



Record keeping, substantiation and apportionment Fact sheet

Clothing and Household Textile Building Innovative Capability Scheme (BIC Scheme)

What is required?

The Clothing and Household Textile (Building Innovative Capability) scheme ('the scheme') requires sufficient and appropriate evidence maintained to ensure that grant entitlements are correctly allocated in accordance with the provisions of the scheme. Accordingly, all participants must maintain sufficient records for substantiation.

What are the record keeping requirements?

Section 6.9 of the scheme provides that an entity's claim must contain information sufficient to establish the entity's eligibility for a grant and to enable the calculation of eligible expenditure. Further, *section 7.7* provides that payment of a grant or an advance is subject to the condition that the entity retains relevant documentation for not less than five years from the date of payment of the grant or advance. This includes records relied on to prepare the documentation. If this condition is not fulfilled, the whole of the grant or advance may be recovered as a scheme debt.

Section 37ZX of the *Textile, Clothing and Footwear Investment and Innovation Programs Act 1999* provides that grants are conditional on authorised Departmental officers being able to access business premises (including making copies of relevant documents) for the purposes of monitoring compliance under the scheme.

What is sufficient and appropriate evidence?

Records should clearly substantiate the claimed expenditure and the activities to which the expenditure relates. This should enable the verification and timing of expenditure and establish that the amounts claimed are directly attributable to particular eligible clothing and household textile activities.

For example, records relating to salary costs must include a record of time spent by employees on various activities relating to projects. Material costs claimed should be supported by documentation. Other records may include commercial documents which provide a record of relevant transactions, and enable these transactions to be traced and verified through an entity's accounting or finance system.

These documents would include those normally maintained to support tax expenditure claims and to support that relevant eligible activities, such as the innovative product development activities, have been undertaken.

For scheme purposes, typically, a good record keeping system would contemporaneously generate and maintain invoices, contracts, general and subsidiary ledgers, journal entries, work sheets, spreadsheets, reconciliations and disclosures to substantiate any claims made under the scheme. These records can include data in electronic systems.

What if I don't have sufficient evidence?

Unsupported claims for expenditure will generally not be accepted. Documents and receipts must be capable of being verified. For example a receipt

should identify the supplier of the goods or services specified, date, GST-free amount etc.

What records do I need for innovation expenditure?

The key is to enable the verification and timing of expenditure, and to establish that amounts claimed are directly attributable to particular eligible activities.

Research and development, innovative product development and innovative product design

- details of project aims, goals, timeframes and costs
- details and job descriptions of employees engaged in the project
- details of activities undertaken by employees
- salary records, including project costing sheets, labour calculation schedules, record of time spent by employees, PAYG summaries, payroll records and bank statements
- purchase and contract documentation, if applicable
- materials expenditure, where applicable
- pilot plant or plant prototype where applicable.

Details of project based costing methods, which identify, record and allocate costs to particular projects, may be accepted where the costs are not otherwise separately identified.

Market research, obtaining industrial property rights

Appropriate salary, purchase and contract documentation will be required. In addition, description of activities undertaken, including the relevant patent, trademark or registered design should also be provided.

The level of detail

The level of detail required in relation to innovation expenditure may vary depending on the nature and size of the project claimed as well as the size of the overall claim. For example, a claim

for a research and development project costing \$200,000, and taking six months would require more detail than two innovative product design activities of \$20,000 each of only two months duration. For a research and development project, we would expect to see some evidence of a working research and development plan, appropriate endorsements, and records of results to support the systematic, experimental and investigative nature of the activity. However, records, irrespective of the size of the claim must be kept.

Salaries

As salaries are often a major part of claimed expenditure, there is significant focus on records verifying the claim. Expenditure relating to salaries is limited to salary costs of employees engaged primarily and directly on core elements of the research and development or product development activity. If significant periods of senior management time are spent on innovation activities we may require more detailed explanation and substantiation of the claimed costs.

Recording Time

Recording time spent by employees on projects may take a variety of forms, including timesheets or diary records. Good practice would involve recording of hours spent by each individual as activities are undertaken (contemporaneously), or on a daily or weekly basis. In certain circumstances, estimates based on regular reviews of time spent on particular projects may be sufficient. However, there must be a sound and verifiable basis for an estimate to be accepted. Estimates based on a review at monthly intervals or subsequent to project completion are unlikely to be accepted as sufficient to substantiate the amount of expenditure claimed. In these circumstances, the expenditure may be found ineligible or a grant may be repayable under the scheme. Where contemporaneous records are not kept the minimum record keeping and substantiation requirements should be discussed with AusIndustry.

Job descriptions

Job descriptions may also be sought to clarify the nature of duties undertaken.

What records do I need to show total eligible revenue?

To substantiate total eligible revenue, the following records are required:

- all working papers relating to sales of eligible clothing and household textile products, including copies of the trial balance or final balance and sales ledger for the period (including description of goods)
- bank deposit advices, and
- details of debtors in existence at year's end, including details of any bad debts written off.

Note: If total eligible revenue differs from sales revenue as disclosed in the financial statements, more detailed explanation may be required.

What do I need to apportion?

To ensure that ineligible activities or expenditure are not claimed, it may be necessary to apportion innovation expenditure and total eligible revenue. For example, an innovative process improvement may be directed at innovative improvement of a production process for an eligible clothing and household textile product and an ineligible product. As such, expenditure must be apportioned accordingly.

Expenditure must be apportioned using a reasonable method capable of being substantiated by AusIndustry. Details of the standard costing methodology used may be required. This methodology could be by percentage of time, volume, unit sales, dollar value or other means as appropriate. Estimates involving time apportionment should be based on sound activity-based costing principles and any assumptions should be fully articulated.

What are related party transactions?

Expenditure must reflect costs based on normal commercial values and arm's length transactions. Where a transaction involves a related or associated party, records should be maintained to substantiate all estimates and calculations used to arrive at an arm's length amount.

For example, where a supplier is not at arm's length, the amount assessed for work performed shall be an amount considered to be a reasonable charge for that work, and should not contain unacceptable overheads or in group profits. In particular, this should be considered in the context of related entities, entities with common directors or shareholders, or individuals who are directors or major shareholders of the registered entity.

Compliance appraisal activities

Lack of appropriate record keeping and substantiation is considered to be a risk to the scheme, which AusIndustry addresses through a range of measures including providing information through customer visits and supplementary documentation such as fact sheets. This is complemented by a compliance appraisal program, which is part of a wider risk management compliance regime maintained by AusIndustry in its administration of the scheme. Compliance appraisal activities involve a detailed analysis of the claimed expenditure and total eligible revenue. It includes a review of the records and supporting documentation to substantiate the claim. Given the scheme supports innovation grants there will be an increased focus on records substantiating these claims.

The fact sheet

This fact sheet is not meant to be prescriptive but seeks to provide a general indication of the types of records needed for assessing a claim or when compliance activities are undertaken. AusIndustry appreciates that you may have established reporting and documentary systems in place,

which in many instances will provide sufficient documentary evidence of claimed expenditures.

AusIndustry will continue to work with our customers to establish what is required with respect to your particular circumstances. If you require further clarification please contact your customer service manager.