EUROPEAN
URBAN
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 audit trail regarding project expenditure. To gain a comprehensive understanding, **it is strongly recommended to use this Factsheet in tandem with the EUI-IA Guidance, Chapter 7 "Eligibility of expenditure"**.

By referencing the European Commission's guidance documents, namely:

- **EGESIF_14-0017 – Guidance on Simplified Cost Options (SCOs) – European Structural and Investment (ESI) Funds** (2014) (Annex 1)
- **Commission Notice on the Use of Simplified Cost Options within the European Structural and Investment Funds (2021/C 200/01)** (Annex 2)

We ensure that our approach aligns with established regulatory frameworks and best practices. This analysis aims to provide a solid foundation for the application of SCOs in EUI-IA projects, reinforcing transparency, efficiency, and compliance.

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:

- Projects have 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 organisations such as the Second Level Controller, Accounting Authority, Entrusted Entity/Permanent Secretariat, European Commission, European Anti-Fraud Office (OLAF), national bodies, European Court of Auditors.

Throughout the project lifecycle, project costs (also called expenses or expenditure) evolve:

- **Incurred costs**[1] – Costs related to the project implementation, that have been charged but not yet paid.

[1]Costs 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. 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.

- **Reported / declared costs** – incurred and paid costs included in the project Financial Claim on the EUI Electronic Exchange Platform (EUI.connect) with required descriptions, amounts and evidences.
- **Verified / validated costs** – reported costs controlled and approved by 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 EUI.connect (preferred option).
- All FLC requests are addressed swiftly and completely (ex.: requests for complementary information about declared expenditures).

1.2 UNDERSTANDING 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 and this Factsheet. The audit trail must be clearly connected to the Application Form and time bounded to the project implementation period. The audit trail comprises not just invoices and proofs of payment but also documentation fully explaining correctness and eligibility of the expenditure presented (e.g. procurement related documentation, calculation methodologies applied, documents mentioned in the Financial Scheme Factsheet, etc.). It also has to demonstrate good value for money (including the application of the procurement rules) related to the procured goods and services.

- Key documents to be used as reference for controls:
    - EUI-IA Guidance & Factsheets
    - Application Form

- Subsidy Contract
- Partnership Agreement
- Audit Trail Factsheet

- Supporting evidence must be provided in digital format and uploaded on the EUI.connect or be sent directly to the FLC during the Financial Claim validation process if you do not wish to use the system. These documents must incorporate a clear reference to the project, utilizing a specific code or identifier for accurate tracking and alignment.

  Please note that if the EUI.connect is not used to upload the audit trail, the FLC will request the necessary documents via its own platform, though this will inevitably result in a longer validation process, delayed payments, and a lack of readiness for potential additional controls.

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 or not sufficient financial compliance between declared expenditure and documentation provided, the MUA must ensure that missing or additional documentation is provided to the FLC on request from the FLC during the control of project expenditure.

- 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 can occur in case of 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 resubmitted again in Financial Claim 2 if missing or 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:

1. simplified cost options and
2. actually incurred and paid costs related to procured goods and services.

Following chapters will provide an overview of audit trails required for each cost type falling under one of these categories.

2.1 SIMPLIFIED COST OPTIONS

The EUI-IA has adopted SCOs to simplify administrative procedures, reduce the likelihood of errors, and ensure a more efficient allocation of resources. The justification for using SCOs is supported by the following key considerations:

Legal and Regulatory Basis

The European Commission strongly encourages the use of SCOs under Articles 67, 68, 68a, and 68b of Regulation (EU) No 1303/2013. As outlined in the 2021 Guidance (Annex 2):

- SCOs enable a shift from controlling costs to focusing on outputs and results.
- They reduce the administrative burden by eliminating the need for exhaustive documentation of actual costs.
- They align with financial management principles endorsed by the European Court of Auditors.

The **2014 Guidance on SCOs** emphasizes that using predefined cost methodologies significantly reduces administrative burdens while increasing efficiency in project management (Annex 1).

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 EUI.connect. 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.

Flat rates for relevant cost categories are automatically calculated by the EUI.connect platform in the Financial Claim (1 or 2).

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 outputs[2]. Lump sums are prefilled (and not editable) in the EUI.connect:

- 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), to be validated automatically within the Financial Claim 1:
    - 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 and to be validated automatically within Financial Claim 2.
- Budget for each Transfer Partner is covered by a lump sum of EUR 150 000 (corresponding to EUR 120 000 ERDF) total included automatically in Financial Claims as follows:
    - 30% of a lump sum automatically included in Financial Claim 1 for each transfer partner specified in the last version of the Application Form connected to the Financial Claim 1 under condition that EUI PS has received the Partnership Agreement signed by the specified Transfer Partners;
    - 70% of a lump sum automatically included in Financial Claim2 for each transfer partner specified in the last version of the Application Form connected to the Financial Claim 2 under condition that all deliverables agreed in the Partnership Agreement were

[2] Please refer to the EUI-IA Guidance, Chapter 1.8 "Funding principles".

submitted and verified by the EUI PS. Transfer Factsheet should be consulted to acquire focused knowledge on the transfer package management.

- With regards to the lump sums relevant in each Financial Claim, Project Partners do not need to provide any justification or supporting documents. The FLC focuses on checking that the lump sum amount is correct. However, if additional controls are conducted beyond the FLC's standard validation, Project Partners may be asked to provide evidence confirming that the conditions for receiving the lump sum have been met.

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:

Hourly rate = **Annual payroll** ÷ **Full time equivalent** ÷ **1 720**

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 incurred and paid over a 12-month period. It can be justified using an extract from the accounting system, payslips, or other relevant documents with equivalent probative value[3] and **must cover the people working on the project**.
- The Annual payroll used in hourly rate calculations must be justified. National eligibility rules must clarify what is included, considering standard accounting practices and national regulations[4].
- The latest documented data should be used to ensure accuracy. The intention behind the term "latest" is to make sure that the data used are recent enough, thus indicative of real staff costs. Thus, a calculation method based on historical data of the beneficiary is normally not relevant.
- The costs do not have to relate to a calendar or financial year (for example, it could be data relating to the period October 2023 to September 2024). What is important is that the gross employment cost covers a full 12-month period. If full 12-month data is unavailable,

[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. This includes certification by a responsible independent entity attesting to the staff costs included in the annual payroll calculation. Please note that the specific requirements and procedures may differ from Member State to Member State.

[4] E.g., the national rules may determine that expenses for commuting to the workplace are part of the gross employment costs.

extrapolation from existing records, employment contracts, or collective agreements may be applied. In this case, the annual gross employment costs can also be based on:

1. Real employment costs for an individual.
2. The average costs of a comparable employee group.

Supporting documentation, such as payroll reports, accounting records, or publicly available agreements, must be available for audit purposes.

Additionally, the hourly rate may be fixed after the project starts, provided that the methodology is clearly specified in the support conditions.

NB: the Annual payroll does not have to relate to a calendar or financial year (for example, it could be data relating to the period October 2025 to September 2026). What is important is that the gross employment cost covers a full 12-month period. It can be the 12-month period preceding the end of a reporting period (of the operation or the programme), 12 months before the grant agreement or 12 months of the previous calendar year.[5]

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, under GDPR Article 6[6], auditors may check the payroll data without requiring anonymization, as long as it is necessary for the audit and complies with the legal obligations. However, you still have the option to anonymize employees' names to avoid the unnecessary disclosure of personal data among employees within the same entity.

1) Calculation based on payroll: whole organisation OR department(s) involved in the project implementation.

This section outlines the methodology for Project Partners to calculate payroll costs, applicable whether the Project Partner chooses to use the overall payroll of the entire organization or focuses on specific departments, units, or divisions involved in project implementation.

- Conditions to use this option

  1. Minimum involvement threshold: <u>At least 50%</u> of the total staff employed by the Project Partner must be working on activities directly related to the project, at the organisation level or at the department level.

[5] As referred into the Commission Notice on the Use of Simplified Cost Options within the European Structural and Investment Funds (2021/C 200/01), page 27.

[6] https://gdpr-info.eu/art-6-gdpr/

2. **Demonstration of compliance**: The Project Partner must provide evidence of staff involvement through:
   - Project Partner Staff Report (template provided by the EUI PS) or equivalent
   - Other relevant documentation (list of employees involved, their roles and time spent on the project).
3. **Relevance of selected departments (if applicable)**: For calculations involving specific departments, the Project Partner must demonstrate that the selected departments are actively contributing to the project implementation and provide supporting documentation.

- Procedure to be followed by the Project Partner

1. **Identify relevant staff members**:
   - If using the entire organization approach, compile a list of all employees, including full-time, part-time, and temporary staff, across the entire organization.
   - If using the approach per department, compile a list of employees from specific departments, units, or divisions actively contributing to the project implementation. Include all relevant staff members, such as full-time, part-time, and temporary employees within the designated departments.
2. **Determine their compensation**:
   - For each identified employee, calculate their individual annual salaries or wages based on their roles within the organization or department.
   - Include eligible overtime pay, bonuses, or additional compensation within the project's framework.
3. **Calculate the annual payroll**:
   - For the entire organization approach, sum up the annual salaries or wages of all employees identified in Step 1 to determine the total payroll.
   - For the departmental approach, calculate the department-specific annual payroll by summing up the salaries or wages of employees within each selected department. Combine the payrolls of all selected departments to determine the total payroll for the project.

- Documents to be provided to FLC during the control of the Financial Claims:

  - Validation of the annual hourly rate:
    1. A list of the staff of the whole organisation or departments concerned and and showing the Project Partner project team specifying their roles and percentage of time dedicated to the project. (employment contracts or equivalent

documentation for the staff members included in the calculation might be requested) signed by the representative of the Human resources or equivalent (EUI-Annual-FTE template can be used).

2. Annual payroll records or official annual salary statement(s) for the staff of whole Project Partner organisation OR departments staff of which is included in project implementation certified by a responsible independent entity as suggested above.

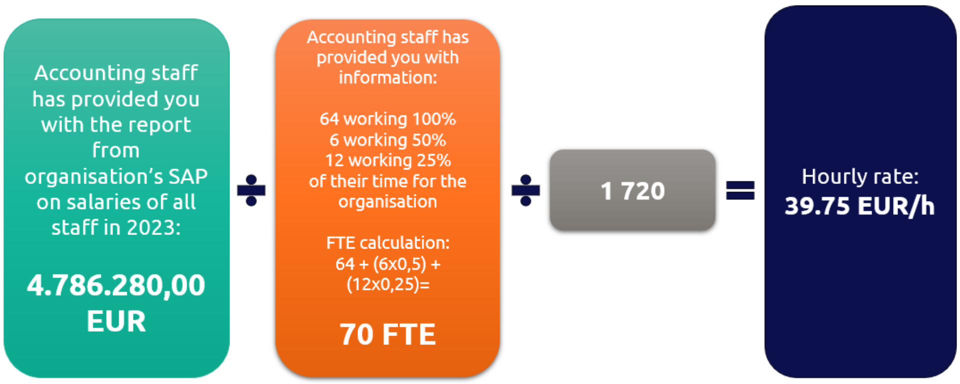
- Report of hours

  1. Project Partner Staff Report (template provided by the EUI PS) or equivalent document(s)in use by the Project Partner organisation containing at minimum the information as required in the Project Partner Staff Report template.

  2. Any additional documentation required by the FLC

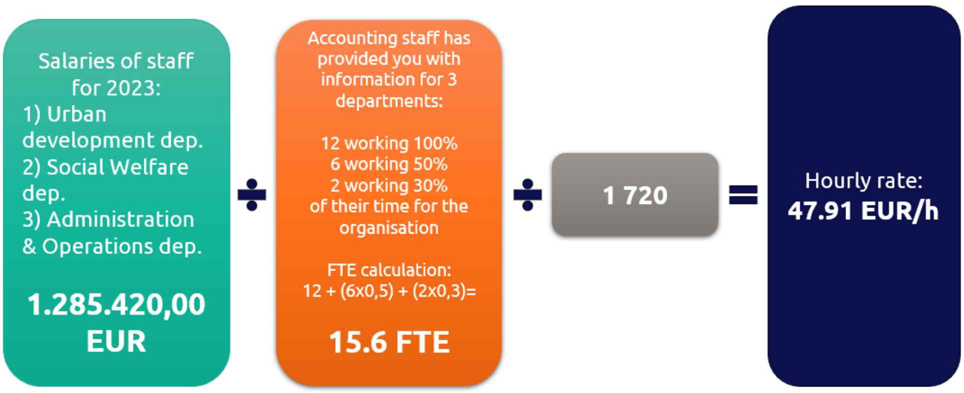
<u>Please see two corresponding examples of calculation of hourly rate:</u>

a) Example of calculation of hourly rate based on the payroll of entire organisation's staff – as a first step Project Partner must ensure that condition for using this option is met by demonstrating that project team accounts for more than 50% of whole Project Partner organisation's staff (total number of staff, not full-time equivalents, e.g. if project team counts 6 persons and Project Partner organisation employs total of 230 persons, this option would not be available for the Project Partner as 6/230 = 2.6%)



b) Example of calculation of hourly rate based on the payroll of departments/ units of which the staff will be appointed as project team – as a first step Project Partner must ensure that condition for using this option is met by demonstrating that <u>project team counts more than 50% of each department/unit's staff</u> (total number of staff, not full-time equivalents, e.g. if project team counts 7 persons and 3 departments employs total of 82 persons, this option would not be available for the Project Partner as 7/82 = 8.5%)

Department/ Unit	Total number of staff employed	Number of staff appointed to the project team	%
Dept. 1	64	3	4 %
Dept. 2	6	3	50%
Dept. 3	12	1	8%



2) 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.

- Conditions to use this option

1. The project team must consist of employees who are directly engaged in the project's implementation.
2. The Project Partner must ensure that only staff with documented roles and time dedicated to the project are included in the payroll calculation.

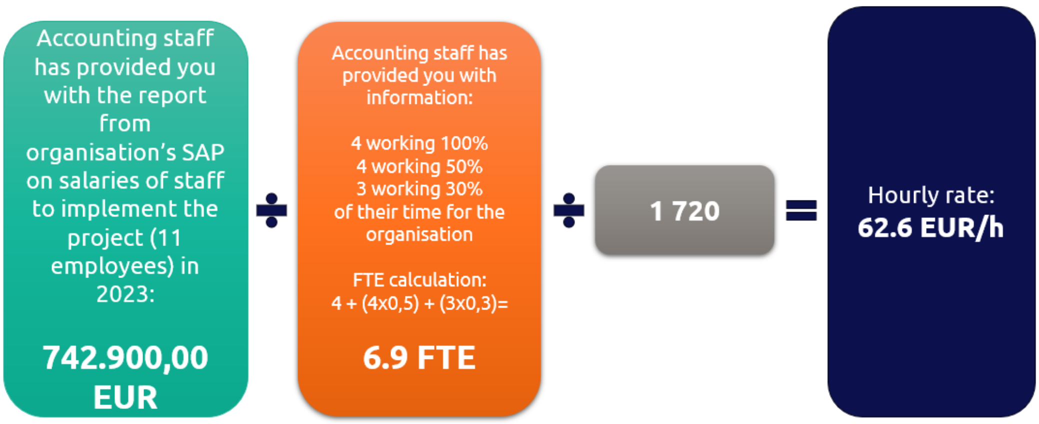
- Procedure to be followed by the Project Partner

1. 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.

2. 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.
3. 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 directly contributing to the project implementation.
4. 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.

- Documents to be provided to FLC during the control of the Financial Claims
  1. A list of project team members, detailing their roles and percentage of time dedicated to the project (employment contracts or equivalent documentation for the project team members might be requested by the FLC).
  2. Project Partner Staff Report (template provided by the EUI PS) or equivalent containing at minimum information requested by it.
  3. Payroll records or official salary statements for project team members.
  4. Any additional documentation required by the FLC.

By following these steps, the Project Partner can calculate its annual payroll for a specific project team, depending on their needs and objectives. This allows for accurate calculation of the hourly rate.



- 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. (please refer to the previous pages for the documentation to be sent)
- 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 (even if the maximum number of hours of the Project Partner is lower or higher).

Reporting of hours for Project Partner staff

- Use of the report of hours template for up to one year of implementation where the same hourly rate is to be applied to the reported number of hours.
- 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.
- The hourly rate calculated during the ex-ante control must be updated for Financial Claim 1 and 2 as up to one hourly rate to be used per year of implementation covered by the Financial Claim (1 or 2)

EUI PS and First Level Control both use monitoring system for the registration of every cost item and related audit trail (documents requested by this factsheet or additionally demanded by the FLC during the Financial Claims process).

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 Schemes[7]. 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.
- 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:

[7] 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.

- 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 is reported in the EUI.connect as any other project costs and validated by the FLC, meaning that the following audit trail should be provided:

- Contracts regulating volunteer's work
- Report of the independent evaluator on the present value of goods and services used by the project partnership to achieve project objectives
- Accounting records
- Donation Agreements
- Any other document deemed necessary by the FLC

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

<table>
<tr><th colspan="2"></th><th colspan="4">audit trail requirements per cost category</th></tr>
<tr><th colspan="2"></th><th>Expense is reasonable and supported by evidence</th><th>Expense is real, incurred and paid by the entity</th><th>Expense is linked to the project</th><th>Expense is incurred during the implementation period</th></tr>
<tr><td rowspan="7">AUDIT TRAIL</td><td>Staff Cost (flat rate)</td><td colspan="4">20% on all costs of the Project Partner under external expertise and services, equipment, and infrastructure and construction works. No audit trail required.</td></tr>
<tr><td>Staff Cost
(Standard scale of unit costs)</td><td>✓ Extract from the accounting system (or payslips) embedding the employees working on the project for the Project Partner (annual payroll) signed by the independent auditor (excluding internal auditor).[8]
✓ Employment confirmation, such as an employment contract (or equivalent).[9]</td><td>✓ 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.</td><td>✓ Mention of the employee or activities related to the project in technical reports, memos, deliverables, events, etc.</td><td>✓ Reported expenses are incurred within the project implementation period.</td></tr>
<tr><td>Office and Administration</td><td colspan="4">✓ Flat rate - 15% of declared Staff Costs (automatically calculated by the EUI.connect system). No audit trail required.</td></tr>
<tr><td>Travel and Accommodation</td><td colspan="4">✓ Flat rate - 5% of declared Staff Costs (automatically calculated by the EUI.connect system). No audit trail required.</td></tr>
<tr><td>External expertise and Services</td><td rowspan="3">✓ Check of public procurement procedure or proof of market research, if relevant.
✓ Written and signed contract stating service provided and reference to the project.
✓ Invoice and purchase order.</td><td rowspan="3">✓ Proof of payment - bank statement or signed receipt from person/entity receiving the payment.</td><td rowspan="3">✓ Proof of outputs or services delivered stated in the contract: technical report, study, pictures, deliverable, etc.</td><td rowspan="3">✓ Reported expenses are within the project implementation period.</td></tr>
<tr><td>Equipment</td></tr>
<tr><td>Infrastructure and Construction works</td></tr>
</table>

[8] An exhaustive list of personnel expenses declared as part of the project, signed by the (independent) public accounting officer, is a document that can be accepted in France.

[9] An attestation from human resources indicating that the person worked on the project over a specific period, specifying either the employee's gross annual salary or the gross salary over the entire audited period, can be accepted.

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 EUI-IA 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 EUI.connect, 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[10]. 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 provider[11].

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

[10] Unless the contracting authority has stricter internal rules or national legislation imposes stricter requirements, EU Public Procurement procedures must be followed.
[11] Please refer to the EUI-IA Guidance, Chapter 7.5.6.2 "Market research".

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.