**European Union**
European Structural
and Investment Funds

# Guidance on the Audit and Management and Control Requirements for Projects Supported by the European Regional Development Fund or European Social Fund

## August 2016

# Contents

# 1. Purpose

To provide organisations applying for grants from the European Regional Development Fund or European Social Fund programmes in England with additional information on the management and control requirements of these programmes.

This information is intended to assist organisations to understand the requirements of European Regional Development Fund or European Social Fund support. It is not intended to be exhaustive or prescriptive. It should be used as a tool to help all those involved in planning projects understand the requirements of the European Regional Development Fund or European Social Fund and establish appropriate project management and financial management systems.

Within an Outline Application for European Regional Development Fund or European Social Fund support applicants will be asked to confirm that they have read this document and either have appropriate financial and project management systems in place or are able to put appropriate systems in place.

Within a Full Application for European Regional Development Fund or European Social Fund support applicants will be asked to describe in detail the systems that have been or would be put in place. This information will be tested by the Managing Authority as part of the appraisal process and as part of monitoring, verification and audit visits.

The Managing Authority will only approve European Regional Development Fund or European Social Fund investment if it is satisfied that these requirements will be met. These requirements will be tested thoroughly during monitoring, verification and audit visits and failure to demonstrate compliance with them will result in a reduction in grant funding from the European Regional Development Fund or European Social Fund.

# 2. Overview of the Audit Regime

The European Regional Development and European Social Fund programmes operate within a strict monitoring, verification and audit regime. This regime tests that projects are being delivered in compliance with:

- European Regulations that govern the operation of the European Regional Development Fund or European Social Fund [1]

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[1] http://ec.europa.eu/regional_policy/en/information/legislation/regulations/

- European Regulations that govern other areas of activity that arise in the delivery of projects e.g. State Aid and procurement

- the European Regional Development Fund and European Social Fund National Eligibility rules[2]

- the Funding Agreement agreed with the Managing Authority[3]

Failure to demonstrate compliance will result in a reduction in the amount of money the project receives from the European Regional Development Fund or European Social Fund. This may require money to be repaid to the Managing Authority. In the most serious cases all of the European Regional Development Fund or European Social Fund grant would have to be repaid.

Projects will be monitored and audited by a number of organisations and at various points in their life cycle. The number of times the project will be asked to provide information and or receive a visit will depend upon the risk rating applied by the Managing Authority. As a minimum:

- following approval the project will receive a Project Inception Visit from the Managing Authority, this visit will test that the organisation understands and is able to deliver the project in line with the requirements of the Funding Agreement

- every quarterly grant claim will be reviewed by the Managing Authority. Grant recipients will be asked to provide evidence to prove that the costs being claimed have been defrayed e.g. invoices, payroll records and bank statements, this will involve a sample of the transactions within the claim

- at least once every twelve months the project will receive a monitoring visit from the contract manager within the Managing Authority

- at least once in its lifetime the project will be subject to an On the Spot Verification Visit from the Managing Authority; on average these visits last around 2 days

- at least once in its lifetime the project will be subject to an Audit Visit by the Government Internal Audit Authority, which is independent of the Managing Authority. These visits are more intensive than those undertaken by the Managing Authority and on average last up to a week.

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[2] https://www.gov.uk/government/publications/european-structural-and-investment-funds-eligibility-documents
[3] A copy of the template for Funding Agreements is available on the .GOV.UK website https://www.gov.uk/government/publications/european-structural-and-investment-funds-funding-agreements

In addition projects may also be audited by:

- the Directorates of the European Commission responsible for the European Regional Development Fund or European Social Fund
- the European Court of Auditors

The verification visits by the Managing Authority and audits by the Government Internal Audit Authority are planned separately using random samples. As a result a project may receive more than one visit in any 12 month period.

Audit visits may take place a number of years after a project has ended.

For projects delivered by a consortium of partners, it is the grant recipient organisation that is responsible for ensuring that funding agreement is complied with. The grant recipient must make sure that any delivery partners or sub-contractors fully comply with these requirements. To do this, they will need to show that they have systems in place to verify the information provided and held by partners.

# 3. Grant Claims

The European Regional Development Fund and European Social Fund operate on calendar years. Grant recipients are required to submit four grant claims per year, one per quarter. The quarterly periods are:

- January to March
- April to June
- July to September
- October to December

The Managing Authorities aim to pay claims as soon as possible and subject to their completeness and the monitoring and verification process claims will usually be paid within 40 days of receipt. This means that the European Regional Development Fund or European Social Fund contribution to expenditure defrayed on the first day of the claim period may not be reimbursed for 5 months. Grant recipients must be able to manage the cash-flow requirements of this payment cycle.

Grant claims must include financial and performance information. Within every grant claim grant recipients must provide:

- A summary of expenditure
- details of every transaction, no matter how small, that is included in the project expenditure in the claim period
- details of the outputs and results achieved in the claim period
- a progress report for the claim period

# 4. Financial and Project Management Requirements

Organisations should pay particular attention to the following areas when developing financial and project management systems for projects supported by the European Regional Development Fund or European Social Fund.

## 4.1 Financial Systems and Records

Grant recipients are required to separate the expenditure/income of the European Regional Development Fund or European Social Fund project from the other functions of the organisation. The project should maintain accounting records that allow easy identification of the project expenditure and income. The project should have a computerised system for managing the project finances and use separate cost centres or cost codes.

Expenditure for the project will be approved under a number of standard cost headings. Projects must estimate the amounts to be spent under these headings when applying, report expenditure against these headings and be able to disaggregate the expenditure to individual transactions.

The European Regional Development Fund and European Social Fund programmes include 3 categories of region. Each Category of Regions has a specific financial allocation within European Regional Development Fund and European Social Fund programmes. Depending upon how and where they operate projects may be required to disaggregate expenditure, including individual transactions between the categories of regions.

The European Regional Development Fund and European Social Fund programmes include a number of Priority Axes and within these a number of Investment Priorities, these are set out in the Operational Programmes. Depending upon the activities they deliver projects may be required to disaggregate expenditure, including individual transactions between Priority Axes and or Investment Priorities.

Expenditure is only eligible to be claimed as part of an European Regional Development Fund or European Social Fund project after the costs have been defrayed i.e. the funds have left the organisation's bank account. Grant recipients must be able to demonstrate that costs have been defrayed and when defrayal took place. Costs are only eligible if they are defrayed during the approved lifetime of the project.

All project expenditure, regardless of the value must be evidenced down to the level of individual transactions, by original purchase orders/contracts, invoices/receipts,

bank statements and accounting records. As part of monitoring, verification and audit visits projects will be routinely expected to produce original documentation.

Employment and salary costs must be evidenced by job descriptions, contracts of employment, payroll records and bank statements. Where a person's salary cost is apportioned between project and non-project activity, the expenditure must also be evidenced by:

- staff timesheets that record time sent working on the project and time spent on non-project activity

- records documenting how the gross employment costs used to calculate the hourly rate(s) has been calculated[4].

If there are any non-salary costs that are apportioned to the project, records to verify the apportionment methodology must be maintained in addition to original invoices and bank statements.

Records should be maintained to verify that third party match funding has been received and is eligible. This would ordinarily include a funding offer letter, evidence of claims made, bank statements and accounting records.

## 4.2 Outputs and Results

In return for the grant provided all European Regional Development Fund and European Social Fund are expected to deliver outputs that contribute to the achievement of the targets set for the programme; European Social Fund projects must also deliver results.

It is important that projects collect the required evidence to demonstrate they have delivered the outputs and results they forecast in the application that forms part of the Funding Agreement. Projects that fail to demonstrate delivery of the agreed outputs will be penalised in accordance with the Funding Agreement. The penalty will be a reduction in the amount of European Regional Development Fund or European Social Fund grant to the project.

Comprehensive definitions of outputs and results, as well as the associated evidence requirements, are set out in the output indicator definitions available of .GOV.UK[5]. For each individual output type, a different set of evidence must be maintained.

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[4] For detailed guidance on the calculation of hourly rates please see the Programme Guidance https://www.gov.uk/government/publications/european-structural-and-investment-funds-programme-guidance
[5] https://www.gov.uk/government/publications/european-structural-and-investment-funds-outputs-and-results

Projects must establish appropriate systems and paperwork to capture and retain the relevant evidence. A full suite of evidence must be maintained for every output or result that is declared in the quarterly grant claims.

Output and Result evidence will be tested robustly during the monitoring, verification and audit visits. Robust systems must be in place prior to the start of the project activity. These systems will be tested during the appraisal of the full application and during the Project Inception Visit. Failure to provide the required evidence will result in outputs or results being deemed ineligible and they will be discounted when the projects performance is being assessed; failure to achieve and or evidence outputs will have a direct impact on the level of funding provided from the European Regional Development Fund or European Social Fund.

The type of outputs delivered will depend upon the project, but there are a number of basic details that are common to a number of Outputs and Results

| Individuals | Businesses |
|---|---|
| Personal details: name, address, telephone no., date of birth, gender, ethnicity, disability | Business details: name, address, telephone no. |
| | Sector. |
| Employment status. | Number of employees. |
| Current skill levels | Turnover/balance sheet total. |
| Support provided. | Ownership details e.g. to test that the business meets the SME definition[6] |
| Signature to confirm participation. | Support provided. |
| | Value of the support provided |
| | Signature to confirm participation. |

## 4.3 Procurement

Failing to fully comply with procurement rules has been one of the main reasons why projects have had suffered a reduction in grant funding. Failure to undertake procurements in a compliant way, or not being able to produce evidence that the procurement was compliment, can result in the full value of the contract being

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[6] Please see SME definition at: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

deemed ineligible for European Regional Development Fund or European Social Fund support and all of the grant relating to these costs having to be repaid.

The Managing Authority has produced guidance on procurement requirements which is available on the .GOV website[7]. Within an Outline Application for European Regional Development Fund or European Social Fund support applicants will be asked to confirm that they have read this document and either have appropriate financial and project management systems in place or are able to put appropriate systems in place.

Within a Full Application for European Regional Development Fund or European Social Fund support applicants will be asked to describe in detail the systems that have been or would be put in place and provide evidence to show that procurements that have been undertaken are compliant.  This information will be tested by the Managing Authority as part of the appraisal process.

Compliance with procurement requirements is tested thoroughly during project appraisal, the Project Inception Visit and through monitoring, verification and audit visits. Experience suggests that procurements within European Regional Development Fund or European Social Fund projects are tested more rigorously than at any other time and this exposes deficiencies in established processes that had not previously been identified.

Projects must retain a full audit trail for all procurements and be able to produce evidence of open and fair procurement of goods and services. Including the rationale for the chosen procurement method, proof of advertising and contract notices, quotations or tenders received, the scoring methodology used for selecting the successful candidate and the notifications sent to successful and unsuccessful bidders. This will include details of all preparatory work prior to the procurement process and the delivery/use of the procured service and goods.

The inability to demonstrate that procurement is compliment will result in the recovery of grant funding. The Managing Authority has produced a Procurement Aide Memoire for Applicants and Grant Recipients which is also available on the .GOV.uk website[7].This aide memoire outlines the minimum procurement documents that should be retained for monitoring, verification and audit purposes for all procurements within European Regional Development Fund or European Social Fund projects.

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[7] https://www.gov.uk/government/publications/european-structural-and-investment-funds-procurement-documents

## 4.4 State Aid

Failure to fully comply with State Aid rules will result in a reduction in grant funding from the European Regional Development Fund or European Social Fund.

The Managing Authority has produced State Aid Guidance for the European Development Fund, which is available on the .GOV.uk website. Within an Outline Application for European Regional Development Fund or European Social Fund support applicants will be asked to confirm that they have read this document and either have appropriate systems in place or are able to put appropriate systems in place.

Organisations delivering European Regional Development Fund or European Social Fund must ensure that if they are in receipt of State Aid this Aid is managed in compliance with State Aid regulations. If a European Regional Development Fund or European Social Fund project involves the payment of State Aid to third parties the organisation delivering the project must ensure that this Aid is fully compliant with the State aid regulations and that a full audit trail is in place to demonstrate compliance including clear records of businesses supported for state aid purposes, including signed SME declarations and that they are operating under any state aid rules, such as de minimis, or any other state aid ruling.

Within a Full Application for European Regional Development Fund or European Social Fund support applicants will be asked to describe in detail the systems that have been or would be put in place to manage State Aid and provide evidence to show that State Aid would be managed in a compliant way. This information will be tested by the Managing Authority as part of the appraisal process. The Managing Authority will only approve projects if it is satisfied that:

- the awarding of European Regional Development Fund or European Social Fund is compatible with the State Aid regulations

- any State Aid granted by the project to thirds parties is compatible with the State Aid regulations

- the recipient of European Regional Development Fund or European Social Fund has appropriate management systems in place to ensure the project operates in compliance with State Aid regulations

Compliance with State Aid requirements is tested thoroughly during project appraisal, the Project Inception Visit and monitoring, verification and audit visits. Experience suggests that State Aid compliance is tested more rigorously within European Regional Development Fund or European Social Fund projects than at any other time.

## 4.5 Publicity

It is a mandatory requirement of the European Regional Development Fund and European Social Fund that projects and the support they have received from the funds are actively publicised. The Managing Authority has produced Branding and Publicity Requirements for the 2014-2020 European Development Fund and European Social Fund, which is available on the .GOV.UK website[8]. Within an Outline Application for European Regional Development Fund or European Social Fund support applicants will be asked to confirm that they have read this document and either have appropriate systems and measures in place or are able to put appropriate systems in place.

Within a Full Application for European Regional Development Fund or European Social Fund support applicants will be asked to describe in detail the systems and measures that have been or would be put in place to manage branding and publicity and provide evidence to show that it would be managed in a compliant way.

The project audit, verification and monitoring process will look for evidence that publicity has been undertaken in line with the requirements and that activity accurately references the European Regional Development Fund or European Social Fund support received.

Projects must retain evidence of compliance with publicity requirements. Copies of all publicity materials, including press releases, marketing activity and posters displayed in venues where activity takes place must be retained to demonstrate proactive activity and the correct use of the EU logo and required text. Evidence should also be retained that the requirements for building projects to display billboards and plaques publicising European Regional Development Fund support were met. Failure to comply with the European Regional Development Fund or European Social Fund Branding Requirement may result in a reduction in grant funding from the European Regional Development Fund or European Social Fund.

## 4.6 Document Retention

The Managing Authority has produced Guidance on Document Retention[9], which is available on the .GOV.UK website. All applicants are required to provide a document retention policy. This can be done by adapting current policies or drawing up

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[8] https://www.gov.uk/government/publications/european-structural-and-investment-funds-programme-guidance
[9] https://www.gov.uk/government/publications/european-structural-and-investment-funds-document-retention

separate policies specifically developed for the European Regional Development Fund or European Social Fund project.

In order to demonstrate that the project is being and has been delivered in a compliant manner it is essential that all project related documentation is safely stored in an appropriate format and can be quickly retrieved during monitoring, verification and audit visits. Please note that audits may take place a number of years after the project ends. Failure to produce documents that demonstrate the project has been delivered compliantly will result in the reduction or recovery of grant from the European Regional Development Fund or European Social Fund.

Documents must be retained for all aspects of the project including, where appropriate evidence to demonstrate compliance with State Aid and or procurement regulations.

For projects delivered by a consortium of partners, it is the grant recipient organisation that is responsible for the audit trail. The grant recipient must make sure that any delivery partners or sub-contractors keep adequate records. To do this, they will need to show that they have systems in place to verify the information provided and held by partners.

# 5 Summary

Delivering a European Regional Development Fund or European Social Fund project can be complex and requires the development and maintenance of robust project management systems.

As failure to comply with the requirements of European Regional Development Fund or European Social Fund will result in the reduction in grant funding potential applicants should ensure that they have both the administrative systems and human resources in place to:

- deliver the project activities
- manage project finances and prepare grant claims
- capture evidence to demonstrate achievement of outputs and results
- ensure all procurement activity is compliant with procurement requirements
- ensure compliance with State Aid regulations
- store and recover documentation
- engage with monitoring, verification and audit visits

Project managers must ensure that where other teams within the organisation undertake aspects of the project (e.g. procurement) these colleagues are also aware of the requirements of the European Regional Development Fund or European Social Fund.

Please note that management and administrative costs are eligible project costs and will be supported by the European Regional Development Fund or European Social Fund; either as direct costs (subject to the national eligibility rules) or through indirect costs claimed at a flat rate.