



The Urban Lab of Europe!

Factsheet - Audit trail for control procedures

The objective of this factsheet is to provide UIA projects with additional information on the **audit trail required by the eligibility rules of project expenditure in the** UIA Guidance. It also aims at guiding projects to better prepare Financial Claims (FC1 & FC2).

Projects are to present supporting documentations and evidences during any financial checks (First Level Control, Second Level Control and other types of control: Certifying Authority, Entrusted Entity/Permanent Secretariat, European Commission, OLAF, national bodies, etc.) in order to ensure that the declared expenditure complies with the Initiative, EU, national rules and is therefore eligible, legal and rational.

MAIN BOTTLENECKS & DELAYS IDENTIFIED DURING FLC INTERVENTIONS

In the course of First Level Controls and submission of Financial Claims, the Permanent Secretariat has observed the following causes delaying the validation of project expenditure:

- Late submission of audit trail to First Level Controller;
- Lack of proof of payment;
- Staff assignment not in line with declared staff costs;
- Lack of reconciliation between declared and paid expenses in case of consolidated lines.

This factsheet issues guidance and recommendations on how to address these bottlenecks and prepare for control procedures.

GENERAL TIPS TO PROJECTS

Central role of the Main Urban Authority (MUA) during control procedures - Projects should note that the readier the MUA, the faster and smoother the audit process. As stated in the UIA Guidance, the MUA is responsible for the overall implementation and management of the entire project, and bears the entire financial and juridical responsibility. During control procedures, the MUA is in charge:

- Ensuring that all expenses reported in the Financial Claim have been properly declared by all Project Partners;
- Centralising evidence and supporting documentation from all Project Partners according to UIA eligibility rules and required audit trails;
- All communications with auditors/controllers, including providing expenditure evidence and complementary information.

Audit trail – link between amount declared in the Financial Claims and supporting evidence has to be clear and immediate.

- Key documents used as reference for controls are:
 - UIA Guidance & factsheets – eligibility rules and audit trails per budget line;
 - Application Form (latest valid version) – states all activities foreseen for the project;
 - UIA Permanent Secretariat’s approval for modification of activities in the Application Form.
- Supporting evidence must be provided under digital format. Dematerialized documents shall be:
 - Clearly entitled in reference to expenditure they are linked with (e.g internal reference number in the EEP, item description);
 - Ideally ordered by budget line and by work package (ex. for a staff expense, you can join the salary slip with the employment contract). Please make sure that each file contains **supporting documentation** as required by the UIA Guidance audit trails.
 - You can create as many folders as needed, in order to sort out every piece required for the audit (ex. you may place all staff cost/ BL1 documentation into the same folder, the same for travel expenses/BL3, etc.)
- Projects are to provide auditors/controllers with complete and exhaustive documentation to reconcile expenditure declared and required audit trail. A person with no prior knowledge of the project has to be able to trace exact amounts between supporting documents and declared expenditure in the Financial Claim.
 - If there is no direct financial reconciliation between declared expenditure and documentation provided, Projects Partners are to provide additional documentation to auditors/controllers, such as distribution key of a payment/invoice, written explanation etc.
- Projects should always formalize procedure or decisions with a clear reference to the project (name of the project, project logo) and back them up with relevant documentation (screenshots, written notes, approvals, etc.).
- Every expense (including minor expenses such as groceries in BL3, small travel costs in BL2 etc) that doesn't relate directly to an activity planned in the Application Form must be provided with additional documentation proving the link with project such as attendance sheet, deliverable, etc.

Declaration of expenses in the Financial Claims and EEP system

- Project Partners may present **anonymous data** in the Financial Claims (particularly for Staff costs), providing sufficient reconciliation for auditors between the anonymous expense and the required supporting documentation.
- Declaration of expenses as **consolidated lines**:

Project Partners may choose to declare several expenses under one single line in the Financial Claims, which is a frequent case for staff costs in particular (ex.: declaration of annual employee cost) or for grouped invoices. If this declaration method is used, the Project Partner must be able to:

- Provide reconciliation between amount declared in Financial Claim and the detailed sum of declared amount;
- Provide the audit trail for each and every line of the detailed sum.
- For example, if a Partner declares the annual cost of a project manager working 100% on the project, the corresponding audit trail is:
 - ✓ Signed Staff Assignment (100% time allotted to project);
 - ✓ Pay slips and/or accounting documents identifying all real salary costs for every month;
 - ✓ Proof of payment of the salary for every month;
 - ✓ Reconciliation between gross amounts on every pay slip and the total amount declared in the Financial Claim (Excel file with detailed sums and calculations);
 - ✓ Proof that the employee worked on the project (Staff assignment stating employees' activities on the project, mention of the employee or activity described in Staff assignment in technical reports, memos, deliverables, events, etc.).
- Expenses declared ineligible in FC1 because of incomplete audit trail can be presented again in FC2¹. Projects should however be vigilant in not submitting the same expense twice.

¹ Please consult the latest version of the UIA FC Guidance for specific instructions on how to enter these expenses in the EEP system.

REMINDER OF AUDIT CHECKS AND CONSEQUENT AUDIT TRAIL TO PRESENT BY BUDGET LINE

Please find hereunder a reminder of the audit trail to present per budget line during financial controls. Please refer to the UIA Guidance for detailed information on the eligibility of expenses and consequent audit trail.

| | | AUDIT CHECKS | | | |
|--|--|---|--|--|--|
| | | Expense is reasonable and supported by evidence | Expense is real and supported by the entity | Expense is linked to the project | Expense incurred during the implementation period |
| AUDIT TRAIL | Staff Cost | <ul style="list-style-type: none"> ✓ Staff assignment (signed) – declaration of % of time dedicated to the <u>project</u> ✓ Employment contract (signed) or equivalent legal agreement ✓ Payslips and/or accounting documents identifying all real salary costs (gross salary and employer’s social charges). | <ul style="list-style-type: none"> ✓ Proof of payment - bank statement or signed receipt from person/entity receiving the payment | <ul style="list-style-type: none"> ✓ Staff assignment stating employees’ activities on the project ✓ Mention of the employee or activity described in Staff assignment in technical reports, memos, deliverables, events, etc. | <ul style="list-style-type: none"> ✓ Reported expenses are within the project implementation period |
| | Office and Administration | <ul style="list-style-type: none"> ✓ Flat rate - 15% of declared Staff Costs (automatically calculated by the EEP system) | | | |
| | Travel and Accommodation | <ul style="list-style-type: none"> ✓ Documentation according to T&A rules of the Partner ✓ Invoices / daily allowance claims | <ul style="list-style-type: none"> ✓ Proof of payment - bank statement or signed receipt from person/entity receiving the payment | <ul style="list-style-type: none"> ✓ Agenda of the event ✓ Proof of participation (signed participation list, invitation, photo, travel tickets, etc.) | <ul style="list-style-type: none"> ✓ Reported expenses are within the project implementation period |
| | External Expertise and Services | <ul style="list-style-type: none"> ✓ Check of public procurement procedure or proof of market research, if relevant | | <ul style="list-style-type: none"> ✓ Proof of outputs or services delivered stated in the contract: technical report, study, pictures, deliverable, etc. | |
| | Equipment | <ul style="list-style-type: none"> ✓ Written and signed contract stating service provided and reference to the project | | | |
| Infrastructure and Construction Works | <ul style="list-style-type: none"> ✓ Invoice and purchase order | | | | |

COMPLEMENTARY AUDIT TRAIL REQUIREMENTS & INFORMATION

- **Proof of payment**

Proof of payment is a document stating that an expense was effectively disbursed. Accepted proof of payment is issued by a third party (bank statement) or by the payee (receipt). Please note that any internal documents provided by the Project Partner's accounting system are not acceptable proof of payment.

According to local legislation, expenses certified by public accountants or payments validated by statutory audits are acceptable proof of payment. Project Partners must ensure beforehand that this kind of proof is compliant with national regulation.

The link between amounts declared in the Financial Claim, amounts on the invoice/pay slips and amounts on the proof of payment have to be clear and immediate. In case of batch payments (often the case for payment of staff costs), the audit trail must also include sufficient reconciliation between the individual expenditure and the total batch payment appearing on the bank statement.

In sum, acceptable proof of payments are:

- bank statements;
- receipt of payment;
- certification of expenditure by public accountant or statutory audit, if compliant with national regulation.

- **Public procurements**

All public procurements related to expenses of the project are controlled at least once during the project lifetime.

In the EEP, each Project Partner must declare all the public procurements linked to declared expenditure items in the Financial Claim for which a public tender procedure has been carried out. The FLC will ask PPs and/or MUA to sign this declaration of public procurements during financial controls.

Pre-existing framework agreements prior to the UIA project can be used by Project Partners. The same audit trail is required, as well as the purchase order with reference to the UIA project.

All Project Partners must adequately prepare supporting documentation of public tenders as evidence of compliance with the applicable EU, UIA, national and internal procurement rules.

Project Partners that do not follow public procurement rules are not required to provide a list. However, evidence of market research has to be presented during controls (please see "Market research" section hereunder).

- **Market research** – As UIA projects are co-financed with public funds, Project Partners that are not subject to public procurement procedures must nevertheless ensure adequate market research for contracts linked to Project expenses above EUR 5,000 excluding VAT.

Compulsory audit trail for market research is:

- Proof that at least **3 requests for offers** have been made from the Project Partner to service providers or contractors (screenshots of websites, emails and quotes sent by the potential providers ...).

Complementary documents can be provided by the Project Partner to help clarify the selection procedure of the provider. Suggested audit trail for adequate market research can be:

- List of criteria that the Project Partners will be using to make their choice (price, technical needs, relevance regarding the project, reliability of the provider etc.);
- Formalisation of final choice of provider based on selection criteria and signature of contract;
- Declaration of absence of conflict of interest.

Please note that the purpose of this recommendation is to help Project Partners formalise a market research. The suggested audit trail is not required in order to validate the expense.

- **Equipment eligibility rules**

The UIA Guidance specifies conditions under which equipment (and its depreciation according to local accounting rules) is eligible: equipment necessary for the project implementation and equipment considered as a project output. When considered for the project output, the equipment is linked to the core activities of the project as it is a tool or device that remains in use by the target group after the completion of the project. On the other hand, equipment necessary to project implementation is linked to supporting activities of the project.

- Equipment considered as a project output: full cost of the equipment (and depreciation, if applicable according to local legislation) is eligible as it is full part of the project activities. Audit trail to provide includes:
 - ✓ Public procurement procedure or proof of market research;
 - ✓ Written and signed contract stating service provided and reference to the project;
 - ✓ Invoice and purchase order;
 - ✓ Proof of payment;
 - ✓ Proof of outputs or services delivered stated in the contract.
- Equipment necessary for the project implementation: only the part of the equipment (and depreciation, if applicable according to local legislation) used for the UIA project is eligible. Audit trail to provide includes:
 - ✓ Public procurement procedure or proof of market research;
 - ✓ Written and signed contract stating service provided and reference to the project;
 - ✓ Invoice and purchase order;

- ✓ Proof of payment;
- ✓ Proof of outputs or services delivered stated in the contract.
- ✓ Calculation scheme used to earmark the percentage of the equipment eligible for UIA funding.

- **Travel and Events - Cancellations due to “force majeure”** (for example COVID-19 lockdown measures)

Regarding the eligibility of paid costs for cancelled travels and events, force majeure, can be claimed. In cases where participation in meetings or events had to be cancelled due to circumstances related to the COVID-19 outbreak, expenses of travel that could not be cancelled and which are not reimbursed from other sources will be regarded as eligible costs. If such a situation occurs, projects must immediately take all the necessary steps to minimise the financial prejudice (e.g. cancel tickets and reservations, claim possible cost reimbursements and/or travel insurance compensations). Any amount reimbursed or received as compensation from travel insurance or any other sources will have to be deducted from claimed expenditure.

A clear audit trail for those expenditures, in addition to the complete trail required by the UIA Guidance, is:

- evidence of the cancellation of the event due to a case of force majeure (official announcements, cancellation notes, internal notes, etc.);
- evidence that refund was duly requested but not possible for the expense.

- **Staff Costs**

- The calculation method for declaring staff costs for the UIA Initiative is as follows: **gross employment costs multiplied by the percentage of total time worked on the project as fixed in the written staff assignment**. If a Project Partner uses timesheet as internal project monitoring method, they nevertheless have to use the Staff assignment sheet as basis of calculation.
- In order to justify gross employment costs, Project Partners are to provide documents identifying the **real salary costs** (gross salary and employer’s social charges) for the employee, such as pay slips, data extraction from a payroll software, or tax documents where the employment costs are clearly detectable. Declarations from Human Resources are not considered as probative documentation for checking gross employment costs.
- **Staff assignment** – the staff assignment is a tool allowing flexible declaration of staff costs according to the reality of the time spent on the project. As this document is a declaration, justification of time spent on the project is not required, even though the involvement of the employee in the project should be traceable (see part 4.2.1 UIA Guidance).
 - ✓ **The total declared percentage stated in “Extent of assignment (in %) to the abovementioned project” is the only possible reference for calculating declared staff costs.**

- ✓ The staff assignment is issued at the beginning of the period to which it applies, but the percentage of time spent on the project it can be retrospectively adjusted to the reality of employee's activity on the project – however this adjustment has to be done before submitting FCs in the EEP for control.
- ✓ Staff assignments have to be signed both by the employee and the employer.
- ✓ Please see following page for detailed guidance on completing the Staff Assignment template suggested by the Permanent Secretariat.

STAFF ASSIGNMENT

1. Identification of project and project partner

Project number and acronym
Name of project partner (employer)

Please enter project number and acronym as stated in Application Form
Project Partner as stated in the Application Form and in the employment contract

2. Assigned employee

Name of employee
Date of signature of employment contract (dd/mm/yyyy)
Start date of employment (dd/mm/yyyy)
Extent of assignment (in %) to the abovementioned project

Information as stated in the employment contract

Declaration of total time worked by the employee on the project - % used for the calculation of staff costs in FC

3. Period of project assignment

From: (dd/mm/yyyy) | To: (dd/mm/yyyy)

Dates must be in line with project start and end dates and with employment dates of employee's contract

4. Details on the assignment

| WP No. | Project related activities <i>(including information on the envisaged contribution of the employee to the outputs and deliverables to be achieved according to the application form)</i> | Estimated share of assignment (%) |
|--------------|--|-----------------------------------|
| | | |
| | | |
| | | |
| | | |
| Total | | 100 % |

Estimation of involvement at WP level
Detail on employee's project tasks, responsibilities and outputs
Proof of employee's activities are to be provided (reports, minutes, deliverables, etc.)
Please note that this estimation of time spent on activities is not the basis for calculating eligible staff costs

5. Confirmation

Herewith, Mr. /Mrs. _____ is assigned to the above-mentioned UIA project in order to contribute to project activities and outputs as indicated above.

- Please select:*
- It is confirmed that Mr. /Mrs. _____ is currently in addition assigned to the following public funded projects:*
- _____ (Funded by _____),
 - _____ (Funded by _____),
 - _____ (Funded by _____).
- It is confirmed that in total not more than 100 % of his/her working time are allocated to all these projects and therefore not more than the total actual staff costs will be requested for co-financing.*
- It is confirmed that Mr. /Mrs. _____ is currently not assigned to any other public funded project*

Please fill in required information

| | |
|------------------------------------|------------------------------------|
| Name and signature of the Employee | Name and signature of the Employer |
|------------------------------------|------------------------------------|

Staff assignments have to be duly signed by both parties



