

MODULE 2 - DOCUMENTATION, FILING AND RECORD KEEPING

Real life story

The purpose of the project “Agricultural Development in San Theodoro Province” was to build grain storage silos in approximately 250 villages in the province.

During an audit launched by the Contracting Authority, the auditors found that the project’s accounting records, kept in the Recipient’s offices in the provincial capital, were based on expense lists sent by the villages which summarised the quantities and cost of the materials used. The supporting documents, however, were kept in each of the 250 villages.

The auditors also found that the supporting documents were archived in bags (several bags for each village). The documents in each bag were not cross-referenced with the expense lists sent by the villages, nor were they filed in any way. Many supporting documents for purchase of materials had been obtained from local suppliers, most of whom were very small, rural suppliers who did not draft valid invoices or receipts.

What happened: The auditors submitted a disclaimer report to the Contracting Authority, indicating that the financial report for the project was unverifiable, failing a proper audit trail and proper supporting documentation. As a result, the Contracting Authority decided to terminate the contract.



WHY IS DOCUMENTATION A KEY FINANCIAL MANAGEMENT AREA?

Key Message:

**Not documented,
Not eligible!**

For a Recipient, keeping clear and relevant documentation is vital. Without proper documentation, it is impossible to show that the costs claimed from the Contracting Authority meet the conditions of the Contract.

Approximately 4 out of 10 issues affecting project funding found during audits under the EuropeAid Audit Plan relate to inadequate record-keeping.

Lack of proper documentation; a key risk

If a Recipient cannot provide documentation showing that the funds have been used in accordance with the Contractual Conditions, the Contracting Authority may decide to recover the unsubstantiated expenditure.

Content of this module

- ▶ Minimum contractual conditions.
- ▶ What could go wrong? Key control measures.
- ▶ Basic tips.
- ▶ Specific issue - Multipartner/multilocation projects
- ▶ Specific issue - Difficult local environments
- ▶ Specific issue - Electronic documentation
- ▶ Tools and templates.



MINIMUM CONTRACTUAL CONDITIONS

Key Message:

Understand the Contractual Conditions.

The following summarises the minimum contractual requirements for documentation and record keeping in EU-funded external actions managed through grants, service contracts and programme estimates.

• Grant Contracts



The general conditions of grant contracts specify that:

- ▶ To be eligible, the costs must be identifiable and verifiable (Article 14).

This means that there must be adequate documentation proving that any expenditure is related to the project.

- ▶ The Recipient must allow the Contracting Authority to carry out checks and audits and to examine supporting documents, accounting documents and any other documents relevant to the financing of the project (Article 16(2)).
- ▶ The supporting documents and records must be kept available for inspection by the Contracting Authority for up to seven years after the final balance of the grant is paid (Article 16(2)).
- ▶ The supporting documents and records must be easily accessible and filed in a way that facilitates examination (Article 16(2)).
- ▶ Certain documents must be kept (Article 16(3)): a list is given.



MINIMUM CONTRACTUAL CONDITIONS (continued)

• Service Contracts



The general conditions of service contracts state that:

- ▶ Full, accurate and systematic records and accounts must be kept to show the actual days worked and the incidental expenditure incurred to provide the services (Article 24(1)).
- ▶ For fee-based service contracts, timesheets recording the days or hours worked must be kept (Article 24(2)).
- ▶ The records and documents must be kept available for inspection by the Contracting Authority for seven years after final payment of the contract (Articles 24(3) and 25(1)).
- ▶ The documentation to be kept must include any documents needed to check expenditure, such as timesheets, transportation tickets, boarding passes, pay slips and invoices or receipts for incidental expenditure (Article 24(3)).
- ▶ Documents must be easily accessible and filed in a way that facilitates examination (Article 25(2)).



MINIMUM CONTRACTUAL CONDITIONS (continued)

- Programme Estimates



The Practical Guide for Programme Estimates gives:

- ▶ a list of the supporting documents required for the record of expenditure (see “Documents making up a record of expenditure”, Section 4.1.3);
- ▶ an indicative list of the documents needed for payment files (see Annex 11, “Examples of supporting documents by type of expenditure to be included in payment files”).

The Practical Guide for Programme Estimates can be found at:

http://ec.europa.eu/europeaid/work/procedures/financing/work_programmes/index_en.htm

The Financing Agreement usually requires all supporting documents to be kept available for inspection by the Contracting Authority for seven years after final payment.

Recipients should consult the relevant Financing Agreement and Technical and Administrative Provisions to check whether they contain any specific, additional requirements.

- Other contract types



If the action is financed by means of some other type of contract, the Recipient should refer to its provisions.

Most contracts include a general requirement that supporting documents and records be kept available for inspection by the Contracting Authority for seven years after final payment.



WHAT COULD GO WRONG? KEY CONTROL MEASURES.

What could go wrong?	Key control measures
<ul style="list-style-type: none">• Certain documents may not be drafted or kept. For example, the Recipient's internal procedures may not provide for certain documents required in the Contract.	<ul style="list-style-type: none">• Ensure that project staff know and understand the Contractual Conditions (these include the special conditions, the general conditions, and any other conditions referred to in the Contract).
<ul style="list-style-type: none">• The documents kept do not provide sufficient evidence that the Contractual Conditions have been met.	<ul style="list-style-type: none">• Ensure that the project documentation provides strong, relevant proof (for example, the documents are official documents from an outside source).
<ul style="list-style-type: none">• Project documents may have been kept, but may not be retrievable later.	<ul style="list-style-type: none">• Arrange for a numbering, filing and archiving system that can be followed easily and allows easy retrieval of the documents.
<ul style="list-style-type: none">• Project documents may be prematurely discarded. This may occur if the Recipient's rules do not require a document to be kept for the full period required in the project contract.	<ul style="list-style-type: none">• State clearly the date until which the documents must be kept in the archiving system.• Also write this date on the boxes containing the project documents.
<ul style="list-style-type: none">• Project documents may deteriorate over time. This may occur if documents are not protected from heat or damp.	<ul style="list-style-type: none">• Arrange for the documents to be archived in safe, secure conditions.

BASIC TIPS

Key Message:

**Prudence does no harm.
Better safe than sorry!**

The project staff may no longer be available when the Contracting Authority decides to carry out an audit. This is often the case if staff have been specially hired for the project.

In that case, the project documentation will often be the only reliable supporting evidence.

With this in mind, be aware that most contracts for EU funded external actions allow the Contracting Authority to perform audits and checks up to seven years after final payment.

For these reasons, Recipients should keep extensive records so they can later show how the project was managed.

Recipients are advised to keep more than just the minimum documents listed in the Contract.

The tips below may provide useful guidance.



BASIC TIPS (continued)

Key Message:

Does the project documentation provide strong enough evidence?

Review all documentation with a critical eye to ensure that it provides sufficient evidence of eligibility. Here are some basic principles:

- ▶ An ***original*** document is more reliable than a copy, as it is difficult to alter and offers better protection against recording the same expense item twice.

For this reason, during checks or audits, the auditors will generally ask to see original documents.

- ▶ An ***official*** document is more reliable than an unofficial one.

For example, an official bank statement provides more reliable evidence of payment than a cash payment voucher drawn up by the Recipient's cashier.

- ▶ A document issued by an ***outside source*** is better evidence than a document drawn up in-house.

For example, for procurement under a grant contract, a tender or letter sent by the tenderer is better evidence of a competitive consultation than a note from the Recipient stating that the tenderer was contacted.

For a service contract, a timesheet filled in and signed by the person who did the work is better evidence than a summary drafted by the Recipient's administrative department.



BASIC TIPS (continued)

Key Message:

Does the project documentation show that expenses are eligible?

Several documents may be needed to prove that expenses are eligible. For example, a supplier's invoice may prove that an item was bought for a certain price, but not that the expense was eligible in other ways, such as:

- ▶ **Relation to the project:** The supplier's invoice shows that goods were bought, but not necessarily that they were used for the project. The link to the project may need to be documented, for example by means of receipts signed by the ultimate recipients.
For vehicles, a logbook can be kept to prove that the vehicle was used for the project and not for other purposes.
- ▶ **Reality:** Project documentation should prove that the costs were incurred. For example, the supplier's invoice may prove that the supplier was owed money by the project. But it does not necessarily prove that the project completed the transaction by accepting the goods and paying for them. So it may be necessary to keep the supplier's invoice AND the supplier's delivery note AND the bank statement (or receipt) showing that payment was made.
- ▶ **Within the project period:** Contracts for EU funded external actions generally specify a period during which the action may be implemented. The purchase invoice may not show that the costs were incurred during the term of the contract. A delivery note or a transport document showing when the goods were received may be helpful.
- ▶ **Specific contractual conditions:** The Contract may include specific conditions, for example requiring competitive procurement procedures or some form of EU visibility. In these cases, the project documentation will need to include not only the supplier's invoice but evidence that these Contractual Conditions were also met.



BASIC TIPS (continued)

Key Message:

Avoid unclear or ambiguous arrangements!

Review the documentation arrangements with a critical eye to ensure they are fully transparent and free of any ambiguity.

At first glance some project arrangements may seem practical, but if they are not completely clear they may cause problems later.

Example 1

A project has several decentralised offices with staff based in remote villages. For want of a proper banking system in the region, the project has to pay their salaries in cash.

For practical reasons, the staff based in certain villages decide to send one of the villagers to the central project office to collect their salaries.

This villager offers, in good faith, to sign the cash receipt voucher on behalf of the payees – the staff. At the time, the staff may find this a quick and easy way to document the payment.

However, this arrangement may mean that the Recipient is later unable to prove that the staff were actually paid. An auditor inspecting the documents several years after the facts might believe that the payment voucher was fraudulent.

Example 2

A Recipient manages several health development projects, some funded by EU grants and others funded by grants from other international donors (e.g. USAid).

In order to obtain better prices, the Recipient might decide to procure certain supplies for the different projects in one transaction.

But if all the goods are on only one invoice, this invoice will have to be allocated between the different projects. The same invoice will also have to be used as a supporting document in different projects.

This may create a risk of allocation errors. It may also cause the documentation to be more difficult to follow.

The Recipient should instead ask the supplier to issue project-specific invoices.



BASIC TIPS (continued)

Key Message:

Can the supporting documents be retrieved easily?

If the Recipient cannot retrieve the project documentation during an audit, the consequences could be the same as if no documentation had been kept at all, especially if the project has already ended and the staff are no longer on hand. How can this be prevented?

- ▶ ***Simple, easy-to-use referencing:*** Use a simple referencing and numbering system that anybody can follow, even people unfamiliar with the project.

Make sure the system allows the documents to be found easily and quickly.

Project references may follow a chronological, numerical, thematic, geographical or other system. The Recipient should decide on the most appropriate system depending on the circumstances.

A clear filing index can save a lot of trouble.

- ▶ ***Orderly filing:*** Use orderly physical arrangements to file the documents.

For example, file the documents in folders for easy retrieval, rather than tying them with string or keeping them in bags or in piles. If they are archived in boxes, one simple, effective measure is to label the box with its contents.

- ▶ ***Physically secure archiving conditions:*** Make sure the documents are physically protected and cannot deteriorate while in storage or in transit.

Documents should not be stored in damp conditions or next to flammable or chemical products. They should be stored in closed premises safe from rodents and other animals.

SPECIFIC ISSUE - MULTIPARTNER/MULTILOCATION PROJECTS

The lead partner of a multipartner and/or multilocation project has to reconcile multiple requirements.

- ▶ As lead partner, it has to acknowledge that local partners may be obliged to keep documentation locally to comply with local accounting and tax regulations.
- ▶ As a Recipient of EU funds, the lead partner is accountable to the Contracting Authority for the local partners' execution of the contract. It must:
 - present supporting documents when the contracting authority conducts audits and checks;
 - take into account that the auditors will generally require original supporting documents as proof;
 - facilitate audits and checks, bearing in mind that if the documentation is spread over many locations this may create obstacles.

The lead partner will need to find practical ways to reconcile these conflicting objectives. Here are some possible approaches.

- ▶ For grants, at the project proposal stage, question whether project execution/documentation really needs to be spread between so many local actors. If it is possible to organise the project so that it is not overly dispersed, this will make audits and checks easier.
- ▶ See whether the documentation can be grouped in fewer locations (for example all the documentation for one particular country might be grouped in only one location in that country).
- ▶ See whether the documentation can be moved temporarily to a central location when an audit is carried out.
- ▶ Find out whether the local partners can be asked to send a copy of their documentation together with their financial reports. This would help the lead partner to check the work of the local partners.

This approach would also facilitate audits, as the auditors might then be able to inspect the copies centrally. But the auditors may still wish to check that the copies match the originals.



SPECIFIC ISSUE - DIFFICULT LOCAL ENVIRONMENTS

Certain projects may present specific difficulties linked with the regional environment, for example:

- ▶ Some local actors may be illiterate, e.g. suppliers may not be able to read, write or sign documents.
- ▶ There may be no reliable alternative suppliers on the market, which may complicate competitive procurement procedures.
- ▶ There may be no effective banking system, so that local actors ask to be paid only in cash, not via a bank.
- ▶ The remoteness of field operations, combined with other difficulties, may make it difficult to collect supporting documents.

In such circumstances, it is important to find practical ways of accommodating local circumstances while providing acceptable supporting evidence. For example:

- ▶ If fingerprints must be collected instead of signatures, consider taking a copy of the signer's identity card as well as noting their name next to the fingerprints.
- ▶ Avoid unclear practices. For example, if a person signs for the receipt of funds instead of another person, it may later be impossible to prove that the transaction was regular.
- ▶ If it is impossible to avoid making payments in cash, be extremely strict about the way the payments are documented.
- ▶ If the circumstances of the project are so difficult that it is impossible to obtain sufficient documentation, Recipients are advised to inform the Contracting Authority in writing as early as possible, suggesting measures to reduce the risks, and ask for its prior written approval.



SPECIFIC ISSUE - ELECTRONIC DOCUMENTATION

The use of electronic documentation is becoming increasingly widespread.

The contractual conditions for documentation, filing and record keeping also apply to electronic documentation.

To avoid the risk of e-documents being considered unreliable, Recipients are advised to follow the principles set out below:

- ▶ Electronic documentation should be used only if it is allowed under the Recipient country's laws on accounting and bookkeeping.
- ▶ If a Recipient uses electronic documentation, it should do so for all its operations and not only for the EU-funded project.
- ▶ The Recipient's internal control system should be designed to guarantee that e-documents are genuine, valid, and appropriate, and are subject to appropriate approval procedures.
- ▶ If the original documents were received or drafted in paper form, the Recipient should keep them available for inspection by the Contracting Authority.

Recipients using e-archiving or image processing systems (meaning that the original documents are scanned and stored in electronic form) are advised to organise their internal control system so that it guarantees that:

- ▶ Each e-document scanned is identical to the paper original.
- ▶ It is impossible to scan the same paper document to produce several different e-documents.
- ▶ Each e-document remains unique and cannot be re-used for any other than its initial purpose.
- ▶ The approval, accounting and payment process for each e-document should be unique. It should not be possible to approve, account for or pay the same e-document twice.
- ▶ Once scanned, e-documents should be impossible to amend or to create altered copies of.

TOOLS AND TEMPLATES

The following tool can be downloaded from the EuropeAid website at:

http://ec.europa.eu/europeaid/financial_management_toolkit/

FMT - MODULE 2 - DOCUMENTATION CHECKLIST

MODULE 2

DOCUMENTATION

RECORD KEEPING

Recipients are encouraged to use the Documentation Checklist presented with this toolkit. Since each project is specific, each Recipient needs to determine which questions on the checklist are applicable to its project.

