

INVESTMENT FOR GROWTH AND JOBS PROGRAMME FOR NORTHERN IRELAND 2014-2020

MANAGING AUTHORITY GUIDANCE ON REQUIREMENTS FOR AN ADEQUATE AUDIT TRAIL



1. 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 72 of Commission Regulation (EC) 1303/2013, 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. 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 DfE as Programme Managing Authority.
- 2.3 All documents and information which constitute the audit trail must be retained until at least ten years from the date of the first Letter of Offer to the Project. Note: this statement only relates to Programme document retention requirements and there may be other reasons for projects to retain documents beyond this date. 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.

E-Cohesion

- 2.4 Article 122 (3) of Commission Regulation (EC) 1303/2013 requires that Member States ensure that all exchanges of information between beneficiaries and a managing authority, certifying authority, audit authority and intermediate bodies can be carried out by means of an electronic data exchange system. This will also apply to the exchange of audit trail documentation/evidence.
- 2.5 In order to maintain a full audit trail, IB's should ensure that all relevant supporting documents received from each project (paper and electronic) are uploaded to DB2014. This should include the project application and Letter of Offer. This will also include documents provided on request as part of the verification process. The IB will also be responsible for uploading the audit trail relating to claims checks, performance monitoring and other EC requirements such as publicity.
- 2.6 Likewise, for management verification and audit of operations, MA, AA and CA findings/recommendations relating to each project must be recorded on DB2014 along with any supporting audit trail documents. Where the beneficiary has opted to submit the full suite of claim documentation electronically then it is vitally important that this is appropriately uploaded to DB2014 to support the single audit principle.

3. 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 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. The IB should regularly check that all beneficiaries are meeting audit requirements where the audit trail documentation is held at that level. In practical terms, for every project, the information set out below must be retained and be easily accessible.
 - i. Documentary evidence of the project selection process (including the formal application), together with records of appraisal and approval by the appropriate; the formal signed contract /Letter of Offer.
 - ii. Accounting records at beneficiary level providing detailed information about income and expenditure actually incurred. In order to clearly and uniquely identify and verify transactions relating to EU funded projects, these accounting records must be maintained either in a separate accounting system or with an adequate accounting code for all transactions relating to an operation, in line with Article 125 (4)(b) of Regulation (EU) No 1303/2013. 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).
 - iii. Documentary audit trail evidence to support project. 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), **transaction reports**, invoices and payment records such as receipts, bank statements and payment reports.
 - iv. 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, etc.

v. As appropriate, evidence that procurement of all goods/services has been carried out in accordance with Community and National legislation.

vi. Evidence of compliance with rules on publicity.

vii. Detailed records of all inspections/verifications and the recommendations and follow-up action carried.

4. 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 For each project the following information should be readily accessible:

Administration

- Application/Business Case;
- Appraisal;
- Approvals;
- Accepted Letter of Offer/contract;
- Monitoring Reports;
- Publicity records;
- Tendering documents, as appropriate;
- Recruitment documents, as appropriate;
- Evaluation reports;
- Records of monitoring and audit activity; and
- State Aid Assessment.

Finance

- Copy of the approved budget;
- Claim documents;
- Supporting documents requested in support of claims (e.g. invoices, purchase orders, payroll records, timesheets, bank statements, **income and expenditure transaction report** etc.) or the sample documents reviewed and copied as part of the on-the-spot verification process;
- Reports of any certification/verification or technical inspection work undertaken;
- Documentation regarding the application of exchange rates as appropriate;
- Annual Accounts where available.

4.3 Where documents containing sensitive data (e.g. national insurance number, names, sort code or bank account numbers) are copied, Data Protection legislation should be complied with.

5. Documentation for the financial audit trail

5.1 The documents detailed at Annex A 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.

5.2 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.

- 5.3 In line with Paragraph 1.2 of EGESIF Guidance Note 14-0012-02 on Management Verifications, MA will obtain and review a sample of verification reports produced by IBs and will perform quality checks on a sample of their verifications.

6. Bankruptcy Cases

- 6.1 Article 122 Para 2(a) of 1303/2013 states that in "cases where the 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 a full audit trail exists to support the expenditure 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.

7. 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 where an adequate audit trail cannot be established to verify the 'real cost' then these costs are ineligible. The exception to this is where the offer is on the basis of the Unit Cost referenced below.

8. Simplified/ Unit Costs

- 8.1 A Unit Cost has been approved by Member State in respect of R&D Projects to cover salary costs and overheads. For validation of these costs, timesheets will be required for all staff (full or part time). Only hours worked will be reimbursed as annual leave, statutory holidays etc. have already been accounted for in the methodology used to calculate the unit cost. Verification checks on these R&D projects will also verify the existence of the employees on a sample basis.

Annex A - Audit Trail Documents

<u>Labour (Actuals)</u>	<ul style="list-style-type: none"> - Contract of employment or company employment terms and conditions where standard for all employees; - Payroll records (P11, Sage etc) / HMRC returns; - 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. - See Annex C for example of calculation of hourly rate for labour costs claimed staff employed part-time on a project.
<u>Labour (Unit Costs)</u>	<ul style="list-style-type: none"> - Time records (see Annex B); - Inclusion of employee in payroll report/HMRC report or copy of employee payslip (on a sample basis for existence purposes only); - For Directors/Partners – screenprint of a Companies House search confirming Director/Partner status.
<u>Equipment / Consumables/ Raw Materials</u>	<ul style="list-style-type: none"> - Invoices; - Approvals for purchase, e.g. business case, purchase order etc. (where available) - Goods Received Notes (where available); - Receipts; - In case of rented equipment: rental contract, inventory list of the rented equipment or alternative proof of the investment values of the rented equipment; - Where appropriate, user logs for equipment used on an apportioned basis – e.g. franking/fax machines; - In case of secondhand equipment, evidence that the cost is at fair market value; - For any equipment purchased evidence of compliance with relevant procurement rules; - Proof of payment; - As appropriate, asset register records for capital items (in line with organisational asset policy); - Balance Sheet records for larger capital items (in line with organisational asset policy) .
<u>Third Party Assistance/</u>	<ul style="list-style-type: none"> - Proof of compliance with relevant procurement rules as appropriate.

<u>Contracts</u>	<ul style="list-style-type: none"> - Deliverables from the contractors; - Contract documents; - Reports from any technical advisors (QS, Architects, etc.) - Invoices; - Proof of payment.
<u>Travel expenses</u>	<ul style="list-style-type: none"> - Invoices/receipts; - Print outs of electronic flight/hotel booking confirmations; - Report, records, minutes etc. indicating purpose and participants of the meetings / events; This is essential where foreign travel is involved. - Proof of payment.
Financial Transactions	<ul style="list-style-type: none"> - Income and expenditure transaction report including accounting identifier for all transactions in line with section 3.3 (ii) above.

TIME RECORD REQUIREMENTS FOR PART-TIME STAFF OR STAFF BEING REIMBURSED ON THE BASIS OF THE AGREED UNIT COST

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.

The records should be signed and dated by the employee.

Time records must be appropriately authorised. This means the record should be countersigned and dated 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/mentor.

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.

For electronic time recording systems there must be evidence that employee and authorising officer access, input and validation is password protected.

Daily / Hourly Rate Calculation Method for salary reimbursed on a real cost basis

Worker A - annual salary in 2014/15 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:

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	£20.56 round down to ensure no overclaim

Version Control

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Version	Date	Amendments made
2	Nov 2016	Update of accounting system / accounting code requirements (Para 3.3 (ii) & (iii), 4.2 and Annex A).