# DG ECHO AUDIT FRAMEWORK CONTRACT

## INTERIM AUDIT REPORT - NGO

(related to field operations of [redacted] in the Occupied Palestinian Territory, West Bank)

<table>
<thead>
<tr>
<th>Project audited:</th>
<th>ECHO/PSE/BUD/2011/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>[redacted]</td>
</tr>
<tr>
<td>Grant agreement value:</td>
<td>€ 500 000</td>
</tr>
<tr>
<td>DG ECHO contribution in value:</td>
<td>€ 500 000</td>
</tr>
<tr>
<td>DG ECHO contribution in %:</td>
<td>100%</td>
</tr>
<tr>
<td>Audit assignment reference:</td>
<td>11-FB46-002</td>
</tr>
</tbody>
</table>

The views expressed herein are those of the independent auditor and do not necessarily represent any official view of the Commission.
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</tbody>
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Annex 2 – Organisational charts

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1. Executive Summary

1.1 Objectives of the Interim Audit

The objective of the interim audit is to provide assurance to the European Commission as represented by DG ECHO, by undertaking audit work in the country in which the grant agreement is being implemented, that the funds are safeguarded and used for purposes intended and that activities are carried out in accordance with the grant agreement. This assurance is needed to enable DG ECHO to assist those who are most vulnerable, the beneficiaries. The interim audit work is also used to assist in forming the opinion in the future final audit undertaken at the Partner’s main offices (HQ), on the completed grant agreements.

1.2 Summary of Findings/Conclusions of Interim Audit Tests

1.2.1 Initial assessment of internal controls

An initial review of the system of internal controls as in place at the time of the audit, and based on our Internal Control Questionnaire (ICQ), indicates a control environment that is adequate.

Of the nine areas reviewed, the internal controls over the field operations of the NGO were identified as adequate in all areas other than:

<table>
<thead>
<tr>
<th>Field Operation</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel (adequate in most respects)</td>
<td>Salary scale only benchmarked against other NGOs.</td>
</tr>
<tr>
<td></td>
<td>Staff only appraised annually.</td>
</tr>
<tr>
<td>Field Operational Practices</td>
<td>Participation of beneficiary authorities, complaints procedure and post-distribution monitoring <em>(not answered prior to audit).</em></td>
</tr>
<tr>
<td>(adequate in most respects)</td>
<td>Only sometimes perform written evaluations of projects.</td>
</tr>
<tr>
<td></td>
<td>Only quarterly checks of partner financial information.</td>
</tr>
<tr>
<td></td>
<td>Implementing Partner carries out some procurement.</td>
</tr>
</tbody>
</table>

However, these findings were not supported by the on-site audit work which found all areas to be adequate. Further details are given in sections 8 and 13.

1.2.2 Expenditure: Eligibility and supporting documentation

The auditors identified two transfers of funds to the IP, totalling €49 017, which related to the previous phase of this project. The auditor recommended that these transactions are not included in listing for this phase of the project and that a separate account code is set up for each project in order to avoid payments relating to the previous project being included in the financial reports.

Further potentially ineligible expenditure of €975 (mobile phone costs of €615 and utilities costs of €360) was identified because no payment requests, payment authorisations or copies of the payments were included in the supporting documentation. These costs related to expenses made by the implementing partner (IP). The auditors recommend that ensuring all these documents are included in supporting documentation to avoid the costs being considered potentially ineligible at the next HQ audit. Full details are given in section 16.
1.2.3 Implementation of project activities

The principal objective of the project is to facilitate the re-integration process of child ex-detainees into their community. The specific objective is to enhance the psycho-social wellbeing and coping capacity of child ex-detainees, and their families, through in-depth counselling, school- and community-based reintegration interventions.

At the time of the audit visit, seven and a half months of the 12 month project had elapsed. Based on the evidence gathered at the time of the audit, through discussions with key project staff, review of the latest cumulative narrative reports and the project site visits, the auditors concluded that the project activities were progressing in line with the initial work plan.

The project activities had not been delayed, despite the fact that the grant agreement was not signed until 11 July 2011.

1.2.4 Conformity with HQ procedures and FPA requirements

Based on the evidence gathered during the audit, [redacted] appears to be in adherence with its HQ procedures and with the requirements of the FPA, with the following exceptions:

1. [redacted] does not have a formal, documented policy for allocating shared costs to projects; and
2. [redacted] does not include any of the following clauses in its contracts with (potential) suppliers:
   a. A clause that donors may conduct tests at its suppliers, as requested by article 23.1 of FPA General Conditions and article 2.10 and FPA Annex IV;
   b. A requiring (potential) suppliers to adhere to the General Principles of Annex IV; and
   c. A clause that (potential) suppliers respect basic social rights and working conditions of their employees as well as a clause against child labour.

Relevant recommendations have, therefore, been included in Annex 1.

1.3 Recommendations for systems improvement

The most important recommendations are shown below. A summary of all recommendations made is included in Annex 1, which also includes the NGO’s responses.

<table>
<thead>
<tr>
<th>Rating(^1)</th>
<th>Recommendation</th>
<th>Accepted (YN)</th>
<th>Urgency (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>It is recommended that [redacted] formally documents its policy for the allocation of shared costs to projects. In addition, [redacted] should allocate [redacted] shared costs not based on a budgeted percentage but on this fair, documented basis.</td>
<td>Y</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>It is recommended that [redacted] and [redacted] include in contracts: - A clause that donors may conduct tests at its suppliers, as requested by article 23.1 of FPA General Conditions and article 2.10 and FPA Annex IV; - A requirement that (potential) suppliers adhere to the General Principles of Annex IV; and - A clause that (potential) suppliers respect basic social rights and working conditions of employees and a clause against child labour.</td>
<td>Y</td>
<td>3</td>
</tr>
</tbody>
</table>

\(^1\) Ratings are: 5 - very important  
4 - important
1.4 FOLLOW UP OF PREVIOUS HQ AUDITS

No HQ audit had been undertaken at the date of the audit.

1.5 FOLLOW UP OF PREVIOUS INTERIM FIELD AUDITS

No field audits had been undertaken at the date of the audit.
2 Interim Audit Opinion

We have carried out an interim audit of the funds used in the field by [insert name] in West Bank in the period from the start date of each project up to the interim audit date (18 November 2011) in the implementation of the following DG ECHO grant agreement:

<table>
<thead>
<tr>
<th>Grant agreement</th>
<th>Period</th>
<th>Amount expended</th>
<th>Percentage of project budget</th>
<th>Amount tested</th>
<th>Percentage tested</th>
</tr>
</thead>
</table>

Our responsibility is to express an independent opinion, based on our interim audit, on the financial systems and controls in place in the field, on the safeguarding and usage of the funds for the purposes intended and that activities are carried out in accordance with the grant agreement in the country in which the grant agreement is being implemented.

This report is made to the European Commission represented by DG ECHO and remains the property of the European Commission. Our interim audit work has been undertaken within the framework of existing contractual arrangements and provides information to DG ECHO on the systems of internal controls placed on the use of Commission funds and on eligibility of the costs claimed.

Our interim audit work has been undertaken so that we might state to the European Commission those matters we are required to state to it in our interim audit report and for no other purpose. We are thus responsible solely to the European Commission for our audit work and the interim audit opinions we have formed. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the European Commission unless such responsibility has been expressly accepted.

We conducted our interim audit in accordance with applicable International Standards of Auditing.

Our interim audit included an examination, on a test basis, of evidence relevant to the amounts attributed at the time of the interim audit to the DG ECHO grant agreement subject to interim audit, as well as a physical verification of a sample of project activities.

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the NGO. It is the responsibility of those charged with the governance of the NGO to ensure, through oversight of management, the integrity of the accounting and financial reporting systems and that appropriate controls are in place. It is the responsibility of the management of the NGO to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible the orderly and efficient conduct of the NGO’s affairs. This responsibility includes implementing and ensuring the continued operation of accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems can only reduce but not eliminate the risk of misstatements, whether caused by fraud or error. Management retains responsibility for any remaining risk.
In our opinion:

- The systems of internal controls, except for stock which is not relevant for this project, operated by the NGO in the field are adequate;

- Grant agreement funds tested in the field in the period 01/04/2011 to 31/10/2011 have been used in accordance with the contractual basis as set out in the DG ECHO Framework Partnership Agreement and the relevant grant agreement, except for the matters listed under section 1.2.2 above;

- Implementation of those project activities that we have physically verified have been carried out in accordance with the contractual basis, as set out in the DG ECHO Framework Partnership Agreement and the relevant grant agreement; and

- The field office is in compliance with the procedures established by HQ and with the requirements of the FPA, except for the matters listed under 1.2.4.

06 March 2012
3 General Information

<table>
<thead>
<tr>
<th>Name of NGO audited:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DG ECHO Reference:</td>
<td></td>
</tr>
<tr>
<td>Responsible CO at NGO:</td>
<td></td>
</tr>
<tr>
<td>Street and Number:</td>
<td></td>
</tr>
<tr>
<td>City:</td>
<td></td>
</tr>
<tr>
<td>Country:</td>
<td></td>
</tr>
<tr>
<td>Audit Date:</td>
<td>14 – 19/11/2011</td>
</tr>
</tbody>
</table>

| Name of NGO audited:       |                                  |
| Street and Number:         |                                  |
| District:                  |                                  |
| Postal Code:               |                                  |
| City:                      | oPt                              |
| Country:                   |                                  |

Closing Meeting: 18/11/2011

Audited Organisation:

Auditors:

Grant agreement Number: ECHO/PSE/BUD/2011/

Description of Project:

Programme: FPA 2008

Country of operation: oPt

Type of grant agreement decision: Ad Hoc

Period of entire grant agreement: 01/04/2011 – 31/03/2012

DG ECHO contribution in €: 500 000

DG ECHO contribution in %: 100
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**Budget Agreement ECHO/PSE/BUD/2011/...**

<table>
<thead>
<tr>
<th>Description</th>
<th>EURO Budget</th>
<th>EURO Expenditure</th>
<th>% expensed to 31/10/2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement period</td>
<td>01/04/2011 – 31/03/2012</td>
<td>01/04/2011 – 31/10/2011</td>
<td></td>
</tr>
<tr>
<td>Personnel Costs</td>
<td>95 340</td>
<td>50 822</td>
<td>53</td>
</tr>
<tr>
<td>Local Logistics Costs</td>
<td>28 500</td>
<td>8 154</td>
<td>29</td>
</tr>
<tr>
<td>Psychosocial Activities</td>
<td>341 117</td>
<td>197 969</td>
<td>58</td>
</tr>
<tr>
<td>Communication, Visibility</td>
<td>2 333</td>
<td>588</td>
<td>25</td>
</tr>
<tr>
<td>Sub-total direct costs</td>
<td>467 290</td>
<td>257 533</td>
<td>55</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>32 710</td>
<td>18 027</td>
<td>55</td>
</tr>
<tr>
<td>Total costs</td>
<td>500 000</td>
<td>275 560</td>
<td>55</td>
</tr>
</tbody>
</table>

Based on the latest financial report, to 31/10/2011, the budget uptake is 55% relative to 58% of the project period elapsed.

The auditors have no concerns regarding the level of budget uptake at the time of the audit.
4 Methodology

4.1 Objectives of the Interim Audit

The objective of the interim audit is to provide assurance to the European Commission as represented by DG ECHO that the funds are safeguarded and used for the purposes intended and that activities are carried out in accordance with the grant agreement by undertaking interim audit work in the country in which the grant agreement is being implemented.

The interim audit must ascertain whether, for expenses incurred at the time of the interim audit:

- The system of internal control governing project activities is adequate;
- Expenses tested at the time of the interim audit fit into one of the categories of the agreed contractual budget;
- Expenses tested are adequately supported by original supporting documentation, have been incurred during the eligibility period and have been properly accounted for;
- For tested assets, stocks, leftovers, declared as used, there is proof of the existence of the assets;
- The procurement practices implemented are adequately documented and are in line with the FPA and the grant agreement; and
- The activities of the operation physically verified were implemented as set out in the DG ECHO grant agreement.

Further, information will be obtained which might provide input into the audit of the final cost claim.

4.2 Interim Audit Approach

Our interim audit approach is systems based. It involves a review of systems, structures and controls to assess the relative strength of the control environment associated with the field operations of the NGO and then substantive testing of transactions by reference to underlying documents. To implement this approach an Internal Control Questionnaire (ICQ) is used. The completed ICQ gives an indication of the control environment, assessed as adequate/adequate in most respects/inadequate in some respects/inadequate. The ICQ covers nine areas, namely:

1. Organisation;
2. Accounting Systems and IT;
3. Cash and Bank;
4. Personnel;
5. Fixed Assets
6. Procurement;
7. Stocks;
8. Fraud and Corruption Prevention Policies; and

We have reviewed and evaluated the responses given to the ICQ together with the supporting evidence received from the NGO. Our primary purpose in doing so was to assess the relative strength of the control environment and our review cannot be relied upon to have detected all deficiencies and
weaknesses that a full management audit might reveal. However, as a result of its completion and evaluation, we have identified recommendations for systems improvements.

The ICQ was completed on the basis of current systems and controls in place at the country and field offices of the NGO.

It should be emphasised that individual management actions will not be under particular scrutiny and the aim of the report is not to apportion blame to individuals or organisations. Descriptions of systems failures can best be understood as providing recommendations for the future to ensure effective management of future grant agreements.

In addition, the responses to the ICQ were audited through examination of certain physical activities in the field. Given the diversity of project activities, their geographical dispersion, security and time constraints, testing was undertaken on a sample basis and at a level not always statistically appropriate to the relative strength of the control environment identified.

4.3 **SUBSTANTIVE TESTING**

The substantive testing is intended to verify the validity of transactions by inter alia reference to original supporting documentation (e.g. invoices), accounting entries in the records maintained by the NGO and the procedural requirements of the grant agreement (e.g. in respect of tendering procedures), and physical implementation of project activities.

4.4 **INTERIM AUDIT**

The audit exercise is an interim audit, the results of which will be used to inform the opinion given after any future final audit of the completed grant agreements at the HQ of the NGO.
5 Organisation

5.1 SUMMARY PROFILE OF THE FIELD OPERATIONS OF THE NGO UNDER AUDIT

5.1.1 Legal basis and field of activity

and has been registered under Israeli law as an International Voluntary Agency since October 2003. has also been registered with the Palestinian National Authority as a Charitable Association since August 2008.

is registered as a NGO with the Palestinian National Authority.

The basis of work is the United Nations Convention on the Rights of the Child (CRC) and the United Nations’ Declaration on Human Rights. influences public opinion and supports children at risk and around the world. vision is a world where all children’s rights are fulfilled.

The project subject to audit is in line with objectives.

is a member of the and is committed to a unique vision of community, based on the universal values of human dignity, peace and justice. works with all sectors of Palestinian society without discrimination.

The project subject to audit is implemented as part of Rehabilitation Programme. This programme was established in 1989 as one of development programmes.

Country Office (CO) has been provided with all necessary manuals by HQ. A specific manual for West Bank and Gaza (WBG) has been issued, with links to the general manuals.

DG ECHO rules and procedures were available to all relevant staff at the CO. However, during the visit to, the auditors noted that staff did not have immediate access to the complete DG ECHO rules and procedures. During further discussion on this matter as part of the Closing Meeting, the CD stated that, in order to avoid unnecessary confusion, the relevant points of the DG ECHO rules and procedures had been included in the MoU with the partner. However, the auditors still considered it appropriate to recommend that all DG ECHO rules and guidelines be available to staff.

has offices in Jerusalem, Gaza and Ramallah. The latter is shared with. CO reports directly to the Regional Office (RO) based in Beirut, Lebanon.

At the Ramallah Office, shares some common resources with. In addition to the shared office costs, pays a percentage for the following staff’s salaries: Security Officer – West Bank / Finance Support – West Bank & Gaza / Receptionist – West Bank & Gaza / IT Support – West Bank & Gaza / Office Cleaner – West Bank & Gaza / Driver – West Bank & Gaza. These staff are not, however, allocated to the DG ECHO project.

is currently reviewing its global organisation. The new structure will involve having only one office in each country of intervention. Each office will be registered under the name in ‘Country of intervention’. All COs will be supervised by ROs which will report directly to the Board. The transition is planned for 2012.

is located in. The Rehabilitation Programme is based in.
5.1.2 Overview of Partner’s project activities in the country or region

The following table depicts all the projects implemented by [Partner] in oPt during 2011:

<table>
<thead>
<tr>
<th>Projects</th>
<th>Donor</th>
<th>Value (In EURO)</th>
<th>% DG ECHO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>500 000</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following table depicts all the projects implemented by [Partner] in oPt during 2011:

<table>
<thead>
<tr>
<th>Projects</th>
<th>Donor</th>
<th>Value (In USD)</th>
<th>% DG ECHO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>478 334</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NB - [Partner] does not receive funds directly from institutional donors but only via INGOs or IOs.
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5.1.3 Organisational Chart

Organisational charts are included in Annex 2.

Organisational structure is reviewed as part of the quarterly report made by the CD to the RO.

No lack of segregation of duties or conflicts of interest were identified by the auditors at either or .

5.1.4 Internal control bodies

Has an internal audit function at HQ level but not at the CO. As the number of internal auditors is limited, HQ also recruits an independent audit firm to perform internal audit work on its behalf.

The CO is audited annually by Palestine. The last audit took place in November 2011. No major findings/recommendations have been made regarding internal controls.

According to the CD, a report is produced at the end of each fiscal year which outlines the proposed follow-up of audit recommendations. In addition, it is part of the day-to-day management to improve CO performance by implementing audit recommendations. Finally, follow-up is made by the yearly internal audit.

Internal audits are focused on the CO procedures more than specific projects.

Does not have an internal audit function.

5.1.5 External control bodies

The previous phase (ECHO/-ME/BUD/2010/ ) of the DG ECHO project subject to audit was audited by Palestine in June 2011. An unqualified opinion has been given by the auditors. No major recommendations have been made.

In June 2011, Palestine also audited the . An unqualified opinion was been given.

In April 2011, audited the  . An unqualified opinion was given.

Palestine audited Rehabilitation Program account for the fiscal year 2010 and provided an unqualified opinion.

Palestine has also audited receipts and disbursements of a project financed by for the period 1 July 2010 to 31 March 2011. An unqualified opinion was given.

The auditors had access to all of these reports.

5.1.6 Local Partner organisations

Never implements projects directly. It always uses local IPs. For the project subject to audit, the local partner is . It is not a FPA partner and a MoU has been signed mentioning all the roles and responsibilities of each party. For further detail see section 13.1.3.
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5.1.7 Co-ordination

is a member of a number of UN clusters and other working groups, requiring regular meetings with all key actors involved in the West Bank. The different clusters/working groups are: Protection (for which is a co-leader), Psycho-social, Education, 1612 resolution and Child Protection Network. is recognised by DG ECHO and is a requirement before signing any DG ECHO contract. is also part of a Jerusalem Task Force which includes 16 local partners.

works with the “de facto authorities” (Palestinian Authority) through its close collaboration with the Ministry of ex-Detainees and the Ministry of Social Affairs. has basic contacts with the Israeli Authorities through the Ministry of Social Affairs which is in charge of NGO general coordination.

The Security Officer attends the UN monthly security meeting. In addition, all staff receive a regular SMS from regarding the security situation.

Through the mechanisms described above, ensures its activities are appropriately coordinated with other organisations to reduce the risk of overlapping.

5.1.8 Relationship with institutional donors

Institutional donors require specific operational and financial reports for projects they have funded.

All projects are formally reviewed against their budget when they have finished.

Operational reports are prepared by operational staff and financial reports by financial staff. They are reviewed and approved by the CD, as well as the RO, before being sent to HQ and the donor. All staff involved in report preparation and review have significant knowledge of all activities and/or budget lines.

Within, reports are prepared by operational and financial staff, reviewed by the Project Coordinator and then sent to

Institutional donors reserve the right to audit project accounts. and have recently exercised this right (see section 5.1.5 for further details).

5.2 AUDITOR’S ASSESSMENT OF ORGANISATIONAL STRUCTURE

organisational structure has been assessed as satisfactory, but would be improved by implementing the recommendation regarding in Annex 1.
6 Accounting System and IT

6.1.1 Accounting & financial control and recording of field transactions

The accounting function is comprised of an Operations Manager (OM) and a Finance Officer (FO), based at the CO in Ramallah. The financial management of the project is decentralised to the CO.

All financial reports are submitted to the Regional Finance Manager (RFM) at the RO. At HQ, the key people responsible for project management are the Regional Coordinator MENA and, for the financial aspect, the Head of Finance.

All expenditure is incurred through and recorded at the CO using Agresso accounting software. The same software is used by all COs globally. It is a double entry accounting system, with entries being made by the FO on a cash basis. Accruals are only posted at the end of projects, not on an ongoing basis. The software has a chart of accounts and general ledger and identifies income and expenditure by project and donor.

During a review of the transaction list provided for the project subject to audit, the auditor noted some payments to the IP relating to the previous phase of the project subject to audit. This arose as the same project code was being used for both phases. Therefore, whilst the list had been filtered to include transactions from the current project’s eligibility dates, it failed to exclude accruals posted after the end of the previous phase. The majority of IP payments had since been made and, therefore, the accruals had been reversed. However, there were two transactions, totalling €49,017, for which there was no reversing entry in the list provided.

The auditors conclude that these transactions should be removed from the Phase 3 transaction list. In addition, it is recommended that a separate account code is set up for each project phase in order to avoid payments relating to the previous project being included in the reports for the current phase.

In oPt has been issued with financial procedures manuals by its HQ. These are global procedures applied by all COs and are written in English. All staff speak and read proficiently in English. Locally-specific financial procedures have not yet been developed.

Uses its own internal accounting software, known as This is also a double entry cash accounting system and is managed at the IP’s Head Office in West Bank.

In addition to recording transactions in the accounting software, the IP Project Accountant records DG ECHO project transactions in a pre-agreed Excel format, which can be easily uploaded into Agresso. Within this spreadsheet, transactions are recorded individually and by budget line. The IP does not include committed expenditure in its project accounts. There are, however, occasions when salaries paid after the month end are added to the financial report for the sake of clarity.

Each transaction allocated to the project is subject to a second person review. For transactions, explicit approval is given by the authorising manager that the transactions have been checked for compliance with the grant agreement. IP expenditure is firstly approved by the relevant authority at the IP, before the financial reports are sent to and reviewed by the M&C Officer. In addition, there is a quarterly review of IP supporting documentation by finance staff (see section 13.1.3 for further detail).

The following controls are in place to ensure that invoices and costs cannot be booked on or allocated to more than one project:
1. Payment Orders must be produced and approved for all transactions;
2. Payment Vouchers are sequentially numbered and stored;
3. Only original invoices are used to make entries;
4. Invoices are stamped as ‘paid’; and
5. Signature of Payment Order, including relevant project code, and review by the CD.

This is the only such project that [redacted] is implementing in the region at the time of the audit visit.

[redacted] does not produce detailed monthly financial reports, as there are relatively few transactions (salaries, car rental, fuel and office support costs). The majority of expenditure on the project is incurred by the IP and is reported to [redacted] in a format predetermined in the project MoU. This format allows [redacted] to compare IP expenditure to the agreed budget, which corresponds with the budget as per the grant agreement.

It is, therefore, deemed sufficient by [redacted] to perform a monthly review of the [redacted] transaction listing and IP reports, whilst producing overall financial reports at DG ECHO reporting deadlines. These financial reports compare budget to actual expenditure and include expenditure incurred by the CO, IP and HQ.

Institutional donor reports are prepared by the FO, along with project staff, according to the data recorded in the Agresso accounting software. They are then reviewed by the OM. All donor reports are submitted to the RO, and then HQ, for review before submission to the donor. The RFD is the key individual responsible for reviewing the financial information in such reports.

[redacted] management described the current quantity and quality of financial staff as adequate.

6.1.2 HQ monitoring and supervision

As previously noted, the management of the project finances and field operations is decentralised to the CO. RO and HQ’s key areas of involvement are donor reporting and technical assistance, provided on a needs basis. There are also regular monitoring visits to the CO and the IP.

Agresso is an online accounting system, enabling the RO and HQ staff immediate and continuous access to the project transaction list. In addition, RO and HQ notify the CO by email, or directly through the accounting system, when booking any costs to ongoing projects. At the time of the audit visit, no RO or HQ costs had been allocated to the project. Following the audit, [redacted] confirmed that this had taken place in December 2011.

The OM stated that staff at the CO never find it necessary to override HQ procedures/directives.

The RO performs checks/audits of field costs, including a bi-monthly review of the transaction listing, with a subsequent request for specific supporting documentation. After further review, informal feedback is provided to staff at the CO via email. There is no review of the transaction list at HQ, simply a high-level review of the financial report submitted at key donor reporting stages.

[redacted] does not have Field Offices (FO) for the project subject to audit. The IP Offices are visited at least quarterly by Finance and/or Operational staff.

There are also occasional visits from RO and HQ expatriate staff for the provision of technical assistance. [redacted] It is, thus, necessary for finance staff from the CO to visit Lebanon or Jordan at least twice per
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year. During this visit, the transaction listing is reviewed, along with certain prerequisite supporting documentation. Staff travel with the original supporting documentation, but copies of all documents taken are made beforehand.

There is minimal risk to the documentation stored at the CO. Financial supporting documentation is stored at the CO in Ramallah until the year end when it is submitted to HQ. All originals are sent and no copies are maintained in-country. All IP supporting documentation is kept by the partner.

6.1.3 Use of budgets in field operations

Budgets are prepared during the development of the proposal and revised, if necessary, at the time the contract is signed. The IP Project Coordinator designs the budget based on previous experience and an initial discussion with regarding any marked changes in the proposed activities. The performance against budget for previous projects is also used when developing the budget for future projects of a similar nature.

The key budget reviewer at is the M&C Officer, but the budget is also reviewed by all key staff and updated before a final agreement is reached with the IP. All budgets must at least be approved by the CD.

The IP budget is set out on a monthly basis and the total monthly amounts are used to determine the financial transfers made to the IP during the project. Before any transfer can be made, at least 85% of the cumulative transfers to date must have been spent.

Before the budget is finalised, will add their own costs (salaries, admin costs etc). This is done by the M&C Officer in conjunction with the relevant staff.

Budgets are revised on a needs basis but a formal budget review is performed at the interim reporting stage to identify any need for revision. For DG ECHO projects, if more than 10% under- or over-expenditure is foreseen, a memo must be written and formal approval received from DG ECHO for the revision.

There has been a budget revision for the project subject to audit. Following a request from DG ECHO, has reallocated €14,500 from External Audit to project activities. As a result an addendum to the original MoU, revising the IP budget accordingly, has been signed by both parties.

Responsibility for budget management lies primarily with the M&C Officer, who performs a monthly comparison between financial and narrative information from the IP. Other staff responsible for budget monitoring include the OM, FO and CD. The split of budget holder responsibilities is considered appropriate by the auditor.

Formal field forecasting of project costs is carried out monthly for the following month, in order to request funds from HQ. Forecasts to the end of projects are only carried out towards the end of projects. also does not include committed expenditure in its financial reports. It is recommended that develops procedures for including committed expenditure in the financial reports and regularly forecasting expenditure to the end of projects to help identify potential under- or over-expenditure and take appropriate, timely corrective action.

The IP performs monthly forecasts to the end of projects. This is compared with the original agreed budget and reviewed by the M&C Officer following submission of the reports.

All projects are formally reviewed against their budget within two weeks of completion.
6.1.4 Frequency and nature of internal reporting of field income and expenditure

produces quarterly management accounts for the CO which are submitted to the RO. This includes a balance sheet, income statement, bank reconciliations and petty cash reconciliations. Narrative is only included when necessary.

The management accounts are produced by the FO and reviewed by the OM and the RFM, before submission to HQ.

6.1.5 Local VAT

has applied for, and obtained, VAT exemption from the local authorities. However, the purchase of car rental and hotel services is not exempted from VAT according to local legislation. The auditors were provided with documented evidence of these facts.

6.1.6 Allocation systems

stated during the planning that the allocation of shared costs to projects depends on the donor policies and regulations.

At the time of the audit, shared costs were allocated to projects based on the initial budget. For example, office rental costs are incurred by and then recharged to at the interim and final reporting stages, based on a pre-agreed percentage. The IP’s shared costs were also allocated based on the agreed budget.

Personnel costs were allocated based on timesheets, which are reviewed to ensure they are in line with the original budget.

Vehicle fuel costs were allocated on the basis of logbook information. However, as noted in section 9.1.3, the rental costs are 100% allocated to the DG ECHO project.

The auditors noted that does not have a formal documented system for the allocation of shared costs to projects. It is recommended, therefore, that formally documents its policy for the allocation of shared costs to projects. In addition, should allocate the IP’s shared costs based not on budget availability but on this fair, documented basis.

There are no non-eligible costs included in the project accounts, as mentioned in Article 15.4 of the PPA.

6.1.7 IT management

The Senior IT Officer is responsible for IT at the CO. There are global IT guidelines in place for all STC organisations.

Data held on CO computers is protected by up-to-date anti-virus software which is updated automatically by the system and managed through HQ.

There is a maintenance agreement in place for the accounting software, including system upgrades, which is also managed by HQ.

Most technical issues are managed internally or through consultation with the HQ IT Department. Otherwise, local IT specialists are used.
All hardware and software is password protected. These passwords are regularly updated.

[company] has a central email server based at HQ and all accounting information is automatically backed up online. There is also a data server, access to which is strictly controlled. [company] has an online system which takes weekly back-ups of all data stored on CO computers. These back-ups are stored at HQ. There is also a daily back-up taken and stored locally at a safe location offsite.

6.2 Auditor’s Assessment of the Accounting and IT Systems

Policies and procedures for Accounting and IT Systems have been assessed as satisfactory but could be improved by implementing the recommendations in Section 1.3 and Annex 1.
7 Cash and Bank

7.1.1 Fund transfer procedures

Payments are received into the CO bank accounts from HQ based on a formal procedure of monthly cash forecasts for the following month. These are produced by the OM. Funds are forwarded to the IP by bank transfer, based on the amounts and terms laid out in the MoU. As noted in section 6.1.1, before any transfer can be made, at least 85% of the cumulative transfers to date must have been spent.

Transfers are limited by the pre-agreed monthly forecasts for and the amounts laid out in terms of the MoU for the IP.

Security arrangements and procedures were considered appropriate by the auditor. has in place a suitable limit on the amount that can be paid in cash. All other transactions are done by cheque or bank transfer.

7.1.2 Cash handling procedures

At the time of the audit, the FO and Accountant were responsible for cash management at and the IP respectively. In order to increase segregation of duties, another staff member was due to take over the management of cash at the CO from 1 December 2011.

There was no split of petty cash and safe balances at either the CO or IP Office. Excel cashbooks were maintained for cash balances and custody arrangements were deemed appropriate by the auditor.

Suitable limits were in place on the amount of cash held at the CO and IP Office.

At , monthly cash counts are performed and documented by an independent person in order to reconcile cash balances to the ledger balances. These are submitted to the RO ad HQ monthly, as detailed in section 6.1.4. There are also random cash counts which are also documented. The auditor reviewed the latest cash count and no issues were noted. However, this process did not appear to be taking place at the IP Office. It is, therefore, recommended that ensures that the IP carries out and formally documents both regular and random independent cash counts.

Only in exceptional circumstances are small cash advances made to members of staff. Suitable procedures were in place to monitor these advances.

7.1.3 Bank accounts

Bank accounts are held in hard currencies. has a separate account for DG ECHO projects, although project salaries and office shared costs are paid from another central Israeli Shekel account. In addition, holds other accounts in US$ and €, as well as accounts for other specific projects.

All accounts are subject to suitable dual signatory arrangements. In case of absence of one signatory, there are sufficient other approved signatories to cover.

A monthly bank reconciliation is performed at the CO and IP Office and evidenced by an independent reviewer. The auditor reviewed the latest bank reconciliations for both accounts used on the DG ECHO funded project and no issues were noted.
7.2 AUDITOR’S ASSESSMENT OF CASH AND BANK

Policies and procedures for Cash and Bank have been assessed as satisfactory but one recommendation has been made regarding IP cash counts in Annex 1.
8 Personnel

8.1 Recruitment and Administration of Staff

8.1.1 Summary Personnel Figures

<table>
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<th>Part time</th>
<th>Full-time</th>
<th>Total</th>
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</tr>
<tr>
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</tr>
<tr>
<td>Total</td>
<td>0</td>
<td>13</td>
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</tr>
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</table>

Local staff turnover was 30% in the last 12 months. This can be explained by the fact that a project, financed by [redacted] in Gaza, ended in 2011 resulting in the departure of five people. In the meantime, two other staff left and three joined. This high turnover does not, therefore, pose a substantial risk.

<table>
<thead>
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<th>07/12/2011</th>
<th>Part time</th>
<th>Full-time</th>
<th>Total</th>
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</tr>
<tr>
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<td>83</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>75</td>
<td>83</td>
</tr>
</tbody>
</table>

Local staff turnover was insignificant in the last 12 months (<2%).

8.1.2 Procedures for Recruiting Expatriate Field Staff

The policy in oPt is not to recruit expatriates.

8.1.3 Procedures for Recruiting Local Field Staff

A list of local staff charged to the project is included in Annex 4.

For both [redacted], staff requirements are decided by the CD. Job descriptions are written by the head of the concerned department/line manager and approved by the CD. For [redacted] depending of the need and the position, the RO can support the CO. For [redacted] is involved in the job description writing as well as in the interview process and the final decision.
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For both [ ], adverts are placed in local newspaper, mainly [ ], and on the [ ] websites. Potential candidates are encouraged to submit their application electronically.

For [ ], once applications are received, a first selection is made by the Administrator Assistant based on a CV review. Candidates short-listed are then interviewed by a selection committee composed of the CD, a representative of the concerned department and the Administrator Assistant. Candidates can also be asked to take written tests depending on the position.

For [ ], once applications are received, a first selection is made by the Administrator Assistant based on a CV review. Then, the concerned department makes a shortlist of candidates who will be interviewed by a selection committee. The committee is composed of the Programme Director, the Supervisor and a representative of the HR department. Candidates can also be asked to take written tests depending on the position and a second interview can be organised if needed.

For both [ ], the CD makes the final decision. For [ ], the RO is informed of the decision. For [ ], the General Secretary makes the final decision for executive positions.

For [ ], salary levels are defined based on the local market and compared to other local and international NGOs. The [ ] salary scale is approved by the Board.

For [ ], in addition to the contract, staff sign the [ ] Ethical Guidelines, the Job Description and the Working Condition Memorandum. All these documents are part of the contract. For [ ], contracts mentioned the obligation of staff to respect the Code of Conduct, as well as the Beneficiary Privacy Policy.

For [ ], contracts are in English and for [ ], contracts are in Arabic.

For both [ ], contracts set out the grade or position, start date, probationary period, working hours, holidays, other leave, basic salary, overtime, tax/social contributions, other allowances, termination/severance payments and insurance/medical care. Contracts also make reference to [ ] policy and local Labour Law.

[ ] organises informal induction periods within each concerned department. [ ] induction periods depend on each position; for example, Counsellors have a one month induction period and finance staff, two weeks.

[ ] does not face specific difficulties recruiting qualified local staff. However, [ ] faces some difficulties in Ramallah as there are lots of INGOs present. However, there are no problems in other locations.

For both [ ], a personnel record is held for each member of staff, including ID, staff register form, contract, JD, driving test and licence, increase of salary, confirmation of employment, CV, recruitment process, several administrative/internal documents and diplomas.

At the end of a project, [ ] try to propose allocating staff to the follow-up project if there is one or to another project if possible. If no reallocation is possible, the contract is ended.

[ ] written recruitment procedures ensure objective criteria as jobs are openly advertised, several persons at different levels are involved in the process and each step is approved.
8.2 ASSESSMENT AND TRAINING OF STAFF

8.2.1 Formal assessment procedures for personnel

For [], staff are appraised once a year through the Annual Performance Appraisal procedure. Performance review is made based on the job description and other qualitative criteria (quality of work, timeliness, problem solving, initiative etc).

For [], staff are appraised once a year based on their job description and other qualitative criteria.

For both the appraisal process is formal and, for [], the assessment form is signed by the employee, his/her line manager and the CD.

8.2.2 Training and personnel development

For [], the training process is part of the appraisal process as all potential training needs are discussed during the annual performance review. The training budget is financed by own funds. Evidence was provided to the auditors of training carried out in 2011.

For [], the training policy is still a draft. However, regular training is given, especially for Counsellors who had a training in October and November 2011.

[] communicates regularly with the staff through electronic communication, for example the monthly finance newsletter.

8.2.3 Procedures in case of conflict or dispute between management and staff

[] HR procedures describe how the organisations deal with staff grievances.

In case of a staff grievance that cannot be resolved by the direct line manager, an employee has the possibility to contact the manager superior or Director. Finally, the Programme Director or General Secretary could be contacted if necessary.

The auditors were informed that no disciplinary actions had taken place in the last financial year at either [].

8.2.4 Security issues related to personnel

[] takes out insurance for all its field staff. There is a local and international insurance contract for all staff. Life insurance is also taken out for staff.

[] employs a Security Officer to cover all security matters.

The Safety and Security Management Plan for oPt was updated in October 2011. This plan includes Relocation – Evacuation Plan, Emergency Calling Trees and focal points, the Security Plan, General Country Information and Personal Safety and Security Guidelines for Visitors.

Each month, the Security Officer completes an online security situation report. In addition, in case of incident, a security incident report is written and uploaded in the online system.
Staff movements at [redacted] is subject to the Director approval.

For [redacted] local staff do not face security problems due to their work. For [redacted], staff sometimes experience difficulties with Israeli Defence Forces limiting access to project sites.

8.3 AUDITOR’S ASSESSMENT OF PERSONNEL PROCEDURES AND POLICIES

[redacted] policies and procedures regarding personnel have been assessed as satisfactory and no recommendations have been made.
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9 Fixed Assets

9.1.1 Registration of fixed assets

At the date of audit, no fixed assets had been purchased using project funds.

9.1.2 Equipment control

At the end of a project, equipment is used according to the donor policy. For the project subject to audit, a laptop has been transferred from the previous DG ECHO project (ECHO-ME/BUD/2010[xxxx]) to [xxxx]. It has been specified in the previous project final report and the transfer was formalised in a signed document.

Low Value Equipment from the previous project has been kept by [xxxx] according to DG ECHO rules and as mentioned in the previous project final report.

9.1.3 Vehicles

[xxxx] uses one leased vehicle for the project. However, the vehicle is occasionally used for another purpose. In this case, the logbook identifies the purpose of each movement. On the basis of the logbook, fuel costs are allocated to the project subject to audit or another project or, alternatively, paid for using [xxxx] own funds. The CO calculates the number of kilometres and applies a rate included in the vehicle policy (7 Israeli Shekels (NIS)/km).

However, the monthly leasing cost is 100% allocated to the DG ECHO project. It is, therefore, recommended that [xxxx] allocates the leasing cost on the basis of logbook information.

The vehicle was in good physical condition. The logbook and the fuel consumption reports were available.

All the vehicle documentation is with the leasing agency. The insurance is included as part of the leasing contract.

The CD must approve all private use of [xxxx] vehicles in advance. For private use of a vehicle, a 7 NIS/10km fee must be paid by the user.

A regular fuel report ensures that costs allocated to the project are only costs related to project activities. The Logbook of the vehicle makes possible the identification of each trip purpose.

[xxxx] does not use cars. Staff travel by national local transport (taxi, bus) and the reimbursement rate is NIS 1 per kilometre.

9.2 Auditor’s Assessment of Fixed Asset Registration

[xxxx] policies and procedures regarding fixed assets have been assessed as satisfactory. However, one recommendation related to fixed assets management has been made in the Substantive Testing section.
10 Procurement

10.1.1 Statement of extent of procurement

Due to the nature of the project under audit, only minimal procurement was foreseen at the start of the project. This included a small number of laptops and car rental for [number] and an LCD projector, filing cabinets and a desktop computer for the IP.

All procurement was being carried out locally. [organisation name] is implementing the project subject to audit under the ‘A’ control mechanism but is applying its own stricter procurement rules. The procurement by the IP was carried out according to [organisation name] procurement guidelines attached to the signed MoU.

10.1.2 Domestic legal regulations for procurement

There are no national procurement rules that the NGO is obliged to follow in the country of operation.

10.1.3 Description of procurement procedures

Procurement rules are summarised as follows:

1. "Written tenders and the invitation for the tenders should be through an invitation in the local newspapers should be requested for goods with a value exceeding SEK 75,000 (which is equivalent to $9,000) and the offers should be received in sealed envelopes
2. Written tenders and the offers should be received in sealed envelopes but there is no need for advertisement should be requested for goods with a value between SEK 50,000 and 75,000 (between $6,000 and $9,000)
3. Price offers in a sealed envelopes should be presented (at least three price offers from three different companies) to the organization when the should be requested for goods with a value under $6,000 till $300
4. For goods with a value under $300 the prices could be taken by fax"

Following a detailed review of these rules, the auditors recommend that [organisation name] reviews and rewrites the Annex to the MoU to ensure clarity. In particular, the number of quotes required for items valued below $300 is unclear from the above wording.

The auditors concluded that sufficient segregation of duties was in place regarding purchasing.

[organisation name] stated during the planning that procurement procedures were rarely overridden and, if so, this is clearly documented and appropriately approved. For example, if there is only one supplier for a product, project staff request approval from the OM and CD through an official memo. No such instances were noted during procurement testing.

Tender Committees are set up for all procurements valued above $6,000 ($4,700). There were no such procurements for this project.

10.1.4 Use of framework agreements, favoured suppliers and procurement centres

[organisation name] does not draw up framework agreements or a restricted list of favoured suppliers after an open selection process has taken place. However, given the extent of procurement on this project, this is not deemed necessary.

[organisation name] does not use or intend to use Humanitarian Procurement Centres (HPCs).
10.1.5 Relationship between NGO’s procedures and the conditions of Annex IV of the Framework Partnership Agreement of 2008

Procurement procedures are generally stricter than Annex IV to the FPA. It does not include any of the following clauses in its contracts with (potential) suppliers:

- A clause that donors may conduct tests at its suppliers, as requested by article 23.1 of FPA General Conditions and article 2.10 and FPA Annex IV;
- A requirement that (potential) suppliers adhere to the General Principles of Annex IV; and
- A clause that (potential) suppliers respect basic social rights and working conditions of their employees as well as a clause against child labour.

It is recommended to [ ] and the IP that these clauses are included in all contracts.

10.1.6 Audit testing of procurement procedures

A dedicated file is maintained for all individual procurements including all bids. Documentation was properly filed, making the process transparent and easy to follow. No potentially ineligible expenditure was identified. However, one issue was noted during the procurement testing. [ ] did not produce an approved Purchase Requisition (PR), including the derivation of the estimated price, for each procurement process. A recommendation in this respect has been included in Annex 1.

The auditors reminded both [ ] and the IP that the key elements of documentation requested by the forthcoming HQ audit should be translated into English.

10.2 Auditor’s assessment of procurement

[ ] policies and procedures for Procurement are satisfactory but could be improved by implementing the recommendations in Section 1.3 and Annex 1.
11 Stocks and Stock Control

11.1 AUDITOR’S ASSESSMENT OF STOCK MONITORING AND STORAGE

— No stock is being held for this project, therefore, no work was performed in this respect. ————
12 Fraud and Corruption Prevention Policies

12.1.1 Policies

has a Policy for the Prevention of Fraud and Corruption that defines fraud and corruption and details how a suspected fraud would be investigated. This policy encourages IPs “to adopt a clearly-stated strategy and system to combat corruption and fraud”. The policy is attached to the MoU signed with .

In addition to this policy, has an Alert Guidance for all staff that explains how staff should report fraud or corruption, normally to their direct line manager. If this is not possible, staff can report to a higher level. also has a self-assessment form that allows each office to identify potential risks and to formalise potential action to be taken.

Staff are trained on the policy.

12.1.2 Staff

The plan for how a suspected fraud would be investigated is part of the Policy.

References are always checked. Staff are also required to sign ethical guidelines.

The ‘whistle blowing’ policy is part of the fraud and corruption prevention policy.

12.2 Auditor’s Assessment of Fraud and Corruption Policies

policies and procedures regarding fraud and corruption prevention have been assessed as satisfactory and no recommendations have been made.
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13 Field Operational Practices

13.1.1 Needs assessment

The M&C Officer confirmed that the Single Form provides full detail of the needs assessment performed for this project.

Involves local populations in the identification of beneficiary groups for aid and the management of aid programmes.

13.1.2 Project management and reporting

A work plan is in place for the project subject to audit and was included as an annex to the Single Form. There had been no changes to this plan at the time of the audit visit.

Project progress is reported through:

1. Monthly Narrative Reports from the IP. As with the financial reports, these are submitted in a pre-determined format, as attached to the signed MoU. The reports are cumulative in nature and, thus, the latest report will encompass all the information submitted to date on project progress. The tangible information in the reports is entered into a central database at the CO;
2. A more detailed narrative report submitted by the IP at each donor reporting stage;
3. Monthly, project-specific Steering Committee Meetings which include all relevant, available staff from both [ ] and the IP;
4. General staff meetings at [ ], involving a discussion of achievements made, and planned activities, for each project. Whilst the aim is to hold these meetings weekly, this is not always possible due to staff availability;
5. Weekly individual progress reports, with reference to a pre-agreed activity plan;
6. A regular exchange of emails, at least three times per week, between the M&C Officer and the relevant staff at the IP; and
7. Even more regular, often daily, contact by phone.

In terms of submissions made to the RO and HQ, the CO submits a quarterly summary report, including updates on financial and activity progress for all ongoing projects. For the project subject to audit, for example, the M&C Officer will complete the narrative section, including information on beneficiary numbers, whilst the FO will complete the financial overview. Also, at donor reporting stages, the M&C Officer will provide more detailed narrative report to aid the completion of the donor report.

The abovementioned narrative reports are laid out to allow effective comparison between the initial project proposals/input/output with reality at finalisation of the project.

All submissions to HO are first approved by the CD and then the Protection Advisor and Regional Director at the RO.

13.1.3 Financial and operational management of local implementing partners

For the project subject to audit, [ ] is working with the IP, known as [ ]. The cooperation is governed by a signed MoU, a copy of which was obtained and reviewed by the auditors, including all annexes. In brief, the project activities are implemented and overseen by IP staff, with [ ] staff responsible for the ongoing monitoring of activities and communication with the RO, HQ and the donor.
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According to the terms of the MoU, the IP is required to submit cumulative narrative and financial reports to on the 15th of each month. According to the M&C Officer, the IP had complied with this requirement and the auditor was able to obtain and review copies of the latest reports, for September 2011. Once received, the M&C Officer reconciles the narrative with the financial report, completing a review sheet to document any questions or obvious errors.

The amount of each funding instalment is set out in the MoU and can only be made when at least 85% of the cumulative prior transfers have been spent. records all instalments paid to the IP in the project accounts. These transactions are later reversed once detailed expenditure reports are obtained and uploaded into Agresso.

The M&C Officer carries out field visits to the partner at least once per month, accompanied always by an IP Counsellor and occasionally by the DG ECHO TA. A specific Field Visit Report is produced after each visit, the content of which depends on the purpose of the visit. This ranges from attending events, workshops and group sessions to collecting advocacy material and carrying out beneficiary interviews.

Included within the MoU is a clause giving rights of access to staff and DG ECHO to all supporting documentation finance staff visit the IP on a quarterly basis to obtain the detailed transaction listing and agree it to supporting documentation. This is done on a sample basis, but at least 75% of the total expenditure is verified. Following this process, feedback is given to the partner via email. As has worked with the partner for a number of years, the OM confirmed that there do not tend to be any significant problems. Once any issues have been resolved, the M&C Officer submits a Payment Order to the Finance Manager approving the next IP instalment.

However, the auditor noted from discussions that, firstly, there is no documented policy to determine what checks are performed and, secondly, that no record is maintained of expenditure that has been tested. It is, therefore, recommended that maintains a central record of all partner expenditure tested during the quarterly review procedure. In addition, should formally document the precise testing procedure and any issues raised.

The auditors noted that does not receive copies of IP documentation until after the end of projects.

Finance staff at the IP were given specific training on Financial and procurement policies and regulations and fraud and corruption policy in February 2011.

In addition to aforementioned visits from CO, RO and HQ staff, since 2009, the IP has been visited by the following auditors:

1. as part of the audit of a project implemented by (reference );
2. during the final external evaluation of the previous phase of the project; and
3. during the last annual external audit.

13.1.4 Monitoring and supervision

Following the audit visit, it was concluded that the project was overseen by suitably qualified staff to monitor and report on progress.

The IP has in place written agreements with those beneficiaries who take part in the vocational training. For those beneficiaries who only receive counselling, there is no formal agreement in place.
Instead, the relevant Counsellor will document their initial assessment of the child and store it on a confidential file.

If a beneficiary is less than 18 years old, their parents must sign a document permitting the IP to conduct interviews and take photographs. If not, then the beneficiary can provide their own informed consent.

In order to identify and manage beneficiary complaints, there is a Supervision Body at each IP office. Members of the Body will meet with their allocated Counsellors on a weekly basis. Supervisors will also observe Counsellors and report to the Head of Counselling on their performance. Beneficiaries are informed of this monitoring process and that they can complain either to their counsellor or their Supervisor.

... has in place procedures for gathering data and reporting on project activities. In particular, the IP has designed and conducts pre- and post-counselling tests. The test includes questions that allow the IP to give tangible feedback on the relevant indicators from the log frame. The test is completed by Counsellors and entered by secretaries into a secure central database which is shared with...

... performs follow-up verifications, including meetings with the Project Coordinator and field visits.

... has conducted two capacity building sessions for Counsellors. The topic of the training is discussed and confirmed by the IP beforehand. The IP also carries out internal capacity building training.

... regularly monitors progress against the project plan, both operationally and financially.

13.1.5 Evaluation

An external evaluation was included in the original budget for this project. However, at the request of DG ECHO, this is no longer taking place and the funds are to be reallocated to project activities. The IP still plans to carry out a self-funded qualitative internal evaluation of the project.

... has in place a system of ongoing evaluation of activities. A conclusive evaluation document has not yet been produced but significant effort is being made to collect beneficiary testimonies and other communication tools for the purposes of post-project evaluation.

13.2 Auditor’s Assessment of Field Operational Practices

... policies and procedures regarding Field Operational Practices have been assessed as satisfactory but could be improved by implementing the recommendation in Annex 1.
14 Project Site Visit

14.1 Auditor’s Observations

14.1.1 Project Overview

The principal objective of the project is to facilitate the re-integration process of child ex-detainees into their community. At the time of the audit visit, seven and a half months of the 12 month project had elapsed.

Based on the evidence gathered at the time of the audit, through discussions with key project staff, review of the latest cumulative narrative reports and IP and project site visits, the auditors concluded that the project activities were progressing in line with the initial work plan.

Although the grant agreement was not signed until 11 July 2011, the project activities have not been delayed.

14.1.2 Project progress against proposal

The following table was completed based on the latest project information contained in the Interim Report, submitted to DG ECHO by 31 December 2011. This was supported by the audit visit and the subsequent review of project progress reports.

<table>
<thead>
<tr>
<th>Results 1: Child ex-detainees are provided with psycho-social and career/educational counselling, and vocational evaluation, remedial and vocational education and are suitably referred</th>
<th>Indicators</th>
<th>Auditors’ Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>70% of the targeted child ex-detainees are starting to easily communicate with friends and family members</td>
<td>75% of child ex-detainees report using more positive coping mechanisms</td>
<td>79% of child ex-detainees are using more positive coping mechanisms.</td>
</tr>
<tr>
<td>70% of the child ex detainee are integrated in educational or /and vocational institutions</td>
<td>73% of child ex-detainees are integrated in educational or vocational institutions according to their abilities and interests.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results 2: Family members of the child ex-detainees and child detainees receiving psychosocial family intervention sessions and family self-support group sessions are more aware of their children’s needs and are more supportive</th>
<th>Family positive integration and communication</th>
<th>89.9% of the targeted family participants are positively interacting and communicating with each other.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family members are more aware</td>
<td>Families are more supportive</td>
<td>94.4% of the targeted family members are more aware and understand the psycho-social needs of their children.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>92.2% of the targeted family members are being more supportive to their</td>
</tr>
</tbody>
</table>
14.1.3 Description of site visit

On 18 November 2011 the auditors performed a visit to the [Office at [Location]]. During the visit, the auditors met and interviewed one ex-detainee and their counsellor. This included a discussion of the psychosocial impact of detention, the amount and quality of counselling received, their opinion of the group sessions, the vocational training received and their family’s participation in the counselling process.

This was followed by a visit to the [Office in [Location]]. Here, the auditors met and interviewed three ex-detainees, the Hebron Supervisor, two counsellors and a group of fathers receiving group counselling under the project.

The following issues were raised during the visit:

1. the short length of the vocational training;
2. there was a clear desire for the continuation of activities, in particular the group meetings;
3. the Supervisor highlighted that there were insufficient counsellors at the [Office in Hebron], relative to the increasing number of ex-detainees. He explained that this was partly an issue of financial constraints but also due to the lack of space at the office; and
4. some fathers were not always willing or able to come to the group meetings.

On 20 November 2011, the auditors also attended an event organised by [Location] at a local university, as part of the International Convention on the Rights of the Child (CRC). The day included a photographic exhibition by a beneficiary of the project, poetry readings, a topical play and a presentation on the legal aspects of detention.

14.2 AUDITOR’S ASSESSMENT OF PROJECT SITE VISIT

The auditors would like to thank [Beneficiary for facilitating interesting and informative project site visits. The work performed under the project appeared to be of good quality and highly valued by the beneficiaries.

No recommendations have been made as a result of the project site visit.
15 Visibility

15.1 Auditor's observations

The visibility activities proposed in the Single Form were as follows:

"Visibility actions:
Throughout the implementation of the project, will be in charge of ensuring that all information and education materials produced (including website) as part of the project are branded with the logos of ECHO. The ECHO logo will be prominently displayed on all promotional materials, printed and electronic, including placement on the website, posters, pins and banners. ECHO logo stickers will be placed on project laptops and car. The Communication Officer will be responsible for ensuring that the ECHO logo is used appropriately according to the ECHO Visibility, Information and Communication Guidelines.

In the partner organizations branches and main office reception, and during public meetings, workshops and conferences, sign boards and banners will be visible. Lap tops and desk tops will display ECHOs logo, in addition to all material produced as part of the project (DVDs, brochures, banners)."

Based on the evidence gathered during the visit, the auditors concluded that the visibility plan has been adhered to. [ ] has a team specifically dedicated to the management of visibility and advocacy.

The Field Documentation Officer, responsible for communication material and partner visibility, highlighted the lengthy process of approval for all communication materials, given the sensitive nature of the topic. The Advocacy and Communications Officer, responsible for international advocacy noted how challenging and costly the process can be.

The auditors were shown an array of visibility and communication materials and given a detailed description of the plan for the future, especially regarding increased advocacy in Europe and the wider distribution of publicity items.

During the audit visit, the auditors were able to verify a number of visibility activities, namely Factsheets, Success Stories, a Photo Book, Counselling Adverts, Impact Reports, the Project Website (including videos, cartoons etc), Project Posters and visibility on partner laptops. The auditors were informed that these items were also distributed, where appropriate, at events and meetings, for example at the cluster groups.

The auditors were informed that individual testimonies from field sites were being documented at the time of the visit.

15.2 Auditor's assessment of visibility

[ ] policies and procedures regarding visibility have been assessed as satisfactory and no recommendations have been made.
16 Results of Substantive Testing

In accordance with the objective as set out in section 4.1, substantive tests have been carried out in respect of selected transactions for the project subject to audit.

The work performed on personnel costs can be summarised as follows:

- we obtained the list of expatriate and local staff employed on the project and selected a sample for testing;
- for the sample selected we verified the existence of employment contracts and proofs of payment, further we verified the existence of those persons by meeting them and discussing with them their specific work on the project;
- we verified that the direct costs claimed agree with payroll and personnel records.

For all other cost categories we obtained documents supporting the costs selected (e.g. orders, invoices, packing lists, payments, receipts, contracts, invitations to tender where necessary) and we verified that:

- the costs had been incurred since the inception of the project and were necessary for its implementation;
- distribution records were verified with reference to purchase invoices and stock records; beneficiaries were met to verify the receipt of goods;
- the costs were correctly recorded in the NGO’s accounting system;
- the costs charged are eligible per the grant agreement and its Annexes.

Expenditure tested

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Euro)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Lease*</td>
<td>662</td>
<td>2</td>
</tr>
<tr>
<td>Car Lease</td>
<td>1 324</td>
<td>2</td>
</tr>
<tr>
<td>Fuel May</td>
<td>399</td>
<td></td>
</tr>
<tr>
<td>Fuel May</td>
<td>253</td>
<td></td>
</tr>
<tr>
<td>Taxi rental</td>
<td>580</td>
<td>3</td>
</tr>
<tr>
<td>Severances for Protection Manager</td>
<td>165</td>
<td></td>
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<td></td>
<td>1 804</td>
<td></td>
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<tr>
<td></td>
<td>5 248</td>
<td></td>
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<td></td>
<td>1 993</td>
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<td></td>
<td>2 523</td>
<td></td>
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<tr>
<td></td>
<td>1 891</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 468</td>
<td></td>
</tr>
<tr>
<td>Laptops</td>
<td>3 240</td>
<td>Procurement only</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile phone</td>
<td>615</td>
<td>4</td>
</tr>
<tr>
<td>Utilities (water and electricity)</td>
<td>360</td>
<td>4 – 5</td>
</tr>
<tr>
<td>Food for a training session</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>
This report is the property of the European Commission and may be distributed to third parties after notifying the European Commission, represented by DG ECHO.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Euro)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer*</td>
<td>713</td>
<td></td>
</tr>
<tr>
<td>Group session</td>
<td>368</td>
<td></td>
</tr>
<tr>
<td>1 284</td>
<td></td>
<td></td>
</tr>
<tr>
<td>754</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LCD</td>
<td>724</td>
<td>Procurement only</td>
</tr>
<tr>
<td>Furniture</td>
<td>187</td>
<td>Procurement only</td>
</tr>
<tr>
<td><strong>Total Tested</strong></td>
<td><strong>27 678</strong></td>
<td></td>
</tr>
</tbody>
</table>

* Procurement process also tested.

All tests were satisfactory except for the following exceptions:

Notes:

1. During transaction testing, it appeared that the majority of the supporting documentation provided was in Arabic, both for [redacted] and [redacted]. According to [redacted], documentation is translated on request, notably for audit purpose;
2. [redacted] did not buy a car for the project but has a leasing contract with a Palestinian firm. The log book allows identification of the purpose of each movement and fuel costs are allocated to DG ECHO according to real consumption. However, the monthly leasing cost is 100% allocated to DG ECHO whereas it should be allocated according to the use made for the DG ECHO project;
3. A taxi has been rented in July 2011 for the purpose of a field visit. However, quotations were obtained by phone instead of in sealed envelopes as required by [redacted] procedure. It seems that this was in the context of an emergency but no explanations were included in the supporting documentation;
4. For these two expenses (Mobile phone for €615 and Utilities for €360), it appeared that no payment requests (either payment authorisations or copy of the payments) were included with the supporting documentation. It was explained to the auditors that all the documentation was in the [redacted] Jerusalem office; and
5. The costs of Utilities (Water and Electricity - €360) have been allocated to the project according to the budget and not based on an allocation system.

Several recommendations for improvement have been made and are included in Section 1.3 and Annex 1.
17 Partner’s Comments

All comments have been reflected either in the body of the report or in Annex 1. had no further comments to make on the report.
Recommendations for Systems Improvement

We make the following recommendations for systems improvements. The recommendations highlight weaknesses in the system of internal controls of the NGO in the view of the auditors. DG ECHO would like the Partner to identify the actions necessary to address these weaknesses and to take such action, or to state why the recommendations will not be implemented. ‘Urgency’ in the table below refers to the time by which the Partner should begin the implementation process.

<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>NGO Response</th>
<th>Urgency (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>It is recommended that makes available to staff the full DG ECHO procedures, including the FPA 2008, General Conditions and Annex IV.</td>
<td>has provided the full DG ECHO procedures including the FPA 2008, General Conditions and Annex IV.</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>It is recommended that transactions relating to the previous phase of the project be removed from the project accounts. In addition, should set up a separate account code for each project in order to avoid payments relating to the previous project being included in the financial reports for successor projects.</td>
<td>Transactions relating to the previous phase of the project cannot be removed at this time from the project accounts. However will create a separate account code for the next phase of the project.</td>
<td>Now and for future projects</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>It is recommended that develops procedures for including committed expenditure in the financial reports and regularly forecasting expenditure to the end of projects to help identify potential under- or over-expenditure and take appropriate, timely corrective action.</td>
<td>already receives monthly financial reports from the IP that includes committed expenditure in the financial reports and shows forecasting expenditure to the end of project. And has an unofficial quarterly procedure including the forecasting of expenditure to help identify potential under- or over-expenditure and take appropriate, timely corrective action since only has admin costs under its budget. Furthermore, this point will be taken</td>
<td>3</td>
</tr>
</tbody>
</table>

2 Ratings are: 5 - very important 4 - important 3 - of concern 2 - requires attention 1 - needs review
<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>NGO Response</th>
<th>Urgency (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>4</td>
<td>It is recommended that [ ] formally documents its policy for the allocation of shared costs to projects. In addition, [ ] should allocate [ ] shared costs not based on a budgeted percentage but on this fair, documented basis.</td>
<td>[ ] has a policy for charging the shared costs and will document based on the recommendation for the next project.</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>It is recommended that [ ] ensures that [ ] formally documents both regular and random cash counts.</td>
<td>[ ] will continue to conduct field visits to ensure that [ ] formally documents both regular and random cash counts. [ ] has conducted a field visit for this purpose during the month of February.</td>
<td>Now</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>It is recommended that [ ] produces an approved Purchase Requisition, including the derivation of the estimated price, for each procurement process.</td>
<td>[ ] will take into consideration for next phase starting April 2012.</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>3</td>
<td>It is recommended that [ ] reviews and rewrites the Annex to the MoU to ensure clarity. In particular, the number of quotes required for items valued below $300 is unclear from the above wording.</td>
<td>[ ] will review and rewrites the Annex to the MoU to ensure clarity for the next phase starting April 2012. In particular, the number of quotes required for items valued below $300 is unclear from the above wording.</td>
<td>Future projects</td>
</tr>
<tr>
<td>8</td>
<td>4</td>
<td>It is recommended to [ ] to include in their contracts: - A clause that donors may conduct tests at its suppliers, as requested by article 23.1 of FPA General Conditions and article 2.10 and FPA Annex IV; - A requirement that (potential) suppliers adhere to the General Principles of Annex IV; and - A clause that (potential) suppliers respect basic social rights and working conditions of their employees as well as a clause against child labour.</td>
<td>[ ] and [ ] will include in their contracts the mentioned clauses.</td>
<td>3</td>
</tr>
</tbody>
</table>

**Field Operational Practices**

<table>
<thead>
<tr>
<th>Number</th>
<th>Rating</th>
<th>Recommendation</th>
<th>NGO Response</th>
<th>Urgency (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>3</td>
<td>It is recommended that [ ] maintains a central record of all partner expenditure tested during the quarterly review [ ] already does this procedure however it was not documented. Going forward [ ] will document this</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Number</td>
<td>Rating</td>
<td>Recommendation</td>
<td>NGO Response</td>
<td>Urgency (Months)</td>
</tr>
<tr>
<td>--------</td>
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<td>---------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>10</td>
<td>4</td>
<td>It is recommended that [ ] ensures that [ ] payment requests, payment approvals and a copy of the payments (cheque or transfer) are included in the supporting documentation</td>
<td>It is already included however the original documents are sent to the [ ] Head office and [ ] and auditors have full access for this information at any time.</td>
<td>Now</td>
</tr>
<tr>
<td>11</td>
<td>4</td>
<td>It is recommended that [ ] allocates to DG ECHO the vehicle leasing cost according to the vehicle use and not 100% to the project.</td>
<td>This will be taken into consideration</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>It is recommended that [ ] adds a memo to the supporting documentation for taxi costs to explain the reason for an internal procurement procedure not being respected.</td>
<td>Already done.</td>
<td>1</td>
</tr>
</tbody>
</table>
Annex 2 – Organisational Charts
Annex 3 – List of Expatriate Staff

policy in oPt is to not recruit expatriates.
Annex 4 – List of Local Staff

<table>
<thead>
<tr>
<th>Name of Employee</th>
<th>Job Title</th>
<th>ECHO %</th>
<th>Seen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Partner staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>Yes</td>
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<td></td>
<td></td>
<td>50%</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>40%</td>
<td></td>
</tr>
</tbody>
</table>

| staff                  |           |        |      |
|                        |           | 50%    | Yes  |
|                        |           | 25%    | Yes  |
|                        |           | 50%    | Yes  |
|                        |           | 80%    | Yes  |
|                        |           | 20%    | Yes  |
|                        |           | 100%   | Yes  |
Annex 5 – List of Equipment

<table>
<thead>
<tr>
<th>DATE ACQUIRED</th>
<th>ITEM DESCRIPTION</th>
<th>MODEL/ ENGINE</th>
<th>Serial Number</th>
<th>Location</th>
<th>Physically Verified</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/12/2011</td>
<td>Desktop Computer</td>
<td>HP Compaq</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>LCD 18.6 INCH</td>
<td>HP LE1901w</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>UPS Machine</td>
<td>EITAN VT650</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>08/01/2011</td>
<td>LCD Projector</td>
<td>OPTOMA EX612</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
</tbody>
</table>