

## **Audit Framework**

**Urban II audit grant recipients by receiving, recording, verifying and stamping all original invoices/receipts before paying additional monies to the group. For further details see financial section of operational manual. DSD will then audit a 5% sample of projects against 4 main areas.**

- **Systems**
- **Records**
- **Activity**
- **Publicity**

**The following 4 pages outline the audit process carried out by DSD.**

## **Audits for European Funded Projects**

**The audit stage is critical for any European project management. Whether its is your internal auditors verifying your systems, or the full external audit from DSD Internal Audit Division there are some basic principles that still apply. Read more here**

Unnecessary worry surrounding audits of European projects can be avoided by following good practice guidelines. If you develop and maintain good systems and operate using transparent accounting procedures, you should not have to worry when the project is audited. In fact audit visits can be an excellent tool for improving and streamlining your systems and taking advice from those who know the rules and regulation best.

There are two main types of audit

1. The annual audit certification conducted between you as project sponsor and your own certified auditors
2. The external audit conducted by those who manage the whole programme or finances external to your organisation

Each is dealt with below.

### **Annual audit certificate**

In the past only ERDF projects have required annual audit certificates. Now all projects operating under the European structural funds need to go though this procedure. The main purpose of audit certificate is to provide the Government Office with independent assurance on your claims about your project. They do not lessen your responsibility for delivering the project in line with your approved application, and you may still be audited by those with responsibility for the programmes.

You will need to provide audit certificates every 12 months during the life of your project and also at the end of the project. The first certificate may cover any period up to 13 months. This will allow you to have the audit done as part of your annual statutory audit where appropriate. You can also try to tie up the end of the project so that the final claim audit certificate is the same certificate signed at the end of an annual period.

Each audit certificate should cover the period from the last audit (or from the start of your project) to the date of your last claim and progress report and you must send a copy of the audit certificate to the Government Office within three months of the end of the period it covers. If you do not do this, the Government Office will stop your payments.

## External Audits

Several external organisations have the right to carry out an audit. These can include your match funder or major partner. If you are a sub-contractor then your lead body may audit you. National UK Government and the European Commission audit team may also audit you. The most likely external agency to audit you will be NBP / Urban II.

Rules imposed by the European Union state that all ERDF records must be kept for seven years after the project end date. You can be audited at any time during this period and you must keep all your records for this period of time. If you are selected to be audited your auditors are obliged to give you at least 2-3 weeks notice of their visit. You must have meticulous records of activities and costs. *The auditors are in a position to take the money back if records are missing or project has failed to perform in line with targeted outcomes.* The purpose of audits is to establish that you are complying with the conditions of your contract. It also establishes if NBP / Urban II or your Partnership is following the rules and working efficiently

## What will be audited?

There are four main areas that the auditors could look at:

### Systems

The focus of the audit as a whole will be on systems. If the systems are good, the auditors will have less investigative work to do, therefore making the project more transparent as a whole. All organisations that provide funding are entitled to keep track of how the money has been spent, and if you have delivered what was initially promised in the application form. The auditor must determine whether or not your record keeping has been done accurately and honestly, and can make recommendations for the future conduct of the business.

### Record Keeping Tips

- keep a project file of all working papers, notes etc. to show others, and remind yourself how you arrived at figures and how application proposals and claims were constructed.
- the level of detail of all records should be sufficient to demonstrate the validity of expenditure and all activities involved in delivering the activity/ training
- where various items of expenditure are included under one budget heading keep a summary sheet that gives a breakdown. This saves a huge amount of time on the day
- ensure that the apportionment that you have used is correct and that the same method has been used across the project. Remember that to have a general percentage is not enough, this must be based on actual project activity.
- don't assume that you will be the one who is present at the audit. It could be three years after the work was completed that the audit occurs.

## Records

Your auditors will look at your project accounts in order to establish that the money claimed was equal to the money spent. The auditors will also look to see if only eligible expenditure has been claimed for. If the systems are good then this will most likely comprise a series of spot checks to ensure that the amounts are correct.

- Remember that where other people or organisations provide some of your project activity or cost, or where they provide match funding then their records are as important.
- All items on the interim and final claims must be supported by source documentation such as invoices, expenses, detailed salary records and payment receipts.
- At the application stage costs will be estimated based on detailed planning. At final claim stage they must be actual, fully detailed and verifiable e.g. staff costs should indicate names, actual salary, on-costs and number of hours worked on the project
- Documentation must support all details of what it costs to deliver and what is said to have been delivered and the methodology of any formulas or apportionment must be justified and worked through.

## Activity

Auditors are looking at project activities in order to establish that the project was carried out, and that the project activity was as stated in the application form.

- If you have introduced new activity into the project that was not reflected in the application make sure that this has been approved and documented.
- Always keep on record the reasons why items are included in the project especially where the links between it and the project is not always obvious.

## Publicity

It is essential that your project is well publicised, and that you acknowledge the support you have received from ERDF. You have taken on the responsibility for this within your contract with the Urban II EU Programme. And you must make sure that all beneficiaries and the general public are aware of where the funding for your project has come from and what it does. The auditors will look to see how well the project has been publicised to external interest groups.

## Audits – What to do on the day

When preparing for the day of your audit collect all documents related to your project in one room, this will include all documents from partners and sub-contractors, and any correspondence you may have had with NBP / Urban II. It may be useful to conduct a mock audit prior to your visit; this will enable you to establish anything that can be repaired. **It is better to be honest with your auditors and confess problems before they arrive.**

It is important to have certain members of staff on hand when the audit is taking place.

- The project manager should be present to provide information on project activity.
- The director of the organisation or senior manager should also be available.
- Most importantly, the person who carried out or has detailed knowledge of the project finances and systems should be present. This is because the auditors will primarily be investigating the financial and non-financial systems in place. They will not necessarily audit all aspects of the project.