**THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME FOR NORTHERN IRELAND 2007-2013**

**MANAGING AUTHORITY GUIDANCE ON REQUIREMENTS FOR AN ADEQUATE AUDIT TRAIL**

**(Updated Jan 2015)**


### 1.0 Introduction

1.1 The audit trail is a comprehensive set of documents which provide a complete history of a project and provide evidence that proper procedures were applied and outcomes achieved.

1.2 An adequate audit trail, in accordance with the requirement of Article 15 of Commission Regulation (EC) 1828/06, must be established for the operational programme. Therefore, for each project, an audit trail must be established which:

* Permits the total amount of funding to be reconciled with the detailed accounting records and supporting documents held by the Intermediate Body (IB) and project (beneficiary);
* Permits verification of payment of grant to the beneficiary;
* Permits verification of application of the appropriate selection and assessment criteria;
* Permits verification of the appropriate appraisal process and subsequent approvals (including economic appraisals, business cases, casework submissions and approvals at the appropriate delegated levels;
* Contains in respect of each project, as appropriate, the technical specifications and financing plan documents concerning the grant so as to provide a basis for monitoring; and
* Permits verification of compliance with all EC Regulations, National legislation and guidance/procedures established by the Member State and Managing Authority.

**2.0 General Requirements**

2.1 Documents must be held by beneficiaries or the Intermediate Body (IB) in a form agreed through provisions within National legislation, guidance or appropriate national standards.

2.2 The audit trail requirement applies equally to projects in receipt of grant and technical assistance expenditure and the requirements will also therefore apply to DETI as Programme Managing Authority.

2.3 **All documents and information which constitute the audit trail must be retained until at least 31 December 2022.** In the event of termination or closure of the project for whatever reason, the documentation must be returned to the IB or Managing Authority. In no circumstances should any of the project documentation be disposed of without the written permission of the Managing Authority.

**3.0 Specific Requirements for each funded operation.**

3.1 A formal contract of funding must be established between the IB and the beneficiary. This contract must be accepted within the timeframe indicated. The contract must set out as a minimum the amount of funding approved, the agreed activity and outputs, the period of funding, the conditions of grant including reporting, monitoring and audit requirements, implementing provisions and publicity and repayment provisions as appropriate;

3.2 Every project must clearly document where audit trail information is retained.

3.3 In practical terms, for every project, the information set out below must be retained and be easily accessible. The IB should regularly check that all beneficiaries are meeting audit requirements where the audit trail documentation is held at that level.

1. The Managing Authority, or the appropriate IB shall maintain documentary evidence of the project selection process (including the formal application), together with records of appraisal and approval by the appropriate authorities and/or Monitoring Committee; the formal contract (Letter of Offer) and signed acceptance shall also be retained.
2. Each beneficiary should establish a set of relevant procedures and guidance in relation to ensuring a sufficient audit trail. They should also develop policies which will ensure compliance with all relevant legislation and guidance (including Fair Employment and Health and Safety).
3. Accounting records should be maintained at the level of the beneficiary which provide detailed information about expenditure actually incurred. These accounting records must be either maintained in a separate account or be sufficiently codified so as to clearly identify and verify the total eligible expenditure. The accounting records should contain the date of the expenditure, the amount of each item of expenditure, the nature of the supporting documents (e.g. timesheets, invoices etc.), the method of payment and the payee. Accounting records should normally be maintained in a computerised system which has reporting capability and can provide instant access to financial information required by the Managing, Certifying and Audit Authorities as appropriate. Additionally, the records maintained shall permit verification of both the Community and National (public and/or private) contributions (i.e. 100% of the grant paid).
4. Documentary evidence must be maintained. A list of specific documents, although not definitive, is set out in Annex A. This includes salary records (see paragraph 7.1 re self-employment requirements), signed and appropriately authorised timesheets and attendance records (see Annex B for further guidance), invoices and payment records such as receipts, bank statements and payment reports.
5. Where items of expenditure relate only partly to the project, the accuracy and methodology of allocation must be clearly demonstrated. The same applies to types of expenditure that are considered eligible only within certain limits or in proportion to other costs e.g. land purchase costs, overheads etc.
6. To minimise the risk of duplication or double financing of expenditure with other Community or National schemes and with other Programming periods, all invoices or documents of equal probative value checked should be recorded in verification reports/documents and (where possible) be stamped as part of the administrative verification process.
7. There should be a clearly defined financial plan which should be monitored in the first instance by the beneficiary and progress against the plan should be regularly reported to the IB.
8. Evidence that procurement of all goods/services has been carried out in accordance with Community and National legislation (as appropriate) must be maintained.
9. Evidence of compliance with rules on publicity must be maintained.
10. Reports on progress should be submitted regularly to the Managing Authority by the IB in the format prescribed.
11. Detailed records of all inspections/verifications carried out on the operation should be maintained.

**4.0 Best Practice in the Maintenance of Project Files within IBs**

4.1 In order to demonstrate compliance with the requirements set out with regards to the maintenance of sufficient project information, it is vitally important to ensure that filing systems are set up in a way to facilitate identification of the key documents. This will assist in ensuring the completeness of records and will also facilitate the audit process.

4.2 Where practical, separate files should be maintained for each project’s administration and financial records and divided into sections as set out below.

**Administration**

* Application/Business Case;
* Appraisal;
* Approvals;
* Letter of Offer and signed acceptance;
* Monitoring Reports;
* Publicity records;
* Tendering documents, as appropriate;
* Recruitment documents, as appropriate;
* Evaluation reports; and
* Records of monitoring and audit activity.

**Finance**

* Copy of the approved budget;
* Claim documents;
* Journal/ledger records indexing the appropriate invoices/receipts etc.
* Documents (e.g. invoices, purchase orders, payroll records, travel claims, timesheets, bank statements etc.) or a sample of documents which are copied as part of the verification process;
* Reports of any certification/verification or technical inspection work undertaken;
* Documentation regarding the application of exchange rates as appropriate;
* Annual Accounts.
	1. Where documents containing sensitive data (e.g. national insurance number, names, sort code or bank account numbers) are copied, care should be taken to adequately redact any personal data and ensure that the records are appropriately secured.

**5.0 Documentation for the financial audit trail**

* 1. The documents detailed at Annex A are the minimum that should be available for verification. These are required in order to ensure efficient verification and to avoid irregular expenditure. Other documents might be requested, if they are relevant for the verification of the costs claimed.
	2. For invoiced costs, where appropriate, additional corroborating checks should be conducted and documented to ensure the validity of the documents presented. These could include checks to ensure:
* That the supplier is bona fide.
* That the supplier can validate that they issued the invoice.
* That they are addressed to the company/project.
* That they are for goods/services required by the project.
* There has been no duplication of payment.
* Invoices match other probative documents such as approved purchase orders, goods received notes, tender award documents etc.
* Where return cheques or statements/receipts are available, the payee and amounts agree with the invoice.
* That payment records reconcile with the invoice etc.
1. **Bankruptcy Cases**

6.1 Paragraph 2(a) of Article 28 of the EC Implementing Regulation 1828/2006 states where an “irregularity consists solely in the failure to execute, in whole or in part, an operation included in the co-financed operational programme owing to the bankruptcy of the beneficiary” there is no need to report the irregularity to the European Commission. Intermediate Bodies must be able to demonstrate that the project has been appropriately and adequately managed prior to the bankruptcy and should also be able to provide evidence that all practical steps have been taken to recover both the grant paid and the project level documentation. Expenditure will remain eligible in cases of bankruptcy **only** where an adequate audit trail exists and the Intermediate Body can provide adequate assurance, ultimately to the European Commission regarding the regularity of expenditure and the sound control exercised by the Intermediate Body in managing the operation.

1. **Self Employment Records**

7.1 Verification of salary for self employed persons or sole traders not being paid a ‘traditional’ salary is inherently very difficult. For this reason the Managing Authority has determined that from the date of the revised guidance (8 August 2012) and in historic cases where an adequate audit trail cannot be established to verify the ‘real cost’ then these costs are ineligible. The development of a unit cost methodology is recommended where these types of costs are proposed or necessary and the unit cost must be calculated in accordance with the relevant guidance provided by COCOF[[1]](#footnote-1) and approved in advance by the Member State through the Managing and Audit Authorities.

**Updated : August 2012**

**Revised Jan 2015Annex A**

**Audit Trail Documents**

|  |  |
| --- | --- |
| Salary / Wages | * Contract of employment or company employment terms and conditions where standard for all employees;
* Payroll records (P11, Sage etc) / HMRC returns for self employed;
* Breakdown of the salary costs including national insurance, PAYE, pension contributions and other taxable benefits (such as life assurance, private healthcare etc.) payable under the terms and conditions of employment;
* Time records for part-time staff (see Annex B);
* Proof of payment of net salary to staff; and
* Proof of payment of contributions to appropriate bodies.
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| Equipment / Consumables/ Raw Materials | * Invoices;
* As appropriate, approvals for purchase, e.g. business case, purchase order etc.
* Goods Received Notes;
* Receipts;
* In case of rented equipment: rental contract, inventory list of the rented equipment; proof of the investment values of the rented equipment;
* User logs for equipment, if applicable – e.g. franking/fax machines;
* In case of secondhand equipment, evidence that the cost is at fair market value;
* Evidence that any equipment was purchased/disposed of in accordance with the relevant procurement rules;
* Proof of payment;
* Asset Register Records;
* Balance Sheet records for large capital items.
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| Third Party Assistance/ Contracts | * Proof of compliance with relevant procurement rules.
* Deliverables from the contractors;
* Contract documents;
* Reports from any technical advisors (QS, Architects, etc.)
* Invoices;
* Proof of payment.
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| Travel expenses | * Travel claim form, appropriately authorised;
* Invoices/receipts;
* Print outs of electronic flight/hotel booking confirmations;
* Where available, report, records, minutes etc. indicating purpose and participants of the meetings / events;
* Proof of payment.
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| Overheads costs | * If using the approved flat rate methodology then the full set of documents which support the calculation of the rate must be held together with the supporting documents which support the actual direct costs to which the rate is being applied.
* For payment of overheads on the basis of actual cost then the audit trail must comprise all invoices and documentation to support the full actual cost to the organisation;
* Detailed documentation on any apportionments calculated;
* Proof of payment.
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**Annex B**

 **TIME RECORD REQUIREMENTS FOR PART-TIME STAFF**

There are 3 categories of staff working part-time on a project as follows:

1. Staff contracted to work part time and working 100% of that time on the funded project;
2. Staff contracted to work full time but with a stipulated percentage of their time apportioned to the funded project; and
3. Staff contracted to work full time and working part of their time on a funded project where the amount of time input varies over the period of funding.

**Category A – Staff on a part-time contract, working 100% of time on a project**

There is no requirement to maintain additional time records.

**Category B – Staff working a percentage of time on a project**

In order to ascertain the correct payment due the staff member will need to maintain a time record covering 100% of their time, broken down sufficiently to allow identification of project activity and non-project activity. This will permit the verification of the percentage applied and the calculation to be made on the basis of actual time worked. The records should be signed by the employee and appropriately authorised (see below).

**Category C – Staff working on a project for variable time periods**

Time records should be maintained covering, as a minimum the date(s) of the activity, a description of the activity and the specific hours spent on the activity. These should contain sufficient detail to permit calculation of salary costs on the basis of the hourly / daily rate (See Annex C). The records should be signed by the employee and appropriately authorised (see below).

**Authorisation**

Time records must be appropriately authorised. This means the record should be countersigned by someone at a higher level in the organisation with knowledge of the hours worked by the employee. In cases of company training or mentoring the record should be countersigned by the trainer. Where the staff member is the highest ranking in the organisation a counter-signature from the company accountant or another director is appropriate. In the case of a sole trader a self-declaration of accuracy will be acceptable. However in these cases extra care should be taken to ensure that the outputs are in accordance with the approved grant and justify the time claimed.

**Annex C**

**Daily / Hourly Rate Calculation Method**

Revised methodology

Worker A annual salary in 2012/13 is £30,000

The salary includes private health insurance and commission. Both the health insurance and commission payments are included as part of the contract of employment and are therefore eligible.

Worker A is contracted to work 5 days per week, 7 hours per day and is given 20 days annual leave per annum. In addition the Company is closed on 10 statutory holiday days. The calculation is therefore as follows:

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| --- | --- | --- |
| **Basis** |  **Value** | **Example** |
| Working days per year | (5 days per week x 52 weeks) – 10 statutory days – 20 leave days | 230 |
| Annual salary | £30,000 | £30,000 |
| Subtract LEL (12/13) to calculate the salary amount that attracts ENICS | £30,000 – £7,488  | £22,512 |
| Calculate ENICS due (apply appropriate % to eligible salary) | £22,512 x 13.8% (ENICS not contracted out rate for 12/13) | £3,106.656 |
| Calculate total Employer cost (annual salary & ENICS & any contracted benefits) |  £30,000 + £3,106.656 | £33,106.656 |
| Daily rate  | £33,106.656 (total E/R costs) / 230 (working days per year) = £143.9419 | £143.94 |
| Hourly Rate = daily rate divided by contracted daily hours |  £143.9419 / 7 = £20.5631 | £20.56round down to ensure no overclaim |

1. (COCOF 09/0025/04-EN) [↑](#footnote-ref-1)