European Union | European Regional Development Fund

Delivery of Innovative solutions for Home Care by strengthening quadruple-helix cooperation in regional innovation chains
'HOCARE'

FINANCIAL MANAGEMENT MANUAL

1 Contents

A. INTRODUCTION

The purpose of this document is to guide and facilitate the work of HOCARE project partners when planning and managing project expenditure. The manual provides detailed information on the financial aspects of project implementation, as per the INTERREG EUROPE Programme.

The following chapters describe the financial requirements of the JS and clarify issues related to eligibility, accounting, reporting and certification of project expenditure. Guidelines given are fully in line with the INTERREG EUROPE Programme Manual (dated 19 January 2016), however, it is obvious that in case of conflict, project partners should advise the Programme Manual and / or the JS.

Annex to this manual is a series of financial management tools, in the form of document or spreadsheet templates. More precisely, the annexed financial management tools cover the following list of issues:

1. Details of project expenses.
    a. Table showing all expenses per category. Information on who paid, what was paid, for what reason (specific project activity), invoice id, date and amount, proof of payment (id and date), amount paid out related to the project, where is the invoice stored, where is the proof of payment stored

    Also:

    b. Table showing aggregates of expenses per category of expenses per partner

    c. Table showing aggregates of expenses per deliverable per partner vis-à-vis indicative budget breakdown

    d. Table showing aggregates of expenses per activity per partner vis-à-vis indicative budget breakdown

    Tables b, c & d are linked with relevant information shown in progress reports
2. Spreadsheet containing monthly timesheets per person (staff involved in the project) for the whole duration of the project. It should have a cover page with information on the person involved, key project tasks carried out, place where relevant information is stored (e.g. payroll documents, originals of signed timesheets)
3. List of contracts per partner. Table showing information on each contract, specifically who was contracted, when did the contract start, purpose of the

contract [link with specific project activity(ies) and deliverable(s)], duration of contract, amount of contract, where is the contract stored

4. List of public procurement documents. Table including information on type of public procurement notes, date and amount of public procurement, publicity measures taken, offers received, contract award
5. List of project equipment purchased. Table including information on type of equipment, date that was purchased, use in project [link with specific project activity(ies)], location/physical availability of equipment, location of relevant documentation
6. List of actual deliverables per partner. Table showing information on type of deliverable, time of delivery, cost of deliverable, physical availability of deliverable (if relevant), proof of delivery of services (e.g. minutes, participant lists, newspaper publication, etc.), location of relevant documentation

B. GENERAL ISSUES CONCERNING ELIGIBILITY OF EXPENDITURE

1 Project Implementation

1.1 Project start

1.1.1 Start date

The monitoring committee is expected to meet within six months after the end of each call to approve projects. Project partners should be ready to start implementation as soon as possible after the decision of the Interreg Europe monitoring committee, approximately within two months from the date of this decision.
The actual start date will be determined for each call for proposals individually and communicated to the projects at the stage of their approval.

1.1.2 Subsidy contract

After a project has been selected for funding and once it has fulfilled the conditions set by the monitoring committee of the programme, a subsidy contract between the managing

authority of the programme and the project's lead partner will be concluded. The subsidy contract determines the rights and responsibilities of the lead partner and the managing authority, the scope of activities to be carried out, the terms of funding, requirements for reporting and financial control, etc. The subsidy contract will cover both phases of a project (exchange of experience and development of action plans plus monitoring of the implementation of the action plans). In cases where projects apply for pilot actions as part of phase 2 and those are approved by the monitoring committee, the subsidy contract might be changed accordingly.
A model of the subsidy contract is available on the programme's website.

1.1.3 Project partnership agreement

Based on the Article 13 (2) of the ETC Regulation (EU) 1299/2013 and in order to ensure the quality of the implementation of the project, as well as the satisfactory achievement of its goals, the lead partner and the partners have to conclude a project partnership agreement. The project partnership agreement allows the lead partner to extend the arrangements of the subsidy contract to the level of each partner. Such an agreement should include the following information:

- role and obligations of the individual partners in the partnership with regard to project implementation,
- budgetary principles (partner budget for each budget line and spending plan for each six-monthly period, budget flexibility, if applicable, the arrangements for sharing the national contributions of a partner contracting joint activities and the allocation of the preparation lump sum per partner if applicable),
- financial management provisions for accounting, reporting, financial control, receipt of ERDF payments,
- liability in case of failures in project delivery and project spending; provisions for changes to the work plan,
- the partner's financial liability and provisions for the recovery of funds should amounts be incorrectly reported and received by the partner,
- information and publicity requirements,
- resolution of conflicts in the partnership,
- Working language of the partnership.

An example of a project partnership agreement is available on the programme's website (www.interregeurope.eu).
It is recommended that the project partnership agreement is prepared as early as possible and that the principles are agreed upon even prior to the submission of the project's application. This helps to shorten the start-up phase of the project once it is

approved and to ensure that the partners have a common understanding of the implications of participating in the project, both in terms of activities and finances.
The lead partner assumes the overall responsibility for the project towards the managing authority. Through the project partnership agreement, project partners are held responsible and liable for their part of the project implementation towards the lead partner. This implies that in case of irregularities committed by a partner and leading to a financial correction, the lead partner is liable towards the managing authority for the related funds, based on the subsidy contract, and the project partner towards the lead partner based on the project partnership agreement. In case the lead partner does not succeed in securing repayment from the concerned project partner or if the managing authority does not succeed in securing repayment from the lead partner, Article 27 of the ETC Regulation No 1299/2013 applies. 91

Point of attention: only partners who have signed the project partnership agreement are allowed to report expenditure. The lead partner must have legal certainty with regard to the liability for any reported expenditure.

1.2 Reporting

In order to follow the project implementation and as a basis for the transfer of the ERDF to the project, a progress report (and related annexes) has to be submitted periodically to the programme. The progress report is a core document because it constitutes an important channel of information between the projects and the programme. It includes both activity and financial information related to the project's implementation.
The progress report is also a main source of information to demonstrate the programme's achievements and usefulness. In particular, it provides the raw material that is used as the basis for producing the analysis of the programme's achievements, which is to be included in the reports to the European Commission.
Projects should therefore not consider the progress report only as an administrative and compulsory task for obtaining ERDF reimbursement, but it should be used as a means to share the stories about the project's results and successes with the joint secretariat.
For reporting purposes, an online form system has been set up (OLF). Each lead partner has access to this system through a confidential code sent by the joint secretariat. Progress reports are submitted to the programme through the online system. A summary must also be submitted to the programme.

1.2.1 Reporting periods and deadlines

In principle, the progress report covers a period of six months. The dates of the reporting period will be set by the programme subject to the monitoring committee's approval.
For phase 1, a progress report (and related annexes) needs to be submitted to the programme every six months. For phase 2, the progress reports (and related annexes) need to be submitted on an annual basis, taking into consideration that the activities in

phase 2 will be limited and therefore the corresponding expenditure will be much lower than in phase 1.

Example Reporting period		Deadline for submission	
Phase 1	six-monthly	01 February – 30 July 01 August – 31 January	01 November 01 May
Phase 2	annual	01 February – 31 January	01 May (31 January for the last progress report)

Points of attention:

- There may be cases (e.g. integration of pilot actions, decommitment risk at programme level) where the reporting periods of phase 2 will be on a six-monthly basis; meaning that the frequency applied for phase 1 may be continued. The joint secretariat will communicate this to the projects in due time.

- For the last progress report, the date by which the progress report needs to arrive at the joint secretariat also marks the end date of eligibility. Please study section 6.4 on project closure carefully for further information

1.2.2 Reporting procedures

The reporting procedure for projects can be summarised as follows:
a) Each partner sends a report to the lead partner before the deadline agreed with the lead partner and ensures that its part of the reported activities and expenditure has been independently verified by a controller in compliance with the country specific requirements for first level control (see also section 7.6). This also applies of course to the lead partner, because the lead partner is at the same time a partner in the project. The report must be accompanied by

- the independent first level control certificate
- the independent first level control report (incl. control checklist) and
- the list of expenditure

b) On the basis of the individual partners' reports, the lead partner compiles the joint progress report for the whole partnership.

c) The lead partner confirms that the information provided by the partners has been verified and confirmed by an independent body in compliance with the respective country specific control requirements; that the partners' information has been accurately reflected in the joint progress report and that the related costs result from implementing the project as planned and set out in the application form and described in the progress report.

d) For the audit trail, the lead partner retains possession of the inputs used for the progress report received from the partners.

e) The lead partner submits the progress report to the joint secretariat. The joint secretariat checks the report and if necessary sends clarification requests to the lead partner. Once all points have been clarified, the progress report is approved.

f) The certifying authority executes the payment to the lead partner17.

g) The lead partner transfers the funds to the partners after receipt of the payment, without delay.

Each progress report (and the project in general) is monitored by two officers from the joint secretariat: one focusing on the activities and results and the other in relation to financial matters. They will provide joint feedback to the projects on their progress reports.

1.2.3 Monitoring of a project's progress

The progress report (and related annexes) is a core tool for reporting the progress made on project implementation to the programme. The basic principle of reporting and monitoring is to check the activities and outputs reported against what was originally planned in the application form. Beyond this minimum requirement, the aim is also to get as much qualitative information as possible on the lessons learnt and results achieved within the reporting period. Projects have to be as precise as possible on the information they report.
In addition to the progress report (and related annexes), the programme will use other tools to monitor the progress of the project's implementation on a continuous basis. Among others, the programme will use:

- the project's website
- interactive communication exchange with the lead partner and partners if necessary (e.g. skype, phone conferences)
- meetings with the lead partner and partners if necessary (e.g. on site, at the joint secretariat).

1.2.4 Guidance for reporting

The following points should help projects to provide concise and coherent information in their progress reports.

1.2.4.1 Project summary

Particular attention should be paid to the quality and the nature of the information provided in this section since it is published on the Interreg Europe programme website. In particular, the following three points are important:

- The description provided in this section should be cumulative: the summary should provide an overview of the key project activities from the start of the project until the end of the period of the report.
- The information should be content-related and cover main project activities: it should help the reader visiting the project website to understand the project and its focus. However, internal management problems (delays in the project implementation or underspending issues) should not be reported in that section since they are not of interest to the general public.
- Since it is published on the programme's website, the summary should be written in an easy to understand style (journalistic style as for a press release or an article).

1.2.4.2 Consistency in the reporting

For the overall coherence of the report, it is crucial that the information provided for the activities and outputs is fully consistent. In other words, when a specific output is reported, it should be clearly related to the description of the activities for that period. This also means that the terminology used should be consistent throughout the report and in line with the terminology adopted in the application form.

1.2.4.3 Reporting on result indicators

In order to avoid misinterpretation, lead partners should carefully check the definition of each indicator provided in section 4.3.2 of the present manual.
The figures reported under the indicator section should be justified as precisely as possible in the report. As this information will be used for the programme evaluation, it has to be reliable.

1.2.4.4 Link between activities and expenditure

All reported expenditure needs to be in line with the activities carried out and reported in the respective reporting period. When compiling the progress report, the project has to make sure that for any expenditure included, a link to the activities can be made. For instance, if expenditure is reported in the budget line for travel & accommodation, the corresponding meetings are expected to be reported as an activity and output/result (in the case that, exceptionally, expenditure is reported delayed, this should be explained as a deviation in the progress report).

1.2.4.5 Independent first level control certificates

It is essential for a smooth reporting process that the country-specific requirements of each partner are respected. Accordingly, each partner and its first level controller are strongly advised to check the Interreg Europe website on a regular basis to ensure that the latest developments are taken into consideration. Independent first level control certificates that do not respect the country specific requirements can significantly delay monitoring, as they might have to be re-issued and re-submitted.

It is also important to note that the programme cannot accept any amendments/additions to the independent first level control certificate template. The text has been agreed by the EU Partner States and Norway. The joint secretariat must be certain that the points listed in the confirmation have been checked and therefore can be confirmed by the first level controller. It is not possible to refer to any annexes, side letters etc. Any open points should be resolved with the lead partner and the partners (and their controllers where applicable) before the independent first level control certificate is signed and submitted. The lead partner is therefore advised to check carefully that the partners' independent first level control certificates are correct, that the country-specific requirements have been respected and that the template has not been amended.

1.2.4.6 Reporting on output indicators

The number of appearances in the media: evidence backing up the project's reporting on this indicator is important. The projects should provide evidence of their success in a form of a 'media monitoring report' with dates and sources of the appearances referenced.

The average number of sessions at the project pages per reporting period: statistics connected to this indicator will be produced internally by the programme shortly after a reporting period ends. The communication manager of the project will be responsible for checking the statistics and sharing the numbers with the partnership. The partners should assess how successful the communication strategy is in terms of reaching the targets for attracting website visitors.

1.2.4.7 Reporting on other communication activities

Public relations activities (such as events, campaigns, briefings, press conferences): the projects should monitor the number and kind of target groups reached (e.g. names of key policymakers present).

Communication tools: when such tools are produced for a specific communication activity, their use and their role in reaching the communication objectives of that activity need to be described.

1.3 Changes in project implementation

1.3.1 General principles

All minor changes (e.g. change in contact details, rescheduling of activities, and budget changes within the 20% budget flexibility for each budget line and partner, see below) can be reported as 'deviations' to the joint secretariat via the progress report. The report has to include a justification of such minor changes of the initial plans, an explanation on their consequence for the project's implementation and the solution proposed to tackle them and to avoid similar deviations in the future, where applicable.

For major changes, in accordance with the subsidy contract, the project is obliged to request approval from the programme. Major changes concern:

- the partnership (e.g. withdrawal, replacement of a partner),
- the core activities of the project (including the possible introduction of a pilot action at the end of phase 1),
- the budget of the project (reallocation above the 20% flexibility for each budget line and partner, see below),
- the project's duration.

Such changes are formalised through a request for changes procedure. As a basic rule, lead partners should inform the joint secretariat as soon as they become aware of a possible major change in their project.

1.3.2 Request for changes procedure

For the above mentioned major changes, the lead partner needs to fill in a 'request for change' and submit it to the programme through the online form system. The 'request for change' is provided upon request by the joint secretariat. It can be requested at any time during the implementation of the project. However, unless duly justified, a 'request for change' is generally not treated while a progress report is still under review by the joint secretariat, since the request for change may have an impact on the progress report and may lead to serious delays in the reporting.

The request for change template is based on the latest approved application form and needs to be updated for the respective parts related to the change. Furthermore, the project has to describe the requested change and provide a clear justification for it.

Depending on the nature of the requested changes, a decision on the approval will be taken either by the managing authority/joint secretariat or through a written procedure by the Interreg Europe monitoring committee. The changes enter into force only when the official approval notification letter is sent to the lead partner.

Projects should be aware that a formal request for change procedure can only be launched during the lifetime of a project. It is not possible to implement a formal request for change procedure after the end date of the project (as indicated in the application form).

1.3.3 Changes in activities/outputs

In the application form, activities and outputs are described in the work plan for each semester of both phases. Therefore, the work plan represents the project's road map, and projects should stick to the original plans as much as possible. However, it is understandable that a project is not a static entity and that changes may occur during implementation. There are two possible scenarios:

- If changes are of a minor character (e.g. postponement of a conference, change in the location of the planned workshop) meaning that they will not have an impact on the main objectives of the project and only minor impact on the budget, they can be reported and justified in the progress report (i.e. in the deviations' section).
- If changes are of a major character and have an impact on the main objectives of the project, they would require the formal approval of the Interreg Europe monitoring committee. Based on INTERREG IVC experience, this type of request for change remains the exception.

In the event of doubts as to whether the changes are of a minor character or not, the lead partner should contact the joint secretariat as early as possible. For the second option, the lead partner should in any case contact the responsible joint secretariat officers to request a formal change in activities/outputs.
In addition to the above changes, there may be an opportunity to revise the work plan of phase 2 before the end of phase 1. This is for instance the case when the project would request pilot action(s) under phase 2. In any case, the revision of phase 2 would require the formal approval of the monitoring committee.

1.3.4 Changes in the partnership

The partnership is considered as a core feature of a project and, as such, is officially approved by the Interreg Europe monitoring committee. Therefore, changes in the partnership should be avoided wherever possible and all alternative solutions to resolve the problem need to be considered before requesting a partnership change. In any case, partnership changes can only be approved if they are duly justified.
The request for change form differentiates between two cases of partnership change:
a) Withdrawal of partner(s)
b) Integration of partner(s) (in most cases as a measure to replace a withdrawing partner).
If the withdrawal of one partner in the partnership cannot be avoided, the ideal solution is to find a suitable replacement for the withdrawing partner preferably from the same

region/country. The lead partner should always first verify if this option is feasible. The partner concerned therefore has to inform its Partner State representatives of Interreg Europe to try to find a suitable solution.

The other alternative is a pure withdrawal of the partner. In order to minimise the impact on the project, it is recommended in this case that an existing partner (or partners) take(s) over in full (or partly) the role and activities of the withdrawing partner. As a consequence, this also means that the budget may be partly reallocated.

The integration of a new partner may be possible at the end of Phase 1 where the involvement of a new organisation is required for the implementation of pilot actions (see also example in section 4.6). This type of change must be approved by the monitoring committee.

In all cases, the requested change has to be clearly explained and justified in the 'request for change summary'. In addition, all relevant parts of the 'application form for changes' need to be updated; in particular Part B 'Partnership' but also all sections where the withdrawing partner is mentioned (e.g. Part D, work plan).

Once the joint secretariat has received the completed request for change form, it will check whether the request for change is acceptable. The joint secretariat will also ask the relevant Partner State representative to confirm the eligibility of the new integrating partner (where necessary). 97

A simple change of name of one partner which has no impact on its legal status is not treated as a partnership change issue and thus does not require a formal request for change procedure. Nevertheless, the change of name of a partner must be officially communicated to the joint secretariat (e.g. by updating the contact details of the partner concerned in the progress report).

If specific geographical eligibility rules are applied in a call for proposals, projects approved under that call that require a change in partnership have to ensure that the revised partnership still complies with the same rules.

1.3.5 Changes in the budget

Although the budget is a core element in the application form and is approved by the monitoring committee, changes in the budget may become necessary during the implementation of the project. Two cases of budget changes are possible:

a) a 20% budget flexibility for each budget line and partner (no prior approval by the managing authority/joint secretariat required): the project is allowed to exceed the budget lines and the partner budgets, as stated in the latest approved application form, by a maximum of 20% of the original total amount. Such changes do not require a formal prior approval by the programme, but must be reported and justified through the progress report.

b) a budget reallocation above the 20% budget flexibility limit for each budget line and partner (prior approval by managing authority/joint secretariat through a request for change procedure): the project may request a reallocation of budget between budget

lines and/or partners of more than 20% for each budget line and/or partner budget only once during the implementation of the project. Such reallocation requires the formal approval of the programme through a request for change procedure.
In any case, budget changes are only possible on the condition that the total amount of ERDF and Norwegian funding awarded to the project is not exceeded. It should be noted that an overspending of an ERDF amount cannot be counterbalanced by the underspending of Norwegian funds or vice versa.

1.3.5.1 Budget changes - examples

The examples provided below are for purely arithmetic purposes only. In practice, all changes have to be duly justified in the context of the project implementation. In cases where the added-value of changes cannot be demonstrated, the changes will be rejected by the programme.

20% flexibility rule (provided that the total ERDF/Norwegian funding is not exceeded) Budget line or partner budget	Original amount in the approved application form	Maximum possible overspending for this line	Explanation
Travel and accommodation costs	€180,000	€36,000	With the 20% flexibility rule, the original amount for this budget line can be exceeded by a maximum of EUR 36,000.
Partner 1	€220,000	€44,000	With the 20% flexibility rule, the original amount for this partner budget can be exceeded by a maximum of EUR 44,000.

Budget change above the 20% flexibility rule (provided that the total ERDF/Norwegian funding is not exceeded)

Budget line or partner budget	Original amount in the approved application form	New budget proposed by the project	Explanation
Travel and accommodation costs	€180,000	€220,000	Any budget increase above EUR 36,000 is no longer covered by the 20% flexibility rule, hence an official budget change has to be requested.
Partner 1	€220,000	€300,000	Any budget increase above EUR 44,000 is no longer covered by the 20% flexibility rule, hence an official budget change has to be requested.

1.3.5.2 Points of attention

- After a budget reallocation above the 20% budget flexibility as described under b), the budget can be changed again within the limits of the flexibility rule described under a).
- The project's spending plan cannot be modified unless there is a change in the total budget or the ERDF budget of the project (i.e. decreases) through a request for change procedure. Furthermore, the spending plan cannot be amended for past reporting periods.
- Besides this, modifications in the equipment budget line should only be exceptional. In order to be sure that the additional equipment costs will be accepted, projects are requested to consult the joint secretariat before using the flexibility rule for reallocating budget to the budget line "Equipment costs". The joint secretariat will then confirm whether the additional costs to be reported in the equipment budget line are eligible and can be reported in the progress report.
- Financial implications of a formal change in the partnership or in activities / outputs (through a request for change procedure) are not considered to be a

"budget change". Those budget modifications (e.g. reduction of the overall budget in case a partner withdraws) are considered a consequence of the initial change.

1.3.6 Extension of a project's duration

In principle, an extension of a project's duration should not be needed given the specific nature of phase 2. In cases where some partners are late in the delivery of their action plan in phase 1, their respective phase 2 would then be shortened accordingly.
It is extremely important that partners carefully check the time needed to complete phase 1 successfully. The joint secretariat will closely monitor the completion of phase 1 through progress reports, on-going contact with the lead partner and possibly a review meeting towards the end of phase 1.
But there may still be exceptional cases where the managing authority / joint secretariat will approve an extension of a project's duration (within the limits of the programme's deadline).

1.4 Project closure

The following sections provide information on the closure of projects.

1.4.1 The end date for eligibility of expenditure and completion of activities

The end date is the date by which:

- all the project activities must have been completed (incl. all activities related to the administrative closure of the project, such as first level control)
- all payments must have been made, meaning debited from the bank account
- the last progress report and the final report have to be submitted to the joint secretariat

Any expenditure (including costs linked to project closure) incurred, invoiced or paid after the official project end date is ineligible.
Points of attention
It is essential that no content-related activities are scheduled close to the end date of the project. The administrative closure (last payments, preparation of the last progress report and final report, first level control) often requires more time than expected. In fact, the last three months of the project should be exclusively dedicated to the administrative closure. The last project meeting should, for example, be scheduled, at the latest, three months before the project's end date. Even if, in justified cases, the deadline for the submission of a progress report is extended, this does not impact on the eligibility end

date. For example: the official project end date by which the activities have to be finalised and the last progress report and final report have to be submitted is 31/01/2017. The project is granted an extension of two weeks for the submission of the last progress report/final report. This would still mean that the eligibility of activities and expenditure ends on 31/01/2017. Not only must the expenditure be paid out by this date but also the activities must be finalised. This is particularly important for any expenditure linked to the first level control. It is not possible to advance payments for the first level controller and then to have the actual checks (activity) carried out after the project's end date. Planning enough resources for the project closure is another important key factor which should be taken into consideration at the planning stage of the project. Projects may face severe delays before closure if the lead and other project partners do not allocate sufficient resources in terms of time and staff. It is recommended to establish a timetable to clearly define by which date partners are expected to submit relevant documents and information to the lead partner. This timetable should be closely monitored by the lead partner.

1.4.2 Obligations for closed projects

According to the Common Provisions Regulation (EU) No 1303/2013 Article 140, each partner institution is required to archive documents related to the project's implementation for a minimum period. The joint secretariat provides information on this period with the closure notification letter. This period might be interrupted in duly justified cases and will resume after this interruption. Upon request by the programme, by the Commission or by the Court of Auditors, the documents have to be made available. The following rules apply to the archiving of documents:

- The documents have to be kept either in the form of the originals or certified true copies of the originals or on commonly accepted data carriers including electronic versions of the original documents or documents that exist in electronic version only.

- The procedure for certification of conformity of documents held on commonly accepted data carriers with the original document has to be laid down by the national authorities and shall ensure that the versions held comply with national legal requirements and can be relied upon for audit purposes.

- Where documents exist in electronic form only, the computer systems used have to meet accepted security standards that ensure that the documents held comply with national legal requirements and can be relied upon for audit purposes.

Other, possibly longer statutory archiving periods, as required by national law, remain unaffected from the rules mentioned above. This means, for example, if the national law requires archiving for ten years, then the project documents have to be archived for ten years.

1.4.3 Complaint procedure - project implementation

Complaints related to first level control or second level audit have to be lodged against the responsible authority according to the applicable rules.

Complaints against a decision of the managing authority/joint secretariat of the programme during project implementation are regulated as follows:

The managing authority/joint secretariat and the lead partner shall do everything possible to settle amicably any dispute arising between them during project implementation and the application of the subsidy contract. Complaints must be submitted in writing (post or email) to the joint secretariat within 3 weeks after the notification of a decision. A party must reply to a request for an amicable settlement within 3 weeks. If no amicable agreement is reached, the dispute may by common agreement of the parties be submitted for conciliation to the complaint panel involving the previous, present and future chairs of the monitoring committee and the managing authority/joint secretariat. In the event of failure of the above procedure, each party may submit the dispute to the courts. The place of jurisdiction is, as defined in the subsidy contract, Lille (France). Further details and specific complaint forms may be published at a later stage.

C. SPECIFIC ELIGIBILITY & REPORTING ISSUES (ANALYSIS PER BUDGET LINE)

2 Financial management

2.1 Eligibility of expenditure - general principles

There are different levels of eligibility rules on expenditure:

- the European level: EU regulations
- the programme level: specific rules decided for the Interreg Europe programme
- the national level: national rules applicable in each Partner State
- the partner institutional level: internal rules applicable to each partner organisation

In the absence of rules set at EU or programme level or in areas that are not precisely regulated, national or institutional rules apply.

Generally speaking, to be eligible at project level, costs must:

- relate to activities planned in the application form, be necessary for carrying out these activities and achieve the project's objectives and be included in the estimated budget,
- be in accordance with the principles of sound financial management i.e. reasonable, justified, consistent with the usual internal rules of the partner, the EU, the programme and national rules,
- be identifiable, verifiable, plausible and determined in accordance with the relevant accounting principles,
- be incurred and paid by the partner organisation, debited from its bank account no later than the project end date, be substantiated by proper evidence allowing identification and checking.

Should expenditure be reimbursed on the basis of a lump sum or flat rate, the latter two principles do not apply.

2.2 Budget lines

Based on Regulation (EU) No 481/ 2014, the following sections provide an overview on the eligibility principles for the different budget lines applicable in the programme:

- staff,
- administration,
- travel and accommodation,
- external expertise and services,
- equipment.

For each budget line, a definition is provided as well as guidance for budgeting and reporting. Applicants should study the information here carefully both when preparing their application and later on for their progress reports.

2.2.1 Staff costs

Definition

Staff costs consist of costs for staff members employed by the partner organisation, as listed in the application form and who are working full time or part time on the implementation of the project.

Staff costs cover the partner organisation's gross employment costs, which usually comprise the following:

- Salary payments (fixed in an employment/work contract)
- Other costs directly linked to salary payments paid and not recoverable by the employer:
    - Employment taxes
    - Social security (including health coverage and pension contributions)

Staff costs relate to the costs of activities that the relevant partner would not carry out if the project concerned were not undertaken.

Overheads and any other office and administrative expenditure cannot be included in this budget line.

For Interreg Europe, the staff costs have to be calculated on a **real costs basis**[18].

In the following sections, more details and information are provided, in particular different options are described:

1. Person employed by the partner organisation, and working full-time on the project
2. Person employed by the partner organisation, working partly on the project at a fixed percentage
3. Person employed by the partner organisation, working partly on the project at a flexible percentage (flexible number of hours per month)
   a. Calculation based on the contractual hours as indicated in the employment contract
   b. Calculation based on dividing the latest documented annual gross employment costs by 1,720 hours
4. Person employed by the partner organisation on an hourly basis

Key principles

Staff costs must be calculated individually for each employee. They are taken from the payroll accounts and include the employee's total gross remuneration and the employer's contribution of social contributions (provided that they are not recoverable by the employer). In accordance with the personnel policy of the partner organisation, costs such as bonuses, fuel, lease car, relocation benefits, luncheon vouchers etc. can be fully or partly claimed after calculating the eligible share for the project.

Within the same partner organisation, the four above-mentioned calculation methods may co-exist if several people with different working contracts and time involvement in the project are working on the same project.

For each of these cases, one specific method of calculation will be applied, as explained below.

1. Person employed by the partner organisation, and working full-time on the project

Key principles

Staff costs shall be calculated as follows:

- The employee's total monthly gross employment cost (incl. employer's social contributions) can be claimed;
- A document clearly setting out 100% of the time to be worked on the project (it can be the employment contract and/or any other document issued by the employer such as a 'mission letter', see grey box below for more information);
- No separate working time registration ("timesheet") is needed.

Example

A	Total monthly salary costs (gross salary and employer's social contributions)	€5,000
B	Percentage of time worked per month on the project	100%
C	Eligible costs : (A * B)	€5,000

Supporting documents for the verification of expenditure (first level control)

The following documents need to be provided to the first level controller to support the eligibility of the costs:

- Employment contract or any other equivalent legal agreement that permits the identification of the employment relationship with the partner's organisation;
- A document clearly showing that the employee works 100% of the time on the project (it can be the working contract and/or any other document issued by the employer such as a 'mission letter', see grey box below for more information);
- Document identifying the real salary costs (gross salary and employer's social contributions for the employee, such as payslips or other accounting documents where the employment costs are clearly detectable;
- Proof of payment.

Mission letter or a document setting out the fixed percentage worked on the project (employment contract or mission letter or equivalent)

With regard to the staff costs for persons working **on the project** with a **fixed percentage** (100% or less), a document is required that clearly indicates the expected percentage of the employee's working time to be dedicated to the project. The following points have to be respected in relation to this document in order to prove the plausibility of the time allocation:

- The document is issued for the specific employee at the beginning of the period to which it applies.
- It is dated and signed by the employee and a line manager/supervisor.
- It must contain the percentage of time expected to be dedicated to the project per month and a description of the project-related role, responsibilities and monthly tasks that are assigned to the employee in question and that provide sufficient evidence for the time allocation.
- The time allocation and description of tasks are reviewed on a regular basis (e.g. annually on the occasion of the staff appraisal) and adjusted if needed (e.g. due to changes in tasks and responsibilities).

2. Person employed by the partner organisation, working <u>partly</u> on the project on a fixed percentage

Key principles

Staff costs shall be calculated as follows:

- A fixed percentage of the gross employment cost (incl. employer's contributions), in line with a fixed percentage of time worked on the project per month;
- A document clearly setting out the percentage of time to be worked by the employee on the project per month (it can be the employment contract and/or any other document issued by the employer like a 'mission letter', please see grey box above for more information);
- No separate working time registration ('timesheet') is needed.

Example

A	Total monthly salary costs (gross salary and employer's social contributions)	€5,000
B	Fixed percentage of time worked per month on the project	60%
C	Eligible costs : (A * B)	€3,000

<u>Supporting documents for the verification of expenditure (first level control)</u>

The following documents have to be provided to support the eligibility of costs when reporting to the programme:

- Employment contract or any other equivalent legal agreement that permits the identification of the employment relationship with the partner's organisation;
- A document setting out the percentage of time to be worked on the project per month (it can be the employment contract and/or any other document issued by the employer, clearly identifying the fixed percentage of monthly time dedicated to the project, see grey box above);
- Document identifying the real salary costs (gross salary and employer's social contributions) for the employee, such as payslips or other accounting documents where the employment costs are clearly detectable;
- Proof of payment.

3. Person employed by the partner organisation, working <u>partly</u> on the project on a <u>flexible</u> percentage (flexible number of hours per month)

3.a Calculation based on the contractual hours as indicated in the employment contract

Key principles

Staff costs shall be calculated as follows:

- A flexible share of the gross employment cost (incl. employer's social contributions), in line with a number of hours varying from one month to the next worked on the project;
- A time registration system ("timesheet") is required and must cover 100% of the working time of the employee (including the working time not related to the project);
- An hourly rate will be calculated by dividing the monthly gross employment cost by the number of hours per month as per the employment contract. The hourly rate will then be multiplied by the number of hours actually worked on the project.

Example for the hourly rate calculation

	1/ STARTING POINT	
A	Total monthly salary costs (gross salary and employer's social contributions)	€5,000
	2/ CALCULATION OF HOURLY RATE	
B	*Number of working hours per working day according to the employment contract* *(weekly working hours divided by 5 working days)*	*8 hours*
C	*July 2014: number of workable days (any public/bank holidays* are to be* *subtracted)*	*22 days*
D	Number of workable hours in July 2014 (B * C)	176 hours
E	*Number of annual holidays (days) as per the employment contract*	*30 days*
F	*Number of monthly holidays (days) as per the employment contract (E / 12* *months)*	*2.5 days*
G	Number of monthly holidays (hours) as per the employment contract (B * F)	20 hours
H	Monthly working time, excluding holidays (D – G)	156 hours

* bank/public holidays refer to days like 01 January or Christmas Day.

	3/ HOURLY RATE	
I	Hourly rate for July 2014 (A / H)	€32.05

	4/ NUMBER OF HOURS WORKED (based on timesheet)	
J	Total number of hours worked on the project during the month of July	100

	5/ ELIGIBLE COST FOR THE HOURS WORKED ON THE PROJECT	
K	Eligible cost (I * J)	€3,205

Supporting documents for the verification of expenditure (first level control)

The following documents have to be provided to support the eligibility of the costs when reporting to the programme:

- Employment contract or any other equivalent legal agreement that permits the identification of the employment relationship with the partner's organisation;
- Document identifying the monthly or weekly working time and the number of holidays per employee, such as the employment contract or other internal document of equivalent value;
- Document identifying the real monthly salary costs (gross salary and employer's social contributions) for the employee, such as payslips or other accounting documents where the employment costs are clearly detectable;
- Proof of payment;
- Document showing the calculation of the hourly rate;
- Registration of the monthly working time covering 100% of the working time of the employee and identifying the time spent on the project: timesheet or equivalent time recording system. (The timesheet(s) will be used to prove that there is no double-financing if the employee is involved in (an)other EU project(s) or in any other activity that is partly financed by the EU.)

3.b Calculation based on dividing the latest documented annual gross employment costs by 1,720 hours

Key principles

Staff costs shall be calculated as follows:

- A flexible share of the gross employment cost (incl. employer's social contributions), in line with a number of hours varying from one month to the next worked on the project;
- A time registration system ('timesheet') is required and must cover 100% of the working time of the employee (including the working time not related to the project);

- An hourly rate should be calculated by dividing the latest documented annual gross employment costs by the 1,720 hours. The hourly rate should then be multiplied by the number of hours actually worked on the project.

Example for a reporting period running from July to December

	1/ STARTING POINT	
A	Total annual* salary costs (gross salary and employer's social contributions)	€50,000
	2/ CALCULATION OF HOURLY RATE	
B	Number of working hours according to the Regulation (EU) No 1303/2013, Article 68(2)**	1 720 hours

* annual salary costs = costs incurred over the 12 months preceding the last month of the reporting period. If no annual salary costs are available (employee employed for less than 12 months) a pro rata can be applied.

**No further amendments should be made to the number of hours (holidays etc. are already considered).

	3/ HOURLY RATE	
C	Hourly rate for July 2014 (A / B)	€29.07
	4/ NUMBER OF HOURS WORKED (based on timesheet)	
D	Total number of hours worked on the project during the month of July	100
	5/ ELIGIBLE COST FOR THE WORKED HOURS ON THE PROJECT	
E	Eligible cost (C * D)	€2,907

Supporting documents for the verification of expenditure (first level control)

The following documents have to be provided to support the eligibility of the costs when reporting to the programme:

- Employment contract or any other equivalent legal agreement that permits the identification of the employment relationship with the partner's organisation;
- Document identifying the latest annual salary cost (gross salary and employer's social contributions over the past 12 months reference period) for the employee, such as payslips or other accounting documents where the employment costs are clearly detectable;
- Proof of payment;
- Document showing the calculation of the hourly rate;
- Registration of the monthly working time covering 100% of the working time of the employee and identifying the time spent on the project: timesheet or equivalent time recording system. (The timesheet(s) will be used to prove that there is no double-financing if the employee is involved in (an)other EU project(s) or in any other activity that is partly financed by the EU.)

Points of attention:

- The same hourly rate calculated for the first reporting period may be used throughout the project duration for the employee concerned (unless a contractual change occurs).
- Should the latest annual salary costs not be available, it is possible to take the actual months of employment to calculate the annual salary costs. For example, if an employee has only been employed for 3 months, the actual employment cost for 3 months is multiplied by 4 to obtain the annual salary cost.

4. Person employed by the partner organisation on an hourly basis

Key principles

Staff costs shall be calculated as follows:

- The employee's hourly rate as indicated in the employment contract is multiplied by the number of hours worked on the project.
- A time registration system ('timesheet') related to the contract is required and must cover 100% of the hours worked by the employee (including the working time not related to the project, if applicable).

Example for the calculation

	1/ STARTING POINT	
A	Hourly rate (as indicated in the employment contract)	€30
	4/ NUMBER OF HOURS WORKED (based on timesheet)	
B	Total number of hours worked on the project during the month of July	100
	5/ ELIGIBLE COSTS FOR THE HOURS WORKED ON THE PROJECT	
C	Eligible cost (A * B)	€3,000

Supporting documents for the verification of expenditure (first level control)

The following documents have to be provided to support the eligibility of the costs when reporting to the programme:

- Employment contract or any other equivalent legal agreement that permits the identification of the employment relationship with the partner's organisation and the hourly rate;
- Document identifying the real monthly salary costs (gross salary and employer's social contributions) for the employee, such as payslips or other accounting documents where the employment costs are clearly detectable;
- Proof of payment;
- Registration of the hours worked covering 100% of the working time by the employee and identifying the time spent on the project: timesheet or equivalent time recording system. (The timesheet(s) will be used to prove that there is no double-financing if the employee is involved in (an)other EU project(s) or in any other activity that is partly financed by the EU.)

2.2.2 Office and administrative expenditure

Definition

Office and administrative costs cover the general administrative expenses of the partner organisation that are necessary for the delivery of project activities.

Based on Article 68 (1) (b) of Regulation (EU) No 1303/2013, office and administrative expenditure are budgeted and reported as a **flat rate of 15% of each partner's staff costs**.

According to Regulation (EU) No 481/2014 Article 4, office and administrative expenditure are limited to the following items:

- office rent;
- insurance and taxes related to the buildings where the staff is located and to the equipment of the office (e.g. fire, theft insurance);

utilities (e.g. electricity, heating, water);

- office supplies (e.g. stationary like paper, pens etc.);
- general accounting provided inside the beneficiary organisation;
- archives;
- maintenance, cleaning and repairs;
- security;
- IT systems (e.g. administration and management of office hard- and software);
- communication (e.g. telephone, fax, internet, postal services, business cards);
- bank charges for opening and administering the account or accounts where the implementation of an operation requires a separate account to be opened;
- charges for transnational financial transactions.

Key principles

No detailed budget needs to be planned for the budget line 'office and administrative expenditure' since the application form will automatically calculate a budget corresponding to 15% of the planned staff costs for each partner.

When it comes to reporting office and administrative expenditure, the flat rate of 15% is automatically applied to the actually eligible reported staff costs of each project partner.

Example

A	Eligible reported staff costs	€36,000
B	Flat rate for office and administrative expenditur e	15%
C	Eligible reported office and administrative expenditure (automatic reporting without proof of actual costs) (A*B)	€5,400

Supporting documents for the verification of expenditure (first level control)

Project partners do not need to provide any justification or supporting documents. Project partners thus also do not need to document that the expenditure has been incurred and paid or that the flat rate corresponds to the reality. The FLC check focuses on the correct reporting of staff costs and that no expenditure related to the office and administrative budget line is included in any other budget line.

Points of attention

Should a contract with an external expert also include administration charges, these costs must be included in the budget line "External expertise and services costs" as they are a part of the expertise

2.2.3 Travel and accommodation

Definition

This budget line concerns the travel and accommodation costs of staff employed by a project partner officially listed in the application form.

Key principles

Pursuant to the Regulation (EU) No 481/2014 Article 5, expenditure on travel and accommodation costs is limited to the following items:

(a) travel;

(b) meals;

(c) accommodation;

(d) visa;

(e) daily allowances.

Any item listed in points (a) to (d) covered by a daily allowance will not be reimbursed in addition to the daily allowance.

The following general principles must be respected:

- Costs must be borne by the partner organisation. Direct payments by an employee must be supported by a proof of reimbursement from the employer;
- Real costs and daily allowances must be in line with the specific national or institutional rules applicable to the partner organisation. In the absence of national or internal rules on daily allowances, real costs apply;
- Usually, travel and accommodation costs should relate to trips undertaken within the programme area. However, trips to places outside the programme area are eligible if they are explicitly mentioned and justified in the application form. Should there be trips outside the programme area that are not detailed in the application form, a specific request needs to be submitted in advance by the lead partner to the joint secretariat for validation.

Supporting documents for the verification of expenditure (first level control)

The following documents must be available for control purposes:

- Agenda (or similar) of the meeting/seminar/conference;
- Documents proving that the journey actually took place (boarding passes or participant lists etc.);
- Paid invoices (including hotel bills, transport tickets, etc.) and, if applicable, the employee's expense report with a proof of reimbursement by the employer to the employee;
- Daily allowance claims (if applicable), including proof of reimbursement by the employer to the employee.

Points of attention

- Travel and accommodation expenses related to individuals other than staff directly employed by the beneficiaries of the project (members of the stakeholder groups but also consultants, experts), have to be included in the 'external expertise and service' budget line.

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CO2 compensation expenses for travel tickets can be considered as eligible travel costs as long as the CO2 compensation is included or calculated in the price of the tickets.

2.2.4 External expertise and services

Definition

External expertise and service costs include expenditure paid on the basis of contracts or written agreements, against invoices or requests for reimbursement to external service providers who are subcontracted to carry out certain tasks/activities linked to delivery of the project (e.g. studies and surveys, translation, newsletter development, coordination, financial management, first level control).

Pursuant to the Regulation (EU) No 481/2014 Article 6, expenditure on external expertise and service are limited to the following services and expertise provided by an organisation other than the project partner:

- studies or surveys (e.g. evaluations, strategies, concept notes, design plans, handbooks);
- training;
- translations;
- IT systems and website development, modifications and updates;
- promotion, communication, publicity or information linked to a project or to a cooperation programme as such;
- financial management;
- services related to the organisation and implementation of events or meetings (including rent, catering or interpretation);
- participation in events (e.g. registration fees);
- legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services;
- intellectual property rights (see also section 7.4.10);
- verifications under Article 125(4)(a) of Regulation (EU) No 1303/2013 and Article 23(4) of Regulation (EU) No 1299/2013 (i.e. first level control costs);
- certification and audit costs at programme level under Articles 126 and 127 of Regulation (EU) No 1303/2013;
- the provision of guarantees by a bank or other financial institution where required by Union or national law or in a programming document adopted by the monitoring committee;
- travel and accommodation for external experts, speakers, chairpersons of meetings and service providers;
- other specific expertise and services needed for operations.

Key principles

- The costs of external expertise and services are connected to the implementation of certain project tasks that cannot be carried out by the project partners themselves (mainly due to the lack of internal resources) and therefore are outsourced to external service providers.
- The work of external service providers is necessary for the project and should be linked to activities planned in the application form. External expertise and services costs have to be paid on the basis of:
    - Contracts or other written agreements of equivalent probative value,
    - Invoices or requests for reimbursement of equivalent probative value.
- All applicable EU, national and internal public procurement rules must be respected. Even below EU thresholds, contracts with external providers must comply with the principles of transparency, non-discrimination, equal treatment and effective competition (see also section
    - on public procurement).

Supporting documents for the verification of expenditure (first level control)

The following documents must be available for control purposes:

- Evidence of the selection process, in compliance with the applicable EU, national and internal public procurement rules. Any changes to the contract must comply with the public procurement rules and must be documented,
- A contract or other written agreements of equivalent probative value laying down the services to be provided with a clear link to the project,
- An invoice or a request for reimbursement providing all relevant information in line with the applicable accountancy rules,
- Proof of payment,
- Outputs of the work of external experts or service deliverables.

Points of attention

- The travel and accommodation costs for members of the stakeholder groups have to be budgeted and reported under external expertise costs.
- Project partners cannot contract one another within the same project. This is because the roles of project partner and service provider are different and incompatible: a project partner is required to cooperate with the other partners in the delivery of the project against partial reimbursement of ERDF; a provider

delivers services/goods against payment and in compliance with the applicable public procurement rules. If a project partner cannot implement a certain task, the task may be reallocated to another partner or procured from an external service provider.

- Subcontracting in-house or other affiliated companies must be done on a real costs basis and reported in:

A. Each relevant budget line, according to the nature of the service provided, in as far as the reporting requirements applicable to the budget lines are fulfilled. For instance, if an internal audit department carries out the first level control, the time spent on checking the claims must be reported as staff costs, provided that the rules applicable to staff costs are fulfilled.

B. External expertise and services budget line: if a service is provided by an internal service inside a different legal entity. In this case, the relevant public procurement rules have to be complied with.

- Advance payments may only be accepted if they are supported by an invoice or another document of probative value. The corresponding activity must have taken place (and have been verified by the first level controller) by the end date of the project at the latest.
- The costs of services contracted by project partners for arranging the travel and accommodation of their own staff members (e.g. travel agencies, etc.) must be claimed under the budget line 'travel and accommodation'.
- Costs for external expertise and services should not exceed 50% of the total project budget, bearing in mind that the beneficiaries of the project's work should be the actual project partners.

2.2.5 Equipment

Definition

Expenditure for the financing of equipment purchased, rented or leased by a partner, necessary to achieve the objectives of the project. This includes costs of equipment already owned by the partner organisation and used to carry out project activities.

Pursuant to Regulation (EU) No 481/2014 Article 7, equipment expenditure is limited to the following items:

- office equipment;
- IT hardware and software;
- furniture and fittings;
- laboratory equipment;
- machines and instruments;
- tools or devices;
- vehicles;
- other specific equipment needed for operations.

Key principles

Costs of equipment are eligible only if they are detailed in the latest approved version of the application form. Normally, only planned equipment costs are eligible for funding. Unplanned equipment costs can only be eligible for funding in exceptional cases and needs to be agreed with the joint secretariat.

Considering the nature of Interreg Europe project activities, the focus of this budget line is on office equipment for project management purposes. Usually, not more than EUR 5,000 - 7,000 per project is budgeted/spent.

Equipment items can only be funded by the programme if no other EU funds have contributed towards the financing of the planned equipment. Equipment has to be purchased in compliance with public procurement rules.

When reporting expenditure for equipment, the following principle applies: If the equipment is used solely for the purpose of the project and was incurred and paid within the eligible period, the full

purchase cost of the equipment should be reported. However, the points listed below indicate certain limitations and/or specific rules which also need to be considered when purchasing and reporting equipment:

- If the equipment has been purchased before the project's approval, a pro rata depreciation will be applied. Only the value of the depreciation incurred during the project's timeframe is eligible.
- If the equipment has been purchased during the project's lifetime but the depreciation plan is longer than the project duration, a pro rata depreciation will

be applied. Only the value of the depreciation incurred during the project timeframe is eligible.

- If non-depreciable equipment (e.g. low-value asset) has been purchased, the full purchase cost of the equipment should be reported where the equipment is used 100% for the project.
- If the equipment is rented or leased, depreciation does not apply, i.e. the full cost is reported where the equipment is used 100% for the project.
- If the equipment has been purchased by the partner organisation, but is used only partially for the project, only the share related to the use of the equipment for the project will be reported. This share has to be calculated according to a justified and equitable method in line with legislation or general accounting policy of the partner organisation.
    - For example, if a laptop for the project management is purchased in the second half of the project, only the share for the remaining project implementation can be reported. Similarly, if a staff member works on two projects e.g. with an equal share of 50% and uses the equipment item (e.g. a laptop) also equally for both projects, only 50% of the equipment costs can be reported on each side.
    - If the equipment purchased represents an important part of the project's result, the full cost of the item can be reported; even if the item was purchased towards the end of the project duration.

<u>Supporting documents for the verification of expenditure (first level control)</u>

The following documents must be available for control purposes:

- Evidence of compliance with the applicable EU, national and internal procurement rules,
- Invoice (or a supporting document with equivalent probative value to invoices, in case of depreciation) providing all relevant information in line with the applicable accountancy rules,
- Calculation of depreciation in compliance with the applicable national schemes,
- Proof of payment.

<u>Points of attention</u>

- Rented equipment: any equipment necessary for the content-related implementation of the project needs to be budgeted and reported in this budget line. Renting costs for equipment do not fall under the budget line 'external expertise and services costs'.

- Second-hand equipment: costs of second-hand equipment may be eligible under the following conditions:

  A. no other assistance has been received for it from the European Structural and Investment Funds;
  B. its price does not exceed the generally accepted price on the market for that equipment;
  C. it has the technical characteristics necessary for the project and complies with applicable norms and standards.

2.3 Preparation costs

Pursuant to Article 67 (1) (c) of Regulation (EU) No 1303/2013, preparation costs are fixed in the form of a **lump sum of EUR 15,000** (or in ERDF /Norwegian funding: EUR 12,750 (85%) and EUR 7,500 (50%)) for approved projects.

This amount will be automatically included in the lead partner's budget at the application stage. With the first progress report, the EUR 15,000 lump sum for preparation costs will be added to the reported lead partner's expenditure, and the corresponding ERDF / Norwegian funding will be paid by the programme after approval of the progress report.

Point of attention:

In order to keep the administrative work for preparation costs to a minimum, the lump sum for preparation costs is allocated to the lead partner's budget. Nevertheless, the partnership should share the preparation costs, reflecting the partners' involvement in the preparation of the application form in a fair and transparent way. The details of how preparation costs will be shared needs to be included in the project partnership agreement.

Supporting documents for the verification of expenditure (first level control)

Project partners do not need to provide any justification or supporting documents. Project partners thus also do not need to document that the expenditure has been incurred and paid or that the expenditure corresponds to the reality.

2.4 *Other budget and eligibility rules*

2.4.1 VAT

In accordance with Regulation (EU) No 1303/2013 Article 69 (3), VAT is not eligible except in the case where VAT is non-recoverable under national VAT legislation. In practice, if a partner can recover VAT (regardless whether he actually does or not), all expenditure reported to the programme has to be reported without VAT.

2.4.2 Fines, financial penalties and expenditure on legal disputes and litigation, exchange rate fluctuation, interest on debt

Fines, financial penalties and expenditure on legal disputes and litigation, as well as interest on debt are **not eligible** in accordance with Regulation (EU) No 1303/2013 Article 69 (3) and Regulation (EU) No 481/2014 Article 2 (2)

Also, costs related to the fluctuation of foreign exchange rates are **not eligible**.

2.4.3 Contributions in kind

In the Interreg Europe programme, contributions in kind, i.e. provision of works, goods, services, land or real estate for which no cash payment has been made (e.g. unpaid voluntary work) are **not eligible**.

Staff costs for personnel working in one of the partner institutions (officially listed in the application form) on the basis of an employment contract and receiving a regular salary do not count as in-kind contribution, but as a cash contribution, since staff costs are actually paid by the partner institution.

2.4.4 Net revenues

In accordance with Regulation (EU) No 1303/2013 Articles 61 and 65, if a project generates net revenue for example through services, conference participation fees, sales of brochures or books, it must be deducted from eligible costs in full or pro-rata depending on whether it was generated entirely or only partly by the co-financed project.

The ERDF funding is calculated on the basis of the total cost after deduction of any net revenue.

2.4.5 Expenditure already supported by other EU or other national or regional subsidies

Any expenditure which is already 100% co-financed by another EU-funding source or a national or regional subsidy is not eligible in the context of an Interreg Europe project (double-financing).

In case that an expenditure is already partially co-financed by national or regional sources, the activities and related costs can only be considered as eligible for Interreg Europe if the national or regional subsidy does not exceed the partner contribution share for that expenditure (15 or 25% depending on the legal status of the partner). In this case, the national or regional funding institution has to be notified.

2.4.6 Public procurement

During the implementation of a project, virtually all project partnerships buy goods and services externally. For example, external auditors are hired to carry out the first level control, a project, finance and communication manager is hired to assist the lead partner with the organisational and administrative aspects of project implementation, catering and technical equipment for conferences and meetings is ordered etc. Whenever purchases are made and contracts are awarded to external suppliers, project partners have to be in a position to demonstrate the good use of public funds. The principles of transparency, non-discrimination and equal treatment have to be respected and conditions of effective competition must be ensured. Three levels have to be taken into consideration:

- the EU public procurement directives
- national rules
- internal rules of the partner organisation

As a matter of principle, the stricter rules must always be applied.

The public procurement rules define the tendering and publicity procedures applicable to different threshold values. Each contract should be awarded on the basis of objective criteria which ensure compliance with the principles of transparency, non-discrimination and equal treatment and which guarantee that tenders are assessed under the conditions of effective competition.

Project partners should be aware that these fundamental principles also apply for purchases and subcontracted activities below the threshold values. Basically, both below and above the thresholds the main difference for public contracts is the degree of publicity and formality of the tendering procedure: in certain cases, a request for three offers ('bid-at-three') might be sufficient whereas for others it may be necessary to announce the tender in national/regional media or EU wide, etc.

Central to ensuring adherence to the public procurement rules is the tender documentation, which usually consists of the following:

- Terms of reference (sufficiently specified, including clear information to candidates on award and weighting criteria);
- Request for offers or procurement publication/notice;
- Offers/quotes received;
- Report on assessment bids (evaluation/selection report) incl.
  - justification for the procedure chosen in the light of the identified needs,
  - evaluation of the offers in the light of the previously announced award and weighting criteria;
- Letters of acceptance and rejection;
- Contract, including any amendments and/or renewals (with evidence that these did not distort competition in the relevant market' and that there was no modification of the object of the initial contract);
- Evidence that the payments made match the contract (invoices and proof of payment);
- Proof of delivery of goods or services.

Points of attention

- Public procurement rules and principles are applicable to all public authorities and bodies governed by public law and therefore also apply in the context of their participation to an Interreg Europe project.

- Private non-profit bodies participating in an Interreg Europe project also have to be able to prove how they awarded project-related contracts in compliance with these principles and relevant national rules and guidelines.

- Evidence has to be available that the choice made regarding publicity requirements (sufficient degree of advertising) is in compliance with the EU Directives and the national applicable legislation (depending on the thresholds). Project partners are required to keep a record of every step of the public procurement procedure for first level control and audit purposes.

- The greater the interest of the contract to potential bidders from other Partner states, the wider the coverage should be. So, depending on the nature of the services and goods, an EU-wide advertising may be required, even if the value of the contract is below the EU-threshold.

- The applicable tendering procedure changes are applied according to the contract value. When calculating the value of a contract, the maximum total amount that may be paid during the entire contract period (incl. renewal periods) needs to be estimated.

- When establishing the contract value, the project partner has to take into consideration all (potential) contracts of the same type that the partner organisation has implemented or will implement during the financial year.

- A procurement may not be divided into several smaller procurements with the purpose of fitting them individually into the value range applicable to direct awarding.

- If a direct award procedure is used for reasons of urgency, it has to be proven that the urgency is due to unforeseeable circumstances. Insufficient planning by the project partner does not justify a direct award.

- If a direct award procedure is used for technical /exclusivity reasons, it must have been ruled out that any other supplier than the one being contracted is capable of providing the requested services. This elimination procedure must be based on objective criteria. With regard to project management services for example, a direct award of procedure for technical reasons/exclusivity cannot usually be justified. The fact of having worked already with a certain external provider in the past, having been satisfied by the work quality and wanting to benefit from the knowledge the provider acquired thanks to having worked with the partner organisation in the past and on similar subjects does not represent sufficient justification for a direct award. If objective proofs do not exist, an open tender still has to be organised. Its outcome will then prove if there is really no equivalent alternative on the market.

To avoid any loss of ERDF, projects have to be in a position to prove the awarding of contracts in compliance with public procurement rules. Due to the complexity of public procurement rules, project partners are invited to work closely with their legal department to ensure compliance.

2.4.7 Financing of joint activities

The principal recommendation is that projects should share tasks and not costs. Experience has shown that it is much more efficient to allocate tasks, which are of common benefit for all project partners (project management, project dissemination events etc.), equally among the partnership instead of sharing the costs for those tasks. It is nevertheless also possible to share costs between the partners, but a contracting-partner-only- principle applies to the budgeting and reporting of these costs. In practice this means that:

- the contracting partner is the only one that budgets, actually pays and reports 100% of the cost item of joint benefit and that receives the related ERDF.
- all the other partners can decide to reimburse the share of the cost that is not covered by the ERDF to the contracting partner. However, the other partners cannot claim this reimbursement in their report because the total ERDF share has already been paid to the contracting partner. It is nevertheless advised to agree on the procedures and the shares of such contributions in the project partnership agreement

<u>**Points of attention**</u>

- The sharing of the partner contributions with the partners reduces the share of national financing that the contracting partner can receive from its national / regional sources (the relevant funding bodies have to be informed in order to avoid double-financing).

- Attention should be paid to partners that receive financing from other national or regional sources. Because the payment of the share of the partner contribution to the contracting partner is not included in the other partners' reports, this means that they do not receive any reimbursement from their national/regional sources for this payment to the contracting

  partner. Such specific circumstances show why it is much more beneficial for projects to share tasks and not costs.

2.4.8 Use of the euro and exchange rates for partners located outside the Eurozone

All financial reporting and project follow-up will be in euros. This includes that expenditure has to be reported to the joint secretariat in euros and the programme will pay all ERDF and Norwegian funds in euros.

In accordance with Regulation (EU) No 1299/2013 Article 28, partners incurring expenditure outside the euro zone will have to convert this expenditure into euros. **They will have to use the exchange rate of the Commission applicable in the month the documents are submitted (sent or made available on-the-spot) for verification to the first level controller**. The monthly exchange rates of the Commission are published on: http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm

2.4.9 Gifts

Pursuant to Regulation (EU) No 481/2014 Article 2, gifts are not eligible, except those not exceeding EUR 50 per gift where related to promotion, communication, publicity or information. The production of such promotion, communication, publicity or information material requires the approval of the joint secretariat beforehand (for further information see section 8.2.1).

2.4.10 Ownership of results and intellectual property rights

As a general principle and in the spirit of cooperation and exchange in Interreg Europe, project results (e.g. studies, policy recommendations, good practice guides) are expected to be freely available to the public. A wide dissemination of project outputs amongst a wide European public, whether they are partners of the project or not, is not only desirable but is also what the European Commission expects from the projects. As a logical consequence, any commercial use of the project results by the project partner(s) would be in contradiction to the general mission of the programme.

It is nevertheless possible that partnerships will wish to protect their project results from further development and commercial use.

Projects should make use of the project partnership agreement to make the necessary provisions for questions on ownership and intellectual property rights. The project partnership agreement template includes a paragraph which by default indicates shared ownership among all the project partners.

2.4.11 Financing activities outside the programme area

The Interreg Europe programme area covers all EU Member States, Norway and Switzerland. In principle, all activities of a project should take place within this programme area. If a project plans to finance activities or events outside the programme area, this is possible in justified cases, provided that Regulation (EU) No 1299/2013, Article 20 is respected. If activities (including travel) or events are planned outside the programme area, the following conditions need to be fulfilled:

- the activity and/or event are for the benefit of the programme area;
- the activity and/or event are essential for the project's implementation;
- the implementation and/or the relevance of the activity or the event have been approved by the programme beforehand.

Point of attention

From experience, the most common activities outside the programme area concern the participation in conferences or events outside the EU, Norway or Switzerland. If project(s) (partners) wish to participate in such events, an approval by the joint secretariat before such participation is necessary. Such activities should preferably already be planned and justified in the application form. If no approval has been obtained ex-ante, the expenditure cannot be accepted by the programme.

2.4.12 Awards/prizes

If project(s) (partners) wish to carry out competitions for which they plan to give awards/prizes prior approval by the joint secretariat is necessary. Any award/prize and the costs linked to it should be planned in the application form. If the programme did not approve such an activity ex-ante, the expenditure cannot be reimbursed by the programme.

7.5 Accounting for project expenditure

In order to receive ERDF, all expenditure to be reported by a project has to be verified beforehand. The next section provides guidance on the accounting principles that apply to the Interreg Europe project.

- Expenditure can only be reported if the following principles are respected (with the exception of administration costs and preparation costs):
- The calculation is based on actual costs.
- The costs are definitively borne by the partner body and would not have arisen without the project.
- The expenditure has actually been paid out before the end of the reporting period. Expenditure is considered to be paid when the amount is debited from the partner institution's bank account.

  The payment is usually proven by bank statements. The date when the invoice was issued, recorded or booked in the accounting system does not count as a payment date.
- The expenditure is directly linked to project implementation and necessary for successful project implementation.

The lead partner and the partners must ensure that all accounting documentation related to the project is available and filed separately, even if this leads to a dual treatment of accounts (for example, if the usual accounting management requires central filing, a copy should also be kept in a separate file to allow quick access to the project's supporting documents).

Accounting documents

The following list gives an overview of the documents that have to be available for financial control and audit purposes and retained for a minimum period, which will be indicated in the project closure notification:

- approved application form
- subsidy contract (original at lead-partner level, copy at project-partner level)

- project partnership agreement (original)
- relevant project correspondence (financial and contractual)

- progress reports
- details on budget by partner
- list of expenditure by partner
- independent first level control certificate
- approbation certificates where there is a decentralised first level control system
- independent first level control report (incl. control checklist) (all at lead-partner level, individual at project-partner level)
- bank account statements proving the reception and the transfer of EU/Norwegian funds
- invoices or documents of equivalent probative value (e.g. payslips for staff costs)
- bank account statements / proof of payment for each invoice
- proofs for delivery of services and goods: studies, brochures, newsletters, minutes of meetings, translated letters, participant lists, travel tickets, etc.
- evidence that the publicity requirements have been respected (see section 8.1.2)

Depending on the budget line, the following documents should also be available:

- staff costs: calculation of hourly rates, information on actual annual working hours, labour contracts (including a job description, if applicable), payroll documents and time records of personnel working for the project or mission letter (if applicable)
- administration: no documentation necessary, because of the applied flat rate
- travel and accommodation: travel expense claims, evidence that the journey took place (e.g. boarding passes, train tickets)
- external expertise and services: list of contracts and copies of all contracts with external experts and/or service providers, documents relating to public procurement (public procurement notes, terms of reference, offers / quotes, evaluation reports, order forms, etc.)
- equipment: record of assets, physical availability of equipment purchased in the context of the project, calculation method in case of depreciation or if the equipment cost is allocated to the project on a pro-rata basis, documents related to public procurement.

In the context of the project an overview of the amounts reported must exist in computerised form. It must be possible to clearly identify which expenditure has been allocated and reported for the project and to ensure that expenditure is not reported twice (in two different budget lines, reporting periods, projects/funding schemes). This clear identification is ensured through:

- a separate accounting system or
- an adequate accounting code for all expenditure relating to the project.

7.6 First level control: verification of expenditure to be reported

Before submission to the joint secretariat, each progress report has to be verified and confirmed by an independent controller compliant with the first level control system set up by each Member State and

Norway (in accordance with Article 125 of Regulation (EU) No 1303/2013 and Article 23 of Regulation (EU) No 1299/2013).

This verification is carried out by a first level controller, i.e. somebody who has the qualifications (usually auditors or certified public accountants) to verify that the expenditure connected to the project implementation was spent in compliance with the relevant EU, national, regional, institutional and programme rules. The main aim of the controls is to provide a guarantee for the managing authority, the certifying authority and, most importantly, to the project itself that costs co-financed under the Interreg Europe programme are accounted for and claimed in accordance with the legal and financial provisions of the subsidy contract, the approved application form, the Interreg Europe programme rules, national rules and EU regulations.

7.6.1 Designation of the first level controller

In accordance with Article 23 of Regulation (EU) No 1299/2013, it is the responsibility of each Member State and Norway to designate the controllers responsible for verifying that the expenditure declared by each partner participating in a project complies with the applicable law and the programme rules and that the funded products and services were delivered and paid. In practice, this means that each partner has to seek confirmation of the reported expenditure from a controller who is authorised by the respective Member State or Norway (e.g. for an Italian partner, Italy has to provide the authorisation of the first level controller). The details for each Member State and Norway can be found on the programme's website.

The main principle is that the controllers have to be independent and qualified to carry out the control of project expenditure. In order to be considered independent, the controllers have to fulfil certain criteria. An internal controller, if authorised by the Member State or Norway, has to belong to a unit which is organisationally separated from the units dealing with project activities and finances. An external controller can only be considered independent if there are no other contractual relationships with the project or partner organisation that could lead to a conflict of interest.

With regard to the qualification of the first level controller, the partners have to bear in mind that the task of controlling project expenditure co-financed under the Interreg Europe programme goes beyond checking the accounts: it also involves a judgment on the compliance with ERDF, national and programme rules. The controllers are therefore expected to have a profound knowledge of controlling project expenditure under the Structural Funds regulations as well as a good knowledge of English (considering that all programme documents and reports are in English). The country-specific control requirements are binding and provide further conditions concerning the choice of first level controller.

If an external controller is selected by the project partner, this controller has to be designated in accordance with public procurement rules.

In principle, there are four general models[19]:

- centralised control at Partner State level through a public administrative body
- centralised control at Partner State level through a private audit firm
- decentralised control through controllers from a central shortlist
- decentralised control through an internal or external controller selected by the project partner and approved at relevant level.

In Partner States with decentralised control systems, each project partner has to provide an **approbation certificate delivered by the approbation body designated by the Partner State,** for the chosen first level controller. This approbation certificate has to be submitted with the first progress report. If, during the project implementation, a new first level control body is appointed, a new approbation certificate has to be provided.

The detailed requirements per country can be found in the section 'in my country – First level control information' on the Interreg Europe website.

7.6.2 Role of the first level controller

The first level controllers' task is to verify that the expenditure reported by the partners in each progress report fulfils the following conditions:

- the costs are eligible,
- the conditions of the programme, approved application form and subsidy contract have been observed and followed,
- the invoices and payments are correctly recorded and sufficiently supported,
- the related activities, sub-contracted supplies and services are in progress or have been delivered or carried out,
- the community rules have been respected especially with regard to information and publicity, public procurement, equal opportunities and protection of the environment.

The controllers have to be familiar with the content of the following documents in order to be able to confirm the compliance with the provisions laid down in:

- the EU regulations and directives, i.e. in particular with:
  - Regulation (EU) No 1303/2013 (Common Provisions Regulation)
  - Regulation (EU) No 1301/2013 (ERDF Regulation)
  - Regulation (EU) No 1299/2013 (European Territorial Cooperation Regulation)
  - Regulation (EU) No 481/2014 (Eligibility of expenditure for cooperation programmes)

- EU Directives on public procurement

- further national rules and guidance (e.g. national public procurement rules)
- the programme manual
- the application form
- the subsidy contract
- the project partnership agreement

If there are amendments to the project application form, subsidy contract and project partnership agreement, the lead partners and partners have to ensure that the latest version is made available to the first level controllers.

The programme provides standard documents providing guidelines for the controllers during the control work, to ensure the application of the same quality standards and to document the control steps properly:

- A standard independent first level control certificate to be signed by each project partner's first level controller (this includes an independent first level control certificate for the lead partner for their own (partner's) expenditure). The independent first level control certificates have to be available for the lead partner and the joint secretariat.
- A standard independent first level control report template with a control checklist, which has to be filled in by each project partner's first level controller (this includes one for the lead partner for their own (partner's) expenditure). This report has to be submitted to the lead partner.

The standard documents mentioned above have been developed in a joint approach between European territorial cooperation programmes in order to bring greater harmonisation to the different strands of European territorial cooperation and were approved by the monitoring committee of the Interreg Europe programme. Therefore the text of the documents may not be amended or extended.

Furthermore the independent first level control report (incl. control checklist) template provides the minimum requirements for the controllers' checks and documentation, meaning those documents have to filled and completed for each progress report by the first level controller. Additional documents (e.g. documentation of checks on the basis of national rules) may be used by the first level controller, but have not to be submitted to the programme.

The first level controllers have to take into consideration that, by signing the independent first level control report (incl. control checklist) for a certain reporting period, they are confirming the full amount of eligible expenditure. This means that in principle first level controllers check 100% of the expenditure, i.e. verify each individual expenditure item against source documentation. However, where justified, it is possible to sample expenditure items for verification for each report. In such a case, the sample could take into account risk factors like e.g. value of items, type of beneficiary, past experience, and it is complemented by a random sample to ensure that all items have a probability to be selected. The value of checked expenditure is the amount tested to source documentation. The sampling methodology used must be established ex-ante by the first level controller and it is recommended to establish parameters in order that the results of the random sample checked can be used to project the errors in the unchecked population. In case that material errors are found in the sample tested, it is recommended to extend the testing to determine whether the errors have a common feature (i.e. type of transaction, location, product, period of time) and then either extend the verifications to 100% of the reported expenditure or project the error in the sample to the unchecked population. The total error is calculated by adding the errors from the risk based sample to the projected error from the random sample.

In order to verify the correct application of simplified costs options (i.e. the flat rate for administration costs and preparation costs), first level controllers are not expected to check the reality of such costs themselves (not supporting documents need to be provided), but to verify that the project partner has

complied with the programme rules (e.g. for administration costs: the presented staff costs are correctly calculated and 15% of them are reported as administration costs and that administration costs are not included in any other budget line). It is inherent in such fixed rates that they may on occasion overcompensate or undercompensate the costs actually incurred for the project.

Verifying the delivery of services, goods and work and carrying out on-the-spot checks

Is it an obligation to carry out on-the-spot checks?

The first level controllers have to verify that the reported activities have taken place, the delivery of sub-contracted supplies, work and goods is in progress or has been completed.

In accordance with Regulation (EU) No 1303/2013 Article 125 (5), this verification has to be done on-the-spot, at least once during the project's lifetime. At the same time, the Regulation stipulates that the means invested on 'on-the-spot' verifications should remain proportionate to the costs to be verified and the level of risk identified. Consequently, it may be legitimate to use sampling unless Partner State rules indicate differently for their first level control system (specific information can be found in the country-specific requirements on the programme's website).

For example, controllers who are involved in several operations (especially in the case of Partner States with a centralised first level control) sometimes establish criteria to classify their projects in order to optimise the use of on-the-spot checks. The classification could be carried out based on the following criteria:

- risk based, e.g.
  - size of partner budget/expected costs to be reported,
  - number of contracts involving important public procurement processes,
  - amounts of equipment items purchased,
  - Involvement in other EU Programmes.
- random, e.g.
  - every second or third project
- oriented (further sub-criteria are defined), e.g.
  - the complexity of the project management due to its number of partners,
  - general quality of the partner's reporting documents,
  - reporting problems already encountered

In any case, it is important to document in the independent first level control report (incl. control checklist) the check on the existence and reality of goods, works and services procured, the type of evidence viewed and the method chosen. If a first level controller decides not to carry out an on-the-sport check for a partner at all, sound justifications have to be documented.

Why are on-the-spot checks useful?

The Interreg Europe programme typically supports activities such as meetings, seminars, studies, good practice guides, which therefore mainly involve staff, administration, external expertise and travel costs (financing of heavy investment or major equipment items does not apply in Interreg Europe projects). Administrative verifications can provide assurances to a large extent, but they cannot always cover everything.

The on-the-spot check usually focuses on two aspects, which can help to assure the proper implementation of the project:

1. The good functioning of internal processes and systems related to the approval, ordering, accounting and payment of reported costs.

   An on-the-spot check gives a better understanding of the supporting documents, the project and the partner organisation: interviews and walk-through can be conducted, which means that a certain process can be traced from the beginning to its end inside the partner organisation with the people responsible, such as public procurement processes from the launch of the tender to the selection, contracting and final delivery of the contract or a payment process from the ordering of the service to its delivery, invoicing, registration in the accounting system and final payment. Moreover, original documents (invoices, timesheets) can be accessed.

2. The existence and delivery of goods and services

   The staff working on the project can actually be met. Outputs such a publications, equipment items etc can be reviewed in more depth. Supporting documents such as staff contracts, bank statements as payment proofs and procurement documents can be reviewed and accessed more easily.

On-the-spot checks also accelerate the verification process: it avoids the sending of documents back and forth and thus helps to save paper and time; initially missing documents can be provided straight away.

7.6.3 The role of the lead partner in the control process

Following the lead partner principle as indicated in the Regulation (EU) No 1299/2013, Article 13 (2), the lead partner bears the overall responsibility for ensuring the implementation of the project. When submitting a joint progress report, the lead partner has to:

- Ensure that the expenditure reported by the partners has been incurred in implementing the project and corresponds to the activities agreed between all the partners, i.e. is in line with the application form and subsidy contract. Any deviations from the application form, should they exist, have been properly reflected and justified in the progress report.
- Check that amounts and activities reported are correctly integrated in the joint progress report and that they give a correct description of the implementation and present status of the project.
- Ensure that the expenditure reported by partners has been verified by a controller in line with the country-specific requirements for first level control.
- Check that the control documents (i.e. independent first level control certificate and independent first level control report (incl. control checklist) and list of expenditure are correct and complete.

Such verification does not imply re-performing the checks already carried out at partner level considering that the financial control is the responsibility of the Partner State. However, it is still up to the lead partner, due to its particular role and knowledge of the project as a whole, to gain some assurance by screening the information available to it (partner report and outputs, independent first level control certificate, independent first level control report (incl. control checklist), list of expenditure). In cases of doubt, the lead partner has to justify to the partner (and the relevant first level controller)

and clarify the matter before the cost item is actually included in the joint progress report submitted to the joint secretariat.

7.6.4 Timing of first level control

The project (through the lead partner) is required to submit the progress report within three months after the end of each reporting period (see section 6.2). Project expenditure must therefore be verified within this timeframe. In order to ensure timely submission, the controls at project partner and lead partner levels have to be scheduled carefully in relation to the submission deadlines.

In this context, it is important to keep in mind that;

- expenditure has to be reported regularly, i.e. during the reporting period in which it is incurred,
- the project partner's controller can only carry out the control after receipt of all the documents from the partners,

- Some project partner’s controllers have fixed time limits for carrying out the control, which have to be respected when the documentation is submitted (and limits for potential clarifications),
- The lead partner can only submit the progress report after receiving and having checked the duly signed control documents from the partners reporting expenditure.

Given the points above and the complexity of reporting procedures, it is crucial that projects establish a clear timeline for the reporting procedure. The programme recommends that:

- Within two weeks after the end of the reporting period: submission of the documents from the project partner to the first level controller. Point of attention: in many centralised first level control countries, the verification is carried out on a first come, first served basis. Hence for those partners, it is obviously most important to submit documents shortly after the end of a reporting period. Partners should already towards the end of a reporting period have established a timeline with their first level controllers, in order to avoid any bottlenecks.
- After receipt of the content and financial input from the partners, the lead partner has sufficient time left to compile the progress report and, in cooperation with the partners, clarify any open points or questions in the reports. As a final step, the lead partner submits the progress report to the programme.

7.6.5First level control costs

Control costs for the verification of expenditure are considered eligible if there are no stricter national rules established at partner state level. Projects should therefore earmark a budget for these controls depending on the control arrangements applicable in the relevant Partner States (EU Member States and Norway) for each of the project partners; this point should be carefully checked in the specific-country requirements available on the Interreg Europe website.

Points of attention:

- Internal independent control should be included under the budget line ‘staff’.

  For example, if the accounting department of a county council carries out the first level control for the environment department of the county council, the expenditure would be reported under the budget line for staff costs, in accordance with applicable rules for staff costs, because the person(s) carrying out the verification are on the payroll of the partner institution.

- The expenditure for an external independent first level controller would be reported in the budget line 'external expertise and services'. For example, the environment department of a county council subcontracts an external accountant, in compliance with the relevant public procurement regulations. As this first level controller is not directly employed by the partner institution, the expenditure has to be reported in the budget line external expertise and services.

In order for the control costs for the last progress report to be eligible, **the activity** (first level control) has to be carried out **AND the payment has** to be made before the official end date of the project. For further information please see section 6.4 of the programme manual.

7.6.6 Financial correction carried out by the project and recovery procedure

A financial correction has to be carried out and documented by the project in exceptional cases where expenses were wrongly declared in a progress report approved by the joint secretariat**.**

In such a case the project should get in touch with the joint secretariat immediately to discuss the next steps.

If the partner concerned by the amount to be corrected reports costs in the following report, this amount will be deducted in that report. If the partner does not report costs in the following report but there is an open claim for the same partner in another project, the possibility of recovering the amount from this other project progress report will be considered.

If the partner concerned does not report costs in the following report and there is no other open claim for this partner, the correction will nevertheless have to be made in the following progress report and deducted from the payment to the lead partner. The lead partner will then request the reimbursement of the concerned amount to the project partner, based on the project partnership agreement. This request should be followed up with a reminder if the partner does not reimburse the lead partner in due time (see also next paragraph).

If it is not possible to deduct the unduly paid amount from an open progress report (e.g. if the project is closed), a letter will be sent to the lead partner to request the reimbursement of this amount to the programme within one month. Based on this letter and the project partnership agreement, the lead partner should immediately send a request to the partner concerned to reimburse the unduly paid amount within a maximum of three weeks. It is of utmost importance the lead partner follows this timeline very closely and makes sure that it is respected by the concerned partner(s), including through regular reminders.

7.7 Second level audit / Sample checks on projects

Every year between 2017 and 2023, sample checks on projects will be carried out to verify that projects have correctly declared expenditure in the progress reports. These checks will be done under the responsibility of the audit authority assisted by a group of auditors with at least one representative from each participating country. The actual checks will be sub-contracted and carried out by a private audit firm. The purpose of these checks is to detect mistakes in the accounting records at the level of individual projects and, on that basis, to obtain an overall picture of whether the management and control procedures and documents set up at programme level are being applied and that they allow the prevention and correction of potential weaknesses and errors.

Should a project be selected for a sample check, it is incumbent on both the lead partner and on the other partners to cooperate with the auditing bodies, presents any documentary evidence or information

deemed necessary to assist with the evaluation of the accounting documents as well as to give access to business premises.

Besides the sample checks explained above, other responsible programme bodies such as the

European Commission's audit services, the European Court of Auditors, national bodies, managing authority/joint secretariat, certifying authority may carry out audits to check the quality of the project implementation and in particular its financial management regarding compliance with EU and national rules. Projects may be checked even after the project has ended. That is why it is important to ensure good documentation and safe storage of all project documents at least until the date indicated in the project closure notification.