

**A Manual for Measuring the Residual Error Rate for DG
DEVCO**

Version 4

September 2016

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1. INTRODUCTION TO THE MANUAL

DEVCO has identified a number of benefits attached to the measurement of the Residual Error Rate (RER) affecting its operation.

The European Court of Auditors (ECA) concluded in its EDF Statement of Assurance for 2008 that “...there is scope for more explicit conclusions on how the results of the various controls contribute to the Director-General’s assurance. A key indicator for the estimated financial impact of residual errors after all ex-ante and ex-post controls have been implemented would also provide the Director-General with a stronger basis for determining whether it remains below the materiality criteria set.”

In its 2009 Annual Activity Report, DEVCO undertook to establish a review of its control strategy, including consideration of an indicator for the estimated impact of residual errors.

Measurement of the RER enables DEVCO to evaluate the effectiveness of its overall control framework, and will form an important part of the information at the Director General’s disposal when signing the Declaration of Assurance in the Annual Activity Report.

RER measurement exercises have been engaged in respect of 2012, 2013 and 2014. Desirable modifications to the instruction manual supporting the methodology have been identified through performance of these exercises, including review by the ECA and the Internal Audit Service (IAS). The modifications are incorporated into this manual.

1.1. Definition of a residual error

Residual Errors are those that have evaded all prevention, detection and correction controls in the existing control framework. Work performed supporting measurement of the Residual Error Rate (RER) must be capable of identifying errors which have not been identified by other means.

In the context of the European Commission this means that only transactions related to closed contracts should be examined when assessing the RER. Logically, transactions related to open contracts still have the possibility of correction or amendment and should not be included in the exercise.

1.2. Timetable of residual error rate evaluation

The RER exercise can be performed annually or every two or three years. This manual assumes that it will be performed annually but, provided the expenditure profile of the year being scrutinised and the systems of control utilised are not substantially different over a number of years, it would be suitable for the use of a biennial or triennial exercise.

In order for the Director General's statement of assurance to benefit from RER measurement, the work must be completed, and a reliable estimate of the error rate produced, by February. This means that work needs to start before the end of the year in question to allow time to complete the exercise. The methodology described in this manual is based on scrutiny of closed transactions from the last four months of the year prior to the year in question (Year N-1), plus the first eight months of the year in question (Year N). This twelve-month period is split into three four-month periods. For each four-month period, a sample is chosen, substantive work performed and an interim report prepared on the residual error rate identified. At the end of the testing, a final report aggregates these reports and provides an estimated measurement of the error rate for the twelve months under consideration.

1.3. Sources of evidence

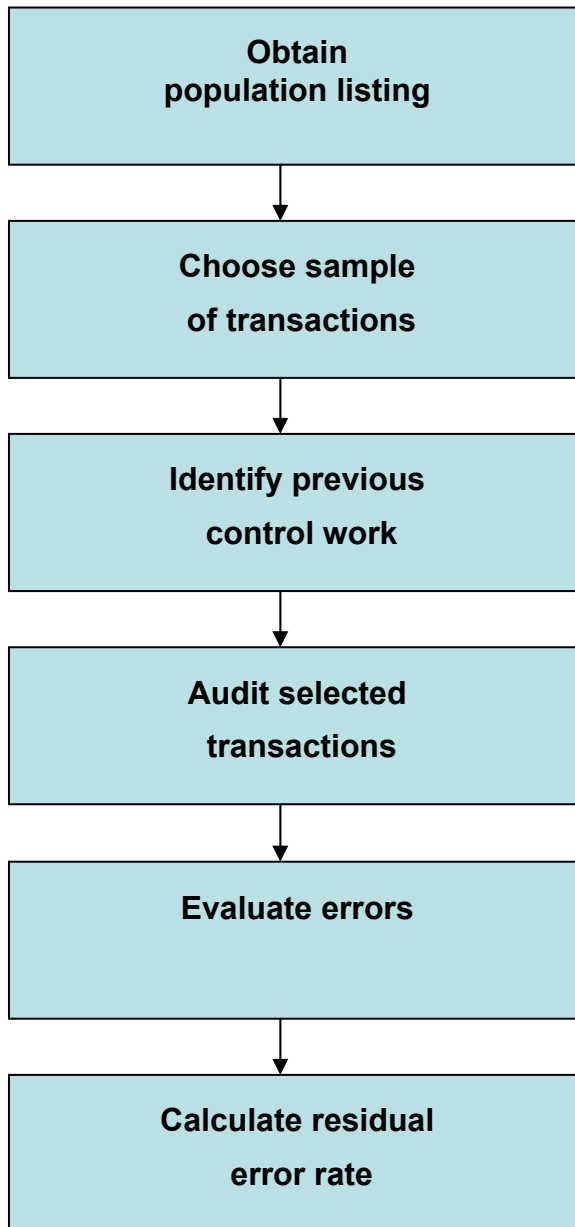
Once the sampled transactions have been identified, the RER auditor should summarise the sources of available evidence for the audit. In the first instance, the auditor should consider the work performed by external auditors such as the ECA, as well as other control work such as ex post evaluations, and the extent to which this work can be relied upon, with a potential consequential reduction in the intensity of substantive work required. A more complete list of other control work that may potentially provide sources of audit evidence is contained in section 4.2.

Once the auditor has assessed whether any prior control work can be relied upon to reduce the intensity of new substantive work, the necessary documentation should be requested from the relevant Unit or Delegation in DEVCO to enable performance of detailed substantive testing of each transaction. This information may only be available from the contractors or beneficiaries to the contract so they may need to be contacted to obtain this information. In most cases, documentation will be sent directly to the auditors. However, in certain circumstances the auditor should consider the value of a field visit.

1.4. Evaluation of results

On completion of the work, the auditor should evaluate the errors detected and perform an analysis of the errors geographically, thematically and by category of contract. Complete files supporting the selection of items, the audit tests carried out and the evaluation of errors should be available as audit evidence following completion. Detailed documentation relating to performance of the exercise should be retained by the entity that performed the testing work. Summary information comprising documentation supporting the selection of items and evaluation of errors, and the Transaction Control Checklists, should be passed to DG DEVCO following completion of the exercise.

The diagram overleaf shows the steps that an auditor should follow to measure RER. These are discussed in greater detail in this manual. Annex 3 sets out a flow chart showing the processes to be followed to complete the measurement of RER.



2. TIMING OF RER EXERCISE

2.1. RER Timetable

The annual RER exercise timetable ensures that the work can be performed steadily through the year and allow a final report to be produced by the February following the year in question. This allows the Director-General of DEVCO to consider the report when signing the Annual Declaration of Assurance. Another advantage of performing work throughout the year is that problems found in earlier samples of transactions can be responded to, and any omissions corrected in later ones.

The RER measurement will be done over a number of years so a multi-annual approach will be used.

The twelve-month period is divided into three four-month periods:

- The last four months of the prior year N-1 (for example, if performing the exercise in respect of 2017, this would be September - December 2016)
- The first four months of Year N (January to April 2017, in the above example)
- Months 5 to 8 of Year N (May to August 2017, in the above example)

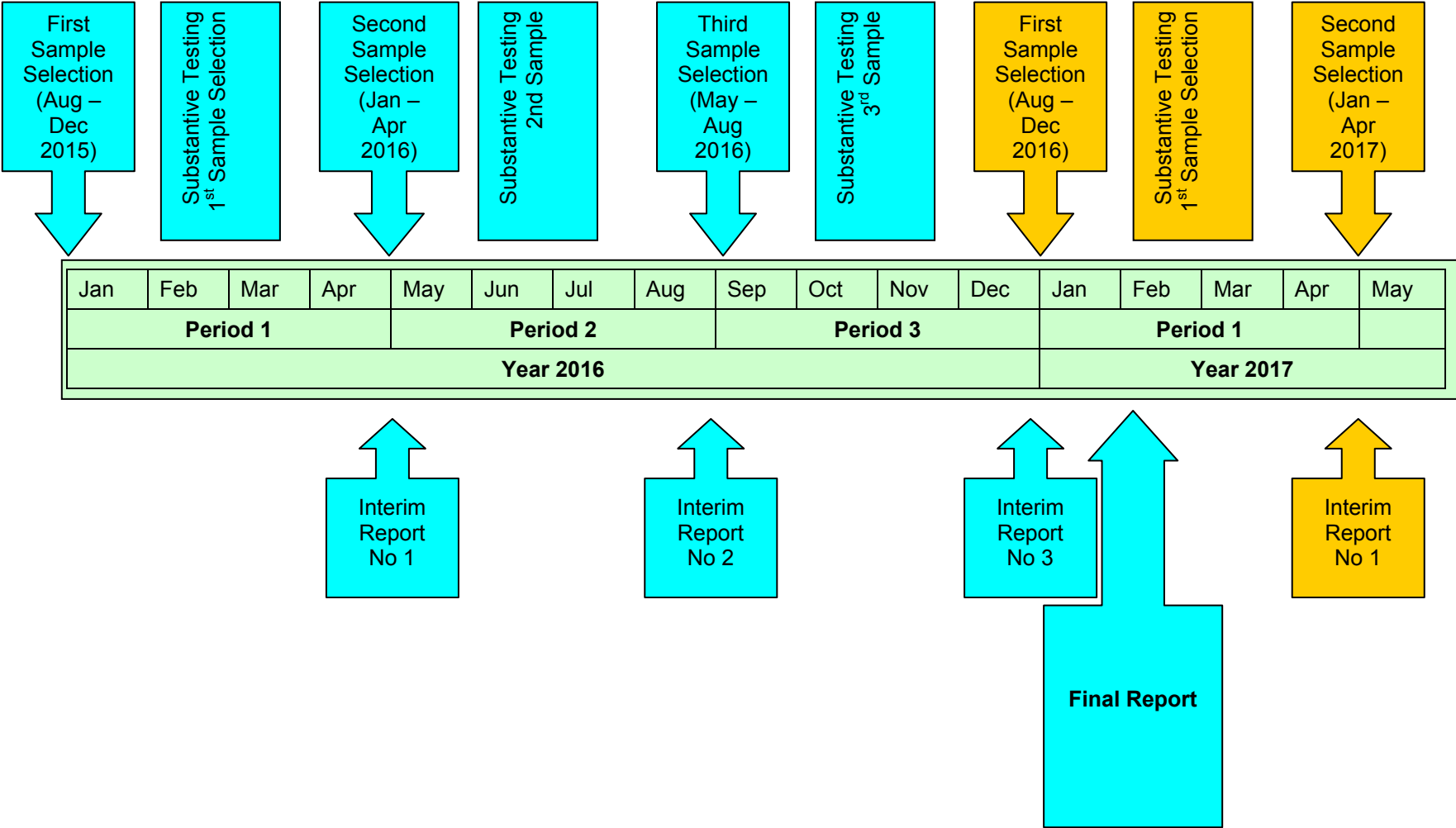
This means that fieldwork supporting the measurement would have to commence during 2017 (i.e. before the complete population of closed contracts is known).

In respect of 2017, the RER contractor should perform a selection from all contracts closed during the twelve months ending 31 August 2016 (i.e. including the last four months of 2016).

2.2. Illustrative timetable for 2016 exercise

The diagram overleaf gives a visual presentation of the RER timetable, including the selection of samples in the first week of January, May and September.

2.3. Annual Timetable (example of 2016)



2.4. Detailed Timetable

The more detailed timetable set out below illustrates the sequence of events for each sampling four-month period.

	31/12/N-1	Week 1 of Year N	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Suggested timetable for work of Period 3 N - 1																			
End of period	■																		
Request population data		■																	
Check data and prepare data for sampling			■																
Select sample using MUS				■															
Request initial information on previous control work on sampled transactions					■														
Receive initial data and assess impact on audit plan						■													
Make requests for documentation based on replies from Delegations/ Units							■												
Perform substantive procedures on all chosen transactions								■											
Make decisions on which work to perform 'on-the-spot'									■										
Evaluate errors										■									
Calculate residual error rate																		■	
Write interim report																			■

2.5. Timetabling Practical Considerations

By drawing a sample of transactions from a 12-month period (Year N) which does not correspond exactly to the period to which the Director General's assurance statement relates, a number of practical considerations arise.

The approach is predicated upon contracts closed during the final four-month period of Year N-1 having characteristics which are not materially different from those closed in the same period in Year N. If there are reasons to suspect that material differences will exist, then either:

- a. The methodology must be adapted to respond appropriately to the factors identified; and/or;
- b. The existence of differences must be clearly disclosed, so that the results can be understood in the light of the factors identified.

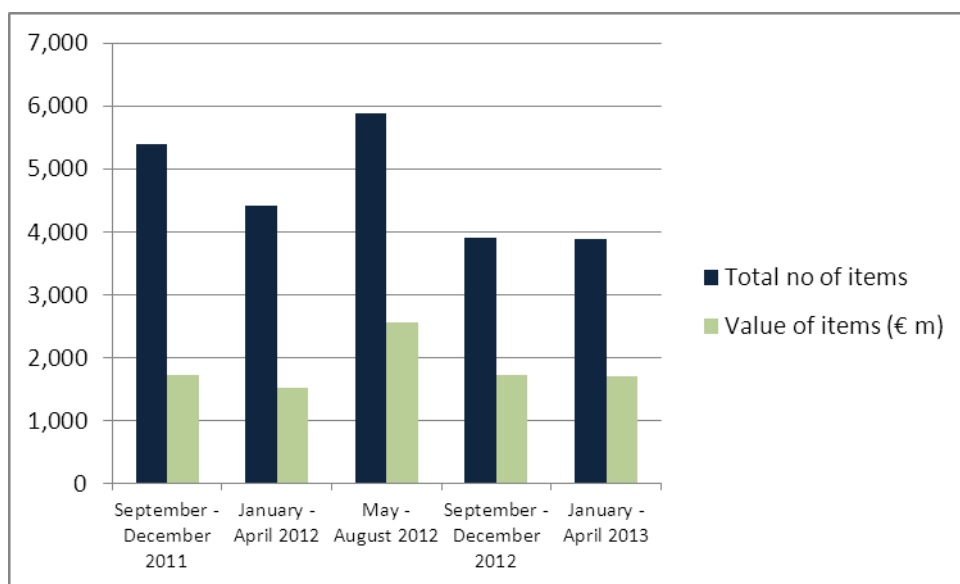
Steps to be taken to identify such factors include:

- Analysis of the types and value of expenditure over the year by type of contract and time of closure.
- Analysis of anticipated expenditure for Year N and Year N-1. Variations in expenditure levels may indicate forthcoming variations in contract closure numbers.

- Consideration of the existence of factors which could have an impact on contract closure levels (e.g. closure of an EDF; administrative reorganisations; amendments to external action overall policy; major amendments to Management Information Systems which prevent contract closures in a particular four-month period; focussed policies to close ‘dormant’ contracts as has occurred in 2012)
- Whether closed contracts have been subsequently reopened

Example: 20-month period September 2011-April 2013

As the chart below shows, the number and value of transactions closed varies over time. In the case of May to August 2012, there was a spike due to an initiative to close dormant contracts in CRIS. .



In earlier years there have been instances where closed contracts were subsequently reopened. The table below shows a summary of contracts closed in 2010 based on an extraction of data from CRIS in December 2010 and a later extraction in May 2011. In the May 2011 extraction, the number of closed contracts was lower than in the earlier extraction, as was the level of expenditure accepted, while the number of transactions was greater.

Per data extracted in December 2010	Per data extracted in May 2011	Difference
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Expenditure accepted (€)	3,711,115,997	3,704,562,060	(6,553,937)
Number of transactions relating to closed contracts	11,277	12,248	971
Number of contracts closed in 2010	5,509	5,433	(76)

The implication of the difference is that contracts that had been closed were subsequently reopened. This shows that the closure of a contract in CRIS is not necessarily definitive. The auditor must therefore consider at which point the population being used for sampling is to be considered definitive for the purposes of the RER exercise, and confirm the amounts subject to audit in respect of which any errors should be measured.

2.6. Amending the sample

Amendments to the sample selected for examination should be made only after careful consideration of the consequences of adjusting the sample and the expected advantages.

Any adjustment to the sample originally selected in accordance with the prescribed methodology may have a detrimental effect on the reliability of any subsequent extrapolation. Adjustments to the sample should only be performed in consultation with the European Commission, and following a clear explanation of the benefits and consequences of amendment.

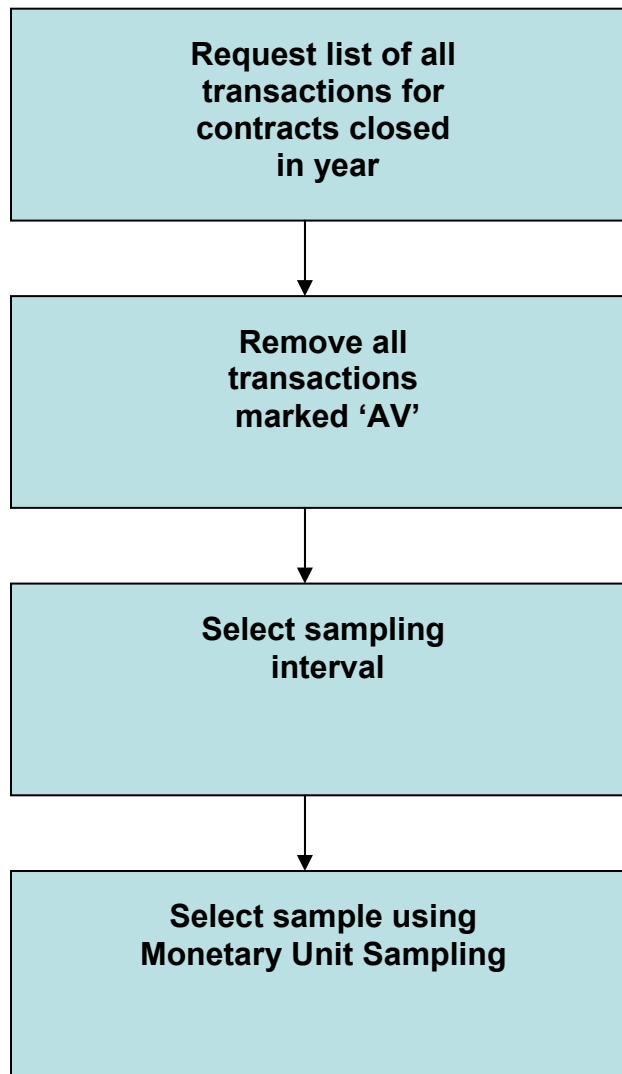
Possible reasons for amending the sample population include:

- A wish to give greater prominence to a contract type/ geographic area/ ABB that is considered insufficiently well represented. It is inevitable that some areas will be under- and over-represented, and any fluctuations will inevitably be reduced in the long term.
- A dramatic and material difference is anticipated in the number of contracts expected to be closed in a forthcoming four-month period.

3. SAMPLE SELECTION

3.1. Sequence of Events: Sample Selection

The auditor must first define the population and then choose a sample of transactions to test. This process is set out in the diagram below.



Upon commencement of the RER exercise, the sample extraction should be performed jointly by DEVCO officials and personnel from the entity performing the exercise. This would enable entity personnel to observe and record the necessary procedures. Of fundamental importance is the performance of checks on the completeness and accuracy of the population. This requires the input of DEVCO personnel with detailed knowledge of expected trends in DEVCO financial data.

Specifically, there should be a focus on the following:

- Identifying whether non-DEVCO transactions (such as those related to NEAR, FPI, ECHO and EIB) are present in the population;
- Ensuring the completeness of the population, for example, by reconciliation of the population in CRIS to that contained in ABAC;
- Response to queries on apparent anomalies and/ or analytical procedures performed by the RER auditors such as significant variations in transaction numbers or values.

3.2. Defining the population of closed contracts

The RER exercise only focuses on transactions where there is almost no possibility of further correction. Only transactions related to closed contracts should therefore be examined. For the 2015 RER exercise, there were 12,253 transactions in the population of closed contracts with a total value of € 5.4 billion. It has been decided for reasons of audit efficiency to sample by transaction rather than contract. This means that selection of a transaction need not result in the detailed examination of all activities which took place under the related contract – only the activities relating to that transaction. This results in a reduced quantity of work required for each item selected, without reducing the value of the overall result provided by the RER exercise. This means that a population comprising all transactions within closed contracts needs to be identified, not merely a list of the contracts themselves.

Accordingly, a full listing of all transactions relating to contracts closed in the four-month period under scrutiny should be requested, making sure that the data provided for each transaction is consistent for each four-month period. It is vital that any contracts which may be subject to further control activity are excluded (e.g. if they are included in the Annual Audit Plan).

Furthermore, in some cases older contracts will be in the population where any errors identified would have no relevance to the DG's current residual error rate. These should be removed from the population prior to sample selection. The definition of 'old' is those transactions relating to contracts where there has been no activity in the past five years. On occasion, the analysis of the population

described in 3.1 and 3.6 may mean that certain transactions that should have been excluded from the population have erroneously been included. In this case, the transaction should be substituted (see Section 9.2 for Substitution).

Important: It is the individual transactions recorded in CRIS/ ABAC that should be audited, not the whole contract.

3.3. Information to be included in population data

The information to be included in the data provided should include the following:-

Data to include	Reason for inclusion in population
Contract Reference	Allows easy identification in CRIS/ ABAC. The references also provide an indication of the period when the programme was active.
Invoice Reference	
Geographical Zone	This allows the eventual error rate to be analysed by region. Initial logistical planning is also assisted by this information.
Nature	This shows the type of contract (service, supplies, contracts, etc). Contract type is essential when determining the tests to be applied, and the amount of time that examination is likely to require.
Sub nature	This provides more information on the transaction type (type of grant, budget support, etc), and supplements the 'nature' information.
Delegation in charge	Enables the auditor to contact the Delegation/ Unit responsible for the project implementation.
Invoice supplier date	This allows the auditor to examine the transaction date of the invoice. Some transactions may have been incurred a long time ago, with consequent risks to the likely ease of access to documentation and other evidence.

Contract closing date	The date of contract closure allows the auditor to check that only transactions from the relevant four-month period are included in the population.
Invoice user reference	These provide detailed information on the transaction. Again, this informs the auditor's planning.
Contract title	
Contract title	Allows easy identification in CRIS/ ABAC
Invoice Gross Amount (€)	These are the amounts that have been accepted by, invoiced to, paid by and cleared by the Commission. An analytical procedure comparing these amounts may help to emphasise areas of risk to the auditor (for example, where the invoiced amount has not been paid and accepted in full. The 'Invoice Eligible Amount' is the amount that should be used as the population value when calculating the residual error rate at the end of the exercise. Any values included in the 'Invoice Open Amount ' column should be investigated.
Invoice Eligible Amount (€)	
Invoice Paid Amount (€)	
Invoice Open Amount	
Invoice Cleared Amount (€)	

3.4. Exclusion of advance payments

Two listings of transactions will be provided as a population. 'List PF' contains all pre-financing payments and 'List FAC' includes actual expenditure. Only transactions included in the 'List FAC' listing should be included. Pre-financing payments should only be used for analytical procedure purposes. This is because:

- Pre-financing transactions are where payment has been made in advance but where no activity has been completed or accepted. To test a pre-financing activity would only test the legality and the accuracy of the payment, not the underlying activity.
- Once the underlying activity has been completed and accepted, the pre-financing payments will be cleared by subsequent transaction(s) before the contract is closed. It is the transactions clearing the advance that should be tested.

3.5. Example of a transaction listing by Contract

Microsoft Excel - AUDL03A - List of Payments RER 20110524

File Edit View Insert Format Tools Data Window Help

75% Arial 8

A8540 FED/2007/188-365

	A	B	C	D	H	J	N	U	V	AA	AB	AC	AG	AH	AK	AL	AM	AN
	Contract Reference	Invoice Reference	Invoice type	Geographic Zone	Nature	Sub Nature	Delegation In Charge	States	Closing Date	Invoice Description	Contract Description	Contract Title	Closing Date	Supplier Date	Accepted Amount (Euro)	Invoiced Amount (Euro)	Paid Amount (Euro)	Cleared Amount (Euro)
7819	06/183-653	FED/2003/010-806	AV	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Open Balance Payment for OLA3 contract F2033	SUPPLY OF 4 RADAR		1/14/2010	1/21/2003	3,398,865.15	3,398,865.15	3,398,865.15	0.
7820	06/183-653	FED/2003/030-083	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv#081417 - Barbados Steel Structures	SUPPLY OF 4 RADAR		1/14/2010	1/18/2008	285,300.00	285,300.00	34,871.85	190,422.00
7821	FED/2006/183-653	FED/2003/034-584	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv#081420 & #081421 - T&T & B'dos radar syste	SUPPLY OF 4 RADAR		1/14/2010	1/19/2008	3,556,687.50	3,556,687.50	1,185,562.50	2,371,125.00
7822	FED/2006/183-653	FED/2003/034-613	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv#091068 - Belize radar system	SUPPLY OF 4 RADAR		1/14/2010	3/5/2009	1,077,388.50	1,077,388.50	359,329.50	718,653.00
7823	FED/2006/183-653	FED/2003/044-335	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Solex retention - Inv 091158 A/ 091138B/ 091138C	SUPPLY OF 4 RADAR		1/14/2010	4/24/2009	514,364.00	514,364.00	514,364.00	0.
7824	FED/2006/183-653	FED/2003/046-858	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv 091280 - B'dos Tower retention	SUPPLY OF 4 RADAR		1/14/2010	1/18/2008	31,700.00	31,700.00	31,700.00	0.
7825	FED/2006/183-653	FED/2003/048-837	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv#091278 - Guyana radar supply	SUPPLY OF 4 RADAR		1/14/2010	7/30/2003	1,077,388.50	1,077,388.50	359,329.50	718,653.00
7826	FED/2006/183-653	FED/2003/057-014	FAC	Caribbean Region	Supplies	Purchase	Guyana	Closed	1/14/2010	Inv 091279 - Guyana Tower retention	SUPPLY OF 4 RADAR		1/14/2010	7/30/2003	119,776.50	119,776.50	119,776.50	0.
7898	FED/2006/190-387	FED/2003/056-202	FAC	Angola	Supplies	Purchase	Angola	Closed	6/14/2010	Païement solde final	T/533 INTERGRAPH-F		6/14/2010	10/3/2003	9,857.30	9,857.30	9,857.30	0.
7945	FED/2006/191-257	FED/2010/004-032	FAC	Uganda	Supplies	Purchase	Uganda	Closed	3/23/2010	Retention release payment after period of guarant	MFI OFFICE SOLUTION		3/23/2010	1/19/2010	632.15	632.15	632.15	0.
7994	FED/2006/192-333	FED/2008/022-350	FAC	Barbados	Supplies	Purchase	Barbados	Closed	12/14/2010	Repayment of non-executed payment no. VR/2008	SUPPLY OF EQUIPME		12/14/2010	4/30/2008	85,825.58	85,825.58	85,825.58	0.
7995	FED/2006/192-334	FED/2008/019-863	FAC	Barbados	Supplies	Purchase	Barbados	Closed	12/15/2010	BO : 200800011940	SUPPLY CONTRACT -		12/15/2010	4/30/2008	19,271.98	19,271.98	19,271.98	0.
8276	FED/2006/195-856	FED/2008/023-458	FAC	Malawi	Supplies	Purchase	Malawi	Closed	9/7/2010	Retention release after final acceptance	SUPPLY CONTRACT		9/7/2010	1/24/2007	26,072.90	26,072.90	26,072.90	0.
8326	FED/2007/176-091	FED/2003/001-126	AV	Ivory Coast	Supplies	Purchase	Ivory Coast	Closed	3/30/2010	Open Balance Payment for OLA3 contract F2083	CONTRAT DE FOURN		3/30/2010	1/21/2003	583,566.60	583,566.60	583,566.60	0.
8327	FED/2007/176-091	FED/2003/023-391	FAC	Ivory Coast	Supplies	Purchase	Ivory Coast	Closed	3/30/2010	PAIEMENT DU SOLDE	CONTRAT DE FOURN		3/30/2010	7/8/2008	972,611.00	972,611.00	389,044.40	583,566.60
8328	FED/2007/176-093	FED/2003/001-128	AV	Ivory Coast	Supplies	Purchase	Ivory Coast	Closed	3/14/2010	Open Balance Payment for OLA3 contract F2083	FOURNITURE DE MA		3/14/2010	1/21/2003	57,852.43	57,852.43	57,852.43	0.
8329	FED/2007/176-093	FED/2003/023-442	FAC	Ivory Coast	Supplies	Purchase	Ivory Coast	Closed	3/14/2010	PAIEMENT DU SOLDE	FOURNITURE DE MA		3/14/2010	3/4/2008	68,739.90	68,739.90	10,887.47	57,852.43
8330	FED/2007/176-093	FED/2003/023-395	FAC	Ivory Coast	Supplies	Purchase	Ivory Coast	Closed	3/14/2010	Facture 06-314-1050/0458	FOURNITURE DE MA		3/14/2010	3/4/2008	27,680.81	27,680.81	27,680.81	0.
8331	FED/2007/177-376	FED/2003/056-395	FAC	Rwanda	Supplies	Purchase	Rwanda	Closed	5/18/2010	Païement final	[EX 07 P05T C103] BU		5/18/2010	9/23/2003	983.34	983.34	983.34	0.
8431	FED/2007/184-761	FED/2003/044-430	FAC	Mali	Supplies	Purchase	Mali	Closed	3/19/2010	FACTURE N 023/03 DU 01/07/03 DECOMPTE M	SOMDOMAD AVEN.I.F		3/19/2010	7/1/2003	11,100.00	11,100.00	11,100.00	0.
8432	FED/2007/184-762	FED/2003/034-102	FAC	Mali	Supplies	Purchase	Mali	Closed	3/19/2010	memoire 03 pour retenue de garantie du 20/04/20	FOURNITURE D'EQUIP		3/19/2010	4/20/2003	77,361.33	77,361.33	77,361.33	0.
8433	FED/2007/184-763	FED/2008/021-721	FAC	Mali	Supplies	Purchase	Mali	Closed	8/23/2010	BO : 200800015863	CONSTRUCTION DE NC		8/23/2010	12/9/2008	32,338.53	32,338.53	32,338.53	0.
8434	FED/2007/184-764	FED/2003/023-701	FAC	Mali	Supplies	Purchase	Mali	Closed	3/19/2010	DECOMPTE 05 DU 17/12/2008	CANALISATIONS ET B		3/19/2010	12/17/2008	23,038.86	23,038.86	23,038.86	0.
8475	FED/2007/185-717	FED/2003/033-204	FAC	Sierra Leone	Supplies	Purchase	Sierra Leone	Closed	11/23/2010	Final Invoice	SUPPLY CONTRACT -		11/23/2010	4/21/2003	12,384.61	12,384.61	12,384.61	0.
8483	FED/2007/187-209	FED/2003/028-771	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Païement fournisseurs de médicaments contre presen	[EX-008] JARMA-FOF		10/10/2010	12/15/2008	230,190.60	230,190.60	230,190.60	0.
8484	FED/2007/187-209	FED/2003/030-301	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	12/10/2008	14,842.20	14,842.20	14,842.20	0.
8485	FED/2007/187-209	FED/2003/030-393	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	12/10/2008	8,318.60	8,318.60	8,318.60	0.
8486	FED/2007/187-209	FED/2003/032-092	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	1/12/2003	25,817.00	25,817.00	25,817.00	0.
8487	FED/2007/187-209	FED/2003/032-036	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	1/24/2003	4,094.40	4,094.40	4,094.40	0.
8488	FED/2007/187-209	FED/2003/032-287	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	12/10/2008	32,243.40	32,243.40	32,243.40	0.
8489	FED/2007/187-209	FED/2003/032-782	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	1/16/2003	23,806.90	23,806.90	23,806.90	0.
8490	FED/2007/187-209	FED/2003/051-853	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	6/1/2003	8,318.60	8,318.60	8,318.60	0.
8491	FED/2007/187-209	FED/2003/051-866	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	6/8/2003	4,094.40	4,094.40	4,094.40	0.
8492	FED/2007/187-209	FED/2003/051-877	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	4/27/2003	14,842.20	14,842.20	14,842.20	0.
8493	FED/2007/187-209	FED/2003/051-327	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	6/8/2003	25,817.00	25,817.00	25,817.00	0.
8494	FED/2007/187-209	FED/2003/051-362	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	6/8/2003	23,806.90	23,806.90	23,806.90	0.
8495	FED/2007/187-209	FED/2003/055-631	FAC	Angola	Supplies	Purchase	Angola	Closed	10/10/2010	Remboursement des retenues de 10%	[EX-008] JARMA-FOF		10/10/2010	3/10/2003	32,243.40	32,243.40	32,243.40	0.
8515	FED/2007/187-833	FED/2003/003-115	AV	Papua New Guine	Supplies	Purchase	Papua New Guine	Closed	8/23/2010	Open Balance Payment for OLA3 contract F2083	SUPPLY OF IT EQUIPM		8/23/2010	1/21/2003	212,610.83	212,610.83	212,610.83	0.
8516	FED/2007/187-833	FED/2010/020-119	FAC	Papua New Guine	Supplies	Purchase	Papua New Guine	Closed	8/23/2010	Correction invoice to clear pre-financing	SUPPLY OF IT EQUIPM		8/23/2010	6/28/2010	212,610.83	212,610.83	0.00	212,610.83
8536	FED/2007/188-277	FED/2003/043-380	FAC	Congo (Democr	Supplies	Purchase	Congo (Democr	Closed	2/10/2010	Solde marché fourniture 14 vilsu sv PAR II	CFAQ(EX AUTO ONE)		2/10/2010	7/6/2009	25,300.00	25,300.00	25,300.00	0.
8537	FED/2007/188-358	FED/2008/022-419	FAC	Congo (Democr	Supplies	Purchase	Congo (Democr	Closed	5/19/2010	Réliquat solde	[EX 07 P042 C044] A		5/19/2010	10/20/2008	1,130.12	1,130.12	1,130.12	0.
8540	FED/2007/188-365	FED/2003/060-182	FAC	Congo (Democr	Supplies	Purchase	Congo (Democr	Closed	11/23/2010	Decompte final-Facture 062003008	[EX 07 P042 C056] H		11/23/2010	11/24/2003	60,393.54	60,393.54	60,393.54	0.
8541	FED/2007/188-365	FED/2003/060-182	FAC	Congo (Democr	Supplies	Purchase	Congo (Democr	Closed	11/23/2010	Decompte final-Facture 062003008	[EX 07 P042 C056] H		11/23/2010	11/24/2003	-30,196.77	-30,196.77	-30,196.77	0.

List of Payments / Payments excl AV / AV only / Rec /

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3.6. Verifying the data provided

The auditor should be confident in the integrity of the data that has been provided. To ensure this is the case, there are a number of analytical procedures and other tests that can be performed to ensure that the population is complete and correct.

The auditor should:

- Examine the transaction listing and consider whether there are flaws obvious in the data provided.
- Ensure that the transaction listing includes subsequent corrections data (e.g. recovery orders, accounting corrections). This data is vital when examining individual transactions, since subsequent corrections may have an important impact on items selected.
- Check the columns 'Invoice Open Amount' for each transaction in the population. If any values remain in this column, these should be queried and considered for exclusion.
- Check that the totals of 'Invoice Paid Amount' and 'Invoice Cleared Amount' combined are not significantly different from the total 'Invoice Accepted Amount'. If there is a large difference, query this with the Data Warehouse to eliminate any inconsistent data.
- Ensure that contracts included in the population are not included in the Annual Audit Plans (implying that controls in respect of those contracts are not complete). Because of the impossibility of examining over 2,000 contracts, this can only practically be done after selection of the sample.
- Identification of negative value amounts in the population of transactions included in the population taken from CRIS/ABAC. The RER auditor should consider the scale of transactions with negative values in the population. If these transactions are significant, then there should be consideration of including such transactions (making positive so there is the possibility of their being chosen for example).
- In previous years, transactions have been migrated from OLAS to CRIS. In some instances, historic data relating to individual transactions has not been moved over to CRIS. Where the listing has narrative stating 'migration OLAS', consider whether the transaction listing for the contract is complete.
- Exclude transactions which represent 'technical closures.' Technical closures occur where a transaction is re-opened in CRIS in order to permit a technical procedure to take place, e.g. as part of a software upgrade. The transaction is then closed afterwards. These transactions should not be included in the population.

Consider any other analytical procedure that will assess that the population is complete and correct.

- Exclude any non-DEVCO transactions that may be in the population.

- Exclude any categories of transactions which are known to be unavailable for review due to temporary closure of Delegations or other similar circumstances (e.g. temporary closure of the EUD in Syria, leading to exclusion of transactions managed by that Delegation).
- Confirm that no transactions have already been included in previous populations (this is a particular risk for transactions recorded at the beginning of the period). This may also occur where contracts have been reopened in CRIS/ ABAC after an original closure. This can only be practically checked by RER auditors once the sample has been chosen. This can be done through consultation with the relevant EUD/Unit. The Commission should also check the population for any such anomalies before providing the population to the auditors.

Should data verification reveal flaws in the sample data that would compromise the eventual accurate extrapolation of results, and which can be corrected through the use of alternative population selection criteria, then the criteria used to select the sample population should be re-examined in the light of the flaws identified, and the population re-selected.

Not all flaws will be capable of correction through amendment of search criteria (e.g. contracts which have erroneously been recorded as closed). The existence of such flaws should be recorded, and reported in the four-monthly reports and annual reports, to permit DG DEVCO to address the issues which permitted the flaws to exist in the first place. In some cases, the flawed data may mean that an inappropriate transaction is chosen, e.g. not relating to DEVCO or still subject to controls despite being included as closed in CRIS. In this case, the transaction should be replaced with the next one that would have been selected by monetary unit sampling as discussed in 2.6. The auditor does not need to completely select the sample again, as the practical disadvantages of full reselection outweigh the technical considerations.

3.7. Determining the sampling interval

To reach a conclusion with an acceptable level of accuracy, using a confidence level of 95%, the auditor must choose a statistically significant sample of items to scrutinise. This has been determined to be 240 sampling intervals¹.

As noted in Section A, the timetable for this exercise requires that the testing is performed in three separate four-month periods. The sample should, therefore, be expanded to accommodate the fact that three different samples are being chosen from three separate populations. In the pilot study of this exercise, a sample drawn from 80 sampling intervals was chosen for each four-month period instead of 60 (180/3) to accommodate this approach.

Once the population has been retrieved and advance payments removed, monetary unit sampling (MUS) should be used to select the sample.

MUS is a statistical sampling technique which ensures that each euro of expenditure has the same possibility of selection (rather than each transaction having the same possibility of selection). This means that higher value transactions have a higher chance of selection, as the likelihood of selection is proportionate to transaction value. Lower value transactions are not excluded though.

The monetary unit should be the 'accepted amount' in euro. The population of transactions is listed and a sampling interval is calculated. The sampling interval is calculated by dividing the value of the population by the number of transactions to be sampled.

If the sampling interval is € 1,000,000, the transaction that falls at each € 1,000,000 of expenditure will be chosen as a sampled transaction. The starting point for the first sampling interval should be at a random starting point.

3.8. Selection of the sample to be tested

Example of MUS in practice

If the value of the population is € 1.6bn and transaction sample size is 80, the sampling interval is $1.6\text{bn} / 80 = € 20\text{m}$

Each 20 millionth Euro will be selected as a sample item, meaning higher value transactions have a greater likelihood of being chosen. In this extract, transaction numbers 113, 114 and 116 would be chosen as samples.

¹ Taking into account the need to expand the sample to compensate for selecting items in three separate tranches. It is possible that the sample size will be smaller as chosen transactions may straddle more than one sampling interval. The treatment of such items is discussed in 9.1.

Transaction number	Individual transaction €	Cumulative value €	Sampled
111	7,000,000	7,000,000	Not chosen
112	2,500,000	9,500,000	Not chosen
113	19,000,000	28,500,000	Sample 1
114	20,000,000	48,500,000	Sample 2
115	3,000,000	51,500,000	Not chosen
116	30,000,000	81,500,000	Samples 3 and 4 (transaction 'hit' at €60m and € 80m sampling intervals)

Note: Where a transaction's value is greater than the sampling interval, that transaction will inevitably be selected. There is also an enhanced possibility that the transaction will be selected twice. Where the transaction's value is two times or more greater than the sampling interval, it will inevitably be selected twice. In such circumstances, the large item can be treated as providing coverage for all related sampling intervals, and additional items do not need to be chosen to compensate.

Using the third four-month period of 2010 as an example, the following figures apply:

Total value of closed contracts: € 1,290,076,471

Sampling Interval: €16,125,956 (€1.29 bn / 80 transactions)

Transactions relating to every 16,125,956th Euro would be selected for examination.

Transactions with a value greater than € 16,125,956 (principally budget support transactions) would inevitably be selected. Certain such transactions may be selected twice as shown above.

3.9. Initial Logistical and Administrative Planning

Following selection of transactions for detailed testing, a draft plan for performance of related substantive testing can be prepared. The plan should identify, for each transaction selected:

- Likelihood of reliance being placed on previous control work, including audits (see next chapter)
- Estimated period of time required by the Delegation/ Unit/ Beneficiary to assemble documentation
- Estimated date of receipt of documentation
- Estimated period of time required to examine documentation
- Estimated date for determination of transaction error rate.

The estimates for each transaction will depend on a number of factors, including:

- The type of contract concerned
- The geographic area of activity
- The complexity of the activity
- The capacity of the Delegation/ Unit/ Beneficiary concerned to respond to requests for information.

Completion of the initial plan facilitates refinement of the timetable for each four-month period described in section 2.4. Both the plan and the timetable are subject to constant refinement and revision as the work progresses.

4. IDENTIFICATION OF PREVIOUS CONTROL WORK

4.1. Communication with Commission Services

Maintaining clear lines of communication with the Commission services responsible for administration of the transactions selected is critical. Once the sampled transactions are known for the four-month period in question, one of the most critical factors affecting successful examination of a transaction in accordance with the timetable is communication with the Delegation/ Unit with responsibility for implementation of the chosen transaction/ contract.

- Communication commences with a formal note from DG DEVCO Headquarters to all Heads of Finance and Contracts (Delegations) and Finance, Contracts and Audit (HQ) informing them of the forthcoming implementation of the RER exercise.
- Following selection of transactions, DG DEVCO writes to all relevant Heads of Finance and Contracts affected with responsibility for individual items selected, informing them that more detailed requests for information and support will shortly be made by the RER auditors.
- The RER auditors contact the Head of Finance and Contracts at the relevant Delegation/ Unit.
- The process of obtaining documentation can be time-consuming and demanding, so it is important that the purpose and benefits of the RER exercise are clearly explained at the time of initial contact by both DG DEVCO and the RER auditors.
- As the activities relating to the contracts may have been completed several years before the RER exercise, the current Head of Contracts and Finance is the appropriate person to contact. For earlier contracts, where there has been a large staff turnover, it is possible that none of the original staff who administered the contract will be in place. This may not present a serious problem provided the filed documentation is sufficiently complete to allow examination work to take place.
- Before requesting full documentation for a chosen transaction, the relevant Delegation/Unit should first be asked for information on control work previously performed, emphasising that reliance will be placed on this work wherever possible, which may reduce the amount of detailed substantive work required later.
- It should be made clear that information on all previous control work performed is required – this is not limited to audits. For example, the signing of work completed under a works contract by a qualified, independent expert might provide significant evidence that could be relied upon.

- To rely on previous control work, related information needs to be available before performance of substantive testing, so the official should be reminded of the need for a fast response otherwise the opportunity to place reliance may be lost.
- Where there is no response from the official concerned, or where no information is available, the auditor must consider the implications that the non-availability of documentation will have on the calculation of Residual Error Rate. The response should be discussed with DEVCO R2, but options can include:
 - Eliminating the selected item from the sample, and extrapolating the results based on a smaller number of selected items;
 - Replacing the item with another;
 - Estimation of the error rate.

All options should be given very careful consideration, and the effect of unavailability of evidence should not be underestimated, since the possibility that missing documentation may conceal a high rate of error cannot be excluded. In any case, full disclosure of the non-availability of evidence must be provided in the eventual report, alongside an explanation of the effect on the estimated Residual Error Rate (see Chapter 9 for further discussion of this issue).

4.2. Evaluation of Previous Control Work

Previous control work includes:

- Commission on-the-spot checks;
- External audits performed by the ECA;
- Ex post controls;
- Project financial audits and verifications;
- Supervisors Reports (works contracts);
- Evidence supporting final acceptance (works and supply contracts); and
- Expert reports evaluating eligibility criteria for Budget Support payments .

For each piece of control work, the RER auditor should examine the control/ audit report and ask the delegation/ unit staff about the work performed. From this, the auditor should determine whether, and to what extent, to use the prior control work and so reduce the necessary work of the RER exercise.

Specifically, consideration should be given to:

- The objectivity of the staff who performed the work;
- Their technical competence;
- Whether the work was carried out with due professional care;
- Whether the nature and scope of work performed cover the sampled transaction satisfactorily;
- Whether the time period of the work covers the transaction selected and can be reconciled to the transaction in CRIS;
- The risks considered, and the materiality and confidence level applied.
- Whether the work was sufficient and appropriate to reach a conclusion.
- The risk of error in the unsampled population.

A useful framework to apply to the question of whether to rely on previous control work is to identify all inherent and control risks associated with the contract under scrutiny and consider whether the control work is sufficient to mitigate these risks and thereby reduce the risk of error to a minimum amount. At all times, the auditor should consider the risk of residual error in the sampled and unsampled populations. If the previous control work done leaves this risk unsatisfactorily high, then further substantive work should be done.

Consideration should also be given to whether re-performance of part of the audit work should be carried out in order to determine the level of reliance.

If the work is considered sufficient and appropriate, the auditor should consider the extent to which he can rely on the work and reduce substantive testing. In some cases, the previous control work may be completely relied upon.

There are three possible outcomes at this stage:

- **No reliance** can be placed on the control work: here the work may not be competently performed or it may not cover the expenditure chosen in the sample. In this case, full substantive testing should be performed.
- **Some reliance** can be placed on the work: the work may be of satisfactory quality but it may not provide full satisfactory assurance for the purposes of the RER exercise. In this case, there may be scope to rely partially on the work done and reduce the substantive testing required.
- **Complete reliance**: where the control work already done is competent and covers the entirety of the expenditure represented by the sampled transaction, the auditor may choose to

rely fully on the control work already performed. No further substantive work needs to be performed. Complete reliance can be placed on other work only in rare circumstances.

4.3. Illustrative factors affecting reliance on controls

The following table illustrates factors which may affect the extent of reliance placed on previous controls.

Factors increasing likelihood of reliance being placed on work	Factors decreasing likelihood of reliance being placed on work
Terms of Reference are clear and well developed	Requirements of control work are not set out clearly
The control work covered all of the expenditure selected for RER examination	The scope of the control work does not provide assurance for RER purposes
The technical standards governing the work are referred to, are adequate, and there is evidence that they were adhered to.	There is no mention of the appropriate technical standards in the reporting and the work does not achieve those standards
The opinion (if the control is an audit) is set out in the report and offers positive assurance over the expenditure under scrutiny.	The audit opinion is either not included in the report or only provides negative assurance (see example below for an opinion used in a report examined during a pilot study).
The terms of reference of the work performed explicitly refers to examination of contractual compliance.	There is no explicit reference to and/ or examination of contractual compliance.
	The findings of the report include observations that should have been raised as financial findings and led to a recovery.
During the RER pilot study, there was an example where an auditor had been contracted to perform an ex post audit of a project and used a template provided by the Delegation. This set out the relevant standards to use, the period to be examined and type of expenditure that would be used and additional specific objectives. The control work covered the sampled transaction in full and on examination of the report it had been done competently. In this instance, the auditor would be likely to place some reliance on the work performed previously.	It is not clear which period the control has examined or the period examined only partly relates to the sampled transaction.
	During the RER pilot study, documentation relating to an ex post evaluation performed by DEVCO HQ was examined. There was no indication of how the work had been performed, what had been assessed and who had actually performed the work. In this instance, the auditor would be unlikely to rely on the work performed.
The control work was performed by an individual/entity whose competence, and	The control work was performed by an individual/entity whose competence, and

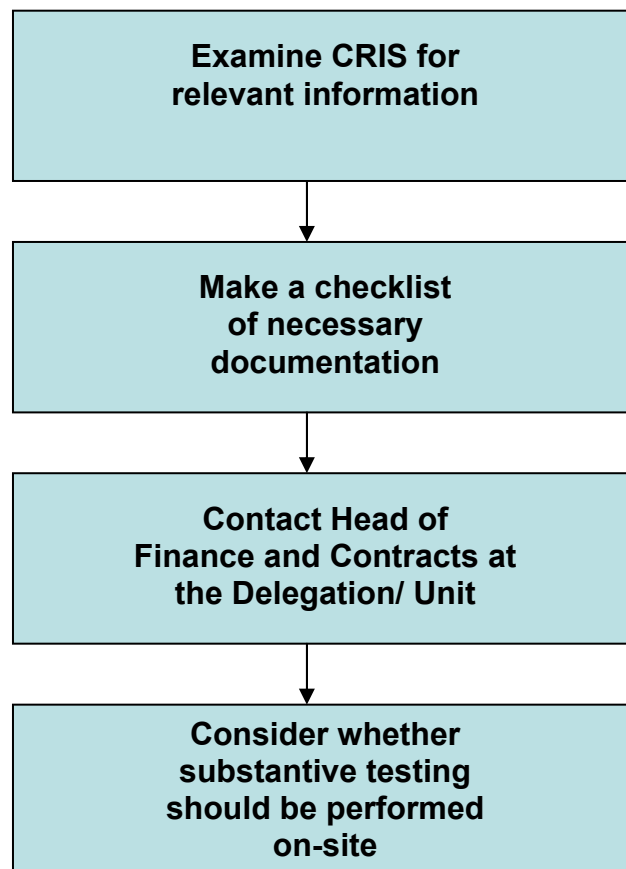
understanding of the subject matter, is not in doubt.	understanding of the subject matter, cannot be established.
The contract is affected by low inherent and control risk, e.g. a service contract of low complexity.	The inherent risk of the transaction under scrutiny is high- e.g. unstable country, decentralised actions, located in areas where a cash economy only is in place, etc.
Control work performed by an auditor under the Audit Framework Contract	Control work performed by a locally-engaged auditor
Control work engaged and managed by the European Commission	Control work engaged and managed by a beneficiary

5. OBTAINING DOCUMENTATION TO PERFORM SUBSTANTIVE TESTING

5.1. Sequence of Events: Obtaining Documentation

Obtain the necessary documentation to perform the testing of each of the contracts. As the contracts are dispersed very widely geographically, the auditor should request in most cases that all documentation is sent to their office.

The flowchart below sets out the fundamental steps:



a. Examine CRIS for information on the contract and documentation related to it and the selected transaction in particular.

Information recorded on CRIS may include:

1. Contracts signed
2. Riders
3. Procurement documentation
4. Important correspondence
5. Financial reports
6. Narrative reports
7. Recovery orders
8. Invoices and payment authorisation
9. Supporting documentation for claims from contractors

It is unlikely, however, that CRIS will provide all this information or even sufficient documentation to perform the full testing. It may, however, provide some useful planning information.

b. Make a checklist of the information and documentation that should be requested.

Specific information on the contracts can be found in CRIS and this can enable the auditor to adapt the information requested to the specific contract. Annexes 1 and 2 show examples of information that could be requested for a Budget Support Contract and a Grant Contract to illustrate the differing information requirements.

c. Contact the Head of Finance and Contracts at the Delegation/ Unit where the contract was administered with a request for information and explanation of the RER exercise.

The auditor should follow up earlier requests to the Head of Finance and Contracts for information on prior control activities, explain the results of the initial assessment of the previous

control work and request the information and documentation needed to complete testing of the transaction.

Particular emphasis should be given to the importance of identification of previous control work that will reduce the amount of substantive work required. It is particularly important that previous on-the-spot controls, as set out in section 4.2, are identified. The existence of previous, documented controls of this type can help to:

1. Reduce the intensity of substantive testing required; and/or
2. Assist in determining whether on-the-spot testing will be required (see section (d) below).

In order to adhere to the timetable set out above, the person who will provide the information should be given a deadline in which to provide it.

d. Consider where the work should be performed.

Once the sample has been selected, there is one further sub-selection that needs to be performed. The auditor should consider the value of a visit to the Delegation/ Unit which administered the transaction. External Commission activities are managed from 111 Delegations around the world, as well as from its headquarters in Brussels, with expenditure incurred in over 150 countries.

For this reason, the RER methodology assumes that almost all work will be performed in the auditor's office with documentation being sent there. It does, however, foresee some on-the-spot visits to Delegations for each four-month period, recognising that there will be some transactions where the examination of sufficient, appropriate evidence cannot be achieved by desk review alone. Such transactions will form a very small minority of the total items examined.

Decisions on which projects to audit on-the-spot should be based on consideration of which transactions would benefit most from on-the-spot work. Some relevant factors for consideration are set out in the table below.

The decision on where to perform on-the-spot work is not always entirely clear so it is recommended to defer this decision at least until after all previous control work has been completed. Because there are such a small number of fieldwork visits foreseen, it may be sensible to delay the decision until some substantive testing has been performed.

Characteristics which may indicate desirability of on-the-spot testing	Characteristics indicating that on-the-spot testing may not be appropriate
There is limited or no evidence of previous control work that would serve to substitute for on-the-spot testing.	Previous control work performed and documented by Commission officials (see list of potential previous control work in section 4.2) provides much of the information that would otherwise be provided by on-the-spot testing.
Programme staff who worked on the project are still present at the Delegation or beneficiary to provide explanations	Programme staff are no longer present at either the beneficiary or the Delegation.
Physical verification of tangible project outputs would provide valuable evidence	Project outputs are not tangible, and/or evidence of completion of outputs is available in reliable documentary form
Documentation and other evidence cannot be transported practically to Europe	Project documentation is available entirely in electronic form
Project activities are complex	Costs of transportation of documentation are significantly lower than costs of performing an on-the-spot mission
Audit trails/ accounting systems employed by beneficiaries mean the project may be difficult to audit without direct assistance	Geographic inaccessibility or political instability
Extensive documentation stored at beneficiary's premises	All documentation stored at Commission premises, and relatively easily transported
Considerable extra benefit attached to performing on-the-spot work	Limited extra benefit attached to performing on-the-spot work

There are also a number of shared characteristics which mean that transactions for certain types of contracts can be more readily performed from the auditor's premises or, conversely, benefit more directly from a field visit.

The types of contract that can be more readily examined from the auditor's premises are:

- service contracts
- supply contracts
- works contracts; and budget support contracts.

The volume of documentation for these types of contracts will not usually be excessively large. Documentation for Budget Support Programmes is kept centrally in Brussels. Documentation relating to Supply and Service Contracts is usually available in its entirety at Commission premises, and is not usually excessive in volume in any case.

For Programme Estimates and standard Grant Contracts, documentation is often voluminous and complex. Moreover, documentation will not always be available directly at the delegations. In these instances the auditor should consider performing the work on site, either at the Delegation or at the final beneficiary.

The table below summarises some of the considerations affecting different contract types in respect of determining the location of fieldwork performance.

Type of contract to audit	Characteristics of contract type	Where should fieldwork be typically performed
Service contracts	<p>Relatively modest volumes of documentation</p> <p>Possibility that some supporting documentation may be at contractors but likely submitted to the Commission with invoices/ requests for payment</p> <p>Transactions are likely to relate to individual invoices</p> <p>No physical sign of work being carried out on site</p>	At auditor's premises
Supply contracts	<p>Modest volume of documentation</p> <p>Procurement would usually be modest but if the supply specification is very technical, procurement documentation may be voluminous</p> <p>Physical inspection of supplies is possible depending on the nature of the project but unlikely to be necessary if supply acceptance performed adequately</p>	At auditor's premises
Work contracts	<p>Relatively modest volumes of documentation required to demonstrate eligibility</p> <p>Procurement documentation may be voluminous if the project is complex</p> <p>Physical inspection of supplies is possible but unlikely to be necessary if works acceptance performed adequately.</p>	At auditor's premises

Budget Support contracts	<p>Documentation typically modest in volume</p> <p>No low level transactions/ financial reports to scrutinise</p> <p>Documentation already sent in full to Brussels as part of ex ante verification</p> <p>Nothing physical to inspect</p>	At auditor's premises
Grant contracts with United Nations Agencies/ World Bank	<p>Documentation may be complex and voluminous with many funders</p> <p>As a result of the FAFA or other agreements, there is an extra sensitivity in performing the work. This may mean that the presence of an expert on site would be advantageous.</p>	Although the initial presumption should be that documentation can be sent to the auditor's premises, if there are advantages to being on site, consider an on-the-spot visit
Grant contracts and Contribution Agreements	<p>Documentation may be voluminous</p> <p>Documentation is likely to be held at the beneficiary premises - this may include an international office, national office and local office.</p> <p>Potential for project to be funded from a number of sources</p>	Although the initial presumption should be that documentation can be sent to the auditor's premises, if this proves impractical logistically, consider an on-the-spot visit
Programme Estimates/ Work Programmes	<p>Documentation may be held at the National Authorising Officer, at the Beneficiary or at the Delegation</p> <p>Documentation is likely to be voluminous</p>	Although the initial presumption should be that documentation can be sent to the auditor's premises, if this proves impractical logistically, consider an on-the-spot visit

Where it is determined that an on-the-spot check is desirable, the reasons for departing from the presumption that work will be performed based on desk review alone must be clearly documented.

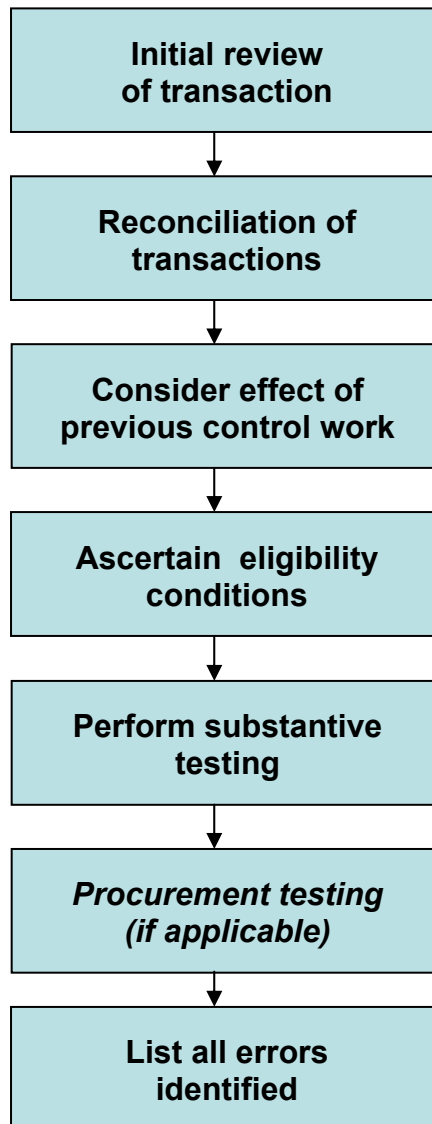
Although most correspondence for the organisation of fieldwork will be between the auditor and beneficiary, it is important that the Delegation located in the relevant country is notified that fieldwork will take place.

6. EXAMINING THE INDIVIDUAL TRANSACTIONS

The specific steps to be taken in examining an individual transaction are set out in the relevant transaction-type checklist. This section summarises the issues to be considered when performing detailed transaction testing.

The approach of the RER exercise relies on sampling **individual transactions** recorded in CRIS rather than all expenditure under the contract. However, to calculate the accuracy of the individual transaction, it is necessary to reconcile all related payments and transactions which appear on CRIS.

6.1. Sequence of Events: Individual Transaction Examination



6.2. Initial review of transactions

The purpose of the initial review is to re-confirm that the transaction selected is suitable for examination (e.g. that it is a transaction recorded under a contract that was closed during the four-month period in question), and whether the existing plans for examining the transaction are adequate.

Document information concerning:

- when the contract was closed;
- accuracy and reliability of data entered on CRIS;
- details of contract - any amendments and duration;
- recovery orders;
- sources of evidence for the audit;
- specific terms in the contract which might affect the eligibility of expenditure under the contract (and therefore the residual error rate); and
- inherent and control risks affecting the transaction and the contract governing it.

Documenting and considering this information will permit adaptation of individual audit checklists to match the characteristics of each transaction selected.

For example, for a budget support transaction, the auditor should consider and document the eligibility conditions for payment, and what proportion of that payment is contingent on the beneficiary meeting the conditions.

6.3. Reconciliation of transactions

The auditor should draw up a schedule which lists all transactions and payments and so enables a comparison to be made between budget and actual expenditure, as well as an assessment of cut off and whether payments were made in line with the terms and conditions of the contract.

Example of a reconciliation:

Reconciliation of contract transactions	
Narrative	Amount (€)
First tranche of budget support	30,000,000
Second tranche of budget support	30,000,000
Third tranche of budget support	15,000,000
	75,000,000
Contract value	
Budget Support	75,000,000

Although the shaded transaction of € 15,000,000 is the only sampled transaction, the reconciliation of all transactions allows the auditor to check the overall coherency of transactions within the contract. Issues that can be identified through performance of a reconciliation can include:

- Identification of overspending against the budget;
- Corrections of previous transactions which have an impact on the transaction subject to examination (e.g. the transaction subject to examination may have been reduced to compensate for an earlier overpayment – this would need to be taken into account in the eventual extrapolation of any error identified);
- Identification of subsequent recovery orders. Recovery orders may indicate that errors were already identified relating to the transaction in question. The exact nature of subsequent recoveries, and the payments/activities to which they relate must be identified.
- Identification of other subsequent adjustments – e.g. balancing/correcting entries may have been made to compensate for previous accounting errors, perhaps affecting the transaction in question.
- Identification of errors in recording of data in CRIS.

Important: Identification of any issues similar to those above must result in careful consideration and documentation of the consequent effect on errors identified.

6.4. Previous control work

Before performing the substantive work, the auditor should consider if the previous control work sufficiently covers the transaction under scrutiny and, if so, whether this reduces the necessary substantive work to perform on the transaction (see Section 4).

6.5. Eligibility conditions

The auditor will need to consider which actions need to take place/ conditions need to be met before payments are made. These will be found in the agreement terms and conditions of the individual contracts and other documents setting out the regulatory framework governing the transaction. This work will inform the substantive testing, and will permit bespoke amendment of audit programmes. Eligibility criteria should be established in the same way as when preparing to perform a standard financial audit. Reference should be made to existing DEVCO audit guidance documentation when establishing eligibility criteria.²

6.6. Substantive testing

For each sample transaction chosen, there will be a high level transaction recorded in CRIS. In many cases, this transaction will be made up of a number of smaller transactions in a financial report. To perform the substantive audit, the supporting financial report and transaction listing should be obtained.

Where a transaction comprises a number of smaller transactions, the auditor should:

- Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the contract.
- Identify the underlying transactions to be examined and ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned (this may entail designing a sample of lower level transactions. There should, however, be a presumption in favour of testing *all* lower level transactions, excluding the clearly trivial, unless there is a clear reason to depart from that presumption, e.g. the dispersal and volume of lower level transactions would make such an approach impossible)³. The RER auditor may consider the use of the standard 2% materiality/ 95% confidence frequently used under the DEVCO Framework Contract when sampling,

² E.g. Guidelines for Auditors; Terms of Reference for a Financial Audit (esp inc Annex 2); Terms of Reference for Expenditure Verifications of Programme Estimates (esp Annex 2A);

³ Where low level transactions are of a high level of complexity and volume, this will usually coincide with the previous exercise of appropriate controls such as audits and verifications by the Commission. Particular care must be taken to ensure that all previous control work is identified and evaluated when examining transactions such as these, since the risks of duplication of work are considerable.

whilst making adjustments for the control and inherent risk affecting the transaction under scrutiny.

- Test the lower level transactions.

A number of general tests should be performed to assess whether the Financial Reports supporting the high level transaction are free from error. For example:

- Agreeing the Financial Report to the underlying accounting records.
- Examining material journal entries and other adjustments made.
- Reconciling the Financial Report with the balance of cash-on-hand and/or in bank accounts.
- Agreeing budget (comparative) figures in the Financial Report to the agreement terms and conditions).
- Verifying that correct exchange rates have been applied in accordance with agreement terms and conditions.
- Reviewing, where applicable, the procedures used to control funds channelled to other implementing entities.

In some cases, e.g. service or supply contracts, these tests may not be necessary.

For all contract types, testing in the following areas should be considered where applicable:

- Cash and Bank (existence, valuation, ownership, recording and classification and disclosure)
- Implementation of Activities
- Eligibility of Expenditure (cut off, complies with contract, accurately recorded, supported by evidence, related to project)
- Conformity with Budget:
- Reality (occurrence / existence)
- Accuracy, Recording and Classification
- Assets (existence/ valuation, ownership, classification, disclosure, disposal in line with contract)
- Technical Assistance and other services
- Salaries
- Travel and transportation
- Indirect costs

- Income (completeness/ accuracy/ recording)
- Any other relevant areas.

Examples of high-level summary checklists – before adaptation and expansion based on existing audit programme and the circumstances of individual transactions are attached at Annex 2.

6.7. Identification of errors in substantive testing in a sampled population

If an error is identified from a sampled population, the RER auditor should consider the extent to which the error is isolated or whether it constitutes an error which covers the entire underlying population.

If the RER auditor is examining all sub-expenditure making up the high level transaction, obviously all instances of error will have been identified. However, where sample of the sub-population has been done, the auditor should consider the possibility of extending the sample, as well as the desirability of using extrapolation. These considerations will also affect whether the calculation of the error should be done using the whole population from which the sample is taken or whether the error is calculated using only the sampled amount as a denominator.

In each instance where a decision on extrapolating an error is to be made, the final judgement should be reviewed at partner level to ensure consistency.

Error type	RER auditor response
Isolated error (for example, this error is the only one of its type and cannot possibly exist in the rest of the population)	This should not be extrapolated over the whole population.
Error pervasive over the whole population	The error rate for the sample tested should be calculated (errors detected/ part of population tested) and then applied (extrapolated) to the entire population.
Error is isolated to a defined section of the population (for example, the error only affects staff costs)	The error should be extrapolated as above but only over the part of the population which shares the same characteristics as the sub-transaction affected by error)

6.8. Work on procurement

With the exception of Budget Support contracts, most transactions entail application of procurement procedures or similar.

Where procurement or identification of grant beneficiaries has been performed by an entity other than the Commission, substantive testing of adherence to procurement procedures will need to be performed.⁴

Where procurement has been performed the auditor should:

- Identify the relevant rules governing procurement, as set out in the Agreement Terms and Conditions. For Grant Contracts this will often be found in Annex 4 to the contract.
- Perform procurement testing in accordance with standard audit programmes.

Where the European Commission acts as Contracting Authority, failure to adhere to necessary procurement procedures does not result in breach of agreement terms and conditions. However, following the approach adopted by the ECA, serious failures to follow appropriate procurement procedures can nevertheless result in financial error. Serious failures include:

- a. Award of a contract without applying any relevant procurement procedures at all; or
- b. Award of a contract to a beneficiary/ contractor that is different to the beneficiary/ contractor indicated by the results of the procurement exercise performed.

Audit programmes should contain procedures designed to reveal such serious failures (e.g. examination of evaluation committee report).

Errors should be evaluated by providing three alternative error rates in relevant cases. This approach mirrors the revised approach to procurement errors adopted by the ECA as part of its revised DAS methodology⁵:

⁴ Except in cases where sufficient, appropriate control work is identified to negate the need to perform substantive procedures.

⁵ This new DAS approach is now available on the ECA website.

Approach 1: Would the amount paid have been different if the error had been known at the time payment was authorised? Under shared management, a serious procurement error would lead to a 100% error, whereas a less serious error would mean a non-quantified error, recorded in error frequency only. If the management was done directly by the Commission, in all cases a non-quantified error would be recorded.

Approach 2: Would the contractor chosen and/ or the amount paid have been different if the correct procedures been followed? In all management modes, if there is a serious procurement error, a 100% error will be recognised.

Approach 3: What is the difference between the amount that would have been paid under the erroneously awarded contract and a contract awarded correctly? In this case, there is no distinction between the two types of management modes. Nonetheless, if there is no evidence that a procurement exercise has been performed, it is impossible to determine the correct price so we will consider this a 100% error.

6.9. Documentation of Errors

For the purposes of the RER exercise, an error is “an amount recorded as an expense which would have been recorded differently if:

- The transaction had been recorded correctly; and/or
- Contractual conditions had been respected.”

Errors relating to individual transactions should be recorded in accordance with the example summary audit programme contained in Annex 2. Error types should be recorded in accordance with the Typology of Errors contained at Annex 1. Errors affecting an individual transaction are aggregated and expressed as a percentage of the transaction amount.

Factors to be taken into account when calculating the error rate for an individual transaction can include:

- The impact of subsequent transactions may need to be taken into account (e.g. Recovery Orders, adjustment transactions, errors identified resulting in a reduction in value of subsequent transactions etc.)
- The amount recorded as a transaction value in CRIS/ABAC may not correspond to the value of activity performed (especially if, e.g. the financial report supporting a transaction is used to support more than one payment – activities and errors may need to be allocated to transactions)

At this stage, the Delegation/ Unit in charge of the project of the results should be notified of the evaluation and an opportunity given to them to comment.

Errors identified and recorded in respect of individual transactions will subsequently be extrapolated across the whole RER population in accordance with the instructions contained in Chapter 9.

Certain errors will not be capable of quantification (e.g. procurement errors which are insufficiently serious to justify a conclusion that all related expenditure is ineligible, but which nevertheless represent a failure that should not have occurred). Although the identification of such errors does not form part of the principal purpose of the RER measurement exercise, it is important that such instances are recorded. The individual Transaction Control Checklists make provision for the recording of such errors.

6.10. Clearance of Errors

During the performance of testing, there should be an open, systematic and recorded dialogue with the Delegation/Unit and the contractor, As potential errors are identified, they should be reported to the Unit / Delegation for clarification and the Delegation/Unit should be given the possibility - limited by strict and explicit deadlines - to comment. Once an error has been definitively identified, it should be reported to the Delegation/Unit and to Unit R2.

At this stage the Unit/ Delegation can produce new information/documentation, as well as further explanations. The RER contractor should consider the new evidence and explanations and retain/ remove the error from the report as necessary.

7. CONSIDERATIONS FOR DIFFERENT CONTRACT TYPES

Each contract type concluded by DEVCO has its own features and complications. The table below sets out the principal characteristics of the main contract types that are likely to be encountered, and the RER auditor's response.

Type of contract	Characteristic	RER Audit response
Budget support	<ul style="list-style-type: none"> • High probability contract audited before • High probability of previous scrutiny by, e.g. ECA • Often ex ante control done by experts engaged under central framework contracts • Deliberate non-visibility of ultimate use of funds • Basic eligibility criteria set out in high level regulatory sources (e.g. Cotonou Agreement Art 61.2) • Detailed eligibility criteria varies between budget support programmes (esp in respect of variable tranches) • Frequently a high level of subjective judgment is required to determine compliance with eligibility criteria • EC produces detailed compliance reports • Very low risk of clear evidence of error 	<ul style="list-style-type: none"> • Particular care to ensure identification of all previous control work • Significant auditor judgment required to determine whether eligibility conditions are satisfied • Highly flexible approach to examining eligibility required (i.e. bespoke audit programmes) • Desk-based review • Documentation likely to be available very quickly
Service/ work/ supply	<ul style="list-style-type: none"> • Procurement likely to have been performed by EC directly or under their direct supervision • Potentially highly technically specialised • High level of standardisation of eligibility criteria • Supply and service contracts have relatively low average values • High probability of control work available for works contracts such as engineers report 	<ul style="list-style-type: none"> • Particular care to ensure identification of previous control work relating technical outputs • Use of auditor's standard audit programmes likely • Documentation likely to be available quickly

<p>Programme Estimate</p>	<ul style="list-style-type: none"> • Administered directly by local public entity • Potentially significant volumes of supporting documentation • Large variation in nature of programmes • Frequent limited capacity of implementing bodies • Imprest expenditure is relatively small proportion of RER population value • Audit or verification required before closure • High risk of failure to apply procurement procedures 	<ul style="list-style-type: none"> • Enhanced likelihood of on-the-spot fieldwork being necessary/desirable • Strong likelihood of partial (not complete) reliance being capable of being placed on previous control work • Auditors can use well-developed standard audit programmes • Documentation may take time to access
<p>Grant contract</p>	<ul style="list-style-type: none"> • Documentation may not be held by the delegation • Beneficiary may have numerous funding sources and will not send documentation to auditor • The volume and complexity of project documentation may make transportation to Europe impractical. • Frequent requirement for audit before closure • High risk of failure to apply procurement procedures 	<ul style="list-style-type: none"> • Enhanced likelihood of on-the-spot fieldwork being necessary/desirable • Strong likelihood of partial (not complete) reliance being capable of being placed on previous control work • Auditors can use well-developed standard audit programmes • Documentation may take time to access
<p>Contribution Agreement</p>	<ul style="list-style-type: none"> • The beneficiary of the contract applies its own rules. • FAFA or similar may restrict access to supporting documentation. • Previous control work (if any) unlikely to be exhaustive • Wide range of capabilities of entities with which Contribution Agreements are concluded 	<ul style="list-style-type: none"> • Perform standard audit or verification procedures using standard verification programmes • Access to documentation to be negotiated on a case-by-case basis and under the supervision of DEVCO staff • Inherent limitations must be accepted, and their effects described in the report

8. OTHER CONSIDERATIONS

When planning the audits of the sampled transactions, there are a number of further practical issues to consider:

- **Language** Consider the languages that will need to be spoken by the audit team to audit the documentation. Although most documentation will be held in one of the European Union's official languages, it is also possible that documentation is in a less accessible language. This is a more pressing concern if the auditor is due to perform the work on-site at a beneficiary entity.
- **Technical Capacity to Perform Work** In certain cases, such as the procurement of a technical piece of equipment or engineering work, the auditor may need to assess rival bids in a tender or whether the work has been completed in line with the contract. Consider whether to use an auditor's expert, if the necessary technical compliance assurance cannot be provided by previous control work.
- **Location of Documentation** - For grant contracts/ programme estimates, the documentation held by the Delegation may not be sufficient for the RER exercise. As the contracts under scrutiny will have been closed, it is relatively likely that the documentation will have been archived. Ensure that there is enough flexibility in the timetable so that any delays in providing documentation will not delay obtaining the results of the exercise. If the documentation is difficult to retrieve or too voluminous, consider performing on-the-spot fieldwork.
- **Access to documentation restricted for practical reasons** – Although rarely encountered, there are a number of circumstances which can lead to difficulty or impossibility in obtaining necessary documentation. This can include:
 - Non-availability of relevant project/Delegation personnel to locate and retrieve documentation (particularly where project activities took place some time ago)
 - Destruction of project documentation (whether as part of a mis-applied document retention policy or as a result of an accident, e.g. fire/flood)
 - Liquidation of beneficiary/ contractor which received commission funds

Where access is restricted, consider the effect on the calculation of the Residual Error Rate (further discussion in Chapter 9).

- **Access to documentation restricted for contractual/legal reasons.** There may be legal/contractual restrictions on access to documentation. This is particularly likely to be the

case when expenditure was subject to the operation of a bilateral Framework Agreement (e.g. the FAFA). Local legislation may also prevent a beneficiary from allowing documentation to leave the country concerned. Solutions to such restrictions will need to be considered on a case by case basis, although particular care should be taken to ensure that failure to secure access to documentation does not conceal expenditure which is potentially subject to a high rate of error.

- **Delays in presenting documentation.** Systematically mention deadlines to the Beneficiary or Delegation and inform Unit R2 where delays are foreseen. Consider the effect on the RER timetable that these delays will have. Consider whether the work on certain transactions can be performed in a later four-month period.

9. CALCULATING THE RESIDUAL ERROR RATE

9.1. Projected Error

Once the substantive testing has been performed and results are available for each transaction, the error evaluation should be performed in accordance with a standard MUS approach, mirroring the approach adopted by the ECA when evaluating errors detected as part of its annual financial audit work.

There follows a worked example using data derived from Phase 1 of the RER exercise for 2012, using the same population described in section 2.5.

Error Rate Calculation Example (First 4 Months only)

A	B	C	D(B – C)	E (D/B)	F (E x I)
Trans Ref	Recorded Amount	Correct Amount	Difference	Error Rate (%)	Projected Error
27	11,649,751.46	13,187,457.79	1,537,706.33	11.66	2,516,795.98
36	181,408.81	181,408.81	0.00	0.00	0.00
52	5,943,910.98	6,300,000.00	356,089.02	5.65	1,219,982.48
67	1,992,949.25	2,000,000.00	7,050.75	0.35	76,092.33
73	11,028,418.00	14,000,000.00	2,971,582.00	21.23	4,581,368.71
74	11,072,571.98	11,200,923.55	128,351.57	1.15	247,333.48
					8,641,572.23

Sample Size	80	G	
Population Value	1,726,734,432	H	Total Transactions Closed Sept – Dec 2011
Sampling Interval	21,584,180	I	H/G
Projected Residual Error (€)	8,641,572.23	J	Sum of Individual Projected Errors
Projected Residual Error (%)	0.50%		J/H

The steps to be taken when evaluating the error rate are as follows:

- List all transactions where errors have been identified;
- List the recorded payment amount (column B) and the correct amount (column C);
- Calculate the difference between B and C for each line (column D);
- Calculate the Error Rate for each contract/transaction (column E);
- Extrapolate the Error Rate for each transaction to the sampling interval to give the projected error (column F);
- Calculate the overall projected error by summing the transaction projected errors in Column F (€8,641,572);
- Divide the Projected Error (€8,641,572) by the Population (€ 1.7 billion) to give the overall Projected Error Rate (0.5%).
- Based on the Projected Error Rate, calculate the indicative Upper and Lower Error Limits based on a 95% confidence level.

There are two points to bear in mind:

- If one of the transactions selected straddles more than one sampling interval and is subject to error, the error should be extrapolated over each of the intervals.
- The sampling interval for a four month period will be different to that for a full twelve-month period. This is because each four-month period does not contain the same value of closed contracts. The sampling intervals for all three four-month periods will be different, and all will be different to the interval used for the final error evaluation for the whole year.⁶

If the sampling intervals for each four-month period were used to calculate each error and if the population size for one period were significantly different from another period, then two errors of the same value will have a different effect on the final residual error rate.

For example, a 100% error from Phase 1 of the 2012 RER exercise would have been contributed € 21m to the projected error (the same amount as the sampling interval). A 100% error from Phase 3, however, would have contributed € 31.9m to the projected error due to the increased population for that period.

To avoid such anomalies the sampling interval for the population of the twelve months under scrutiny should be used as the basis for calculating the overall residual error rate.

For the 2012 RER exercise, the sampling interval used to project all errors regardless of the Period in which they fell was € 24m (total population of € 5.8bn divided 240).

Sample Size	240	G	
Population Value	5,804,069,417	H	Total Transactions Closed in 2010
Sampling Interval	24,183,623	I	H/G
Projected Residual Error (€)	183,769,712	J	Sum of Individual Projected Errors
Projected Residual Error (%)	3.17%		J/H

⁶ The use of different sampling intervals, and selection of samples from distinct populations which then need to be re-merged is compensated for by the expansion of the overall sample size from 180 to 240 items.

9.2. Dealing with transactions where no evidence can be examined

There is a high likelihood that certain transactions will be selected where no evidence is available to enable RER procedures to be performed.⁷ Great care must therefore be taken that non-availability of information does not conceal an error-prone transaction that would have an important effect on the Residual Error Rate if included.

The RER contractor must use judgment, and consult with the Commission, to decide on the most appropriate course of action when evidence cannot be obtained.

The most important considerations are:

- The reason for non-availability of evidence must be investigated and clearly understood. Where there is a clearly explained, legitimate reason for non-availability of evidence, in respect of a transaction where little or no error would be expected, the range of options available to the auditor is broader.
- Disclosure and clear explanation of the circumstances surrounding missing evidence in the interim and final reports must take place in all circumstances where evidence is not produced in full. The explanation should be accompanied by a sensitivity analysis demonstrating the potential effect of inclusion of the transaction on the eventual error rate.

The following responses can be considered:

- Substitution of the item missing evidence with an alternative transaction (only to be considered when the reasons for the absence of evidence are well understood, and there is a legitimate and clear explanation for the lack of evidence, and no indication that a material error rate should ordinarily be expected)
- Excluding the item from the error evaluation (e.g. performing the error evaluation as if 239 sampling intervals rather than 240 had been used).
- Inclusion of the item with an estimated error rate, based on previous control work and/or other similar programmes (e.g. based on a typical error rate experienced in programmes managed by the same beneficiary, or programmes with comparable characteristics).
- Inclusion of the item in the list of errors as an unquantifiable error.

⁷ E.g. if documentation has been destroyed or lost, the activities took place a long time ago and/or there are other restrictions on access to information.

Whichever course of action is chosen, it is vital that the possible consequences of the responses are very clearly explained in the reports. Examples of possible disclosures with reference to the sample of 240 example used above are set out below.

Substitution

It is possible that during the course of Residual Error Rate testing, transactions may be selected that are either impossible to test or should not have been chosen. These situations include where:

- a transaction is subject to possible correction despite being recorded as closed in CRIS;
- documentation has been destroyed for uncontrollable reasons, e.g. a fire;
- documentation related to the transaction is held in a location which has become inaccessible (during the 2012 exercise, a transaction was chosen where documentation was stored at the EUD in Syria which had temporarily closed); or
- a chosen transaction does not relate to DEVCO expenditure (this occurred during the 2012 RER exercise where expenditure relating to the FPI was included in the sample erroneously and had to be replaced).

Where such circumstances are encountered, the RER auditor should verify the circumstances are as understood and then substitute the transaction. Specifically, the transaction should be replaced with the next item that would have been selected by monetary unit sampling had the originally chosen transaction not been included in the population

Exclusion

In certain circumstances, the complexity of obtaining documentation relating to a transaction may mean that its unsuitability for inclusion in the RER exercise is not apparent until the end of the exercise. Only where there is no further time to substitute the transaction, the RER auditor should consider excluding the transaction altogether from the exercise. However, substitution should always be the preferred course of action and exclusion should only be considered where the specific circumstances dictate it,

Estimated Error

During the course of previous RER exercises, there were delays in obtaining documentation from a number of International Organisations and other beneficiaries for logistical and legal reasons. Because some work had been done on these transactions and there was some incomplete evidence to conclude on, it was decided to estimate the error rate of these transactions.

Estimation should be used if there is a legal or logistical reason for documentation not being available for the RER auditor before the deadline for completion of work at the end of the study. Those transactions where documentation has not been provided therefore present an inherently enhanced risk of susceptibility to error and the estimation should be calculated with this in mind.

The expert performing the estimation of the error rate for a transaction should consider the following and their effect on the risk and amplitude of an error:

- Reasons for non-availability of documentation/ age of transaction (may have a bearing on how readily documentation is available);
- Inherent risk affecting the transaction/ complexity of activity being funded;
- Control risk affecting the transaction/ complexity of the instrument used to fund the activity;
- Type of contract under which funds were committed;
- Results of previous audit work, even where they could not be relied upon;
- Results of similar transactions completed under RER procedures;
- Where some work was possible but not completed for reasons of time, the results of RER work possible;
- Level of EC engagement/ scrutiny of the activity; and
- Level of narrative reporting/ engagement with the EC by the entity.

Note on transactions where natural disasters or civil situations dictate that work cannot take place

In recent cases, work was not capable of being finalised because of the following situations:

- Situation of civil war;
- Ebola pandemic; and

Destruction of documentation by earthquake or flooding. Estimation has previously been the automatic response to these circumstances. In order to align the treatment of these circumstances with the approach adopted by the ECA, such transactions should be classified as 'unquantifiable errors'.

Steps to take when performing an estimation

The estimation should be performed as follows:

- 1) Perform an analysis based on the points above.
- 2) Identify previous comparable verification or audit work performed under the DEVCO Audit Framework Contract on other projects which share similar characteristics to the contract under scrutiny:
 - By geographical area
 - By auditee type
 - By theme/ subject matter
 - By instrument used.
- 3) Itemise errors identified for each of the identified, analogous audit/ verification reports.
- 4) Consider each identified error and evaluate the extent to which they are relevant to the transaction being estimated and whether they should be eliminated from consideration by:
 - considering any factors identified in Step 1 above, for example, where an analogous report has uncovered an obviously anomalous audit/ verification finding, the auditor should consider whether this means the report can be excluded from consideration;
 - considering the effect of any previous control on the sampled contract (if the transaction subject to estimation has been subject to previous control work, even if that previous work is not capable of having reliance placed on it for the purposes of error *measurement*, it may be used to inform the *estimation* process by determining whether errors contained in previous similar audit reports can be excluded from the estimation calculation),

Once all relevant errors have been identified and confirmed as suitable for inclusion, an average error rate (total errors/ population testing of all included reports) should be calculated. This percentage will be the estimated error rate for the transaction.

9.3. Error or estimation

It is important that the non-availability of information should not conceal error-prone transactions that would be likely to have an important effect on the overall RER if included. Specifically, if

documentation is being withheld because it has been lost or for reasons with no strict legal basis, this should be considered to be an error, rather than an estimation made of the error for the transaction.

The table below provides indicators which will show if an error or estimation should be recorded:

Indicator implying error	Indicator implying estimation
Auditee has lost/ cannot locate documentation relating to the sampled transaction.	There is a legitimate practical reason why documentation cannot be provided.
Transaction has been implemented recently.	Age of transaction may make immediate location of documentation challenging.
Auditee has blanket legal reason for non-provision of documentation which contravenes the contract signed with the Commission.	There is a legitimate contractual reason why documentation cannot be provided.
	RER auditor has outstanding questions on expenditure but auditee has insufficient time to respond.
	Beneficiary organisation under scrutiny no longer exists/ cannot be contacted.

During the 2012 RER exercise, a beneficiary withheld documentation for a category of expenditure, citing internal data handling regulations. Since the beneficiary's agreement with the EC contained no allowance for this withholding of information, an error was recorded for the entire category of expenditure.

Conversely, documentation for another transaction examined in 2012 was held in multiple locations in a rural area. After a delay in reconciling the select transaction to underlying data, it was clear that fieldwork was required to complete the testing. Due to multiple, remote locations of the documentation and the time required to coordinate the fieldwork, the time required to complete the work had elapsed. As a result, estimation of the transaction was required.

In another case in 2012, there was a request to extend the sub-sample for a grant contract as an error had been identified, This required new documentation to be provided, As this occurred towards the end of the RER exercise, the beneficiary was unable to provide it in time. In this instance, a hybrid approach was used where the actual error identified was used to inform the estimated error.

10. USE OF THE RESULTS OF THE ERROR EVALUATION FOR THE PURPOSES OF THE ANNUAL ACTIVITY REPORT DECLARATION

DG BUDG is producing guidance on reporting in the Annual Activity Report on the calculation of error rates, their financial impact as amount at risk, their materiality for a potential reservation and their impact on the Director General's declaration. Depending on the content of the guidance, different presentations of the RER study results may be necessary.

ANNEX 1: TYPOLOGY OF ERRORS

Typology of errors for the purpose of the audit module:

1	Missing / inadequate documentation
2	Incorrect procurement procedure applied
3	Expenditure outside contractual period
4	Expenditure includes VAT / other taxes
5	Incorrect exchange rate used
6	Budget exceeded
7	Expenditure not for project purposes
8	Fraud and irregularities
9	Income not declared / not reported
10	Other financial findings

ANNEX 2: RER TASK CHECKLISTS

Transaction Control Checklist

The following summary audit checklist should be amplified and completed for all transactions examined. It provides a means of recording the key findings relating to each transaction for subsequent inclusion in the overall Error Rate calculation. It also ensures that each transaction selected is appropriate for inclusion, and sets the framework for the initial procedures to be performed in respect of each transaction, and to permit the RER auditor to acquire an initial understanding of the transaction.

SUMMARY⁸		
1	Document Recorded Amount of Transaction	
2	Document Correct Amount	
3	Recorded Error Rate	
4a	ABB Category of Contract	
4b	Geographic Area of Contract	
4c	EDF or General Budget	
4d	Instrument	
INITIAL EXAMINATION OF TRANSACTION⁹		
1	Verify the suitability of the transaction for review as well as the accuracy, completeness and reliability of the transaction amount recorded in the accounts by:	
a.	Confirming that the <u>contract</u> is closed	

⁸ The information recorded in the Summary section will be consolidated for all transactions examined. This is the information that enables the overall Residual Error Rate to be determined, once all of the transactions selected have been examined.

⁹ The tests in the Initial Examination section are designed to ensure that the sample has been validly selected, and that there are no clear errors in the accounting data that would prevent the results from being extrapolated across the whole population. The review should also allow the auditor to obtain an early understanding of some of the key features of the transaction.

b.	Confirming that the descriptive data relating to the <u>contract</u> and <u>transaction</u> have been correctly recorded in the accounting system (i.e. transaction type, instrument etc)
c.	Confirm whether there are any recovery orders or other adjustments made in respect of the <u>contract</u> and, if so, whether they affect the <u>transaction</u> selected.
d.	Review all transactions recorded under the contract in order to determine whether any of the transactions have been mis-recorded. Perform a reconciliation of all transactions, and examine the reasons for discrepancies identified. Issues identified by this review may include: uncleared advances; mis-description of transactions; evidence of significant amounts of ineligible expenditure etc.
2	Obtain a copy of the contract for the project to fully understand the contractual basis of the agreement.
a	Document the key risks (inherent and control risks) based on a review of the contract
b	Document the key sources of evidence demonstrating legality and regularity of underlying transactions (this will be determined largely by the contract type, e.g. timesheets and evidence of output, e.g. report, for service contracts)
c	Obtain detailed information from the Commission official responsible for the transaction concerning the performance of previous control work (see separate programme)
CONCLUSION	
1	Complete the Summary information at the front of this checklist, based on the results of the substantive work performed. Confirm that the evidence assembled supports the conclusions documented. If confirmation is not possible, discuss with assignment manager, and identify the work that needs to be performed to enable confirmation.
2	Attach a summary of errors identified, categorised according to the classifications contained in the typology of errors.

Previous Control Work Checklist

The following checklist should be completed for all transactions examined. It provides a framework for recording the work performed to identify the existence of previous control work, and the contribution made to assessment of the error rate for the transaction in question.

PREVIOUS CONTROL WORK	
1.	Document details of any previous control work carried out on this <u>contract</u> (e.g. audits, ex post control, ECA audit work, other evaluations/inspections performed by Commission officials), and consider the effect on the <u>transaction</u> .
2.	Consider and document the extent to which substantive work can be reduced based upon the previous control work undertaken. The factors to be considered are: <ol style="list-style-type: none"> a) The coverage of the previous control work; b) The results of the previous control work; c) An assessment of the risk of undetected error remaining in the controlled population; d) The competence of the performer of the previous control work; e) The overall level of risk of the contract type in question; and f) Any other matters.
3.	Establish if any subsequent recovery order was issued on this contract/payment and record details as necessary.
4.	Document a clear conclusion on the level of substantive testing to be carried out on the contract/payment. Previous control work has/enables: <ol style="list-style-type: none"> a) No impact; full detailed substantive testing to be undertaken; b) Some impact; limited substantive testing to be undertaken; or c) Complete reliance; no further substantive testing

Checklists Setting out Principles for Detailed Testing

The following series of checklists provides guidance in respect of performance of detailed testing in respect of each major transaction type. It provides a framework for recording the work performed to measure the error rate affecting the transaction selected. The content of detailed audit programmes should be based on a number of sources, including:

- The auditor's standard audit programmes used for financial audit work relating to EU-funded expenditure
- The guidance contained in the *Guidelines for Auditors*
- Instructions and guidance contained in standard Terms of Reference governing assurance work engaged by DG DEVCO (e.g. Terms of Reference for financial audits, and their annexes; Terms of Reference for Expenditure Verifications of Programme Estimates; Terms of Reference for Verification Missions to International Organisations)
- The Terms and References of the contract

Principles of Detailed Testing: Grant Contracts and Programme Estimates

SUBSTANTIVE TESTING	
1.	Identify the Agreement Terms and Conditions governing eligibility of expenditure.
2.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the Agreement Terms and Conditions
3.	Consider the results of evaluation of previous control work. If some reliance is to be placed on previous control work, determine the reduction in substantive testing which results, and prepare a plan to perform reduced substantive procedures.
4.	Identify the underlying transactions to be examined. Reconcile the underlying transactions and the related financial report to the <u>transaction</u> recorded in CRIS Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
5.	Perform detailed substantive testing of underlying transactions with a view to revealing undetected errors
	Ensure coverage of the following areas:
	General: Integrity of Financial Report Use of foreign exchange rates
	Purchase, procurement, existence and disposal of project assets
	Compliance with Procurement, Nationality and Origin Rules
	Cash and Bank funds held by the Project
	Conformity with Budget
	Accuracy of transaction recording
	Classification of expenditure
	Reality (occurrence / existence) of expenditure incurred
	Cut off
	Accuracy, recording, completeness of income generated by project
6.	If reduced substantive testing was performed due to existence of appropriate previous control work, conclude on the extent to which the results of limited substantive testing corroborates the error rate implied by the previous control work. If corroboration cannot be demonstrated, perform additional substantive testing as if no reliance was placed on previous control work.
7.	Complete data in Transaction Control Checklist to calculate transaction error

Principles of Detailed Testing: Works Contracts

SUBSTANTIVE TESTING	
1.	Identify the Agreement Terms and Conditions governing eligibility of expenditure.
2.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the Agreement Terms and Conditions
3.	Reconcile the underlying transactions and the related financial report to the <u>transaction</u> invoice recorded in CRIS
4.	Consider the results of evaluation of previous control work, especially control work performed by the works supervisor and by the contracting authority upon provisional and final acceptance of the works. If some reliance is to be placed on previous control work, determine the reduction in substantive testing which results, and prepare a plan to perform reduced substantive procedures.
5.	Identify the underlying transactions to be examined. Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
6.	Perform detailed substantive testing.
	Consider the following areas:
	General: Integrity of Financial Report/ Invoices Use of foreign exchange rates
	Compliance with Procurement, Nationality and Origin Rules
	Reality of works performed (occurrence / existence)
	Eligibility of Expenditure and Payment (fees, incidental expenditure)
	Conformity with Budget
	Accuracy, Recording and Classification of expenditure
	Cut off
7.	If reduced substantive testing was performed due to existence of appropriate previous control work, conclude on the extent to which the results of limited substantive testing corroborates the error rate implied by the previous control work. If corroboration cannot be demonstrated, perform additional substantive testing as if no reliance was placed on previous control work.
8.	Perform and document results of substantive testing and calculate the total error for the contract/payment.

Principles of Detailed Testing: Supply Contracts

SUBSTANTIVE TESTING	
1.	Identify the Agreement Terms and Conditions governing eligibility of expenditure.
2.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the Agreement Terms and Conditions
3.	Reconcile the underlying transactions and the related financial report to the <u>transaction</u> invoice recorded in CRIS
4.	Consider the results of evaluation of previous control work, especially control work performed to support provisional and final acceptance of the supplies. If some reliance is to be placed on previous control work, determine the reduction in substantive testing which results, and prepare a plan to perform reduced substantive procedures.
5.	Identify the underlying transactions to be examined. Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
6.	Perform detailed substantive testing.
	Consider the following areas:
	General: Integrity of Financial Report/ Invoices Use of foreign exchange rates
	Compliance with Procurement, Nationality and Origin Rules
	Delivery/ Reality of supplies (occurrence / existence)
	Eligibility of Expenditure and Payment (fees, incidental expenditure)
	Conformity with Budget
	Accuracy, Recording and Classification of expenditure
	Cut off
7.	If reduced substantive testing was performed due to existence of appropriate previous control work, conclude on the extent to which the results of limited substantive testing corroborates the error rate implied by the previous control work. If corroboration cannot be demonstrated, perform additional substantive testing as if no reliance was placed on previous control work.
8.	Perform and document results of substantive testing and calculate the total error for the contract/payment.

Principles of Detailed Testing: Service Contracts

SUBSTANTIVE TESTING	
1.	Identify the Agreement Terms and Conditions governing eligibility of expenditure.
2.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the Agreement Terms and Conditions
3.	Reconcile the underlying transactions and the related financial report to the <u>transaction</u> invoice recorded in CRIS
4.	Consider the results of evaluation of previous control work, especially control work performed to support the final payment. If some reliance is to be placed on previous control work, determine the reduction in substantive testing which results, and prepare a plan to perform reduced substantive procedures.
5.	Identify the underlying transactions. Reconcile the underlying transactions and the related financial report to the <u>transaction</u> recorded in CRIS Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
6.	Identify the underlying transactions to be examined. Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
7.	Perform detailed substantive testing.
	Consider the following areas:
	General: Integrity of Financial Report/ Invoices Use of foreign exchange rates
	Compliance with Procurement, Nationality and Origin Rules
	Implementation of Activities/ Reality (occurrence / existence)
	Eligibility of Expenditure and Payment (fees, incidental expenditure)
	Conformity with Budget
	Accuracy, Recording and Classification of expenditure
	Cut off
8.	If reduced substantive testing was performed due to existence of appropriate previous control work, conclude on the extent to which the results of limited substantive testing corroborates the error rate implied by the previous control work. If corroboration cannot be demonstrated, perform additional substantive testing as if no reliance was placed on previous control work.
9.	Perform and document results of substantive testing and calculate the total error for the contract/payment.

Principles of Detailed Testing: Budget Support Contracts

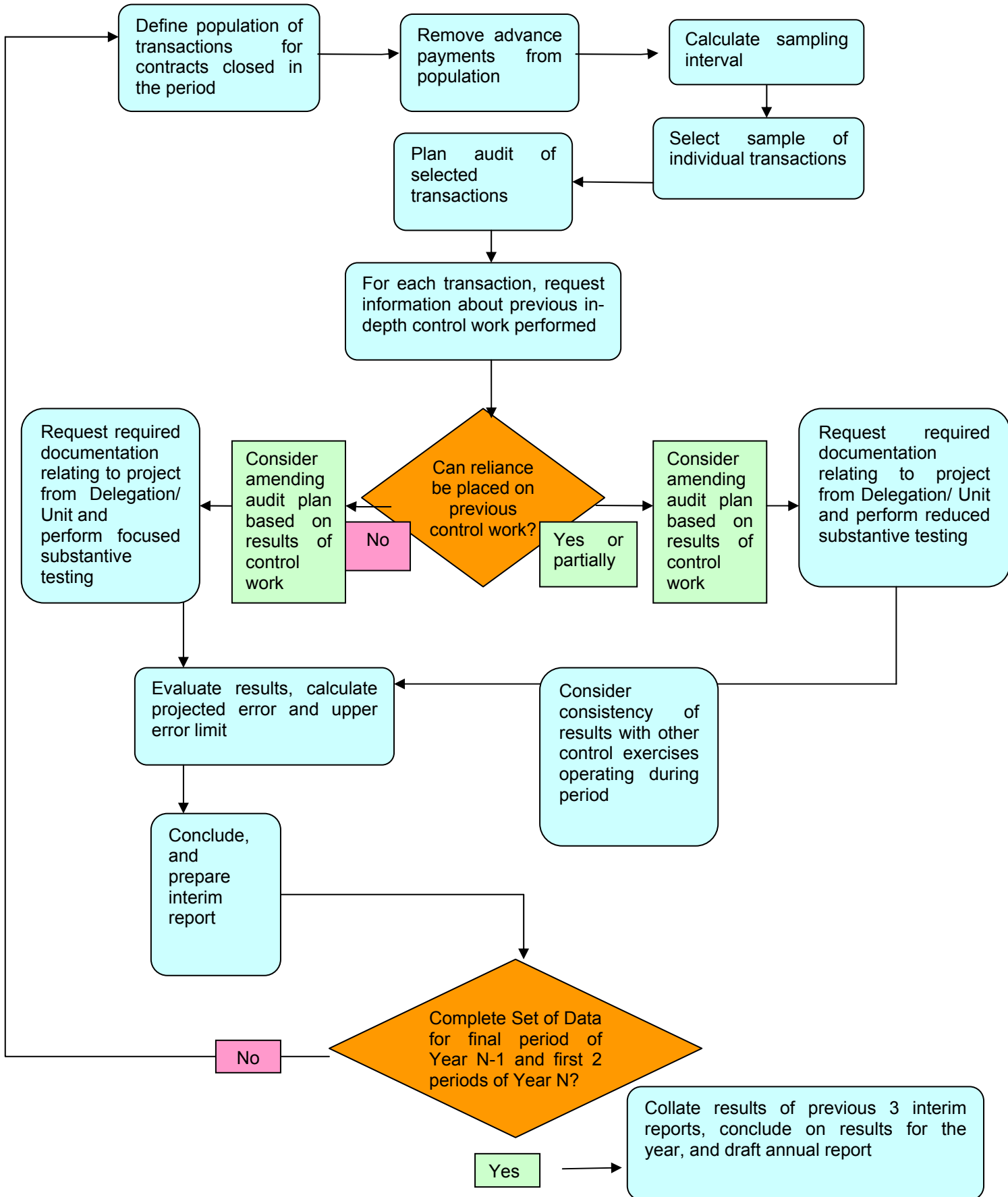
SUBSTANTIVE TESTING	
1.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the budget support agreement.
2.	Consider the results of evaluation of previous control work. In respect of budget support, reliance on previous control work is likely to be total (if ECA work done), partial (if work has been done on the behalf of the Commission for ex ante checks) or none.
3.	Identify the underlying payment to be examined. Ensure that the selection of eligibility criteria for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
4.	Perform detailed substantive testing. If ex ante checks have been done by a qualified external expert, work need only be done on the reasonableness of their conclusions and the calculation of the payment due (for variable tranches).
	Consider the following areas:
	Compliance with Treaty Conditions for budget support payments
	Compliance with Budget Support Agreement conditions
	Cash transfer- (Accuracy, Recording/ Classification/ Occurrence/ Existence):
	Conformity with Budget
	Cut off
5.	Calculate the total error for the contract/payment.

Principles of Detailed Testing: Contribution Agreements

SUBSTANTIVE TESTING	
1.	Identify the Agreement Terms and Conditions governing eligibility of expenditure.
2.	Prepare a detailed testing schedule for underlying transactions based on the eligibility requirements set out in the Agreement Terms and Conditions
3.	Consider the results of evaluation of previous control work. If some reliance is to be placed on previous control work, determine the reduction in substantive testing which results, and prepare a plan to perform reduced substantive procedures.
3	Document the entity-specific rules and controls that affect the contract as well as contractual rules affecting eligibility of expenditure.
4.	Identify the underlying transactions to be examined. Reconcile the underlying transactions and the related financial report to the <u>transaction</u> recorded in CRIS Ensure that the selection of items for examination will result in a firm conclusion being capable of being reached in respect of the high level transaction concerned. Obtain necessary documentation.
5.	Perform detailed substantive testing of underlying transactions with a view to revealing undetected errors
	Ensure coverage of the following areas:
	General: Integrity of Financial Report Use of foreign exchange rates
	Purchase, procurement, existence and disposal of project assets
	Compliance with Procurement, Nationality and Origin Rules
	Cash and Bank funds held by the Project
	Conformity with Budget
	Accuracy of transaction recording
	Classification of expenditure
	Reality (occurrence / existence) of expenditure incurred
	Cut off

	Accuracy, recording, completeness of income generated by project
6.	If reduced substantive testing was performed due to existence of appropriate previous control work, conclude on the extent to which the results of limited substantive testing corroborates the error rate implied by the previous control work. If corroboration cannot be demonstrated, perform additional substantive testing as if no reliance was placed on previous control work.
7.	Complete data in Transaction Control Checklist to calculate transaction error

ANNEX 3: RER PROCESS FLOW-CHART



ANNEX 4: GLOSSARY

AAR	Annual Activity Report
ABB	Activity Based Budget
Amount at Risk (gross)	Inferred proportion of current year payments at risk of error, based on RER measurement work
Amount at Risk (net)	Inferred proportion of current year payments at risk of error, based on RER measurement work, after adjusting for corrections made during the year
CRIS	Common Relex Information System – DEVCO Management Information System
Detected Error Rate	The rate of errors identified through the operation of ex-post controls, including audits. Not extrapolated to the unexamined population.
Error	an amount recorded as an expense which would have been recorded differently if the transaction had been recorded correctly; and/or contractual conditions had been respected
Ex-ante controls	Controls implemented during implantation of an activity (e.g. payment authorisation, separation of duties)
Ex-post controls	Controls implemented following completion of an activity (e.g. audit, verification)
Population	The total body of transactions from which a sample is selected, and over which a conclusion can be reached.
Representative Detected Error Rate	The rate of errors identified through the operation of ex-post controls, including audits, extrapolated to the unexamined population.
RER	Residual Error Rate
Residual Error	Errors that have evaded all prevention, detection and correction controls in the existing control framework.
Residual Error Rate	The rate of error existing in a population of closed contracts after operation of all standard ex-ante and ex-post controls.
Residual (Net) Error Rate	The rate of errors existing in a population of closed contracts after operation of all standard ex-ante and ex-post controls <i>and RER measurement work</i>
Underlying activities	The action which took place in exchange for the provision of funding (e.g. the underlying supply of equipment, provision of technical assistance)
Underlying Transactions	The transactions – usually recorded at beneficiary level – which reconcile to the ‘principal’ transaction recorded in the Commission’s accounts.

ANNEX 5: TEMPLATE FOR INTERIM REPORT

**INTERIM REPORT OF EXERCISE TO ESTIMATE THE
RESIDUAL ERROR RATE OF DG DEVCO**

Phase X: Contracts Closed from XX to XX

Date

Country:

Contracting Authority ('CA'):

Order form or other contract reference:

Period of closed contracts subject to verification:

Dates of exercise:

Introduction

Introduction showing work done so far

Transactions replaced were as follows:

Transaction replaced	Reason	Next transaction to be chosen	MS reference
----------------------	--------	-------------------------------	--------------

See the tables overleaf for a summary of the population of transactions sampled and a summary of the transaction types and values selected, as well as an indication of the progress achieved so far in examination of transaction and those transactions where an error has been detected.

Total population of transactions

	Total no of items	Total value of items (€ m)
All contracts closed between XX and XX		
Total		

The table overleaf shows the number of transactions completed to date as well as those transactions where testing has been completed and where errors have been detected.

Sampled transactions detailed by transaction type

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							
Indirect management with International Organisations and Member States agencies							
Total							

Sampled transactions detailed by Activity Based Budgeting Code

Transaction type	No of items selected	Value of items selected (€ m)	Ongoing	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							

Transaction type	No of items selected	Value of items selected (€ m)	Ongoing	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
21 02 Food Security							
21 03 Non-State actors in development							
21 05 Human and Social Development							
21 06 Geographical with ACP states							
European Development Fund							
Evaluation							
Total							

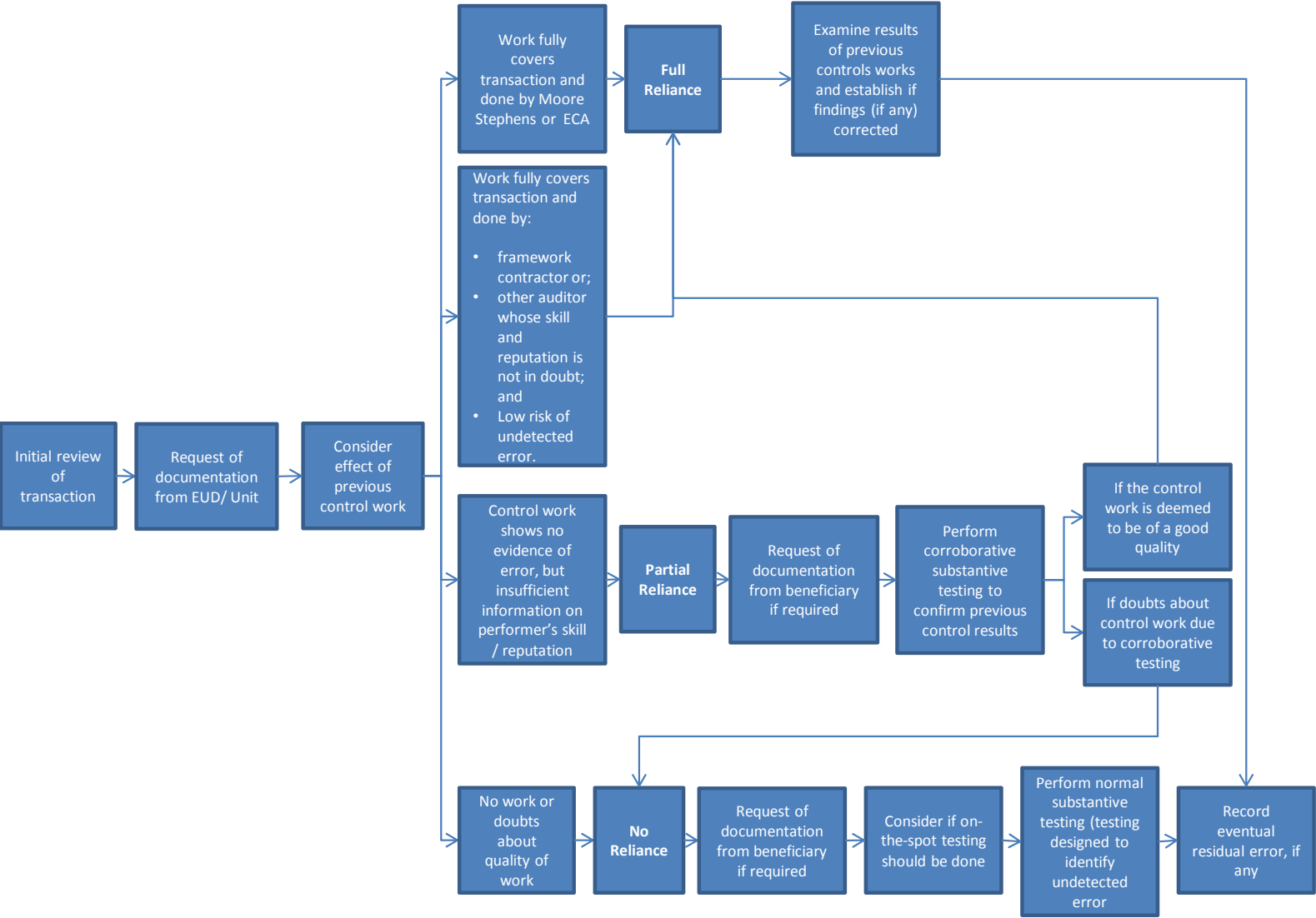
Overview of Procedures Performed

Once the sample population was selected and confirmed, documentation stored on CRIS relating to each transaction selected was obtained.

This documentation was examined and any further documentation needed to assess the residual error rate of the transaction was requested from the relevant Unit/ Delegation.

In accordance with the RER Instruction Manual, for each transaction, any prior control work that had been carried out was requested. This was then reviewed, in detail, to establish if any reliance could be placed on it. If it was determined that some or no reliance could be placed on the previous control work undertaken, then further substantive testing was required to identify any possible errors. In some cases, this required further requests for information from the Units/ Delegations and beneficiaries.

A summary of the procedures that we followed to determine the approach for each transaction, in accordance with the methodology, is set out in the flowchart overleaf.



Update on fieldwork

The status of fieldwork missions is set out below:

Proposed country/ organisation of fieldwork	Status of fieldwork

Proposed changes to the current methodology

As necessary.

Results to date (include data for other periods as required)

Update

The provisional Residual Error Rate, using the sampling interval is xx% (see calculation below).

Transaction Ref	Total value of transaction (€)	Correct value (€)	Error Rate (%)	Projected Error (€)

Total Population: € X million.

Projected Residual Error = X% (€X million / €X million)

Summary of Results by Transaction Type

Further to the detailed presentation of errors in Annex 2 to this report, a summary of the results of the testing of transactions during Phase 1 from each of the four transaction types is shown below:

Results: Services, Supply and Work Contracts

Info on errors/ completion

Results: Budget Support Contracts

Info on errors/ completion

Results: Contracts with International Organisations

Info on errors/ completion

Results: Work Programmes, Programmes Estimate and Grant Contracts

Info on errors/ completion

Date:

Annexes

- Annex 1 List of transactions selected for all phases
- Annex 2 Detailed description of errors
- Annex 3 Analysis of errors

Annex 1: List of transactions selected for all phases

Phase 1 transactions

Ref	Contract title	CRIS contract ref	CRIS transaction ref	EUD / unit	Region	Transaction Value (€)	Type	Conclusion Status
1							Works	Closed
2							Grant	Estimation
3 etc							Works	Error
Total value of transactions under scrutiny								
Transactions replaced during RER exercise								
8								Transaction did not relate to DG DEVCO
9								Transaction is currently being audited and should not have been included in the exercise

Phase 2 transactions- as above if required

Phase 3 transactions- as above if required

Annex 2: Detailed description of errors- separate by Phase

Reference & Description	Standard	Facts	Analysis	Residual error (%/ €)	Commission reply
Transaction XX (XXX) Contract ref. XXX Presentation of documentation Unit Z2	Condition 3.3 of Annex 2 to the Financing Agreement			Transaction XX- 0% 0 € Reduction of overall error rate without this error – 0.00% Auditor Response

De minimis transactions

Reference & Description	Standard	Facts	Analysis	Residual error (%/ €)	Commission reply

Table 3: Frequency of errors detected detailed by error type**Size and structure of the sample for Phase 1**

	Budget support	Agreements with International Organisations	Grants, Programme Estimates etc	Service, Supply and Works Contracts	Total
Total transactions					

Errors detected for Phase 1

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			
Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			
Budget exceeded			
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Other financial findings			
Total			

Size and structure of the sample for Phase 2 (if required)

	Budget support	Agreements with International Organisations	Grants, Programme Estimates etc	Service, Supply and Works Contracts	Total
Total transactions					

Errors detected for Phase 2 (if required)

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			
Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			
Budget exceeded			

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			
Other financial findings			
Total			

Size and structure of the sample for Phase 3 (if required)

	Budget support	Agreements with International Organisations	Grants, Programme Estimates etc	Service, Supply and Works Contracts	Total
Total transactions					

Errors detected for Phase 3 (if required)

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			

Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			
Budget exceeded			
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			
Other financial findings			
Total			

Annex 4: Detailed information on breakdown of errors, completed transactions and estimation by transaction type (not needed for P1 report)

Phase 1

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							

Indirect management with International Organisations and Member States agencies							
Total							

Phase 2 (if required)

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							
Indirect management with International Organisations and Member States agencies							
Total							

Phase 3 (if required)

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							
Indirect management with International Organisations and Member States agencies							
Total							

Annex 5: Detailed information on breakdown of errors, completed transactions and estimation by Activity Based Budgeting Code**Phase 1 (not required for P1 report)**

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	No of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	No of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

Phase 2 (if required)

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 03 Non-State actors in development							
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

Phase 3 (if required)

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

ANNEX 6: TEMPLATE FOR FINAL REPORT

FINAL REPORT OF EXERCISE TO ESTIMATE THE RESIDUAL ERROR RATE OF DG DEVCO

Final Report

Country:

Contracting Authority ('CA'):

Order form or other contract reference:

Period of closed contracts subject to verification:

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1 INTRODUCTION

1.1 Total population of transactions

	Total no of items	Total value of items (€ m)
All contracts closed in CRIS between 1 September and 31 December 20XX		
All contracts closed in CRIS between 1 January and 30 April 20XX		
All contracts closed in CRIS between 1 May and 31 August 20XX		
Total		

The tables disaggregate the results by contract type (Table 1) by ABB Code (Table 2) and by type of error (Table 3). For transactions where information has not been provided to enable measurement based on substantive examination of evidence those transactions are recorded as 'requiring estimation'.

1.2 Table 1: Sampled transactions detailed by transaction type

All phases (See Annex 4 for values disaggregated by phase)

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries-procurement							
Indirect management with International Organisations and Member States agencies							
Total							

1.3 Table 2: Sampled transactions detailed by Activity Based Budgeting (ABB) Code

All phases (see Annex 5 for values disaggregated by phase)

ABB code	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	%
----------	----------------------	-------------------------------	--------------------------------------	----------------------	-------------------------------	--	---

ABB code	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	%
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							
21 04 Environment and sustainable mgmt of natural resources							

ABB code	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	%
European Development Fund							
Evaluation							
South Africa							
Total							

1.4 Table 3: Frequency of errors detected detailed by error type

Error type ¹⁰	Transaction Refs	No of errors detected	%	Value of residual errors detected (€ k)
Missing / inadequate documentation				
Incorrect procurement procedure applied				
Expenditure outside contractual period				
Expenditure includes VAT / other taxes				
Incorrect exchange rate used				
Budget exceeded				
Expenditure not for project purposes				
Fraud and irregularities				
Income not declared / not reported				
Other financial findings				
TOTAL				

¹⁰ **Lack of documentation in tendering procedures** - insufficient evidence that the procurement process managed by the Commission conformed with the requirements of the legal framework.

Access to documentation (I/O) - documentation necessary to show expenditure was correctly incurred was not provided by the international organisation implementing the transaction.

No recovery- previous control work indicated the presence of a residual error that was not subjected to subsequent correction or recovery.

Not in budget- expenditure incurred does not relate to relevant project or is not included in budget.

Overclaim (I/O) - the international organisation has received payment exceeding the amount payable implied by the applicable legal framework

Beneficiary error- an entity responsible for the management of grant or PE has made an error which means the Commission has paid more than they were entitled to receive. In some cases, an error in a transaction managed by a beneficiary may contain a number of different errors such as 'Cutoff' or 'Tendering'. To simplify the classification of errors, we have classified all beneficiary errors together.

Cutoff - expenditure incurred by the International Organisation concerned outside the project implementation period set out in the contract.

2 OVERVIEW OF PROCEDURES PERFORMED

2.1 Basic Procedures

2.2 Fieldwork

In line with the methodology, nine fieldwork visits have taken place. Fieldwork took place in the following countries:

- X
- X
- X
- X
- X
- X
- X
- X
- X
- X

The work performed was as follows:

Country visited	Transactions examined	Description	Reason for visit

2.3 Procurement errors

Procurement errors

Procurement-related errors are to be considered in accordance with three separate approaches, These approaches reflect recent amendments to the ECA’ treatment of procurement-related errors in its DAS methodology.

The three approaches are:

Approach 1: Would the amount paid have been different if the error had been known at the time payment was authorised (“Old” ECA methodology)? Under shared management, a serious procurement error would lead to a 100% error, whereas a less serious error would mean a non-

quantified error, recorded in error frequency only. If the management was undertaken directly by the Commission, in all cases a non-quantified error would be recorded.

Approach 2: Would the contractor chosen and/or the amount paid have been different if the correct procedures had been followed (New ECA methodology)? In all management modes, if there is a serious procurement error, a 100% error will be recognised.

Approach 3: What is the difference between the amount that would have been paid under the erroneously awarded contract and a contract awarded correctly? In this case, there is no distinction between the two types of management modes. Nonetheless, if there is no evidence that a procurement exercise has been performed, it is impossible to determine the correct price so we will consider this a 100% error.

Where relevant this classification is recorded in Annex 2.

2.4 Approach to Estimation of Errors

- Information on error estimation required.

Annex 6 systematically sets out by transaction type the sources of evidence which we used to guide our calculation of the estimated error rates.

Table of estimated errors by body

MS Ref	Contract Ref	Transaction Ref	Value (€)	Transaction Type & Beneficiary	Est error rate (%)	% of final residual error
International Organisation A						
International Organisation B						
National government/ NGO transactions						

MS Ref	Contract Ref	Transaction Ref	Value (€)	Transaction Type & Beneficiary	Est error rate (%)	% of final residual error

* Transaction also subject to a measured error

3 RESULTS

3.1 Overview

From the xx transactions sampled we have completed and closed testing on xx transactions. Of these, xx were subject to error. The errors for a further xx transactions were estimated.

3.2 Phase 1 Results

Of the xx transactions completed, we identified xx transactions which contain apparent errors after the operation of all controls, of which xx were quantifiable. The total value of errors identified is € xx m (see Annex 2).

The Residual Error Rate for Phase 1 is x%. This excludes estimated errors. See 'List of Errors' further below, which contains detailed data supporting this calculation, which is summarised as follows:

Phase 1 Total Population: €x million.

Projected Residual Error of detected errors= x% (€x million / €x million)

In addition, we estimated the error rate affecting a further x transactions. The inclusion of these errors in the Phase 1 error rate calculation increases the error rate as follows:

Projected Residual Error = x% (€x million / €x million).

3.3 Phase 2 Results

As above.

3.4 Phase 3 results

As above.

3.5 Combined Results (all Phases)

The combined provisional estimated Residual Error Rate excluding estimates for all three phases is **x%**. If estimates of residual errors are included the rate increases to **x%**.

Total projected errors detected (A)	
Total projected errors estimated (B)	
Total Population (C)	
Residual error rate ((A+B)/C)	

3.6 List of detected errors

The two tables below contain the data supporting the error rates set out above:

Transaction Ref	Total value of transaction (€)	Correct value (€)	Error Rate (%)	Projected Error (€)
Subtotal – Phase 1				
Subtotal – Phase 2				
Subtotal – Phase 3				

Grand Total	
--------------------	--

4 ANALYSIS OF RESULTS

In Annex 2, for each error, we have calculated how the overall error rate is affected by the presence of each individual error. Specifically, we have included how much lower the overall error rate percentage would be without the individual error.

The ‘contribution’ of each error to the overall error rate depends on the phase in which the transaction was selected (due to the different sampling intervals) and the magnitude of the error. For reference, the contribution of each error is summarised in the table below:

4.1 Contribution of each error to overall error rate

Ref	%

Ref	%

Ref	%		

4.2 Cumulative contribution of each error to overall error rate

Order of contribution to error rate				
Ref	%	Cumul %	% of errors found	% of entire residual error
Total			100	74
Estimates				26
				100

Similarly, in the below analyses, we have calculated the contribution made to the error rate by various categories of error and transaction.

4.3 Estimates

Commentary and graph on estimate.

4.4 EDF transactions

Commentary and graph on EDF vs Budget.

4.5 Transactions overseen whilst in DEVCO Headquarters

Commentary and graph on DEVCO vs EUD.

4.6 International organisations

Commentary and graph on IO transactions.

4.7 Types of Error

Commentary and graph on types of error.

Conclusion

Name of Partner

Date

ANNEXES

- Annex 1 List of transactions selected for all phases**
- Annex 2 Detailed description of errors**
- Annex 3 Analysis of errors**
- Annex 4 Detailed information by transaction type**
- Annex 5 Detailed information by Activity Based Budgeting**
- Annex 6 Detailed information on estimated transactions**

Annex 1: List of transactions selected for all phases

Phase 1 transactions

Ref	Contract title	CRIS contract ref	CRIS transaction ref	EUD / unit	Region	Transaction Value (€)	Type	Conclusion Status
1							Works	Closed
2							Grant	Estimation
3 etc							Works	Error
Total value of transactions under scrutiny								
Transactions replaced during RER exercise								
8								Transaction did not relate to DG DEVCO
9								Transaction is currently being audited and should not have been included in the exercise

Phase 2 transactions- as above

Phase 3 transactions- as above

Annex 2: Detailed description of errors- separate by Phase

Reference & Description	Standard	Facts	Analysis	Residual error (%/ €)	Commission reply
Transaction XX (XXX) Contract ref. XXX Presentation of documentation Unit Z2	Condition 3.3 of Annex 2 to the Financing Agreement			Transaction XX- 0% 0 € Reduction of overall error rate without this error – 0.00% Auditor Response

De minimis transactions

Reference & Description	Standard	Facts	Analysis	Residual error (%/ €)	Commission reply

Table 3: Frequency of errors detected detailed by error type

Size and structure of the sample for Phase 1

	Direct management (grants)	Direct management (budgetary support)	Direct management (procurement)	Indirect management (grants)	Indirect management (programme estimates)	Indirect management (procurement)	Indirect management (international organisations and MS agencies)	Total
Total transactions								

Errors detected for Phase 1

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			
Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Budget exceeded			
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			
Other financial findings			
Total			

Size and structure of the sample for Phase 2

	Direct management (grants)	Direct management (budgetary support)	Direct management (procurement)	Indirect management (grants)	Indirect management (programme estimates)	Indirect management (procurement)	Indirect management (international organisations and MS agencies)	Total
Total transactions	9	23	6	2	4	9	8	61

Errors detected for Phase 2

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			
Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			
Budget exceeded			
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			
Other financial findings			
Total			

Size and structure of the sample for Phase 3

	Direct management (grants)	Direct management (budgetary support)	Direct management (procurement)	Indirect management (grants)	Indirect management (programme estimates)	Indirect management (procurement)	Indirect management (international organisations and MS agencies)	Total
Total transactions								

Errors detected for Phase 3

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Missing / inadequate documentation			
Incorrect procurement procedure applied			
Expenditure outside contractual period			
Expenditure includes VAT / other taxes			
Incorrect exchange rate used			
Budget exceeded			
Expenditure not for project purposes			
Fraud and irregularities			
Income not declared / not reported			

Error type	No of errors detected	Value of transactions (€ k)	Values of residual errors detected (€ k)
Other financial findings			
Total			

Annex 4: Detailed information on breakdown of errors, completed transactions and estimation by transaction type

Phase 1

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							

Indirect management with International Organisations and Member States agencies							
Total							

Phase 2

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							
Indirect management with International Organisations and Member States agencies							
Total							

Phase 3

Transaction type	No of items selected	Value of items selected (€ m)	Number of estimated items	No of complete items	Value of complete items (€ m)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ m)
Direct management (grants)							
Direct management (Budgetary support)							
Direct management (procurement)							
Indirect management with beneficiary countries- grants							
Indirect management with beneficiary countries- PE							
Indirect management with beneficiary countries- procurement							
Indirect management with International Organisations and Member States agencies							
Total							

Annex 5: Detailed information on breakdown of errors, completed transactions and estimation by Activity Based Budgeting Code**Phase 1**

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	No of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	No of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

Phase 2

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

Phase 3

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
19 02 Cooperation with 3rd countries in migration and asylum							
19 04 European Instrument for Democracy and Human Rights							
19 08 European Neighbourhood Policy and relations with Russia							
19 09 Relations with Latin America							
19 10 Relations with Asia, Cent Asia and Mid East (Iraq, Iran, Yemen)							
21 02 Food Security							
21 03 Non-State actors in development							

Transaction type	No of items selected	Value of items selected (€ k)	Number of items requiring estimation	No of complete items	Value of complete items (€ k)	Number of complete items containing a residual error	Value of complete items containing a residual error (€ k)
21 04 Environment and sustainable mgmt of natural resources							
European Development Fund							
Evaluation							
South Africa							
Total							

Annex 6: Detailed information on estimated errors

Transaction details and error rate	Reason for estimation	Demonstrable reason for non-provision of documentation	Based on part examination of documentation	Previous assignment used as basis for estimation	Chosen for geographical similarity	Chosen for thematic similarity	Chosen as same engagement type
		Yes	No	Assignment 1	Yes	No	Yes
				Assignment 2	Yes	Yes	No
				Assignment 3	Yes	Yes	No
				Total Expenditure: €391 Total Findings: € Error Rate: %			