



TESIM

Technical support to the implementation and management of ENI CBC programmes

Templates of working papers for expenditure verification

Module for auditors and public officers carrying out expenditure verification

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DISCLAIMER

This **non-binding document** has been developed by the TESIM project.

It does not necessarily reflect the views of the European Commission on the topic, and is presented to programme practitioners **for illustrative purposes only.**

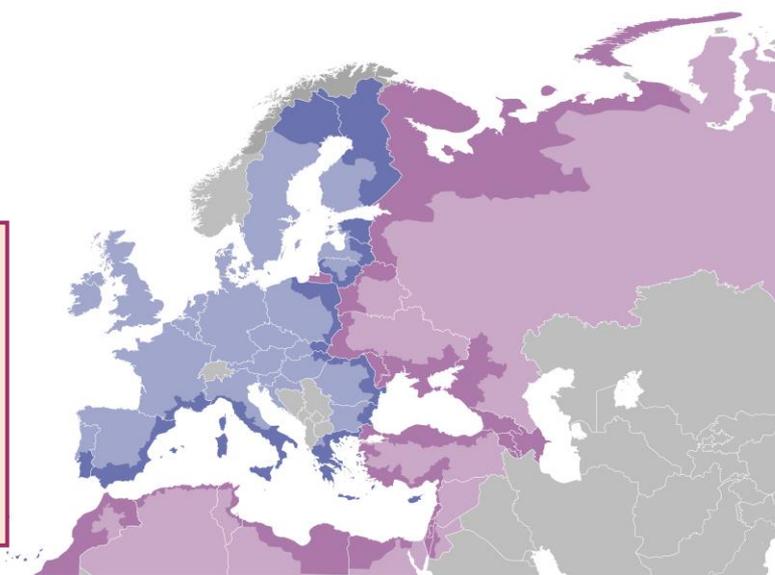


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1. Aim of these templates

Article 32 of the ENI CBC Implementing Rules (hereinafter ENI CBC IR) stipulates that the expenditure verification work of the expenditure and income declared by the beneficiaries has to be carried out in conformity with the **International Standard on Related Services 4400** Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by International Federation of Accountants (IFAC). Section 10 of this standard indicates:

*“**The auditor should document** matters which are important in providing **evidence** to support the report of factual findings, and evidence that the engagement was carried out in accordance with this ISRS and the terms of the engagement.”*

Auditors have very precise international standards on how to document the evidence of their work: **the working papers!** This also applies to public officers carrying out the same work than auditors, as stated in the above-mentioned article 32 of the ENI CBC IR.

These templates developed by TESIM provide a set of standard working papers, which may be used by the auditors with **two aims**:

- **Facilitate the work of the auditors/public officers** by offering a set of standard documents,
- **Increase the reliability of the expenditure verification.**

The standard working papers proposed by TESIM may be adapted by each programme, but also by the auditors/public officers, in conformity with their professional judgement.

2. The working papers

Working papers record the evidence obtained during an engagement, such as the expenditure verification of ENI CBC projects. They demonstrate the work completed and provide the link between the agreed scope of work, the work programme and the report.



The **scope of the work** and the **model of report** are defined by the terms of reference published by the specific ENI CBC programme financing the project whose expenditure and revenue the auditor or the competent public officer must verify.

The **work programme** and the methodology chosen by the professional must be developed by the auditor/public officers for each specific project, but we include some tips in this toolkit.

The **working papers** may take a number of forms such as checklists, questionnaires, flowcharts, spreadsheets, narrative notes from interviews, annotated copies of procedures, policies, notes from focus groups and discussions. This toolkit includes a series of standard electronic documents which may be used and adapted by the auditors or competent public officers. The annexes to this document include a **non-exhaustive set of templates for working papers**.

2.1. Features of the working papers

There is no right or wrong format for completing working papers as long as the evidence is fully recorded. Regardless of the format the working papers should include some basic information:

- Name of the project beneficiary
- Name (acronym) and code of the project
- The period covered
- The date (working paper prepared)
- Title (subject matter)
- Assignment/file reference

- Clear cross-reference to linked documents or other working papers (either on a hard copy file or electronically)
- The initials/signature of the auditor or competent public officer who prepared the working paper
- The initials/signature of the audit manager or supervisor who has reviewed the working paper, and the date on which the review was undertaken

To ensure high quality, the **evidence recorded on working papers must be:**

Accurate and reliable

Information is technically correct and, where necessary, cross-referenced to other working papers. Where only in electronic format, a reference as to how it can be accessed must be documented.

Relevant and concise

The information contained in the working paper should be sufficient to meet the goal of the verification objective and support any finding.

Complete

Each working paper should be self-explanatory and its purpose should be specifically stated unless otherwise clearly evident from its title.

Working papers should leave no unanswered questions, open points, incomplete notes or other evidence of unfinished work.

If relevant, the auditor should address and document in the working papers matters that have been raised during the file review by the audit manager or the supervisor.

Adding value

Documentation and consideration of the root causes of any findings to provide some insight as to why things are happening so any systemic error may be identified.

Structure

The structure of the working paper should be in a logical format that clearly shows the purpose/objective of the test (risk being tested), a description of the test, extent of testing performed, results, conclusion arrived, any control weaknesses identified, and potential process improvements, and positive change opportunities.

3. The work methodology

The agreed-upon procedures for expenditure verification have the following steps:



3.1. Preparatory work

The beneficiary should contact the auditor as soon as possible once the financial report is ready, so as to prepare the verification and to agree on the timing for carrying out the expenditure verification, notably with regard to fieldwork (if any).

The beneficiary will then also confirm with the auditor the location(s) for the fieldwork, including not only the offices where accounting and technical staff is working, but also the location of the activities, such as infrastructure and/or works are.

The beneficiary must ensure that the relevant supporting documents as well as key staff will be available during the verification.

Tip #1:

- Get acquainted with the **terms of reference** for expenditure verification of the programme financing the project, including check-lists and report templates. In countries with several ENI CBC programmes, there may be differences;
- Some programme require only one **field visit** during the project lifetime. You must decide when to carry out the compulsory one, but also if more than one is needed, in accordance with the specificities of the project;
- . When existing, get acquainted to the **software for reporting** by beneficiaries and auditors as soon as possible after signing the contract.

The countries where competent public officers are in charge of expenditure verification instead of auditors, have specific procedures for the relationship with the beneficiaries.

The preparatory work must include three additional steps:

- understanding of the context of the engagement,
- risk analysis,
- determination of the size of the sample in the cases where a 100% check is not required.

The context of the engagement

On top of the elements already mentioned in the box above, the auditor must ensure a **good understanding of the project** (objectives, outcomes, outputs, activities and budget). Some key requirements for eligibility of expenditure such as “necessity” or “efficiency” can only be assessed with a sufficient knowledge of the scope of the EU financing. Additionally, the auditor must have a good understanding of the **legal status of the beneficiary**, as it will affect which are the applicable rules in key areas, such as procurement.

Tip #2

In cases where the project includes infrastructure or complex technology or scientific research, the auditor may need the **support of specialists** (engineers, architects or other relevant technicians). The check of eligibility of expenditure goes beyond the check of financial documents.

Another key aspect at this stage is a sound understanding of the **applicable legal framework**, including:

- grant contract,
- programme documents, such as Project Implementation Manual and any instructions on procurement¹,
- applicable national legislation, such as labour law,
- applicable EU legislation.

Risk analysis

The understanding of the project and the beneficiary should be sufficient to identify and assess the risks of material errors or misstatements in the declared expenditure and revenue. The understanding of the beneficiary should include a revision of its **internal control**, following the principle of proportionality.

¹ Some programmes issued instructions on procurement with detailed indication of the specific rules applicable, in accordance with the country of the beneficiary and its legal status (private or public).

Tool #1

Annex 1 includes a **check-list of the internal control** of the beneficiary, adapted to the ENI CBC context from the [Europeaid's Financial Management Toolkit](#), issued by the European Commission. Annexes 2 and 3 are also an adaptation of the check-lists from the above-mentioned toolkit.

A second key element of the risk analysis is the revision of the regular **accounting system** used by the beneficiary, as well as the analytical setting specifically prepared for the project. Grant contracts include specific provisions on accounting which have to be respected by the beneficiary.

Tool #2

Annex 2 includes a **check-list of the accounting system** of the beneficiary. The check-list includes the two possible options for beneficiaries, that is, separate project accounting or separate codes in the general accounting (analytical accounting).

The last element before assessing the risk is the revision of the **archiving system**. The eligibility of expenditure relies on the conservation of the adequate supporting documents. If the document keeping is not properly organised, the risk of ineligibility will become higher.

Tool #3

Annex 3 includes a **check-list of the archiving of documents**, both financial and technical.

All the programmes provide information about financial management in their Project Implementation Manuals. Also TESIM has developed complementary tools on financial management, available for both beneficiaries and auditors.

Tip #3

You can find information about project financial management in TESIM's e-platform [goforenicbc](#). The platform includes videos and written material addressed to the project beneficiaries. One of the [videos](#) is addressed to auditors.



The revision of the internal control, the accounting system and the document keeping, together with all the context-related work will allow the auditor/public officer to carry out an evidence-based risk assessment. The evaluation of the **inherent risk** shall also be based on the number and complexity of the transactions and the complexity of the activities.

The outcome of this risk analysis must be documented. We recommend to use a **risk matrix** with the following parameters (score from 1 to 5):

		Consequences				
		Marginal	Minor	Moderate	Major	Severe
Likelihood	Almost certain	Medium	High	High	Critical	Critical
	Likely	Medium	Medium	High	High	Critical
	Possible	Low	Medium	Medium	High	Critical
	Unlikely	Low	Medium	Medium	Medium	High
	Rare	Low	Low	Medium	Medium	High

The four main types of risk to assess are linked to the reporting and compliance objectives²:

- the **financial report** is not reliable, i.e. it does include expenditure items that have not been related to the project;

² See [INTOSAI GOV 9130](#)

- the declared **expenditure** was not, in all material aspects, incurred in conformity with the applicable contractual conditions. A specific assessment on **procurement** should be considered;
- **revenues** generated by the beneficiary are not declared;
- **fraud** and corruption may have occurred during the execution of the contract.

 The usual **materiality threshold** applied in EU-funded programmes is 2% of the amount of declared expenditure to EC.

Tool #4

Annex 4 includes a simplified **risk matrix**, which collects the conclusions of the risk analysis.

The matrix should be complemented by a short memo providing succinct information about the identified risks, such as:

- project implemented via complex procurement procedures,
- transactions incurred in several currencies,
- technical complexity,
- high corruption perception index,
- instances of political interference,
- predominance of cash payments,
- beneficiary lacking administrative capacity,
- known weaknesses in internal control systems,
- history of irregularity or fraud cases.

Determination of the sample

The assessment of the identified risk factors must be reflected in the structure and size of the sample. The auditor must prepare a short memo to describe:

- how the sample was selected (e.g., statistical/judgemental sampling, stratification, etc.),
- what type of transactions were prioritised (e.g., amount above xx EUR, staff expenditure, all procurement procedures above xx EUR and a sample of the ones via direct award),
- which is the size of the sample, that is, the coverage ratio in amount and number of transactions.

Once the sample is determined, you can start the substantive tests stipulated in the applicable agreed-upon procedures.



The determination of the sample does not apply to the programmes requiring the verification of the 100% of expenditure.

Tool #5

Annex 5 includes a template of the memo with the determination of the sample.

3.2. Field work and/or desk review

The field work or desk review should commence as soon as possible after the availability of the financial report, the supporting documents and other relevant information. This work must provide the evidence necessary for issuing a report on factual findings. The work carried out by the auditor shall be documented through **adequate working papers**. We presented in the previous section the proposed templates for the first step of the work and we will present in this section the papers for this second one.



The working papers proposed in this toolkit are based on the **Expenditure Verification pack prepared by TESIM**. Adaptations may be needed for each programme in accordance with the actual terms of reference.

Tool #6

Annex 6 includes templates with **checklist for substantive tests** of the expenditure declared by the beneficiary. The Excel file includes the following spreadsheets:

- Staff costs documentation
- Staff costs calculation
- Travel and accommodation costs
- Investments and infrastructure
- Equipment
- External expertise and services
- Preparation costs

- Public procurement procedures

The findings evidenced in these working papers should be duly referenced in the report on findings.

3.3. Report

At the end of the field work or desk review, the auditor/public officer should prepare a debriefing memo and organize a closing meeting. In case of desk review, the closing meeting may take place with videoconference tools, such as Skype.

The aim of the closing meeting is to present the findings and get the initial comments from the auditee. In case of disagreement, the parties should agree a reasonably short deadline to provide any additional information or documentation.

Once the time for the contradictory procedure is finalized, even if the beneficiary did not send any required document or information, the auditor/public officer shall prepare the report.

Tip #4

The reporting templates are specific to each ENI CBC programme and usually include:

- Checklist
- List of findings
- Expenditure Verification Report
- Report on suspicion of fraud and/or corruption



The **suspicion of fraud and/or corruption** should not be part of the debriefing memo and closing meeting. It shall not be shared with the beneficiary and the report shall be sent directly to the Managing Authority or Joint Technical Secretariat.

Annexes

Annex 1. Checklist on internal control

Annex 2. Checklist of the accounting system

Annex 3. Checklist of the archiving of the document

Annex 4. Risk matrix

Annex 5. Determination of the sample

Annex 6. Substantive tests