

This represents the second in our series of ERDF updates and follows the completion of Phase 2 of the ERDF Article 13 Management Verifications.

Volume 2 focuses on the key findings encountered and highlights some of the issues which continue to feature in the various reports from the audit authorities arising out of their visits to the Universities and Colleges participating in ERDF 2006-2013. This publication is issued with a view to improving compliance and reducing the error rate for the Programme which is a challenge for all concerned.

[As no doubt you will be aware the target error rate for the Programme as a whole has been set at 2%.](#)

We would ask that this email is distributed within your organisation to any staff member involved in the performance, management or financial reporting of Enterprise Ireland research projects funded under the ERDF Programme. The issues are presented below in no particular order of importance or significance but we would ask you to give careful consideration to each one and to consider whether any corrective action is necessary within your organisation.

We would also be happy to discuss with you or your colleagues any specific queries you may have about the content of this update.

ERDF Procedures Manual:

During the second phase of Management Verifications on-going deficiencies were identified in the form and content of the ERDF Procedures Manual maintained by some participants. Many Participants have invested large amounts of time into this process and developed useful guidance manuals. Some participants however have failed to take on board the comments and observations arising out of the first Phase of Management Verifications. The following common issues and omissions continue to occur:

- ◆ The approach to the depreciation of equipment acquired for ERDF funded projects is not correctly documented in some of the procedures manuals seen. This is a recurring issue which was evidenced in the first round of verifications undertaken.
- ◆ In some cases no reference is made or guidance given in regard to the requirements to maintain time records for staff engaged in ERDF projects. Again this is a recurring issue.
- ◆ There was no reference in some examples seen of the ERDF requirements on publicity and the acknowledgement of EI and EU funding.
- ◆ The ERDF Procedures Manual must be reviewed regularly and the process to review and update the Manual must be documented. The process must prescribe how affected staff members are notified of the changes made to the manual and how version control is handled by the organisation.

[For example in some organisations we have seen that they maintain their procedures on a central "Intranet" and updates or changes can only be made by particular authorised personnel and each time the document is updated an email alert is sent to all users advising them of the change and the latest version of the document. This process is then documented in the ERDF Manual.](#)

- ◆ The Manual must also document the physical location, of all financial and technical documentation related to ERDF funded projects, within the organisation. In addition where such information is stored off-site it must again identify the specific physical location and the process to retrieve such information from storage.



We would encourage participants to review their procedures manual in the context of the ERDF eligibility and administrative rules.

Information and Publicity:

One of the aims of the current programme is to increase public awareness, transparency and visibility of the Operational Programmes at national, regional and operational level.

The requirements in regard to Information and Publicity have taken on a heightened importance following the outcome of the latest programme of verifications and audits.

The Audit Authorities and the Commission continue to focus on this area and are currently attempting to apply flat rate corrections for deficiencies identified in their first phase of audits. Whilst discussions are on-going in regard to these corrections it is quite clear from the process to date that flat rate corrections will be applied if further deficiencies are identified in regard to publicity across future phases of audits or verifications.

Publicity material can take many forms and may include:

- ⊗ Articles published in technical journals or other similar publications
- ⊗ Recruitment or other advertisements associated with the project
- ⊗ Poster Campaigns
- ⊗ Equipment labels
- ⊗ Project and/or Organisation Websites
- ⊗ Presentations at Workshops or Conferences

Organisations need to be aware that for all projects in receipt of funding greater than €500,000 they are required to put in place a billboard followed by a plaque at or near the site of the project. The billboard must be in place for the duration of the project and must be replaced with a permanent plaque within six months of the completion of the project. In addition Participants should also be aware that Enterprise Ireland have pre-printed equipment labels available for participants, which are issued at no cost.

It is essential therefore that all publicity material display Ireland's structural funds logo and EU flag acknowledging the ERDF in the correct format. More detailed guidance can be found here.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:371:0001:0001:EN:PDF>

Time records:

Whilst most organisations are aware of the requirements under ERDF to maintain timesheets there still appears to be differences in terms of the interpretation of what constitutes time records. Where staff members are engaged on an ERDF funded project on a part-time basis then they are required to

maintain time records (timesheets) which clearly show the element of their total working time attributable to the project.

Therefore where a researcher is working across a number of different projects, regardless of the fact that only one of these is ERDF funded, they must be able to provide a time record which clearly shows all their

working time and demonstrates the allocation of their time across all projects and the nature of the work performed. For the purpose of the current programme it is not sufficient for such staff to complete a declaration of their time input.

http://www.finance.gov.ie/documents/circulars/circulars2008/circ18_2008.pdf

In addition all time records must be signed by the individual staff member and approved by their relevant supervisor or manager. It is therefore important that timesheets are maintained, signed and approved on an on-going and continuous basis. Incidences where staff members leave part way through a project without having completed and signed their relevant timesheets has resulted in payroll costs being disallowed.

Depreciation:

During the course of the first series of verifications a substantial number of incidences were identified where capital equipment was claimed in full and not in accordance with the depreciation guidelines prescribed under ERDF.

Whilst there has seen a significant improvement in the treatment and operation of depreciation in the second series of verifications there are still some isolated incidences where corrections have been applied based on incorrect claims.



For completeness we have reproduced our comments from the first issue of our update together with a worked example:

Equipment which is capital in nature cannot be claimed in full in the period in which it is purchased and paid for. From an ERDF perspective it is not the actual cost of the equipment that is eligible but merely the amount of depreciation attributable to the relevant reporting period for that particular asset.

In this way the ERDF project may fund equipment but essentially on a piecemeal basis which is linked to the life of the asset and the duration of the project.

Example

The principal investigator of the project purchases a Spectrophotometer for his project on 1st April 2010.

The equipment costs €30,000 including vat. This particular piece of equipment is shared equally with another project within the same department.

The project will run for 2 years. He is now preparing his Form B1 for the period from 1 April 2010 to 31st March 2011.

The following is the correct calculation of the eligible depreciation amount to be included in the Form B1 submission:

Cost: €30,000

Useful life: 5 years (non-computing equipment)

Is the asset used exclusively on this project: No (shared 50/50 with other project)

Form B1 Reporting Period: 1st April 2010 to 31st March 2011

Asset Acquired: 1st April 2010

Therefore we have owned the asset for the full reporting period i.e. 12 months.

Calculation of Eligible Depreciation:

€30,000 / 60 months = €500 per month depreciation

No. of months depreciation = 12

%age usage: 50%

Depreciation for inclusion in B1 to 31st March 2011 = 12 x €500 x 50% = €3,000

Pensions:

The ERDF requirements in regard to pension are such that it has proven very difficult for participants to comply and demonstrate that the relevant pension contributions have been incurred and paid into an appropriate approved pension scheme. This has resulted in pension costs claimed being disallowed or excluded as part of the verification process to date. In practice however, for this very reason, many organisations have excluded pensions from their ERDF claims in the first place.

Internal Charges / Recharges:

Internal charges and recharges of goods and services continue to feature in the nominal ledgers of ERDF projects. The principles in regard to such costs remain the same and the standard that must be met in regard to supporting documentation is quite high and one that some organisations have difficulty achieving. This has resulted in financial corrections or adjustments being applied. It is quite common for Commission auditors to reject such charges due to the large volume of documentation required to substantiate what might be relatively small amounts.

For example where an organisation recharges various departments for central laboratory supplies they must provide individual supplier invoices for each item obtained from central stores.

Where any differences are identified between the charge from central stores and the supplier invoice, then the entire internal charge is rejected and raises questions in regard to other internal charges that may be included in the claim.

Where the internal charge/recharge represents a recharge for say sample analysis then there is a requirement to demonstrate how the cost of each individual test is calculated. In many cases this will include staff time which must be supported by payroll records and timesheets together with a detailed computation in regard to the capital equipment utilised in the tests.

Unsupported Expenditure:

During any programme of audits it is inevitable that there will be some minor incidences where a particular invoice cannot be located to support an expenditure item. In general these tend to be relatively minor items of expenditure. Where it becomes a more significant issue is where journal entries to individual project codes cannot be supported by the original source documentation such as the invoice or payroll records. Where journals are included in nominal reports and subsequently claimed in the relevant Form B1 it is essential that the appropriate source documentation is provided to support the total value of the particular journal. Where this journal represents salaries recharged from another project then supporting payroll records must be provided for all staff (including time records if applicable).

Procurement Rules:

The obligations in regard to procurement continue to present challenges for participants of the ERDF Programme. The relevant Audit Authorities argued strongly for flat rate corrections arising from weaknesses identified during their first phase of Audits. This argument continues for now but it is widely anticipated that flat rate corrections will be applied should breaches of the procurement rules be identified during the subsequent phases of audits by the ERDF auditors.

The on-going obligations of participants remain and they must be able to demonstrate that they have complied with the principles and procedures of both National and European public procurement in respect of certain purchases of goods and services. The approach to procurement differs across participants. In some cases responsibility is centralised. In other cases it is devolved to Pl's.

Regardless of the approach taken to procurement it is essential that all responsible parties are aware of the National Procurement Guidelines and EU Procurement Directives requirements in this regard.

The justification of sole supplier is one that was used in some instances where formal procurement procedures were not followed.

Whilst this can be a valid justification it is argued by the relevant Audit Authorities that it should and can by definition only be used in very limited circumstances. Many participants continue to argue that the supplier appointed was the only supplier capable of delivering the goods and services in question. However in many of those cases they failed to demonstrate that at the time of the procurement event they made all reasonable efforts to identify and locate alternative suppliers for the goods or services.

This process must be documented and subject to oversight and clearly demonstrate the measures taken to attempt to identify alternative suppliers. Restricting such measures to a search of the domestic market was another weakness identified in a number of such cases.

More detailed guidance is provided at:

[http://www.heg.ie/files/files/file/ERDF%20Files/Procurement%20Guidelines/Public Sector Procurement Regulations - SI 329 of 2006.pdf](http://www.heg.ie/files/files/file/ERDF%20Files/Procurement%20Guidelines/Public%20Sector%20Procurement%20Regulations%20SI%20329%20of%202006.pdf)

Travel and Conference Attendance:

Participants must remember that in addition to providing the necessary invoices, expenses, receipts etc. in regard to travel and conference attendance, it is also a requirement that the staff member travelling provide documentation outlining the purpose of the trip and demonstrating that the trip was undertaken and that the conference was in fact attended and relevant to the project. Examples of such documentation might include:

- Flight confirmation or boarding pass
- Copies of papers, posters or other items presented at the conference
- A list of the conference attendees published on the conference website
- Minutes of meetings held with other conference delegates
- Conference documentation provided to attendees within their delegate pack.

Document Retention:

Participants are further reminded that all documentation must be retained and available for a period of three years following the closure of the current National Strategic Reference Framework 2007-2013 programme, notification of which will be given when available.

Other items in brief:

- When inputting information into the EUSF IT system it is important that full project names and short project descriptions are included for each project as the list of beneficiaries is published annually and therefore the project information must be meaningful to the reader. Please ensure that no acronyms or internal HEI code references are included
- Contracts of employment must be provided for all relevant staff at the commencement of any verification or audit
- Personnel transfer forms do not represent an acceptable alternative to staff contracts of employment
- Ineligible bank interest/charges and prompt payment interest should not be included in Form B1 claims
- Visa statements provided in support of expenditure items do not represent an acceptable alternative to original receipts. In such instances financial corrections have been applied.
- Office supplies and other expenditure which is overhead in nature should be excluded from claims
- Memberships and professional subscriptions not wholly necessary for the purpose of the project should not form part of ERDF claims
- Unreasonable hospitality and entertainment expenditure should be removed from claims prior to submission of Form B1
- Nominal ledgers must be provided which are reconciled to the Form B1 totals submitted

Contact us

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