Audits for European funded projects

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/contractor and your own independent and certified auditors; and
2. The external audit conducted by those who manage the whole programme or finances external to your organisation

**Annual audit certificate**

All project sponsors operating under the European Structural Funds need to go though the annual audit certificate procedure. The main purpose of an audit certificate is to provide WEFO with independent assurance on your project claims. 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. WEFO will withhold payment of claims until they receive satisfactory audit certificates, so it is important to plan ahead with booking auditors and ensure that all required information is made available to them in good time.

**External Audits**

**Project Sponsor Visits**

If you have been awarded a contract or a grant by a project sponsor then expect to be audited by that organisation. They will normally undertake an audit that is similar in nature to a Project Inspection and Verification (PIV) visit. Sponsors undertake these visits to satisfy themselves that the activity, expenditure and systems used are eligible and appropriate. Also any of the following audits could ask to inspect your files as part of their visit to the project sponsor.

If you are a project sponsor then several external organisations have the right to carry out an audit on your project. These can include your match funder or major partner. National UK Government and the European Commission audit team. The most likely external agency to audit you will be the Welsh Government and their audits come in two possible forms -
**Project Inspection and Verification visits**

During a project's lifecycle, the Welsh European Funding Office’s (WEFO’s) Project Inspection and Verification (PIV) Team will undertake a visit to your project to gain a valuable insight into its operation and management and to share best practice.

In particular, the visit will help to:

- confirm compliance with EC Regulations and conditions attaching to the offer of EU funds;
- judge the practical application and effectiveness of the management and control systems;
- ensure the project conforms to the content as agreed in the application / approval offer letter and is progressing as stated in the last payment claim;
- confirm the availability of appropriate national co-financing;
- identify potential problems as early as possible and make suggestions for improvement measures;
- identify successful elements of the project for possible use in WEFO’s publicity measures and to share best practice;
- ensure that the expenditure charged against the project is real, consistent and eligible; and
- ensure the existence of a full transparent audit trail which includes retention of supporting documentation.

**European Funds Audit Team (EFAT)**

Responsible for undertaking Financial Control visits to independent audits of projects supported through current and previous Structural Funds programmes. Ensuring management and control systems operate satisfactorily.

An audit is to ensure that claimed expenditure is eligible for funding and that all applicable EC regulations and Welsh rules have been followed.

The main objectives are:

- ensure that management and financial control systems are in place;
- test the practical application and effectiveness of the systems;
- check that projects accord with descriptions given in grant applications;
- confirm compliance with conditions, and verify grant has been used, as specified in the projects approval letter;
- ensure that the expenditure charged against the project is:
  - actual (i.e. expenditure claimed has actually been incurred and defrayed);
  - consistent (i.e. the project was delivered in line with the Operational Programme and that expenditure claimed was relevant to the project); and
  - eligible (i.e. incurred against eligible activity delivered during the period approved).

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 the 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.
The European Commission requires WEFO, as Managing Authority for the Welsh Structural Funds Programmes, and all participants in Structural Funds-related activity to retain ALL supporting documentation in relation to programme expenditure and audits, for a period of three years following payment of the final programme balance by the European Commission to the Welsh Ministers. This means at least until 2025, but the project sponsor must retain all documents until WEFO advises otherwise.

In addition to the Welsh Government audits, the European Court of Auditors could also ask to inspect your project. These audits are part of their work to ensure that the managing authority has undertaken their duties to a satisfactory standard.

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. 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 so make sure the records kept give enough detail for any member of staff to be able to pick up the project.

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 of 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 as yours.
- 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 signed timesheets.
- 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 are not always obvious.

Publicity
It is essential that your project is well publicised, and that you acknowledge the support you have received from ERDF & ESF. You have taken on the responsibility for this within your contract with the EU. 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 WEFO. 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.