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Investing in a Smart, Sustainable and Inclusive Future

# Audit & Compliance Guidance

Green Infrastructure Fund

Guidance for Applicants

July 2016



## Disclaimer

Applicants should be aware that as the Green Infrastructure Fund is a new programme, the guidance will be reviewed as the programme evolves and therefore may be subject to change. The European Union and Scottish Ministers reserve the right to amend the National Rules and SNH reserves the right to amend the published guidance during the period of the programme. Decisions to fund Projects will be based on the availability of funding, how well the project matches the Green Infrastructure Fund priorities and its contribution to outcomes as part of the whole Strategic Intervention. These priorities may change during the course of the Strategic Intervention to take into account gaps in meeting priorities in previously funded Projects and not to fund at all. The Scottish Government reserves the right not to award any support at all under this programme.

## Version Control

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# 1. Purpose

This guidance document sets out to communicate the standards set out within EU Regulations that apply to the Green Infrastructure Fund and how the Lead Partner and grantees will comply with these articles. This guidance also sets out the basic audit framework which the Green Infrastructure Fund will be subject to in order to ensure compliance with these regulations and articles.

The requirements for managing an ERDF Fund can be onerous, applicant guidance has been made available and it provides assistance and information to deliver successful projects which is aligned to EU Regulations and National Rules.

In addition to outlining the audit requirements for the Green Infrastructure Fund, this guidance provides information and assistance regarding the Management and Administration requirements for an ERDF Fund and considers how to:

- Implement good practice;
- Set up systems and processes which are easy to use;
- Keep a close eye on how the Project is delivering;
- Ensure that the Project is managed proactively and issues are addressed.

The following sets out the articles contained within Regulation 1303/2013 of the Official Journal of the European Union:

## *Article 4(8) – General Principles*

The Commission and the Member States shall respect the principle of financial management in accordance with Article 30 of the Financial Regulation.

## *Article 72 – Management and Control Systems*

- (a) – Provide a description of the functions of each body involved in management and control, and the allocation of functions within each body;
- (b) – Provide compliance with the principle of separation of functions between and within such bodies;
- (c) – Provide for procedures for ensuring the correctness and regularity of expenditure declared;
- (d) – Provide computerised systems for accounting, for the storage and transmission of financial data and data on indicators, for monitoring and reporting;
- (e) – Provide systems for reporting and monitoring where the body responsible entrusts execution of tasks to another body;
- (f) – Provide for arrangements for auditing the functioning of the management and control systems;
- (g) – Provide for systems and procedures to ensure an adequate audit trail;

(h) – Provide for the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments.

The EU Financial Regulations set out the principles of sound financial management as follows:

*Article 30 – Principles of Economy, Efficiency and Effectiveness:*

(2) i – The principle of economy requires that resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price;

(2) ii – The principle of efficiency concerns the best relationship between resources employed and results achieved;

(2) iii – The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results.

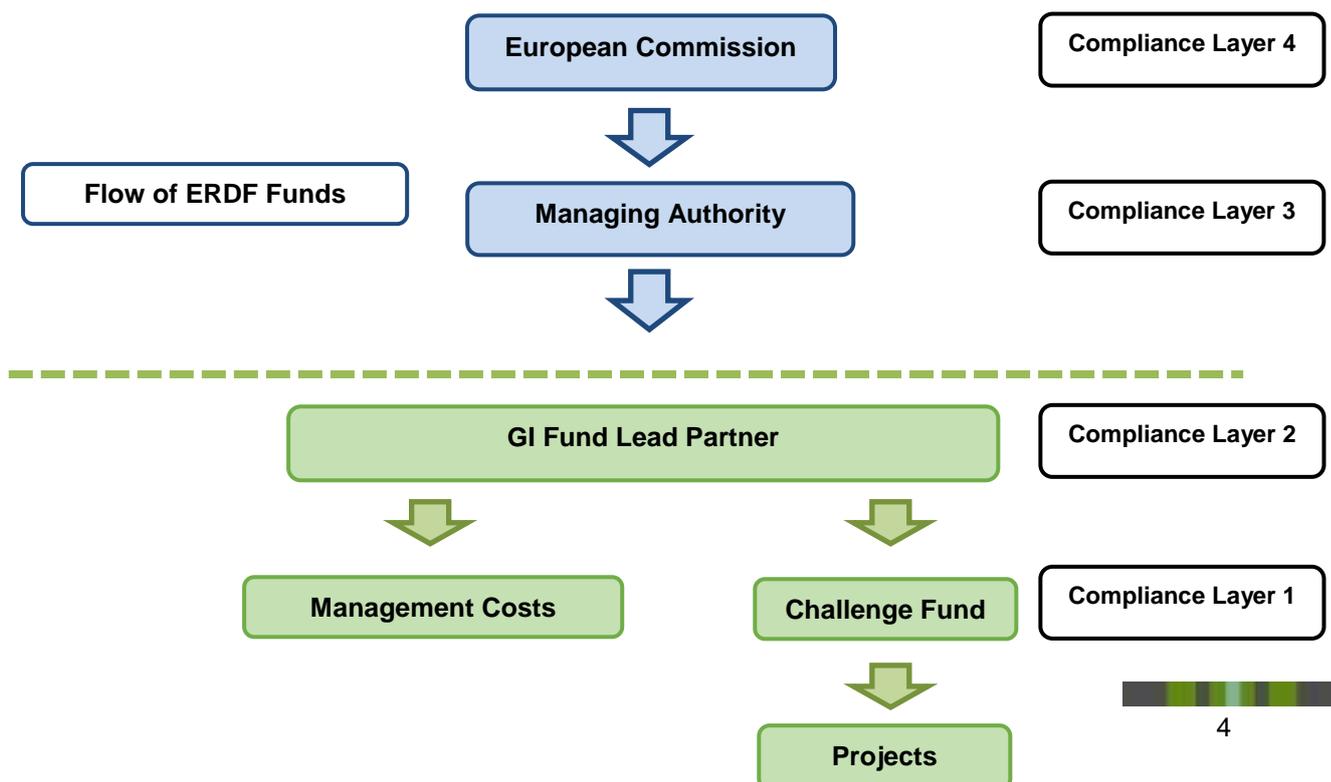
## 2. Background

The Green Infrastructure Strategic Intervention will be delivering approximately 15 projects throughout its life and for Phase 1, to 2019, will contain approximately £20,625,000 of forecasted eligible expenditure with £8,250,000 of ERDF funding.

Due to the inherent risks that onerous ERDF funding compliance brings, along with the scale of projects and the structure of the delivery model, a robust governance and control framework is required if the outcomes are to be successfully delivered in a compliant manner.

The following, in Figure 1 below, illustrates the delivery model and indicates at a basic level the layers of audit and compliance.

*Fig 1 – Green Infrastructure Fund Delivery Model*



Each control layer will bring differing levels of audit and compliance and will be subject to either internal or external audits or both.

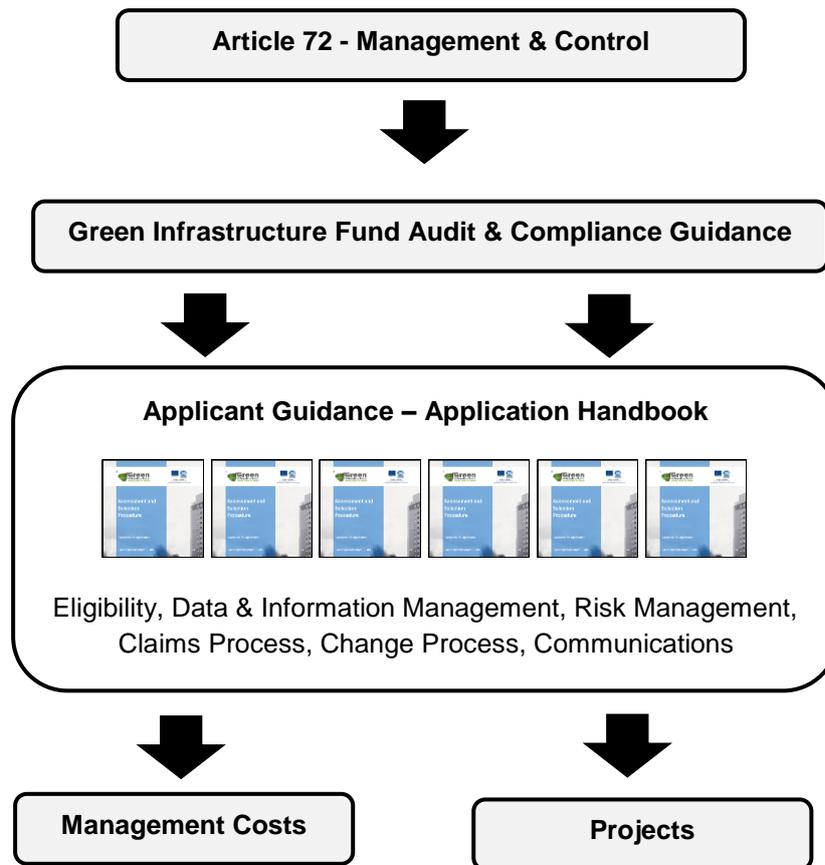
### **3. Overview – Audit, Compliance & Monitoring**

Audit, Compliance and Monitoring will be carried out to ensure the projects are progressing as they should be and that the Green Infrastructure Fund achieves its target outcomes in a compliant manner. Both the Audit & Compliance Plan and the Monitoring & Evaluation Plan will be the primary tools to monitor performance and compliance of the Green Infrastructure Fund. These will allow the following:

- Assess performance and progress;
- Maintain financial performance using Budgets and Reforecasts as the primary controls;
- Identify strengths and weaknesses of delivery and implement corrective action;
- Compile Interim Progress Reports;
- Consider lessons learned;
- Demonstrate good governance;
- Monitor performance using Performance Indicators;
- Identify changes through proactive management;
- Set out clear Roles & Responsibilities;
- Enable effective communication between Lead Partner and grantees;
- Ensure continual compliance with ERDF Rules and Regulations to minimise disallowance or de-commitment risk;
- Effective identification and management of risk.

Figure 2 below illustrates how the Audit and Compliance Plan fits into the Delivery Model Governance.

Fig 2 – The Role of Audit & Compliance Guidance



#### 4. Green Infrastructure Fund, Audit & Compliance Plan

The following provides an outline of the internal audit framework for the Green Infrastructure Fund and relates to the compliance layers 1 and 2 in Figure 1 above.

Scottish Natural Heritage, as Lead Partner, will monitor and review the fund through a number of approaches to ensure a robust control framework is maintained. Findings of audits and compliance checks will be used to measure the performance and governance of the Green Infrastructure Fund and form a basis for recommendations if appropriate. The plan will be primarily driven by the quarterly claims cycle as in Table 1 below:

Table 1 – Green Infrastructure Fund Audit Type & Frequency;

Audit Type	Frequency
Risk Based Samples	Monthly & Quarterly
Compliance Checks	Quarterly
Performance Measures	Quarterly

## 5. External Monitoring & Audit Framework

The following provides an outline of the external audit framework for the Green Infrastructure Fund and relates to the compliance layers 3 and 4 in Figure 1 above.

### Quarterly Claims

The Scottish Government as the Managing Authority will perform verification checks on the claims submitted through EUMIS by Scottish Natural Heritage as the Lead Partner and is performed on a sample basis of approximately 20%.

### Project Engagement Visit (PEV)

This is intended to be a preventative visit by the Scottish Government to identify possible project issues and prevent reoccurrence of problems. This will be ideally conducted within the first 3 months of the Project. This visit offers the opportunity for the Scottish Government as Managing Authority to familiarise themselves with those delivering the Green Infrastructure Fund and assess the monitoring requirements.

### Article 13 Progress & Verification Visit (PAV)

A member of the Scottish Government Structural Funds Division will conduct one or more in-depth monitoring visits during the lifetime of the Project. This will verify the declared expenditure, that the Projects products or services have been delivered in accordance with the Offer Letter and that the Projects claims and activities comply with the European Commission and National Rules.

### Article 16 Visit

Each year, a number of Projects will be selected for an in-depth Article 16 inspection. Article 16 audits are undertaken on a sample basis on a risk based assessment and will be conducted by the Scottish Government Audit Authority Team. This type of audit can last several days. It is likely that there will be some duplication between Article 13 and Article 16 visits but Article 16 visits will take this into consideration. It is important to note that any irregularities identified during an Article 16 visit will result in funds being recovered directly from the Green Infrastructure ERDF grant.

### Other Visits

There is also the possibility that the Project will be audited by the European Commission or the European Court of Auditors, both of whom select a sample of projects for scrutiny.

### Essential Criteria to Audit & Monitoring Visits

It is essential that key members of staff involved in either Scottish Natural Heritage, as the Lead Partner, or for Projects are available during any Article 13 PEV and PAV visits and the Article 16 Monitoring Visit in addition to any other audits whether by the Green Infrastructure Fund or external. These should typically be the Project Manager and the person(s) responsible for the Projects financial and claim record keeping.

It is the responsibility of the Offer Letter recipient to have all the relevant documentation available for monitoring or inspection purposes. For the Green Infrastructure Fund, this is Scottish Natural Heritage as the Lead Partner and this is built into the management and control systems to allow for a clear audit trail.

## Irregularities

The European Commission definition of an irregularity is given in EC Regulation 1083/2006:

*“...any infringement of a provision of Community Law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities by charging an unjustified item of expenditure to the general budget”.*

Action will be taken to follow up and correct any irregularity in a timely manner and steps will be taken to ensure the irregularity is not repeated. If any irregularity is identified, funds will be recovered and deducted from the Green Infrastructure ERDF grant. The basis for sharing or assigning disallowance or de-commitment between the Managing Authority, Lead Partner and Delivery Agent will be set out in the Service Level Agreement (SLA) and Delivery Contracts.

## 6. Article 72 – Management & Control Systems – Compliance Guidance for projects

The following offers guidance in order to demonstrate compliance with principles of Article 72, which is the under-pinning requirement for the Green Infrastructure Fund for management and control.

Referring to the Green Infrastructure Fund Applicant Guidance will assist in compliance with Article 72. Examples are illustrated below and can be found on the Green Infrastructure Fund website:



Management and Control Systems will include but not limited to the following:

- Management Structures;
- Suitable Management Information Systems (MIS);
- Financial Systems & Records;

- Project Files;
- Data & Information Management – Document Retention;
- Authorisation Limits;
- Separation of Roles & Responsibilities;
- Health & Safety;
- Equal Opportunities;
- VAT Registration & Insurance;
- Audit Trail & Verification for Expenditure & Income;
- Financial Reporting;
- EU Procurement Rules & Regulations;
- ERDF Publicity Rules.

The following sets out the requirements of Management and Control Systems for the Green Infrastructure Fund and are provided within the headings of Article 72 principles:

Principle (a) – Provide a description of the functions of each body involved in management and control and the allocation of functions within each body.

Principle (b) – Provide compliance with the principle of separation of functions between and within such bodies.

- It is a requirement that the project has management and delivery personnel structures in place and that organisation charts and job descriptions clearly show a person's involvement with an ERDF funded project.
- The grantee must have Management Information Systems (MIS) in place to assist delivery of the project and should include, minutes of meetings held relating to the project, monitoring reports, databases, spreadsheets or an off the shelf electronic client management system.
- It is an essential requirement that documents are correct and up to date. Failure to demonstrate that there is accurate evidence of the project, its outputs and activities may result in the project having to repay part of or the entire grant.
- There should also be a clear document retention policy.
- There should be clear segregation of duties relating to the appropriate authorisations for bank accounts and delegated duties, who checks and signs claims and who monitors and controls project expenditure. The grantee should also be able to produce regular meaningful financial reports.
- Procedures and policies should be in place relating to Equal Opportunities, Fair Employment and Health and Safety ensuring that the Grantee is committed to promoting and implementing these policies.
- The grantee must provide evidence of Employer's and Public Liability Insurance and whether the organisation is VAT Registered.

Principle (c) – Provide for procedures for ensuring the correctness and regularity of expenditure declared.

Principle (d) – Provide computerised systems for accounting, for the storage and transmission of financial data and data on indicators, for monitoring and reporting.

Principle (g) – Provide for systems and procedures to ensure an adequate audit trail.

- It is essential that the grantee is fully aware that they are subject to and must follow all EC rules and regulations as they will be subject to a full examination of their documentation, systems and processes as part of Article 13 checks.
- The grantee should maintain accounting records that allow easy identification of the project and any grant income and expenditure to the project.
- The grantee should have an organised system for filing original numbered invoices and receipts which can be easily retrievable and specific to the Project.
- The grantee must keep original copies of all documentation which show a complete audit trail for every aspect of the project, from application, staff recruitment and marketing to outputs, finances and evaluations. The documents should be comprehensive, reliable and accessible. Filing structures could include: Management & Administration; Financial; Delivery Outputs and Results.
- As a minimum, all expenditure relating to the project must be recorded and all financial transactions must be clearly traceable through the Grantee's accounting system.
- It is advisable to set up separate project files to ensure all records and project files are easily retrievable during a monitoring or audit visit to assist the Project to comply with ERDF requirements.
- All projects must publicise the fact that they are funded by ERDF. There are strict requirements the Green Infrastructure Fund must adhere to and are laid out in the Green Infrastructure Fund Communications Guidance.
- If the project is processing personal information covered by the Data Protection Act 1998, it must comply with the data protection principles. Further information is detailed in the Green Infrastructure Fund Information and Data Management Guidance.
- Procurement activity must adhere to the principles of transparency, openness, fairness, equal treatment and proportionality and must be adhered to at all times. All procurement of works, goods and services should be based on value for money and in accordance with all relevant law including EU Procurement Directives and EU Procurement Thresholds. Green Infrastructure Fund grants will be suspended, withdrawn or reclaimed for projects if it has been found subsequently that the procurement rules and regulations have not been adhered to.

- All eligible expenditure must comply with the National Rules for the 20014-2020 ERDF Programme and which are reflected in the Green Infrastructure Fund Guidance.

Principle (e) – Provide systems for reporting and monitoring where the body responsible entrusts execution of tasks to another body.

Principle (f) – Provide for arrangements for auditing the functioning of the management and control systems.

Principle (h) – Provide for the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments.

As illustrated in Figure 1, the project delivery will be entrusted to grantees. To ensure successful and compliant delivery of projects, Scottish Natural Heritage as Lead Partner has set-up the following legal, monitoring and reporting systems:

- An Offer of Grant to the Lead Partner (Scottish Natural Heritage) from the Managing Authority (Scottish Government) which includes the management of Disallowance and De-Commitment arising in the delivery of the Green Infrastructure Fund.
- A Delivery Contract will be used to establish the project delivery requirements and legal obligations between Scottish Natural Heritage and each grantee.
- Financial monitoring will include the use of Budgets, Reforecasts and Claims processes to ensure accurate and timely financial reporting of the Green Infrastructure Fund's financial performance. This will include match funding, expenditure defrayment and provide a clear audit trail of how expenditure is recorded and calculated and set out through standard ERDF headings including Capital, Revenue, Eligible and Ineligible. Financial monitoring will also include the consolidation and review of the Green Infrastructure Fund including the projects and Management Costs.
- Project performance will be monitored through a Monitoring and Control Plan with the application of performance indicators which will be recorded and reviewed. This will form part of the Project Progress Reports which will be submitted to Scottish Natural Heritage with the claims on a quarterly basis. Project Performance Indicators will include detailed reporting on Contractor Management, Procurement and Community Engagement.
- The Green Infrastructure Fund will also manage and implement an Audit and Compliance Plan which will audit the activities of the Projects and the Green Infrastructure Fund. This will be based upon and inform the Green Infrastructure Fund's Risk Management Strategy. The Audit & Compliance Plan will apply the combination of a risk based approach using samples and compliance checks. This will include the compliance check of Project Claims submitted and review of Progress Reports on a quarterly basis.

- Applicant Guidance will be provided which is based upon the Rules and Regulations of ERDF Funding as well as the Lead Partner governance requirements. Guidance includes Roles & Responsibilities, Monitoring and Control and Data and Information Management.

## 7. Audit Timeline

A guide to the audit and compliance timelines for Phase 1 of the Green Infrastructure Fund is given in Table 2 below:

*Table 2 – Green Infrastructure Fund Phase 1 – Indicative Audit & Compliance Timelines*

Claim	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4
Period	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Year	2016	2016	2016	2017	2017	2017	2017	2018	2018	2018	2018
SG PAV											
SG Article 13	<b>Multiple Visits</b>										
SG Article 16	<b>Annual Audits</b>										
SG Verification	<b>Verification Checks Every Quarter</b>										
Green Infrastructure Compliance	<b>Compliance Checks Every Quarter</b>										
Green Infrastructure Audit	<b>Risk Based Audits</b>										
EU Audit	<b>Multiple Audits</b>										

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