Training for Capacity Enhancement
Partner Payroll / Personnel Costs Verification

Target Audience:

UNHCR MFT (PCO, others) and Partner Financial and Programme Management Teams

UNHCR DSPR/IMAS and BDO Jordan

August 2024

Objectives

Provide practical guidelines / tips for addressing key risks during the conduct of financial verifications over payroll / Partner personnel costs depending on the level of assessed risks:

High/significant risk contexts where UNHCR requires partners to provide the full list of personnel engaged in the project and low/medium risk scenarios where the full personnel lists are not necessarily required.

Overview

UNHCR introduced reforms in project/partner risk assessment procedures integrating risk management throughout the partnership management cycle by (i) establishing simple, objective and transparent criteria for the assessment of risk of different projects; and (ii) establishing objective and transparent controls to distinguish between <u>high, significant, medium and low risk projects</u>. These procedures also simplify budget development and management and include guidance on eligibility of expenditure.

Key Notes on Partner Personnel Costs (from UNHCR Programme Handbook and other Guidelines)

- The partner's personnel are remunerated in accordance with the partner's human resources policies, systems and procedures.

- UNHCR no longer requires partner personnel lists to be annexed to project workplans/agreements. The partner personnel costs remain a key focus area of implementation monitoring.

- The partner does not charge more staff costs to a UNHCR-funded project than the amount defined in the human resources policies and staff employment contract. If a partner makes excessive payments to a staff member from UNHCR project funds, the excess amount is classified as an ineligible expense.

- The partner is prohibited from coercing/forcing/requesting employees into paying back to the management (in cash or transfers) any portion of their received net salary and reporting it to UNHCR as an expenditure within personnel costs. {Such amounts are not eligible and constitute attempted fraud and a breach of the agreement and may lead to termination of agreement due to misconduct. These practices should be reported immediately to UNHCR.

- All expenses claimed in the PFRs are those fully funded by UNHCR and cannot be reclaimed again to another donor for double funding. Expenditures charged to multiple donors are not eligible into UNHCR PFRs and constitute attempted fraud and a breach of the agreement and may lead to termination of agreement due to misconduct. These practices should be reported immediately to UNHCR.

- UNHCR operation can request a partner to provide a breakdown of partner personnel charged to the project with each PFR in case the risk assessment during the development of the project workplan recommends this as an essential control measure. For that, the partner can use the UNHCR provided template for Personnel List or preferably generated from the partner's human resources system.

- Any PFR received from the partner (govt, NGO, INGO) will have to be verified by the UNHCR operation before accepting the expenditures. Risk based selected projects will later be subject to audit.

During PFR verifications:

▪ Partner must be able to establish that any expenditures included in the Project Financial Report (PFR) charged to a UNHCR-funded project <u>directly relate to the specific project and only funded by UNHCR and linked to services provided during the specific project implementation period.</u> Important to note that even when the list of partner personnel is provided during negotiation of budget,

▪ Subject to the above, the Partner may charge to the project: salaries, allowances, insurance, termination benefits, end-of-service costs and other costs that it is contractually obliged to pay to personnel who contribute to the delivery of the project (<u>i.e., these types of benefits should be mentioned in the employment contact and covered by the organization's HR policy and with relevant supporting document/evidence</u>). This may also include overtime provided that the overtime was incurred in carrying out project activities. The Partner may also charge the essential costs needed for that person's recruitment, posting and assignment (i.e., all costs related to supporting and maintaining a staff member in the field). This could, for example, include work permits and visas.

▪ Amounts charged to the project will have to be validly supported for verification and audit (supporting documents and/or policies, ...etc.).

▪ Where Partner personnel are working on multiple programmes/projects funded by other agencies and/or internal resources, only the actual time spent on implementation of the UNHCR-supported programme intervention is considered an eligible cost. Partners are expected to put in place an apportionment approach for the allocation of any shared costs (i.e., effective time sheet mechanism).

▪ Partners are expected to maintain an effective system of staff time monitoring/tracking. Traditional timesheets can be used. Alternatively, several technology-facilitated solutions exist today that we encourage Partners to take advantage of (e.g., Jibble, Hubstaff, Sheets, timecamp, or toogle track).

Risk Assessment of Project/Partner

1. Relevant factors when deciding whether to apply the standard controls or apply different controls include:

   ▪ The partner risk scoring as per recent and applicable Internal Control Assessment (ICQ/ICA) that covers a period of 3 years.
   ▪ For the risk context to consider also, high levels of corruption in the country of operations and possible risk controls.
   ▪ The significance/volume of staff costs in terms of # of staff and their budgeted amount as well as the implementer type (government, local or internation NGOs).
   ▪ Given that UNHCR has harmonized the ICQ/A template with the UN Agencies that apply the "micro-assessment" under "Harmonized Approach to Cash Transfers" (HACT), agencies such as UNICEF, UNFPA, UNWOMEN, UNDP. If such an assessment has been conducted in the last 3 years, its results will be applied by UNHCR.

2. Partners are permitted to make discretionary budget line transfers at the <u>output level</u> subject to the following:

   ▪ A Partner/project in the high/significant risk category will not charge more than <u>30% of total output</u> budget.
   ▪ A Partner/project in the <u>low risk / medium Risk category</u> will not charge more than <u>50% of total output</u> budget.
   ▪ When the limits above are exceeded, a Financial Plan/Budget/agreement has to be amended.

- Note: there is no cap at the level of staff positions or at account code level and the 30% or 50% apply at the <u>Output</u> level. This means that payments to staff are defined by the time worked and additional benefits defined in employment contracts as per supporting evidence.

Project Verification Following the Nature, Extent, and Timing (NET) Approach

In general terms, the verification approach should follow the methodology below.

High/Significant-Risk Projects	Low/Medium-Risk Projects
N - • Focus more on test of details • Use external source • of information (e.g., interviewing a sample of staff)	**N -** • Focus more on internal control assessment and analytical procedures • Use internal source of information
E - Large sample size	**E -** Low sample size
T - Interim testing with a focus on year-end transactions	**T -** Interim testing

High/Significant-Risk Projects: Tips for Verification Procedures - Best Practices

1- **Pivot Table the GL (Reconcile with PFR)**

Budget Account #	PFR	Amount (GL)	Diff	Budget Account
611101	23,048,876	23,048,876	0	Staff - DP
611102	38,169,000	38,169,000	0	Supplies for distribution - DP
611105	4,010,000	4,010,000	0	Contracts with individuals - DP
611106	640,080	640,080	0	Contracts with nonindividuals - DP
611119	2,038,004	2,038,004	0	Operating Direct - DS
611120	2,716,238	2,716,238	0	Indirect Support - IS
Grand Total	**70,622,198**	**70,622,198**	**0**	

2- Filter the GL for Staff Costs

Budget Account	Staff Name	Position	Date of Payment	Total Cost	Cover from UNHCR	Partner Share	Month
611101	X8	P8	31/01/23	458,780	250,000	208,780	1
611101	X8	P8	28/02/23	458,780	250,000	208,780	2
611101	X8	P8	31/03/23	458,780	250,000	208,780	3
611101	X6	P6	31/01/23	458,780	250,000	208,780	1
611101	X6	P6	28/02/23	458,780	250,000	208,780	2
611101	X6	P6	31/03/23	458,780	250,000	208,780	3
611101	X9	P9	30/04/23	324,660	324,660	0	4
611101	X 10	P10	31/05/23	360,820	360,820	0	5
611101	X1	P1	31/05/23	510,195	350,000	160,195	5
611101	X3	P3	31/05/23	372,685	248,457	124,228	5
611101	X7	P7	30/04/23	354,820	100,000	254,820	4
611101	X7	P7	31/05/23	418,100	100,000	318,100	5
611101	X2	P2	31/05/23	495,115	350,000	145,115	5
611101	X6	P6	30/04/23	458,780	250,000	208,780	4
611101	X6	P6	31/05/23	458,780	250,000	208,780	5
611101	X4	P4	31/05/23	510,195	350,000	160,195	5
611101	X8	P8	30/04/23	458,780	250,000	208,780	4
611101	X8	P8	31/05/23	510,195	250,000	260,195	5
611101	X5	P5	31/05/23	394,935	300,000	94,935	5
611101	X 10	P10	30/06/23	360,820	360,820	0	6
611101	X 10	P10	31/07/23	360,820	360,820	0	7
611101	X 10	P10	31/08/23	360,820	360,820	0	8
611101	X 10	P10	29/09/23	360,820	360,820	0	9
611101	X1	P1	30/06/23	510,195	350,000	160,195	6
611101	X1	P1	31/07/23	510,195	350,000	160,195	7
611101	X1	P1	31/08/23	510,195	350,000	160,195	8
611101	X1	P1	29/09/23	510,195	350,000	160,195	9
611101	X3	P3	30/06/23	372,685	248,457	124,228	6
611101	X3	P3	31/07/23	372,685	248,457	124,228	7
611101	X3	P3	31/08/23	372,685	248,457	124,228	8
611101	X3	P3	29/09/23	520,205	248,457	271,748	9
611101	X7	P7	30/06/23	418,100	100,000	318,100	6
611101	X7	P7	31/07/23	418,100	100,000	318,100	7
611101	X7	P7	31/08/23	418,100	100,000	318,100	8
611101	X7	P7	29/09/23	418,100	100,000	318,100	9
611101	X2	P2	30/06/23	495,115	350,000	145,115	6
611101	X2	P2	31/07/23	495,115	350,000	145,115	7
611101	X2	P2	31/08/23	495,115	350,000	145,115	8
611101	X2	P2	29/09/23	495,115	350,000	145,115	9
611101	X6	P6	30/06/23	550,310	250,000	300,310	6
611101	X6	P6	31/07/23	550,310	250,000	300,310	7
611101	X6	P6	31/08/23	550,310	250,000	300,310	8
611101	X6	P6	29/09/23	550,310	250,000	300,310	9
611101	X4	P4	30/06/23	510,195	350,000	160,195	6
611101	X4	P4	31/07/23	510,195	350,000	160,195	7
611101	X4	P4	31/08/23	510,195	350,000	160,195	8
611101	X4	P4	29/09/23	510,195	350,000	160,195	9
611101	X8	P8	30/06/23	510,195	250,000	260,195	6
611101	X8	P8	31/07/23	510,195	250,000	260,195	7
611101	X8	P8	31/08/23	510,195	250,000	260,195	8
611101	X8	P8	29/09/23	510,195	250,000	260,195	9
611101	X5	P5	30/06/23	394,935	300,000	94,935	6
611101	X5	P5	31/07/23	394,935	300,000	94,935	7
611101	X5	P5	31/08/23	394,935	300,000	94,935	8
611101	X5	P5	29/09/23	394,935	300,000	94,935	9
611101	X 10	P10	31/10/23	400,370	360,820	39,550	10
611101	X1	P1	31/10/23	561,610	350,000	211,610	10
611101	X3	P3	31/10/23	542,750	248,457	294,293	10
611101	X7	P7	31/10/23	460,475	100,000	360,475	10
611101	X2	P2	31/10/23	561,610	350,000	211,610	10
611101	X6	P6	31/10/23	606,245	250,000	356,245	10
611101	X4	P4	31/10/23	561,610	350,000	211,610	10
611101	X8	P8	31/10/23	561,610	250,000	311,610	10
611101	X5	P5	31/10/23	435,050	350,000	85,050	10
611101	X 10	P10	30/11/23	400,370	360,820	39,550	11
611101	X1	P1	30/11/23	561,610	350,000	211,610	11
611101	X3	P3	30/11/23	542,750	248,457	294,293	11
611101	X7	P7	30/11/23	460,475	100,000	360,475	11
611101	X2	P2	30/11/23	561,610	350,000	211,610	11
611101	X6	P6	30/11/23	606,245	250,000	356,245	11
611101	X4	P4	30/11/23	561,610	350,000	211,610	11
611101	X8	P8	30/11/23	561,610	250,000	311,610	11
611101	X5	P5	30/11/23	435,050	350,000	85,050	11
611101	X 10	P10	23/12/29	400,370	360,820	39,550	12
611101	X1	P1	29/12/23	561,610	350,000	211,610	12
611101	X3	P3	29/12/23	542,750	248,457	294,293	12
611101	X7	P7	29/12/23	460,475	100,000	360,475	12
611101	X2	P2	29/12/23	561,610	350,000	211,610	12
611101	X6	P6	29/12/23	606,245	250,000	356,245	12
611101	X4	P4	29/12/23	561,610	350,000	211,610	12
611101	X8	P8	29/12/23	561,610	250,000	311,610	12
611101	X5	P5	29/12/23	435,050	350,000	85,050	12
					23,048,876		

3- Pivot Table the GL of Staff Costs (Per Month and Per Staff) and Make Some Analysis

Month	Sum of Total Cost	Sum of Cover from UNHCR
⊟1	917,560	500,000
X6	458,780	250,000
X8	458,780	250,000
⊟2	917,560	500,000
X6	458,780	250,000
X8	458,780	250,000
⊟3	917,560	500,000
X6	458,780	250,000
X8	458,780	250,000
⊟4	1,597,040	924,660
X6	458,780	250,000
X7	354,820	100,000
X8	458,780	250,000
X9	324,660	324,660
⊟5	4,031,020	2,559,277
X1	510,195	350,000
X2	495,115	350,000
X3	372,685	248,457
X4	510,195	350,000
X5	394,935	300,000
X6	458,780	250,000
X7	418,100	100,000
X8	510,195	250,000
X 10	360,820	360,820
⊟6	4,122,550	2,559,277
X1	510,195	350,000
X2	495,115	350,000
X3	372,685	248,457
X4	510,195	350,000
X5	394,935	300,000
X6	550,310	250,000
X7	418,100	100,000
X8	510,195	250,000
X 10	360,820	360,820
⊟7	4,122,550	2,559,277
X1	510,195	350,000
X2	495,115	350,000
X3	372,685	248,457
X4	510,195	350,000
X5	394,935	300,000
X6	550,310	250,000
X7	418,100	100,000
X8	510,195	250,000
X 10	360,820	360,820
⊟8	4,122,550	2,559,277
X1	510,195	350,000
X2	495,115	350,000
X3	372,685	248,457
X4	510,195	350,000
X5	394,935	300,000
X6	550,310	250,000
X7	418,100	100,000
X8	510,195	250,000
X 10	360,820	360,820
⊟9	4,270,070	2,559,277
X1	510,195	350,000
X2	495,115	350,000
X3	520,205	248,457
X4	510,195	350,000
X5	394,935	300,000
X6	550,310	250,000
X7	418,100	100,000
X8	510,195	250,000
X 10	360,820	360,820
⊟10	4,691,330	2,609,277
X1	561,610	350,000
X2	561,610	350,000
X3	542,750	248,457
X4	561,610	350,000
X5	435,050	350,000
X6	606,245	250,000
X7	460,475	100,000
X8	561,610	250,000
X 10	400,370	360,820
⊟11	4,691,330	2,609,277
X1	561,610	350,000
X2	561,610	350,000
X3	542,750	248,457
X4	561,610	350,000
X5	435,050	350,000
X6	606,245	250,000
X7	460,475	100,000
X8	561,610	250,000
X 10	400,370	360,820
⊟12	4,691,330	2,609,277
X1	561,610	350,000
X2	561,610	350,000
X3	542,750	248,457
X4	561,610	350,000
X5	435,050	350,000
X6	606,245	250,000
X7	460,475	100,000
X8	561,610	250,000
X 10	400,370	360,820
Grand Total	**39,092,450**	**23,048,876**
Total / PFR		23,048,876
Diff		0

Staff Name	Sum of Total Cost	Sum of Cover from UNHCR
⊟X 10	3,005,210	2,886,560
5	360,820	360,820
6	360,820	360,820
7	360,820	360,820
8	360,820	360,820
9	360,820	360,820
10	400,370	360,820
11	400,370	360,820
12	400,370	360,820
⊟X1	4,235,805	2,800,000
5	510,195	350,000
6	510,195	350,000
7	510,195	350,000
8	510,195	350,000
9	510,195	350,000
10	561,610	350,000
11	561,610	350,000
12	561,610	350,000
⊟X2	4,160,405	2,800,000
5	495,115	350,000
6	495,115	350,000
7	495,115	350,000
8	495,115	350,000
9	495,115	350,000
10	561,610	350,000
11	561,610	350,000
12	561,610	350,000
⊟X3	3,639,195	1,987,656
5	372,685	248,457
6	372,685	248,457
7	372,685	248,457
8	372,685	248,457
9	520,205	248,457
10	542,750	248,457
11	542,750	248,457
12	542,750	248,457
⊟X4	4,235,805	2,800,000
5	510,195	350,000
6	510,195	350,000
7	510,195	350,000
8	510,195	350,000
9	510,195	350,000
10	561,610	350,000
11	561,610	350,000
12	561,610	350,000
⊟X5	3,279,825	2,550,000
5	394,935	300,000
6	394,935	300,000
7	394,935	300,000
8	394,935	300,000
9	394,935	300,000
10	435,050	350,000
12	435,050	350,000
⊟X6	6,313,875	3,000,000
1	458,780	250,000
2	458,780	250,000
3	458,780	250,000
4	458,780	250,000
5	458,780	250,000
6	550,310	250,000
7	550,310	250,000
8	550,310	250,000
9	550,310	250,000
10	606,245	250,000
11	606,245	250,000
12	606,245	250,000
⊟X7	3,826,745	900,000
4	354,820	100,000
5	418,100	100,000
6	418,100	100,000
7	418,100	100,000
8	418,100	100,000
9	418,100	100,000
10	460,475	100,000
11	460,475	100,000
12	460,475	100,000
⊟X8	6,070,925	3,000,000
1	458,780	250,000
2	458,780	250,000
3	458,780	250,000
4	458,780	250,000
5	510,195	250,000
6	510,195	250,000
7	510,195	250,000
8	510,195	250,000
9	510,195	250,000
10	561,610	250,000
11	561,610	250,000
12	561,610	250,000
⊟X9	324,660	324,660
4	324,660	324,660
Grand Total	**39,092,450**	**23,048,876**
Total / PFR		23,048,876
Diff		0

4- **Match (on a gross basis) (1) monthly payroll sheets for the project implementing period, (2) GL (related to personnel costs); and (3) periodic PFRs and investigate any variance (to cover completeness).**

5- **As applicable obtain UNHCR project personnel list) including name of staff, title (position), no. of months worked on UNHCR project, budgeted amount per month and in total, UNHCR contribution %, actual amounts paid (per month and in total), and variance (actual – budget).**
   - Match the total budgeted amount for all staff between the list and the approved budget (to cover completeness);
   - Match the total actual amount paid to all staff between the list and payroll sheets, GL and final PFR (to cover completeness);
   - Compare the salaries expenses reported with the detailed budget (by name and position) and staff list, to verify the existence of payments exceeding the budget line item;
   - For staff who were separated (left the organization), if details are not included in the initial staff list, obtain a list of those former staff. Such list should also include the full contact information;
   - Perform analytical procedures (using excel or other techniques) on the list obtained to verify the existence of duplication in staff names and contact numbers;
   - Compare employee contact numbers with suppliers / vendors contact numbers to verify the existence of ghost employees; and
   - Perform analytical procedures on the list obtained to verify the existence of the same family names with members of directors (conflict-of-interest)

6- **Select a sample of monthly payroll sheets (preferably selecting 4 months "January", "April", "August" and "December") and make the following procedures:**
   - Check the mathematical accuracy of the selected payroll sheets;
   - Payroll sheets are prepared by HR department (<u>NOT</u> Accounting Department);
   - Payroll sheets are appropriately authorized (inspect for the signature of preparer, reviewer and authorizer);
   - Verify the payment process and compare the amount recorded with supporting documents (i.e., bank statement, copy of cheques, or approved payment vouchers if cash paid) as well as monthly salary slips; and
   - Match the total payroll tax and social security with supporting documents.

7- **Select a sample of employees from staff list (risk based combined with other sampling methods such as random sampling) and make the following procedures:**
   - Recalculate payroll tax and social security deductions (lack of deductions is considered a red flag of ghost employees);
   - Check the payslips, payment voucher and supporting documents for each selected employee (for all months);
   - Check the time attendance and time sheets for each selected employee (for all months);
   - Verify employee's file for each selected employees in terms of (employee ID / C.V / educational certifications / university degree / previous experience certificate / number of experience years / nature of previous experience / job description / signed code of conduct, conflict of interest and confidentiality / evaluation before hiring / tax clearance (if applicable) / annual leaves or other / bank information / EOS clearance (if applicable) / recent judiciary record (if applicable);
   - Always ask about allocation salaries and request percentage distribution models for more than one donor and match them with percentages mentioned in the agreement and timesheet;
   - Match the signatures of staff among contracts, payslips, timesheets, attendance sheets, copy of cheque, and official work papers based on his/her job title;
   - Target areas that indicate the presence of red flags and suspicions;

- If the electronic signatures are used, the Partner should follow its internal policy regarding this matter;
- For those who left the organization during the project implementation period, check for any document signed by them after the resignation date (a red flag for ghost employee or fake documents);
- Check if photocopies of issued cheques are part of the payment voucher documents (red flag for ghost employee, discrepancy in paid amounts) {without such copies, bank statements/reconciliations review to be conducted thoroughly as a high-risk red flag};
- If salaries are paid by cheques, the cheques should be stamped / crossed with "First beneficiary only" (or equivalent);
- Select a representative sample of employees (from different positions) and from current and former employees for confidential interview to validate the number of months worked on UNHCR project/and if they worked on other projects funded by other donors, their positions, functions, salaries amount paid as well as the payment method and compare that information with documents (inquire to rule out the risk of extortion, ghost employees and double charging to other donors);
- If there are indictors for possible double charging to other donors, ask the partner to share information on their reports to other donors (from the commitment to transparency the partner should be able to allow such access even if in some cases they may have to consult with the concerned donors)
- Select a representative sample of beneficiaries (refugees, and others receiving protection assistance) to inquire about the names of staff who dealt with them during the project implementation period (Risk: Payment to staff not working on the project/ghost employees);
- Verify the actual output of staff during the project implementation period (Risk: Payment to workers not working on the project); and
- Review all information collected and assess if all the risks are properly addressed or if any other relevant information is missing.

Example: Select sample of staff and make some procedures

		Checked and agreed with employment contract.
C	Checked and agreed with employment contract.	
R	Recalculated.	
B	Checked with Bank Statement.	

Month	Total Social Security		Total Income Tax	
January	3,476,984	B	832,296	B
September	5,019,169	B	1,200,723	B
	B	Checked with Bank Statement		

Low/Moderate-Risk Projects - Tips for Verification Procedures - Best Practices

- For Partners with low/moderate-risk rating (as per the applicable ICQ/A ratings and taking into account the risks indicators in the local contexts, the level of verification procedures is lower than those used for Partners with high/significant-risk as this is a risk based verification approach in terms of nature/methodology (i.e., more emphasize on test of controls and analytical procedures) and extent (i.e., relatively lower sample size).
- The full Partner personnel list is not required to be provided with the PFRs.
- The following are recommended verification procedures for projects with low/moderate-risk rating:

1. Perform a <u>walkthrough test</u> (test of controls that can be fulfilled using the UNHCR ICA/Q questions), such as:

    ✓ Evaluate whether adequate internal controls are in place and functioning, including internal controls for human resources (the focus of this webinar);
    ✓ Assess whether recruitment, contracts and payroll of Partner Personnel comply with the Project Agreement and Partner's policies and procedures;
    ✓ Assess whether the Partner has standards in place for managing misconduct;
    ✓ Assess whether the Partner has appropriate segregation of duties;
    ✓ Assess whether the Partner has procedures in place to properly account for and track payroll and expenses so that amounts claimed comply with the Project Agreement.

2. Perform at the <u>minimum the following verification procedures:</u>

    ✓ Match (on a gross basis) (1) monthly payroll sheets for the project implementing period, (2) GL (related to personnel costs); and (3) periodic PFRs and investigate any variance (to cover completeness).
    ✓ Select a sample of one or two monthly payroll sheets and make the following procedures:
    ✓ Check the mathematical accuracy of the selected payroll sheets;
    ✓ Payroll sheets are appropriately authorized (inspect for the signature of preparer, reviewer and approver);
    ✓ Verify the payment process and compare the amount recorded with supporting documents (i.e., bank statement, copy of cheques, or approved payment vouchers if cash paid) as well as monthly salary slips; and
    ✓ Match the total payroll tax and social security with supporting documents.

3. Select a <u>sample of few employees</u> from the payroll sheets and make the following procedures:

    ✓ Recalculate payroll tax and social security deductions;
    ✓ Check the payslips, payment voucher and supporting documents;
    ✓ Check the time attendance and time sheets;
    ✓ Verify employee's file for each selected employees in terms of (employee ID / C.V / educational certifications / university degree / previous experience certificate / number of experience years / nature of previous experience / job description / signed code of conduct, conflict of interest and confidentiality / evaluation before hiring / tax clearance (if applicable) / annual leaves or other / bank information / EOS clearance (if applicable) / recent judiciary record (if applicable);
    ✓ Always ask about allocation salaries and request percentage distribution models for more than one donor and match them with percentages mentioned in the agreement and timesheet; and

✓ For those who left the organization during the project implementation period, check for any document signed by them after the resignation date.
✓ In case the tests above results in important risk flags including for double dipping/charging multiple donors, ghost employees, errors in payroll calculation, consider increasing the sample size and conducting additional procedures as outlined under the high-risk scenario.

Risk-based Verification Approach (More Useful Tips)

1) *Control Environment*

Personnel (HR Department)

✓ Is there an organizational chart for the HR department?
✓ Are job descriptions defined and documented for all organization's employees?
✓ Are there written & approved HR policies and procedures for hiring, termination, compensation, promotions, salary increments, disciplinary system and exit meeting?
✓ Are HR policies and procedures manuals available to all staff?
✓ Is there segregation of duties between the maintenance of payroll data (HR Department), payroll processing (Accounting Department), and the approval of payroll payments (Treasury Department / Senior Management)?
✓ Key changes such as employees, changes to bank accounts details, changes to salary bases and terminations are checked against source documentation?
✓ Are policy and procedural changes communicated to employees?
✓ Does the organization maintain personnel files for all employees?
✓ Do authorization levels exist and are being followed for hiring, salary rate and other HR processes?
✓ Are these authorization levels formally documented?
✓ Were these authorization limits reviewed and/or approved by senior management and how was this approval documented?
✓ Is the final decision regarding hiring a certain employee documented and who makes this decision?
✓ Does the organization pay overtime?
✓ Does the organization have procedures in place to ensure that overtime hours are approved by employees' supervisors?
✓ Does the organization perform any benchmarking studies to ensure that benefits and compensation packages are consistent with market rates to assess reasonableness?
✓ Does the organization have formal human resources plan as well as annual training plans? If so, are such plans formally documented?
✓ Is there a formal process for performance appraisal?
✓ Is there a special salary (payroll) system (especially for an organization with more than 25 staff)?
✓ Are there formal disciplinary (attendance) policies and procedures?
✓ Time and attendance are reviewed and approved to ensure accuracy and validity of hours worked?
✓ Are there procedures in place to validate the candidates work experience and educational certificates?
✓ Is there a standard job application form?
✓ Is employee's attendance monitored by HR department?
✓ Is there a formal recruiting process?
✓ Is there a formally documented process to add/delete new positions?
✓ Are organizational charts reviewed by senior management on a periodic basis to determine whether responsibilities assigned are still appropriate?

- ✓ Are there minimum requirements (i.e., education, experience) related for each position in the organization?
- ✓ Are employees' satisfaction surveys being taken on a periodic basis?
- ✓ Has the organization developed a formal code of conduct and a code of ethics? If so, is there a fraud hotline?
- ✓ Are there formal strategies for motivating organization employees (i.e., employee recognition)?

Payroll (Accounting Department)

- ✓ Formal policies and procedures have been established for the payroll function?
- ✓ Are changes to payroll master file properly authorized and formally documented?
- ✓ Are changes to payroll master file reviewed by an employee independent from the payroll function to verify whether changes were properly authorized?
- ✓ Are there access controls over the payroll master file?
- ✓ Are documents that support changes to payroll master file maintained in the employee's record?
- ✓ Are changes to payroll master file processed only after HR approving them?
- ✓ Is there a formal process for changing an employee's pay rate?
- ✓ Are there monitoring controls in place to ensure that employees that leave organization are removed from the payroll master file on a timely basis?
- ✓ Are payroll journal entries approved by the finance manager?
- ✓ Are the payroll calculations sheets reviewed by an employee other than the preparer?
- ✓ Is there a formal reconciliation between payroll disbursement and payroll calculation sheets/payment file?
- ✓ Are there analytical procedures performed to investigate any unusual fluctuations in payroll? Is such a review formally documented?
- ✓ Are there monitoring controls to ensure that payroll is prepared on a timely basis?
- ✓ Are employees' time recorded properly and approved by supervisors?
- ✓ Are pay slips distributed to the employees to validate payroll calculations?
- ✓ Are there monitoring controls in place to ensure that tax deductions are consistent with the country Tax Law?
- ✓ Are there formal procedures in place to ensure that tax deductions are paid to the tax department on a timely basis?
- ✓ Are there monitoring controls in place to ensure that social security deductions are consistent with the country social security Law?
- ✓ Are there formal procedures in place to ensure that social security deductions are paid to the social security department on a timely basis?
- ✓ Are there any wages/salaries that are paid in cash? If so, will these employees be required to sign a receipt voucher?

2) Transaction Controls

Risk	Verification Procedures
Fraudulent Activities	
Payments made to non-existent employees (Ghost Employees)	**Reconcile Payroll with HR Records**: Cross-check the payroll register (*records all employees' salary payment information for a specific pay period*) against the HR master file (*a centralized record that holds important information about organization employees. It includes details like their name, address, contact number, job position, salary, and more*) to ensure that all employees listed are active and legitimate. **Employee Verification**: Perform a physical verification by conducting confidential interviews or site visits to confirm the presence of employees listed on the payroll. **Historical Payroll Review**: Analyze historical payroll data to identify any unusual or unexplained additions or deletions of employees.
Improper charging to UNHCR of non-UNHCR project-related personnel (possible fraud)	**Review Cost Allocation**: Assess how payroll costs are allocated to different projects. Verify that the allocation aligns with actual project work or departmental activities. **Project vs. Non-Project Analysis:** Compare the payroll expenses charged to project codes with actual project activities and employee assignments. Review/Investigate any discrepancies (this may include selecting a sample of staff and verifying their actual involvement in the project, like asking them about their duties as well as check their output (their signatures on the project's documents)). **Authorization Verification:** Ensure that all payroll charges to projects or departments are properly authorized and documented.
Paid but unauthorized absence	**Timekeeping Review**: Examine timekeeping records and compare them with actual attendance logs to verify that employees are not being paid for unauthorized absences. **Absence Authorization**: Verify that all absences are properly authorized, documented, and supported by leave requests or medical certificates. **Exception Reports**: Review exception reports from the timekeeping system to identify patterns of unauthorized or irregular absences.
Forcing employees to return part of their salaries to management (fraud)	**Employee Interviews**: Conduct confidential interviews with employees to inquire about any instances of being asked to return part of their salary. **Payroll Disbursement Review**: Analyze payroll disbursement records to identify any unusual patterns or reductions in net pay that could indicate salary kickbacks. **Anonymous Reporting**: Implement and review anonymous reporting mechanisms to allow employees to report any such practices without fear of retaliation. **Management Reviews**: Assess the control environment and review any signs of undue influence or coercion by management over payroll processes.

Falsified time records: Employees or managers reporting hours not actually worked (possible fraud)	<u>*Review Timekeeping Systems and Controls*</u>
	• **System Assessment**: Evaluate the effectiveness of the timekeeping system, including its controls for capturing, recording, and approving time. Ensure the system has adequate features to prevent and detect falsification.
	• **Access Controls**: Review user access levels and permissions to ensure only authorized personnel can modify or approve time records.
	Reconcile Time Records
	• **Compare Records**: Cross-check time records with other sources of information, such as:
	    ○ **Employee Schedules**: Verify that reported hours align with approved employee schedules.
	    ○ **Project Logs**: Compare time entries with project logs or activity reports to ensure that reported hours are consistent with actual work performed.

	○ **Physical Attendance Records**: Reconcile time records with physical attendance or security badge entry logs. *Sample Testing of Time Entries* • **Random Sampling**: Select a random sample of time entries from various employees and review them for accuracy. Verify these entries against supporting documentation, such as timesheets or electronic time records. • **High-Risk Areas**: Focus on high-risk areas, such as overtime hours, late entries, or employees with frequent adjustments to their time records. *Analyze Variances and Exceptions* • **Exception Reports**: Review exception reports generated by the timekeeping system for unusual patterns, such as excessive overtime, frequent corrections, or discrepancies between scheduled and actual hours. • **Trend Analysis**: Perform trend analysis to identify patterns of anomalies in time reporting, such as spikes in reported hours or repeated instances of discrepancies. *Conduct Interviews and Surveys* • **Employee Interviews**: Interview employees about their timekeeping practices and any discrepancies in their time records. Look for inconsistencies between their explanations and the recorded time. • **Managerial Interviews**: Interview managers responsible for approving time records to understand their review and approval processes. Assess their awareness and vigilance regarding time reporting. *Verify Approval Processes* • **Authorization Checks**: Review the process for approving time records to ensure it is properly documented and includes supervisory review and sign-off. • **Segregation of Duties**: Assess whether the roles responsible for entering, approving, and reviewing time records are adequately segregated to reduce the risk of fraudulent activity. *Perform Physical Observations* • **Unannounced Site Visits**: Conduct unannounced site visits or surprise checks to verify that employees are present during their reported work hours. • **Spot Checks**: Observe the work environment to ensure it matches the reported time records (e.g., employees present during peak times). *Review Audit Trails* • **System Logs**: Examine audit trails or system logs for any unauthorized changes or adjustments to time records. Look for unusual patterns of activity or frequent modifications. • **Historical Data**: Review historical timekeeping data to identify any past incidents of tampering or adjustments that could indicate a pattern of falsified records.
Staff working on multiple projects at the same time (multiple/double charging to different donors) – {Possible fraud scheme}	**Review Time Allocation and Cost Allocation Policies** *Policy Review* • **Documentation Check:** Examine the organization's policies and procedures related to time allocation and cost allocation for staff working on multiple projects. Ensure these policies are comprehensive and clearly defined. • **Compliance Assessment**: Verify that the organization's cost allocation policies comply with the donor requirements. *Allocation Methodology* • **Methodology Review:** Assess the methodology used for allocating staff time and costs to different projects. Ensure that the method is logical, transparent, and consistently applied.

Examine Timekeeping and Project Tracking Systems

Timekeeping Accuracy

- **System Evaluation:** Review the timekeeping system to ensure it accurately records staff hours worked on different projects (the organization should keep one master time sheet that provide the efforts/time allocation overall projects/doners instead of keeping a partial time sheet for each project separately). Verify that the system supports tracking and reporting of time spent on multiple projects.
- **Sample Testing:** Select a sample of time entries and verify that they are properly allocated to the correct projects and reflect the actual hours worked.

Project Tracking

- **Project Logs:** Examine project logs or tracking tools to confirm that staff time is appropriately recorded and allocated across projects.
- **Reconciliation:** Reconcile project timesheets with project budgets and financial records to ensure accuracy in staff cost allocation.

Analyze Cost Allocation Records

Cost Allocation Review

- **Allocation Reconciliation:** Compare cost allocation records against payroll and project expense reports to identify any inconsistencies or errors.
- **Double Charging Check:** Verify that staff costs are not being double charged to multiple donors or projects. This involves ensuring that total hours worked, and costs are allocated correctly.

Donor Financial Report Verification

- **Reports Reconciliation:** Cross-check financial statements (projects reports) sent to donors with the internal records of staff time and costs to ensure accurate and fair billing (this may need arrangement with other donors to obtain the staff list).

Conduct Variance Analysis

Budget vs. Actual

- **Variance Analysis:** Perform variance analysis to compare actual staff costs and time allocations against project budgets and forecasts. Investigate any significant discrepancies or unusual patterns.
- **Cost Overruns:** Analyze any cost overruns to determine if they are related to double charging or misallocation of staff time.

Trend Analysis

- **Historical Data:** Review historical data for trends in staff time allocation and project costs to identify any recurring issues or patterns of misallocation.

Review Internal Controls and Approvals

Control Environment

- **Segregation of Duties:** Assess whether there is adequate segregation of duties between those responsible for timekeeping, cost allocation, and project management to prevent and detect errors.
- **Authorization Procedures:** Verify that all time allocations and cost charges to projects are properly authorized and reviewed by management.

Exception Handling

- **Error Resolution:** Review the process for identifying and correcting errors in timekeeping and cost allocation. Ensure that there is a documented procedure for handling exceptions and discrepancies.

Conduct Interviews and Surveys

Employee Feedback

- **Staff Interviews**: Interview staff members to understand their time allocation practices and any challenges they face when working on multiple projects.

	• **Feedback Collection**: Collect feedback from employees on the effectiveness of the timekeeping and cost allocation systems and identify any areas for improvement. *Managerial Insights* • **Manager Interviews**: Interview project managers and department heads to gain insights into how staff time is managed and allocated across multiple projects.
Errors in Payroll Calculation & Compliance Issues	

Incorrect Salary Calculations: Mistakes in base pay, overtime, bonuses, or benefits
 	
Tax and Deduction Errors: Misapplication of tax rates, benefits, or deductions.
	Reconcile Salary Calculations
	• **Sample Testing**: Select a sample of payroll transactions and recalculate base pay, overtime, bonuses, and benefits:
	   o **Base Pay**: Verify that the base salary aligns with employment contracts or compensation agreements.
	   o **Overtime**: Check that overtime calculations adhere to applicable labor laws and organization policies. Confirm the correct application of overtime rates.
	   o **Bonuses**: Ensure that bonuses are calculated based on the defined criteria and correctly reflected in payroll.
	   o **Benefits**: Review calculations of benefits (e.g., health insurance, retirement contributions) to ensure they align with policy terms and employee elections.
	Verify Pay Changes
	• **Change Documentation**: Review documentation for any recent changes in pay rates, including salary increases, promotions, or demotions. Ensure these changes are correctly reflected in the payroll system.
	• **Authorization Review**: Check that all changes to base pay, overtime, bonuses, or benefits are properly authorized and documented.
	Cross-Check Payroll Reports
	• **Payroll Register Review**: Reconcile payroll register totals with general ledger entries to ensure accuracy in salary payments.
	Test Payroll System Accuracy
	• **System Functionality**: Test the payroll system's calculation functions for base pay, overtime, bonuses, and benefits. Ensure that the system is accurately applying the relevant formulas and rates.
	• **Software Updates**: Verify that the payroll software is up-to-date with the latest patches and updates that address known calculation issues.
	Perform Variance Analysis
	• **Budget vs. Actual**: Compare actual payroll expenses with budgeted amounts to identify any significant variances. Investigate the cause of these variances.
	• **Historical Comparison**: Analyze payroll data trends over time to detect any unusual fluctuations or patterns that might indicate calculation errors.
	Review Payroll Reports for Accuracy
	• **Pay Stub/Slip Analysis**: Examine employee pay stubs for accuracy, including base pay, overtime, bonuses, and deductions. Verify that all components are calculated correctly.
	• **Payroll Summary Reports**: Review summary reports generated by the payroll system for accuracy and completeness.
	Assess Compliance with Regulations
	• **Legal Compliance Check**: Ensure that payroll calculations comply with relevant labor laws, tax regulations, and benefit requirements. This includes verifying correct withholding for taxes, benefits, and other deductions.
	• **Regulatory Updates**: Review recent changes in legislation or regulations affecting payroll calculations and ensure that the organization has adapted its processes accordingly.

	Confirm with Employees
	• **Employee Verification**: Conduct interviews or surveys with employees to confirm the accuracy of their pay, including base pay, overtime, bonuses, and benefits. Address any discrepancies reported by employees.
<td colspan="2" align="center">**Data Integrity Issues**</td>
Data Entry Errors: Mistakes in entering employee data or payroll details. **Unauthorized Changes**: Alterations to payroll data without proper authorization.	**Review Employee Data** *Employee Records Accuracy* • **Data Reconciliation**: Compare employee records in the payroll system with HR master files to ensure consistency in personal information such as names, addresses, and social security numbers. • **Documentation Verification**: Check that employee records include required documentation, such as employment contracts, tax forms, and identification documents. *Employment Status and Eligibility* • **Employment Status Verification**: Confirm that employee status (active, terminated, or on leave) is accurately reflected in the payroll system. Verify that terminated or resigned employees are removed from active payroll lists. • **Eligibility Checks**: Ensure that employee eligibility for benefits and compensation aligns with their employment status and tenure. **Validate Payroll Details** *Payroll Register Reconciliation* • **Reconcile with General Ledger**: Compare payroll register totals to general ledger entries to ensure that payroll expenses are accurately recorded. • **Transaction Testing**: Select a sample of payroll transactions and verify that all details (e.g., hours worked, pay rates, deductions) are correctly reflected in the payroll register. *Salary and Compensation Verification* • **Base Pay Confirmation**: Verify that base salaries are accurate and align with employment contracts or salary agreements. • **Bonus and Overtime Validation**: Check that bonuses and overtime payments are calculated according to company policy and are accurately reflected in payroll. *Deductions and Benefits Accuracy* • **Deduction Review**: Ensure that employee deductions (e.g., taxes, retirement contributions) are accurately calculated and comply with statutory requirements. • **Benefits Administration**: Verify that benefits (e.g., health insurance, retirement plans) are correctly administered and that contributions or deductions are accurately reflected in payroll. **Test Internal Controls** *Control Environment* • **Segregation of Duties**: Assess whether duties related to payroll processing, approval, and review are properly segregated to prevent fraud or errors. • **Authorization Procedures**: Review the processes for authorizing payroll transactions and changes to employee data to ensure they are properly documented and approved. *Error Detection and Correction* • **Exception Handling**: Examine how exceptions or errors in payroll are identified and corrected. Ensure that there is a documented process for handling discrepancies. • **Audit Trails**: Review audit trails in the payroll system to ensure that all changes to employee data and payroll details are logged and authorized.

	Perform Reconciliations *Payroll Data Reconciliation* • **Bank Reconciliation**: Reconcile payroll bank account statements with payroll disbursement records to ensure accuracy in payroll payments. • **Tax Reconciliation**: Compare payroll tax filings with payroll records to verify that tax withholdings and payments match. *Employee Pay Comparison* • **Pay Stub/Slip Review**: Examine a sample of employee pay stubs for accuracy in pay calculations, including base pay, overtime, and deductions. • **Historical Data Comparison**: Compare current payroll data with historical payroll records to identify any unusual patterns or discrepancies. **Verify Compliance with Regulations** *Legal and Regulatory Compliance* • **Labor Law Compliance**: Ensure payroll practices comply with labor laws, including minimum wage requirements, overtime regulations, and record-keeping standards. • **Tax Compliance**: Verify that payroll tax withholdings and reporting comply with the tax regulations. *Contractual and Policy Adherence* • **Contractual Obligations**: Check that compensation and benefits align with terms outlined in employment contracts or collective bargaining agreements. • **Policy Review**: Ensure that payroll policies and procedures are followed and that any deviations are properly authorized and documented. **Conduct Interviews and Surveys** *Employee Interviews* • **Employee Feedback**: Conduct interviews or surveys with employees to confirm the accuracy of their payroll details and address any concerns or discrepancies they may report. • **Management Interviews**: Interview payroll and HR staff to understand their processes for maintaining and updating employee data. *Management Oversight* • **Review Supervisory Oversight**: Evaluate the role of management in overseeing payroll processing and ensuring the accuracy of employee data.
<center>**Others**</center>	
Employed personnel are not competent: due to poor recruitment process, lack of funds to attract quality job applicants, lack of long-term funding resulting in the overuse of short-term/casual contracts, lead-time for recruitment of new staff means a shortage of staff	**Review Recruitment and Hiring Processes** *Recruitment Process Evaluation* • **Process Documentation**: Review the documented recruitment and hiring processes to assess their effectiveness in attracting and selecting qualified candidates. • **Competency Assessment**: Evaluate the methods used to assess candidate competencies, such as interview techniques, skills tests, and background checks. *Adherence to Recruitment Policies* • **Policy Compliance**: Verify that recruitment practices align with organizational policies and industry best practices. • **Documentation Review**: Check that all recruitment activities are documented, including job postings, interview notes, and selection criteria. **Analyze Funding and Compensation** *Funding and Compensation Analysis* • **Budget Review**: Examine the budget allocated for recruitment and compensation to determine if it is sufficient to attract high-quality candidates.

for the first few months of a project	• **Compensation Comparison**: Compare the organization's compensation packages with industry standards to assess competitiveness. Ensure salaries and benefits are adequate to attract and retain skilled personnel. *Funding Sources and Stability* • **Funding Stability**: Assess the stability and adequacy of funding sources for long-term recruitment and staff retention. Identify any issues related to short-term funding impacting staffing levels and quality. **Assess the Impact of Short-Term Contracts** *Contract Analysis* • **Contract Review**: Review the use of short-term or casual contracts and their impact on staff competency and project continuity. • **Employee Turnover**: Analyze turnover rates among short-term or casual staff to identify any patterns or issues related to the use of such contracts. *Staff Performance Evaluation* • **Performance Reviews**: Evaluate the performance and competency of staff hired on short-term or casual contracts. Identify any gaps or issues arising from this type of employment arrangement. **Evaluate Lead-Time for Recruitment** *Recruitment Lead-Time Analysis* • **Lead-Time Assessment**: Analyze the lead-time required for recruiting new staff and its impact on project staffing and performance. • **Project Staffing**: Review project planning and staffing strategies to ensure that recruitment lead-time is adequately accounted for in project timelines. *Contingency Planning* • **Contingency Plans**: Evaluate whether there are contingency plans in place to address staffing shortages during the recruitment process. Ensure there are strategies to mitigate the impact of delayed recruitment on project performance. **Review Training and Development** *Training Programs* • **Training Evaluation**: Assess the organization's training and development programs to ensure they effectively address competency gaps and improve staff skills. • **Onboarding Process**: Review the onboarding process for new employees to ensure it adequately prepares them for their roles and integrates them into the organization. *Development Opportunities* • **Career Development**: Evaluate opportunities for career development and progression within the organization to retain and develop talented staff. **Conduct Competency Assessments** *Staff Competency Reviews* • **Competency Assessment**: Perform competency assessments of current staff to identify any skills gaps or areas of improvement. • **Performance Metrics**: Analyze performance metrics to assess how well staff are meeting job requirements and project goals. *Feedback Mechanisms* • **Employee Feedback**: Collect feedback from employees regarding the recruitment process, training, and their ability to perform their roles effectively. • **Managerial Feedback**: Obtain feedback from managers about the competency of their teams and any challenges related to staffing and recruitment.