

EUROPEAN
U R B A N
INITIATIVE

Audit Trail Factsheet

EUROPEAN URBAN INITIATIVE – INNOVATIVE ACTIONS

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1 INTRODUCTION

The objective of this Factsheet is to provide European Urban Initiative – Innovative Actions (EUI-IA) projects with additional information on the eligibility rules and required audit trail regarding project expenditure. To gain a comprehensive understanding, **it is strongly recommended that this Factsheet is used in tandem with the EUI-IA Guidance, Chapter 7 “Eligibility of expenditure”**.

This Factsheet also aims at better preparing approved projects for the future interventions of the First Level Controller (FLC) in charge of the ex-ante control during the Initiation Phase and the validation of the Financial Claims related to the project implementation. The FLC is an integral part of the overall control system of the EUI; it is an independent body contracted by the EUI and responsible for ensuring that:

- The Project has a sound financial management and control system (ex-ante control),
- All expenditure declared by the Project Partners comply with the EUI, EU, national and Partner rules and is therefore eligible, legal, and rational (validation of project expenses).

For more details on the FLC role, please refer to the EUI-IA Guidance, Chapter 6.3.1 “First Level Control”.

Please note that this Factsheet is relevant for the other controls to which projects may be subjected; namely controls carried out by the Second Level Control, Accounting Authority, Entrusted Entity/Permanent Secretariat, European Commission, European Anti-Fraud Office (OLAF), national bodies, etc.

To understand the narrative provided by this Factsheet, please note that special wording is used for expenditure being tracked throughout the project lifecycle:

- **Incurred cost**¹ – cost incurred to support project implementation (it should follow its specification and the amount budgeted at the application phase).
- **Reported / declared cost** – cost entered in the project Financial Claim with its description and amount, and submitted in the EUI Electronic Exchange Platform (EEP) for control.
- **Verified cost** – cost supported with required evidence and approved through FLC eligibility checks.
- **Project Partner** – Urban Authorities (Main Urban Authority (MUA) and, if relevant, Associated Urban Authorities), Delivery Partners and Transfer Partners involved in the project implementation and listed in the Partnership section of the approved Application Form.

¹Costs accumulated in relation to implementation of the project that are recorded as liabilities on a balance sheet of the Project Partner until they are discharged or paid. Incurred costs may include both direct and indirect costs. Costs incurred during the implementation period but paid after are eligible provided the payment takes place before the submission of the financial claim to the FLC.

1.1 GENERAL RECOMMENDATIONS

The MUA is responsible for the overall implementation and management of the project and bears the entire financial and legal responsibility towards the EUI Entrusted Entity. In that extent, the MUA must guarantee the sound financial management of the budget and make sure that its own organisation as well as the Project Partners' ones, comply with audit requirements (see Subsidy Contract provisions, article 11). As the MUA plays a central role during the control procedures, the more prepared the MUA is, the faster and smoother the audit process will be. During control procedures, the MUA must ensure that:

- All expenses reported in the Financial Claims have been properly declared by the Project Partners.
- Only costs related to approved activities (i.e., linked to the budget and activities described in the approved Application Form) are reported in the Financial Claims.
- The complete audit trail with all evidence and supporting documents, is uploaded in the EEP.
- All FLC requests are addressed swiftly and completely (ex.: requests for complementary information about declared expenditures).

1.2 AUDIT TRAIL

The **audit trail is a set of evidence documenting that the reported expenditure fulfils the eligibility criteria** as set in the EUI-IA Guidance. The audit trail must be clear and immediate. The audit trail comprises not just invoices and proofs of payment but also documentation fully explaining correctness and eligibility of the expenditure presented. It also has to demonstrate good value for money (including the application of the procurement rules).

- Key documents to be used as reference for controls:
 - EUI-IA Guidance & Factsheets
 - Application Form
 - Subsidy Contract
 - Partnership Agreement
- Supporting evidence must be provided in digital format and uploaded on the EEP. These documents must incorporate a clear reference to the project, utilizing a specific code or identifier for accurate tracking and alignment.
- Complete and exhaustive documentation must be provided to the FLC to reconcile expenditure declared and audit trail required. A person with no prior knowledge of the project must be able to trace exact amounts between supporting documents and declared expenditure in the Financial Claim.

Note: if there is no direct financial compliance between declared expenditure and documentation provided, the MUA must ensure that the additional documentation is provided to the FLC, such as distribution key of an invoice, written explanations, note for file, etc.

- When costs are claimed using anonymous data in the Financial Claims (ex.: staff costs protected by GDPR), documents necessary to establish the complete reconciliation with non-anonymous data must be provided on request to the FLC only.
- If expenses are declared as a single consolidated amount (several expenses regrouped together), which is a frequent case for grouped invoices or batch payments, the MUA must be able to provide the FLC with:
 - The reconciliation between amount declared in Financial Claim and the detailed expenses.
 - The audit trail for each cost item of the consolidated amount.
- Expenses declared ineligible in Financial Claim 1 (please see EUI-IA Guidance, Chapter 1.8.2 “European Regional Development Fund ERDF payments”) because of an incomplete audit trail can be claimed again in Financial Claim 2 if additional documentation can be provided.
- Expenses declared eligible in Financial Claim 1 cannot be resubmitted in Financial Claim 2.
- Eligible costs that were not declared in Financial Claim 1 can be submitted in Financial Claim 2.

2 AUDIT TRAIL

Costs claimed throughout the EUI fall into 2 categories: simplified cost options and procured goods and services. You will find below an overview of audit trails for each of these categories.

2.1 SIMPLIFIED COST OPTIONS

A. Flat rates

A flat rate relates to specific categories of eligible costs which are clearly identified in advance and are calculated by applying a fixed percentage to one or several other categories of eligible costs. Flat rates are automatically calculated by the EEP. Three cost categories are concerned by this method of calculation:

- **Staff Costs based on a flat rate** (option 1 of the Staff Costs calculation) are calculated by applying 20% on the total eligible amount declared by the Project Partner under the cost categories External expertise and Services, Equipment, and Infrastructure and Construction work.
- **Office and Administration**, 15% of declared Staff Costs.
- **Travel and Accommodation**, 5% of declared Staff Costs.

With flat rates, Project Partners do not need to provide any justification or supporting documents. For instance, Project Partners do not need to justify that the Staff Costs were incurred and paid (i.e. the ‘real costs’). The auditor focuses on checking that the costs have been calculated according to the methodology and that the other categories of costs, which form the basis for the calculation, are legal and regular.

B. Lump sums

A lump sum is a single sum of money paid to the project upon completion of pre-defined terms of agreement on deliverables and/or outputs². Lump sums are prefilled (and not editable) in the EEP:

- Costs for the Work Package Project Preparation & Initiation Phase are covered by two lump sums totalling EUR 100 000 eligible costs (corresponding to maximum EUR 80 000 ERDF):
 - EUR 25 000 (corresponding to EUR 20 000 ERDF) – a lump sum for the project preparation, conditioned by the approval of the project by the EUI Selection Committee,
 - EUR 75 000 (corresponding to EUR 60 000 ERDF) – a lump sum for the Initiation Phase, conditioned by the completion of the Initiation Phase (even if unsuccessful, see Initiation Phase Factsheet for more details).
- Costs for the Work Package Closure are covered by a lump sum of EUR 20 000 (corresponding to EUR 16 000 ERDF) conditioned by reception and acceptance of the Final Qualitative Report and closure documentation.
- Budget for each Transfer Partner is covered by a lump sum of EUR 150 000 (corresponding to EUR 120 000 ERDF) conditioned by the signature of the Partnership Agreement (30%) and completion and submission to the Permanent Secretariat of pre-defined transfer deliverables and outputs (70%).

With lump sums, Project Partners do not need to provide any justification or supporting documents. The FLC focuses on checking that the lump sum amount is correct.

C. Staff costs based on an hourly rate (option 2 of the Staff Costs calculation)

Using the Standard Scale of Unit Costs, the Staff Costs are calculated based on a unique hourly rate per Project Partner, defined by each Project Partner and based on the following calculation method:

$$\text{Hourly rate} = \frac{\text{Annual payroll}}{\text{Full Time equivalent}} \div 1,720$$

² Please refer to the EUI-HA Guidance, Chapter 1.8 “Funding principles”.

The hourly rate of concerned Project Partners is checked by the FLC during the ex-ante audit, the Financial Claim 1 and the Financial Claim 2.

- The annual payroll is the total staff costs of the Project Partner per year. It can be justified using an extract from the accounting system, payslips, or other relevant documents with equivalent probative value³ and must include the people working on the project.

The calculation of the annual payroll is crucial for the hourly rate to be validated by the FLC. Depending on the scale of your organization, different methods can apply. Please note that you have the option to anonymize employees' names to ensure GDPR compliance.

1. Calculation based on the overall payroll of the partner organisation

In this scenario, the Project Partner uses the overall annual payroll of its organisation, including all staff members across various departments:

- Identify all staff members: Compile a list of all employees, including full-time, part-time, and temporary staff, regardless of their department or role.
- Determine individual salaries or wages: For each employee, determine their annual salary or wages based on their employment contract. This includes considering any overtime pay, bonuses, or additional compensation that are eligible in the projects' framework.
- Calculate total annual payroll: Sum up the annual salaries or wages of all employees identified in step 1 to find the Project Partner's total annual payroll.

2. Calculation based on the payroll of the departments (or units, divisions...) active in the project implementation

In this scenario, a Project Partner is tasked with calculating the annual payroll of several specific departments of the Project Partner (or units, divisions...) active in the project implementation, excluding other departments and the organization as a whole.

By following this approach, the Project Partner can determine the annual payroll costs for multiple departments individually and then aggregate them to get the total payroll cost for those specific departments, while excluding others within the organization.

- Identify department employees: Compile a list of employees from each designated department for which you want to calculate the annual payroll. Include all relevant staff members, such as full-time, part-time, and temporary employees who are exclusively part of the selected departments.
- Determine individual salaries or wages: For each employee within the designated departments, determine their annual salary or wages based on their employment contract. Consider any additional compensation eligible in the project's framework, such

³ "Other relevant documents" is a broad category encompassing any records or paperwork that can provide evidence of the total staff costs for the year, ensuring comprehensive documentation for auditing and financial assessment purposes.

as overtime pay, bonuses, or other relevant benefits, within the scope of the selected departments.

- Calculate department-specific annual payroll for each department: Sum up the annual salaries or wages, including any eligible bonuses or additional compensation, of all employees within each designated department separately.
- Repeat the process for all selected departments: Perform steps 1-3 for each department separately, ensuring that you calculate the payroll only for the departments included in the project's scope.
- Combine department-specific payrolls: Sum the department-specific annual payrolls calculated in step 3 for each of the selected departments. This combined total represents the annual payroll for the multiple departments included in the project, excluding other parts of the organization.

3. Calculation based on a project-specific payroll (project team)

- In this case, the Project Partner wants to calculate the annual payroll specifically for a project, including only the employees directly working on that project.
- Identify project team members: Determine who is directly involved in the project independently of their status (full-time or part-time). This might include project managers, officers, and support staff who are dedicated to the project.
- Determine their compensation: For each team member identified in step 1, calculate their individual annual salaries or wages based on their roles within the project.
- Exclude non-project staff: Exclude any Project Partner employees who are not directly involved in the project from the payroll calculation. Only consider those individuals who are contributing to the project's completion.
- Calculate the project-specific annual payroll: Sum up the annual salaries or wages (including bonuses and additional compensation) of the team members directly involved in the project to find the project-specific annual payroll.

By following these steps, the Project Partner can calculate its annual payroll either for all staff members or for a specific project team, depending on their needs and objectives. This allows for accurate budgeting and financial planning.

- Full-time equivalent: number of full-time equivalents employed by the Project Partner organization corresponding to the staff costs of the annual payroll considered for the calculation of the hourly rate.
- For each person working on the project, an **employment confirmation** must be available: it can be an employment contract or any other legal agreement binding the employee with the organization (MUA or other Project Partner).
- Number 1720 corresponds to the maximum number of hours per full-time employee, per calendar year. **This number is fixed** and cannot be changed to calculate the hourly rate.

- Once the hourly rate has been calculated, it shall be used in combination with the hours worked on the project by every employee. Hence, a document reporting these hours is as well essential for a proper audit trail. A template is provided by the Permanent Secretariat at the latest at the start of the project implementation.
- Please note that the hours claimed can only concern people included within the calculated annual payroll. For a person not included within this perimeter costs cannot be claimed in the framework of the project.
- With option 1 (based on the overall payroll of the Project Partner organisation), the hourly rate validated by the FLC during the ex-ante can be used in Financial Claim 1 and 2.
- With option 2 and 3, the hourly rate validated by the FLC during the ex-ante can be used for the Financial Claim 1 and 2, provided that respectively the concerned departments or staff members are covered by the calculation method selected for the annual payroll.
- The hourly rate calculated during the ex-ante control can be updated for Financial Claim 1 and 2; any updates must be duly justified to the FLC during the Financial Claim controls.

2.2 PROCURED GOODS AND SERVICES

Procured goods and services require the submission of more extensive, specific to each cost category, documentation from the Project Partners to accompany each of the reported cost. They are detailed here below:

A. Equipment

The EUI-IA Guidance makes the distinction between accessory equipment (an equipment **used to carry out the project**) and investment equipment (tool / device **considered as a project investment or (part of a project investment) and produced as result of the ERDF funding that will remain in use by the target groups, after the completion of the project**). In any case, equipment is eligible on a real cost basis provided it is necessary for the project purpose (connected to the activities, deliverables, outputs described in the project workplan). For more details, please refer to the EUI-IA Guidance, Chapter 7.2.5 "Equipment".

Regarding the audit trail, the following documentation is required:

- Evidence that the procurement was done in line with the applicable procurement rules (see below for more details).
- Invoice providing all relevant information is in line with the applicable accountancy rules.
- Proof of payments.
- For investment equipment: contract laying down the specification and condition of the delivery of the investment equipment to be provided, with clear reference to the project.
- For accessory equipment: applicable calculation scheme for depreciation (contract, accounting records, if needed).

B. Infrastructure and Construction works

The Infrastructure and Construction work cost category covers costs related to investments in infrastructure that do not fall into the scope of other cost categories. These costs are eligible on a real cost basis **only if crucial and approved in the Application Form** for the achievement of the project's outputs and results.

In terms of audit trail, the following documentation is required:

- Evidence of compliance with the applicable EU, EUI, national and internal procurement rules.
- Documents pertaining to the work may be required such as feasibility studies, environmental impact assessment and planning permission.
- In the case of land and real estate purchase (or provision of those in the form of in-kind contribution), a certificate from an independent qualified evaluator or duly authorised official body confirming that the cost is in line with the market value.
- In the case of land and real estate provided in the form of contribution in kind, evidence of compliance with the applicable rules in the field of in-kind contribution.
- Documents specifying and proving the ownership of land and/or real estate where the works are carried out, as well as proof of commitment to establish and maintain an inventory of all fixed assets acquired, built or improved under the ERDF grant.
- Proof of payment.

C. External Expertise and Services

This cost category covers expenses related to professional services and expertise provided by external service providers (other than the Project Partners) contracted to carry out certain activities linked to the delivery of the project (e.g. tasks that cannot be carried out by the Project Partners themselves). The work of external service providers must be necessary for the project and should be linked to activities foreseen in the Application Form. This cost category also covers Financial Schemes⁴. These expenses are to be declared as **real costs**.

In terms of audit trail, the following documentation is required:

- Evidence of the procurement process in line with applicable EU, EUI, national and internal procurement rules.
- Written contract (or any document of equivalent probative value) laying down the services to be provided with clear reference to the project. Any changes to the contract must comply with the procurement rules and must be sufficiently documented.

⁴ Financial schemes implemented by Project Partners, supporting the distribution of financial contribution as a reward following a contest (such as prizes, vouchers, or grants) to the benefit of third parties (individuals or organisations) that are not part of the Project Partnership; please refer to the EUI Factsheet on Financial Scheme for more details.

- Invoice (or request for reimbursement) providing all relevant information in line with the applicable accountancy rules.
- Proof of outputs or services delivered.
- Proof of payment.

2.3 IN-KIND

In-kind in the framework of a project financed by EUI refers to a type of contribution or funding provided to a project in the form of goods, services, or assets instead of direct monetary disbursements. In this context, the term "in-kind" signifies that the payment is made through the provision of tangible or intangible resources, expertise, or support, rather than through a traditional cash transfer. In other terms, it refers to non-cash contributions given to a project that have a monetary value, however for which it is not charged, and for which no cash payment supported by invoices or documents of equivalent probative value has been made.

In general, it is essential for these contributions to be properly documented and accounted for in the project's budget and financial records to ensure transparency and compliance with EU regulations. In the scope of an EUI-IA project, in-kind contribution can only be budgeted and declared in the following cost categories:

- External expertise and Services
- Equipment
- Infrastructure and Construction work

These in-kind contributions must be necessary to carry out the tasks and achieve the project objectives agreed by the Project Partners and can take various forms, such as:

- Goods: Donating physical items, equipment, or materials that are needed for the project's implementation. For example, providing computers, laboratory equipment, or construction materials.
- Services: Offering specialized services or expertise that are essential for the project's success. This could include the contribution of studies, technical support, or consulting services.
- Volunteers: Supplying personnel or labour to work on the project. This might involve seconding employees or volunteers who work on project activities without direct compensation.
- Land and real estate (contribution in the form of land is in any case limited to 10% of the total project budget).
- Facilities / Rent: Providing access to facilities or infrastructure (for instance, the provision of an office space rent-free for project meetings and activities) required for the project, such as, research facilities, or transportation services.

Please keep in mind that in-kind contribution shall be validated by the project designated FLC like any other project expenditure.

The Project Partner having declared in-kind contribution bears full responsibility towards all detected irregularities (even if the final source of the contribution is external to the project partnership). In case the source of in-kind contribution is external, the beneficiary responsible for receiving the contribution shall establish a written agreement with the organisation providing the contribution. The agreement should at least cover the availability of all original documents supporting the reality of the contribution, the transfer of ownership and the certification of its value.

The audit trail required for in-kind contributions is the same as for the relevant cost categories described above. The only difference remains in the need to provide a proof that the value of the in-kind contribution is in line with the current open market value and must be certified by an independent qualified evaluator or duly authorised official body.

Please note that in case the source of in-kind contribution is external, the beneficiary responsible for receiving the contribution shall establish a written agreement with the organisation providing the contribution. The agreement should at least cover the availability of all original documents supporting the reality of the contribution, the transfer of ownership and the certification of its value.

Summary: audit trail requirements per cost category

| | | audit trail requirements per cost category | | | |
|--|---|---|--|--|---|
| | | Expense is reasonable and supported by evidence | Expense is real, incurred and paid by the entity | Expense is linked to the project | Expense is incurred during the implementation period |
| AUDIT TRAIL | Staff Cost (flat rate) | 20% on all costs of the Project Partner under external expertise and services, equipment, and infrastructure and construction works. No audit trail required. | | | |
| | Staff Cost (Standard scale of unit costs) | <ul style="list-style-type: none"> ✓ Extract from the accounting system embedding the employees working on the project for the Project Partner (annual payroll). ✓ Employment confirmation, such as an employment contract (or equivalent). | <ul style="list-style-type: none"> ✓ Proof of payment - bank statement or signed receipt from person/entity receiving the payment. ✓ Document tracing the number of hours spent on the project for every employee. | <ul style="list-style-type: none"> ✓ Mention of the employee or activities related to the project in technical reports, memos, deliverables, events, etc. | <ul style="list-style-type: none"> ✓ Reported expenses are within the project implementation period. |
| | Office and Administration | ✓ Flat rate - 15% of declared Staff Costs (automatically calculated by the EEP system). No audit trail required. | | | |
| | Travel and Accommodation | ✓ Flat rate - 5% of declared Staff Costs (automatically calculated by the EEP system). No audit trail required. | | | |
| | 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 payment - bank statement or signed receipt from person/entity receiving the payment. | <ul style="list-style-type: none"> ✓ Proof of outputs or services delivered stated in the contract: technical report, study, pictures, deliverable, etc. | <ul style="list-style-type: none"> ✓ Reported expenses are within the project implementation period. |
| | Equipment | | | | |
| Infrastructure and Construction works | <ul style="list-style-type: none"> ✓ Written and signed contract stating service provided and reference to the project. ✓ Invoice and purchase order. | | | | |

Regarding requirement “Expense is incurred during the implementation period”, please note that implementation of **all the activities under Thematic Work Packages ends 6 months before the end of the project Implementation phase** (please refer to the EUIA Guidance, Chapter 1.7 “Project phases” for more details). As such, **costs related to the Thematic Work Packages must be strictly incurred during their implementation period.**

3 POINTS OF ATTENTION

3.1 PUBLIC PROCUREMENT

In the framework of project management, an increased emphasis on public procurements is essential, owing to their complex nature, higher associated risks, and the critical need for compliance with EU regulations.

All public procurements related to expenses of the project are controlled at least once during the project lifetime (as reported inside the Financial Claim).

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

Pre-existing framework agreements prior to the EUI project can be used by Project Partners. The same audit trail (documents issued and processed even before the start of project implementation) is required, as well as the purchase order with reference to the EUI project.

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

Non-contracting Authority Project Partners (i.e., that are not subject to public procurement rules) are not required to provide a list of potential subcontractors. However, **evidence of market research must be presented during controls.**

Market research – As EUI-IA projects are co-financed with public funds, Project Partners that are not subject to public procurement procedures obligations **must nevertheless ensure adequate market research** for contracts linked to project expenses above EUR 10,000 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 market research. The suggested audit trail is not necessarily required to validate the expense.

It might however be requested in case of audit, either from the FLC, or the Second Level Controller.

In exceptional and duly justified cases, an exception to this market research principle can be accepted whenever the non-contracting Authority Project Partner can demonstrate an existing long-standing, reliable and cost-efficient relation with a specific provider. In that case, the audit trail should include a solid justification for the choice of the provider⁵.

3.2 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). Therefore, 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, 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.

⁵ Please refer to the EUI-HA Guidance, Chapter 7.5.6.2 "Market research".