).	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 3: Budget management and expenditure control		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
3 Budget management and expenditure control		
3.1	Obtain a list of all other costs (all costs other than assets, supplies and services which have been procured (sample test of key process 1) and salaries and related costs (sample test of key process 2) declared for the Action.	
3.2	Review the system (allocation keys) for allocating other costs to the Action and verify whether the allocation is plausible (% time, use of M ² , etc.) and on a sample basis.	
3.3	<p>Verify whether the Entity has performed a regular budget actual comparison i.e. a regular review of actual expenditure incurred and allocated to the Action with the approved Action budget.</p> <p>Obtain evidence that a regular budget actual comparison was performed (copy of budget analysis, evidence of review and supervision such as for example approval for overruns or evidence follow-up of unusual items).</p> <p>Perform an analytical review of the latest budget actual comparison and discuss with discuss with Entity staff budget overruns and unusual items</p> <p><i>Relevant issues include inter alia:</i> agree stated actual expenditure with accounting records and with the approved Action budget; authorisation of budget overruns or changes between budget headings; supervision and follow up of unusual items.</p>	
3.4	<p>Perform a detailed sample review of actual other costs and test:</p> <p>The operational effectiveness of the expenditure control procedures;</p> <p>The eligibility of the other costs. See compliance criteria for declared costs in attachment 1.</p> <p><i>Relevant issues include inter alia:</i> agree other costs to accounting and other (intermediate) records, agree to appropriate supporting documents.</p>	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 4: Disbursements (including cash and bank management)		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
4 Disbursements (including cash and bank management)		
4.1	<p>Perform a detailed sample review of disbursements (payments) relating to the sample review of actual other costs (see sample test of transactions in key process 3) to:</p> <p>test the operational effectiveness of the cash and bank management procedures;</p> <p>Verify disbursement with accounting and payment records (i.e. bank transfer or cash payment).</p> <p><i>Relevant issues include inter alia:</i> approval and authorisation; tracing of correct amount due through accounting system to payment evidence</p>	
4.2	<p>Verify whether the Entity has performed regular budget bank and cash reconciliations.</p> <p>Obtain evidence that these reconciliations were performed (copy of records used, evidence of review and supervision and of follow up of reconciliation differences).</p> <p>Review (and re-perform insofar possible) on a sample basis cash and bank reconciliations and discuss with Entity staff differences and unusual items.</p>	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 5 : Reporting		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
5 Reporting Procedures established by the Entity for implementing partners and grant beneficiaries and/or Sub-Delegates (including financial intermediaries)		
5.1	Obtain from the Entity a sample of financial reports submitted by implementing partners and grant beneficiaries and/or Sub-Delegates (including financial intermediaries).	
5.2	<p>For this sample of financial reports obtain from the Entity detailed reconciliations by budget / expenditure heading and where possible by budget sub-heading of the financial report with the accounting system of implementing partners and grant beneficiaries and/or Sub-Delegates (including financial intermediaries) and review / re-perform the reconciliation.</p> <p>If a reconciliation is not available, request the Entity to prepare one and review / re-perform the reconciliation.</p> <p>If the Entity does not provide a reconciliation, the verification team should report this as a factual finding and perform a reconciliation itself.</p>	
5.3	How has the Entity reviewed and/or approved the above financial reports?	
5.4	Did any specific issues (e.g. eligibility of expenditure, procurement and/or origin rules applied) arise with these reports? If yes what sort of follow-up has the Entity performed?	
5.5	Did the Entity carry out any form of on-site verification / audit work following the receipt of the above financial reports?	

Part II SAMPLE TESTS OF TRANSACTIONS IN KEY PROCESSES – Key process 6: Logistics or other key process <to be completed by the verification team case-by-case. For example: journal entries, grants awarded to beneficiaries, financial instruments or other>		
#	Key area / procedure For all procedures (if applicable): document the Entity's systems and procedures in operation and identify any shortcomings.	Factual findings
6.1 Logistics		
6.1.1	To be designed if and when considered necessary / appropriate.	
6.1.2 etc.		
6.2 Grants awarded to beneficiaries		
6.2.1	To be designed if and when considered necessary / appropriate.	
6.2.2 etc.		
6.3 Financial instruments		
6.3.1	To be designed if and when considered necessary / appropriate.	
6.3.2 etc.		
6.4 Xxx		
6.4.1	To be designed if and when considered necessary / appropriate.	

Attachment 1 Compliance criteria for declared costs

Declared costs must:

- be necessary for carrying out the Action (incurred for purposes intended. Is it plausible that the costs were necessary for the activities covered by the Action?) and directly attributable to the Action
- be actual i.e. represent real costs definitely and genuinely borne by the Entity
- be properly documented and justified (evidence of ordering, invoicing, delivery / receipt and payment)
 - for acquisition of assets: proof of existence (visual inspection)
 - for purchases of supplies: proof of delivery and/or existence (visual inspection)
 - for delivery of services: proof that services were performed
- be properly authorised / approved (in accordance with Entity expenditure control procedures)
- be incurred during the implementation period
- be properly accounted for and recorded (i.e. identifiable and recorded in the accounting records of the Entity)
- be foreseen in the Action budget and classified under the appropriate cost heading (in the Financial report)
- comply with eligibility criteria in the Agreement
- comply with procurement, nationality and origin rules in the Agreement
- be valued in accordance with supporting documents (e.g. invoices, salary statements).
- comply with rules for exchange rate conversion in the Agreement

Note: Cash transfers between the Entity and its implementing partners and/or Sub-Delegates, signature of a contract, placing of an order, or entering into any commitment for future delivery of services, works or supplies undertaken before or after expiry of the implementation period are **not** considered as eligible costs.

Reference: Article on costs eligibility in the *General Conditions* of the Agreement.