



## **Common Understanding on the use of the Terms of Reference for Expenditure Verification for Operations implemented by UN-Organisations that are among the Signatory Parties of the EU-UN-FAFA**

The United Nations and the European Commission have agreed that the template for Terms of Reference for Expenditure Verifications in annex shall be used for expenditure verifications of operations to which the European Commission makes funding contributions and that are implemented by UN-Organisations that are among the Signatory Parties of the EU-UN-FAFA.

The following specificities have to be taken into account by all stakeholders during the preparation, conduct and follow-up of such expenditure verifications

### **1. Financial and Administrative Framework Agreement (EU-UN-FAFA)**

The provisions of the Financial and Administrative Framework Agreement between the European Union represented by the European Commission and the United Nations shall be respected at all times.

### **2. Audit of internal control systems<sup>1</sup>**

The systems, rules and procedures of UN Organisations that are signatory parties of the EU-UN-FAFA have been pillar-assessed. These systems shall not be subject to audits governed by ISAE 3000. For humanitarian aid actions, verifications of control systems shall be performed by specifying additional specific objectives in line with numeral 2 of the Terms of Reference.

### **3. Sampling**

Verifiers can select a sample of a maximum of 40 transactions from the UN agency’s primary transaction listing<sup>2</sup>. This sample shall represent up to 20% of reported expenditure.

Where the transaction listing includes transactions with implementing partners (liquidations of advance payments, direct payments, reimbursements), there are two different scenarios:

Scenario 1: The UN agency uses the Harmonized Approach to Cash Transfers (HACT) or a similar approach and the related documentation is considered sufficient for the assurance needs of the European Commission: no need for sub-level sampling.

Scenario 2: The UN agency does not use the HACT or a similar approach or the related documentation is not considered sufficient for the assurance needs of the European Commission:

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<sup>1</sup> Such audits are mentioned on the cover page of the terms of reference.

<sup>2</sup> These listings will be taken from the UN agencies’ ERP systems. For those UN agencies that use implementing partners (NGOs and government entities), implementing partner expenditure is typically recorded in the primary transaction listing as a liquidation of advance, a direct payment or a reimbursement. If payments of advances are included in the transaction listing they should be labelled as such. Payments of advances should not be included in samples.

The UN agency shall provide the verifier with a list of expenditure items under the sampled implementing partner transaction concerned. Verifiers may select a sub-level sample of up to 5 expenditure items. The overall size of the sub-level sample, across all implementing partners, shall not exceed 20 expenditure items.

#### **4. Supporting Documentation**

With regard to supporting documentation, it is necessary to strike a balance between possible limitations on the part of UN Organisations with regard to the disclosure of information and the provision of documents to third parties and the assurance needs of the European Commission.

The following indicative list of documents is considered compliant with both requirements/limitations in the overriding majority of cases.

##### **Payroll and other remuneration-related expenditure**

- substantiating documentation (pay slips for payroll) indicating total amounts and the necessary information for reconciliation to transaction listings (staff names and other personal data redacted)
- documentation providing reasonable assurance that time spent on activities was consistent with the portion of the salary included in the transaction listing

##### **Travel allowances**

- documentation that the trip was approved in compliance with UN agency procedures (including its necessity in relation to the verified operation)
- relevant documentation providing reasonable assurance that correct DSA rates were paid to the traveller

##### **Procurement and contracts<sup>3</sup>**

- relevant documentation providing reasonable assurance that contract award procedures were fair, transparent and complied with applicable rules (e.g. documented opinions by contract review committees)
- invoices from suppliers
- evidence that services/supplies/works were received/finalised within the validity period (e.g. certificate of completion, final report of a consultant, bill of lading, etc.) and accepted

##### **Funds transferred to implementing partners (liquidations of advance payments, direct payments, reimbursements)**

- scenario 1 (see sampling): Documentation showing that the funds were used for the purposes intended (e.g. financial reports submitted by partners, risk assessment of the partner, audit reports, results of spot checks, etc.)
- scenario 2 (see sampling): Implementing partner documentation supporting the individual expenditure items included in the sub-level sample.

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<sup>3</sup> Including contracts with and services provided by other UN entities.

## **5. Custody of supporting documents**

Expenditure Verifiers shall not retain copies of supporting documents.<sup>4</sup>

UN Organisations will, for a period of 5 years after the end date of the project, provide the Commission and expenditure verifiers with remote access to electronic copies of the supporting documents made available for the purpose of expenditure verifications at a storage location under their custody.

Annex: Template Terms of Reference for an Expenditure Verification with annexes

*This Understanding is not intended to create rights or obligations under international law.*

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<sup>4</sup> See numeral 6.3.4. of the terms of reference.