



CENTRAL BALTIC
INTERREG IV A
PROGRAMME
2007-2013

Central Baltic INTERREG IV A Programme 2007-2013

**Cross-Border Co-operation Programme under
the European Territorial Co-operation Objective**

**FIRST LEVEL CONTROL – MANUAL
Version 4.4**

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Introduction

The Central Baltic INTERREG IV A Programme 2007-2013 (hereinafter referred to as Central Baltic OP) is a new cross border co-operation programme including participating regions from Estonia, Finland including Åland¹, Latvia and Sweden. The Regional Council of Southwest Finland (hereinafter referred to as Regional Council) is designated to act as the Managing Authority (MA), Certifying Authority (CA) and Audit Authority (AA). These tasks have been assigned to separate independent administrative units to ensure the required separation of functions.

The MA has set up the Joint Technical Secretariat (JTS) to implement the Central Baltic OP. The JTS, commissioned by the MA (Lead Partners' contractual partner) to monitor the day-to-day programme management, provides support to the projects in all questions related to project implementation. The JTS also regularly organizes LP seminars to address questions related to financial management and controls.

This First Level Control (FLC) Manual has been written primarily for people performing first level control functions. It provides information and guidelines for project partners' national controllers (FLC) on the minimum requirements of the controller's validation process and on the overall scope of the controller's work. It describes who is entitled to carry out the FLC, what the role, responsibilities and practical work of the controller is, and what is expected of it. While the Programme Manual covers a wide range of project management issues, this FLC Manual concentrates mainly on issues of the FLC. The reader of this manual is advised to look more closely into both the Programme Manual and the Programme Document on matters of general management and implementation of the Programme. Additional guidance can also be found in the Practical Guide.

The FLC Manual is divided into separate chapters aimed at illustrating the control framework of the Central Baltic OP. The first chapter describes the legal background of the FLC, the second chapter the structure of the control system in each of the participating Member States/Åland and the third chapter the basic work flows related to the procedures as well as the basic requirements set for the control system. The fourth chapter illustrates the control procedures for Technical Assistance (TA).

Chapter 5 describes how the national controllers are informed about changes in project budgets, content, partnership structure and duration and how these changes are to be taken into account in the FLC process. It also describes the overall procedure in case irregularities are detected. Chapter 6 refers to the rules of eligible expenditure which are available in the Programme Manual and to some special aspects to be taken into account during the FLC process. A sample checklist, instructions on how to complete the control report and much more can be found at the Programme website (www.centralbaltic.eu).

Definitions and abbreviations

First Level Control (FLC) is performed by national First Level Controllers in compliance with Article 16 of Regulation (EC) 1080/2006. As first level controller

¹ Åland is an autonomous, demilitarised, Swedish speaking region of Finland. Due to the constitutional status and legislative power in the relevant areas Åland will be mentioned at the same time as Member States.

(FLC), we identify those bodies or individuals performing the controls listed in Art.16 of Regulation of the European Parliament and Council (EC) No 1080/2006: the controllers designated by the Member States/Åland to validate the expenditure declared by each beneficiary participating in the operation. The FLC is also known as Management Verification.

Declaration of Validation of Eligible Expenditure (DVEE) is the central output of the controller's work. It validates the overall correctness of the project's use of all funds (ERDF and national co-financing) spent by the project partners. The DVEE must be free from any conditions or added notes that limit the validity, strength or scope of the controller's declaration. Therefore no reservations or constrictive amendments are allowed on the DVEE form. By signing the DVEE, the controller is verifying all requested items and declares the proper use of funds.

Control Report (CR) includes the main findings and technical information related to deducted costs and irregularities discovered.

The Checklist is to be seen as an internal document, but a copy of it can be sent to the JTS to provide further clarification of issues concerning the PR/PC. It is part of the project documentation and audit trail. The projects should keep the report available for on-the-spot checks by either the JTS, the national or EU controllers. The sample checklist on the Programme website is only an example provided by the MA and may be substituted by a checklist provided by the national FLC. A separate checklist is used for the TA costs.

Common abbreviations used in the FLC Manual:

AA = Audit Authority
 CA = Certifying Authority
 CB = Central Baltic (sub)programme
 CBMS2007 = Central Baltic Monitoring System 2007 (Database)
 Central Baltic OP = Central Baltic INTERREG IV A Programme 2007-2013
 CR = Control Report
 DVEE = Declaration of Validation of Eligible Expenditure
 EC = European Commission
 FLC = First Level Control
 FMEE = Finnish Ministry of Employment and the Economy
 GoA = Group of Auditors
 HO = Host Organisation
 JTS = Joint Technical Secretariat
 LP = Lead Partner
 MA = MA
 MC = Monitoring Committee
 PP = Project Partner
 PR/PC = Progress Report/Payment Claim
 Regional Council = Regional Council of Southwest Finland
 SC = Steering Committee
 SFE = Southern Finland – Estonia (sub)programme
 TA = Technical Assistance
 FO = Financial Officer (JTS)
 AFO= Assisting Financial Officer (JTS)

1. First Level Control and it's legal basis

1.1 What is First Level Control – general principles and purpose

Before submission to the JTS, each PR/PC has to be verified and confirmed by an independent Controller according to the first level control system set up by each Member State. The main aim of the controls is to guarantee to the MA, CA and the project itself that costs co-financed under the Central Baltic OP are accounted for and claimed in accordance with the legal and financial provisions of the Subsidy Contract, the approved application, the Programme Manual, national rules and EC regulations.

Each PP has to compile the report on the individual PP's expenditure and send it with the necessary documentation to the national FLC. Each PP has to have these costs verified by the assigned first level controller in its country. The main goal is to secure the eligibility and correctness of all expenditures declared by the PP. The control process should cover 100% of the costs reported by the project.

The FLC should check every item of expenditure entered in the project accounts, the supporting documents (such as time sheets) and the costs per budget lines. The controllers should look at key documents in the audit trail to make sure that the costs claimed by the project partner are real costs and that the activities have taken place and that EU and national rules are being followed. In addition, the controller should verify that the required national co-financing has accumulated as described in the approved Application Form and Annex 6 (Annex 2). The eligible financing of a partner organisation can be verified computationally. The controller should also verify that the ERDF rate used corresponds to the rate specified in the Subsidy Contract (use two decimals only).

The audit trail must allow controllers and auditors to enter the management system of the LP/PP and to be able to trace back all declared expenditure to the original invoices (or equivalent documents). It must also be possible to verify the transfer of ERDF funds from the LP to the final beneficiaries according to the partnership agreement, except for the projects' first PR/PC when the check cannot be made since no funding has been received yet.

1.2 The controllers' role, tasks and responsibilities – the basics

The main task of the national controller includes the certification of expenditure by checking the validity and correctness of the invoices, and that the expenditures are in line with the approved application, subsidy contract and the EU as well as national regulations. The controller declares the proper use of funds by a DVEE and provides a Control Report. The DVEE and CR also confirm the disbursement of the national pro-rata co-financing as well as the transfer of ERDF funds from LP to PPs.

While the LP is responsible for keeping the project accounts, the task of the controller is to confirm the information contained in these accounts, using tests enabling sufficient evidence to be obtained to give a reasonable opinion on:

- the existence of a sound financial system/management and an internal control mechanism for reviewing the data entered into the accounts and the quality of the supporting documents

- the verification that the activities have actually taken place, that sub-contracted supplies have been delivered and that works and services have been carried out
- compliance with the rules in force in the country of the LP/PP (Member State/Åland), especially rules governing public procurement and financial control of the partner organisations
- compliance with the specific rules governing the Central Baltic OP and ERDF, and notably the rules indicated in the Subsidy Contract
- the solution given by the project to any issues that were raised during a previous financial audit by the Commission by either getting the right documentation or excluding the expenditure from the accounts (the CR must include explicit information about this)
- whether the management system in place is in accordance with the arrangements described in the approved application and ensures the efficient and correct use of ERDF paid to the project

1.3 Legal basis of First Level Control system

The legal basis for the first level control is based on the following regulations:

- Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund (hereinafter ERDF), the European Social Fund and the Cohesion Fund;
- Council Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund;
- Commission Regulation (EC) No 1828/2006 of 8 December, setting out rules for the implementation of Council Regulation (EC) 1083/2006
- The Central Baltic OP (Decision C (2007) 6599, CCI No. 2007CB163PO066), approved by the EC on 21.12.2007.
- The Multilateral Agreement on the implementation of the Central Baltic OP between the participating Member States/Åland and the Regional Council of South-west Finland
- Subsidy Contracts between the MA and LP
- The Host Agreements between the host organisations of the JTS Sub-secretariats and Info Points
- Project Applicant's Programme Manual (valid version)
- National rules applicable to the LP/PPs

The first level control process will check the compliance of the following rules by the project partners²:

- Public procurement (Art. 2(5) of Council Regulation 1083/2006 and thus with Directive 2004/18/EC of the European Parliament and of the Council of 31st March 2004);
- State aid rules (Art. 54 of Council Regulation (EC) No 1083/2006);
- Publicity rules (Art. 9 of Commission Regulation (EC) no 1828/2006);
- Sound financial management (Art.48(2) of Regulation (EC, Euratom) No 1605/2002);
- Compliance with the requirements listed in Art. 16 of Council Regulation (EC) No 1083/2006 about equality between men and women and non-discrimination;
- Sustainable development (Art. 17 of Council Regulation (EC) No 1083/2006);
- Double financing (Art. 54 of Council Regulation (EC) No 1083/2006);
- The generation of revenue (Art. 55 of Council Regulation (EC) No 1083/2006);

In addition to the above mentioned legal documents, the EC has provided a guidance document on practical implementation of the FLC (*Guidance document on management verifications to be carried out by Member States on operations co-financed by the Structural Funds and the Cohesion Fund for the 2007 – 2013 programming period*).

2. Setting up the first level control system

The FLC is central to the programme implementation and management. It is the best place to identify and correct ineligible expenditure. Higher levels of control (e.g. Second Level) are fundamentally quality checks on project implementation on sample basis.

Article 16 of Regulation (EC) No 1080/2006 provides details for the organisation of first level control in the new programming period 2007-2013. It states that in order to validate expenditure, each Member State/Åland shall set up a control system. The FLC needs to be independent from the project level implementation and management as well. The control system must make it possible to verify the delivery of the products and services co-financed, the soundness of the expenditure declared for operations or parts of operations implemented on its territory, and the compliance of such expenditure and of related operations, or parts of those operations, with Community rules and national rules. In addition, the control system must verify that the operation/project has been conducted according to the approved application. For this purpose, **each Member State/Åland designates the controllers responsible for verifying the legality and regu-**

² Please note that these rules have been taken into account during the preparatory phase of the project applications (i.e instructions given in the Programme Manual) as well as during the JTS assessment phase of the applications. The final conduct will be checked and validated during the FLC.

arity of the expenditure declared by each beneficiary participating in the operation.

It should be noted that there are country specific provisions that the FLC in each country must follow in addition to instructions given here. It is necessary for the FLC to familiarize themselves with the provisions specific to their country of operation.

The standard PR/PC and Interim Reports are to be submitted to the JTS by the LP **within 4 months** after the respective reporting period has ended. The Final Report is to be submitted to the JTS by the LP **within 5 months** after the respective reporting period has ended. The LP submits to the JTS an electronic PR/PC and a **confirmation letter** signed by an authorized person in the LP organisation with relevant annexes included (DVEEs and Control Reports). The information presented in the confirmation letter and electronic PR/PC must be identical for the report to pass the admissibility check.

Four different control systems have been presented in the literature dealing with FLC issues:

1. Centralised control at Member State/Åland level through a public administrative body
2. Centralised control at Member State/Åland level through a private audit firm
3. Decentralised control through controllers **selected** by the LP/PP from a central short list (mixed system)
4. Decentralised control through internal or external controller **proposed** by the LP/PP and approved at national level.

The participating Member State/Åland have opted for the following systems in Central Baltic OP:

The Member State/Åland	Control System
Estonia	1
Finland	4
Latvia	1
Sweden	1
Åland	1

In the centralized systems, a central body is appointed by the Member States/Åland to carry out the task.

In the decentralized system, the controlled beneficiary is free to propose its controller to the Member State to be certified to perform the first level control on the costs declared by the respective project organisation. In Finland, this certification process is carried out by the FMEE.

As the first level controller validates both the eligibility of expenditure and different project activities, the officials in charge should be competent in different fields related to finance and project management. The controllers should be clearly independent from project level activities and they should possess good competence at least in:

- a) international and national accounting standards and accountancy in general
- b) applying the regulatory framework of the Structural Funds, national legislation and programme rules
- c) project management in order to be able to compare the proposal reported in the application form with the developed activities and to see if the implementation is in line with the project proposal approved
- d) appropriate knowledge of English language in order to understand programme documents and requirements

2.1 National control systems

For the purpose of the FLC, the participating Member States/Åland have assigned controllers as follows:

Country	Assigned control body and contact information
Estonia (centralised)	<p>Estonian Ministry of the Interior Regional Development Department Interreg Programmes Supervision Bureau Pikk 61, EE-15065 Tallinn, Estonia Tel.: +372 612 5197 Fax: +372 612 5101</p> <p>www.siseministeerium.ee http://www.siseministeerium.ee/esmatasandi-kontroll</p> <p>Annika Põldma, Head of Bureau E-mail: annika.poldma@siseministeerium.ee</p> <p>Helina Puuorg, Advisor Email: helina.puuorg@siseministeerium.ee Tel. +372 6125 193</p>
Finland (except Åland) (decentralised)	<p>The beneficiary (project partner) selects a controller (an independent auditor or audit company) who will be authorized by the Finnish Ministry of Employment and the Economy based on the request made by the beneficiary. The authorization will always be given in written form.</p> <p>The Finnish Ministry of Employment and the Economy has given more detailed instructions for the project partners on the practical implementation of the decentralised FLC system implemented in Finland, issued on the Ministry's and the Central Baltic OP homepage (in Finnish). www.tem.fi/eay/valvonta</p> <p>Qualification criteria: Controllers (auditors) must be a Chartered Public Finance Auditor or Auditing Cooperation authorized by the Board of Chartered Public Finance Auditing (JHTT) or an Authorized Public Accountant or Auditing Corporation authorized by the Central Chamber of Commerce (KHT) or an Authorized Auditor of Auditing Corporation authorized by a local Chamber of Commerce (HTM).</p> <p>For further information on the Finnish system and on the certification procedure please contact the Finnish Ministry of Employment and the Economy:</p>

	<p>Ministry of Employment and the Economy Regional Development Unit Tuula Manelius P.O. Box 32, FI-00023 GOVERNMENT, Finland Telephone switchboard: Tel.: +358 010 606 000 Fax.: +358 9 1606 2166 Official e-mail: kirjaamo(at)tem.fi E-mail: tuula.manelius(at)tem.fi</p> <p>For general ETC related issues, send email to: eay(at)tem.fi</p> <p><i>NB! In Finland, FLC materials (Control Report, DVEE and Checklist) are an essential part of the verifications done for national state co-financing.</i></p>
Latvia (centralised)	<p>State Regional Development Agency of Latvia Cross Border Project Control Department Elizabetes street 19, LV-1010 Riga, Latvia</p> <p>Tel.: +371 6735 0632 Fax: +371 6707 9001 E-mail: tspkd(at)vraa.gov.lv</p> <p>www.vraa.gov.lv www.vraa.gov.lv/lv/intterreg_1_limene_fin_kontrole/normativie_akti</p> <p>Aija Romanovska, <i>Director of the Department</i> Tel. +371 67350639 Fax. +371 67079001 e-mail: aija.romanovska@vraa.gov.lv</p> <p>Līga Belova-Jukna, <i>Head of division</i> Tel. +371 67350642 e-mail: liga.jukna-belova@vraa.gov.lv</p> <p>Aija Rudzinska, <i>Financial expert</i> Tel. +371 67350637 e-mail: aija.rudzinska@vraa.gov.lv</p> <p>Māra Vimba, <i>Financial expert</i> Tel. +371 67350635 e-mail: maravimba@vraa.gov.lv</p> <p>Irēna Nizina, <i>Financial expert</i> Tel. +371 67350636 e-mail: irena.nizina@vraa.gov.lv</p> <p>Māris Kromāns, <i>Head of division</i> Tel. +371 67350640 e-mail: maris.kromans@vraa.gov.lv</p> <p>Aleksejs Šafarostovs, <i>Financial expert</i> Tel. +371 67079076 e-mail: aleksejs.safarostovs@vraa.gov.lv</p> <p>Ilze Ziverte, <i>Financial expert</i> Tel. +371 67350641 e-mail: ilze.ziverte@vraa.gov.lv</p>

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Sweden (centralised)	<p><u>Control Body:</u> Tillväxtverket Joint Unit for Regional Structural Fund programmes Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8-681 91 00 (växel) http://www.tillvaxtverket.se</p> <p>Contact: Tillväxtverket Tommy Anjevall (manager) Box 3034 SE 831 03 ÖSTERSUND Phone: +46 8 681 96 16 tommy.anjevall@tillvaxtverket.se</p> <p>Tillväxtverket Robert Berggren (Main Contact and national controller for Central Baltic) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 92 37 Robert.berggren@tillvaxtverket.se</p> <p>Tillväxtverket Håkan Flykt (national controller) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 91 66 Hakan.flykt@tillvaxtverket.se</p> <p>Tillväxtverket Birgitta Pettersson (national controller) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 92 51 Birgitta.pettersson@tillvaxtverket.se</p> <p>Tillväxtverket Sandra Zakrisson (national controller) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 91 39 Sandra.zakrisson@tillvaxtverket.se</p> <p>Tillväxtverket Mårten Sandström (national controller)</p>

	<p>Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 93 77 Marten.sandstrom@tillvaxtverket.se</p> <p>Tillväxtverket Anna Göransson (national controller) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 91 32 Anna.goransson@tillvaxtverket.se</p> <p>Tillväxtverket Johan Langhammer (national controller) Box 3034 SE-831 03 ÖSTERSUND Phone: +46 8 681 91 87 johan.langhammer@tillvaxtverket.se</p>
Åland Islands (centralised)	<p>Ålands landskapsregering, Government of Åland Department for Administrative Affairs PO 1060, AX-22111 Mariehamn, Åland +358 18 25 000 (phone); +358 18 25 155 (fax) registrator(at)regeringen.ax www.regeringen.ax</p> <p>Mr. Ralf Stolt, Controller +358 18 25 000 (phone) +358 18 25 155 (fax) E-mail: ralf.stolt(at)regeringen.ax</p>

3. The Control process

3.1 First Level Control reporting procedure

Project implementation and reporting is divided into three four-month periods (milestones):

1. January to April,
2. May to August,
3. September to December

For each milestone, a PR/PC has to be submitted to the JTS. The procedure is as follows:

At project partner level

Each partner sends a Partner Payment Claim, signed by an authorised person, to the national first level controller with relevant annexes and information (See chapter 3.2.2.).³

³ In Finland, if the FLC is carried out at the location of each project partner, no supportive material is to be sent to the respective FLC body and controller as they are made available directly to the FLC. This is to be recognized in the contract between the organization conducting the FLC and the project partner, including responsibilities for the filing and archiving of the FLC materials.

Each national controller performs the first level control and provides a DVEE and a separate CR. These documents are very important to the JTS and CA as they are basically the only documents reporting directly on the results of the first level control. They provide important information to the MA/JTS and CA which are responsible for the overall quality of the programme's control systems. Controllers will also fill in the **FLC checklist** provided by the national FLC or the MA⁴.

The PPs and the FLC must ensure that a copy of a **general ledger**, or an approved substitute, is included with the PR/PC. The substitute report must be approved by the CA Financial Controller. The general ledger must show all transactions to the project during the reporting period, and it must also show cumulative totals for the project's duration. It must be signed by a person responsible for accounting. Please notice also that the national funding of the partner needed to generate the ERDF financing should be visible in the project accounting to enable the verification of this funding by FLC.

In case the VAT status changes from what has been approved during the application procedure, a new certification signed by the tax authorities is required, verifying that VAT is a final cost for the partner. (NB! VAT certificate is a mandatory annex to the application form in case the VAT is not recoverable.)

With these attachments the JTS and CA can check that:

- Audit trail requirements are fulfilled (sums of the PPs' and LPs' ledgers and claims match and they can be traced)
- Costs are not double-financed (general ledger shows every entry for the period and cumulative report shows sums for earlier claims)
- Costs are recorded separate from other funding and a proper and acceptable accounting system is used (general ledger and cumulative report)
- Non-eligible VAT costs are not paid
- In case the Commission carried out an audit on the programme, the CA is able to provide adequate and reliable information that checks are done properly and carefully

The documentation to be sent back to project partners after the conduct of the FLC

Model 1 (Finland, Latvia, Sweden and Åland):

The respective national controller will send the following documents back to the LP/PP:

- a) A **signed** DVEE (**original**)
- b) A Control Report - CR (**original**)
- c) The original checklist (In Finland only)
- d) Validated Partner payment Claim (PPC)⁵

The PP sends the partner payment claim to the LP with the original DVEE and CR and, in Finnish case, also the certification documents of the FLC body (only for

⁴ The checklist provided by the MA can also be used.

⁵ This solution aims to ensure that the LP has sufficient information from the PPs when compiling the PR/PC and in case the JTS or CA needs additional partner level information from the LP later on, the LP is able to provide it fluently

the first PR/PC). The LP then compiles the reports from the partners into one PR/PC and sends the following documents to the JTS:

- PR/PC for the whole project (electronic version)
- Confirmation Letter (signed paper version)
- DVEEs of each PP/LP (original)
- CRs of each/PP/LP (original)
- General ledgers of each project partner signed by a person responsible for accounting, including cumulative costs
- If the VAT status changes: Certification that VAT is not recoverable if it has been included in the project costs and if certification has not been submitted earlier
- (In Finland, a copy of the checklist to FMEE and original to MA/JTS)

The FLC checklist will also be completed by the national controller and **original** will be available to the MA/JTS and CA, **and a copy** for the second level controllers upon request.

Model 2 (Estonia):

The national controller will send the following documents back to the project partners:

- A **signed** DVEE (**copy**)
- A Control Report - CR (**copy**)

The national controller will send the following documents to the LP:

- a) A **signed** DVEE (**original**)
- b) A Control Report - CR (**original**)
- c) A validated partner Payment Claim (**original**)
- d) General ledgers for the reporting period signed by the person responsible for accounting (scanned version is also acceptable), including cumulative costs

Documentation sent by project partner to the Lead Partner

Each partner from Finland, Latvia, Sweden and Åland will send the following material to the LP to be compiled in to one PR/PC of the whole project consortium:

- *Validated partner payment claim;*
- *Partner level DVEE (original);*
- *CR (original);*
- *Copy of the controller certifications of the Finnish partners for the first PR/PC*
- *General ledger of the PP, including cumulative costs*

In Estonia, the national FLC will send the following materials to the LP on the behalf of each PP to be compiled into one PR/PC for the whole project:

- *Validated partner payment claim;*
- *Partner level DVEE (original);*
- *CR (original);*
- *General ledger of the PP, including cumulative costs*

At Lead Partner (LP) Level⁶

After the LP has received the documents from the national controllers, the LP then compiles the reports from the partners into one PR/PC and sends it to the JTS. **The LP sends the following documents to the JTS:**

- PR/PC of the whole project (electronic version)
- Confirmation Letter (signed paper version)
- DVEEs of each PP/LP (original)
- CRs of each PP/LP (original)
- General ledgers of each project partner signed by a person responsible for accounting, including cumulative costs
- Certification that VAT is not recoverable if it has been included in the project costs and if certification has not been submitted earlier

The FLC checklist will also be completed by the National Controller and a copy will be available for the MA/JTS and CA, as well as for the second level controllers upon request.

For each reporting period, the LP submits a PR/PC, or Interim Report (and a Final Report after the project has ended) to the JTS. The projects must use the form provided by the MA/JTS. The LP also submits to the JTS an electronic PR/PC and a **confirmation letter** signed by an authorized person in the LP organisation. The information presented in the confirmation letter and electronic PR/PC must be identical for the report to pass the JTS admissibility check.

In addition the LP sends the *Partnership Agreement (PA)* and *Communication Plan (CP)* at the same time with the first PR/PC to the JTS. The PA and CP are to be submitted to application@centralbaltic.eu and then forwarded to the JTS Contact Person/Info Cell for further procedures. It must be noted that these documents are no longer part of the *JTS Technical Admissibility Check (TAC)* by the JTS.

3.2 Administrative check accompanied by on-the-spot checks

3.2.1 Basic principles of the First Level Control

It must be possible to clearly identify which expenditure has been allocated and reported in the context of the project and to exclude the possibility of reporting the same cost twice (e.g. in two different budget lines, reporting periods, or projects/funding schemes). The LP/PP must open an accounting/cost centre in the organisations accounting system for the project costs in order to separate the costs from the standard bookkeeping of the organisation. The project partner is requested to provide the general ledger to the controllers to verify the adequate allocation of the costs. Project costs should be visible in project accounting before they can be included into partner reports.

Expenditures can only be reported by the project partners if the following basic principles are being adhered to:

- The report provided by the LP/PP is based on actual costs paid out by partners (e.g. accruals and reservations are not eligible until they are paid out⁷).

⁶ LP's own Partner Payment Claim is subject to FLC as described above at project partner level.

⁷ For instance, holiday salary reservations are not eligible until they are paid out with the exception of the last one before the project ends.

- The costs are definitively borne by the partner organisation and would not have arisen without the project.
- The expenditure has actually been paid out during the reporting period. Expenditure is considered to be paid when the amount is debited from the partner institution's bank account. (After the end of the reporting period, a paid out cost is eligible if it has been paid out before submitting the partner level reports to the FLC.)
- Only in duly justified cases, costs which do not relate to the given reporting period can be reported, provided that these costs were paid within the eligible project implementation period and they are relevant to the implementation of the approved project.
- The payment is 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 the project. Costs related to activities that are not described in the Application form or in the Manual for final beneficiaries are ineligible.

Practical instructions - to be taken into account by the national FLC - given to projects on how to report the in kind contributions

In kind contributions in the project cost budget are marked into budget lines 2.2. "other partner personnel", 2.3. "unpaid voluntary labour" and 8 "in kind contributions". These contributions are also used as project financing. The share of in kind contributions (budget lines 2.2., 2.3. and 8) cannot exceed the national co-financing of the project partner. In mainland Finland there is an additional limitation that maximum 50% of partner's own financing can consist of in kind contributions.

The reported in kind contributions of a project partner during one milestone cannot exceed the national co-financing required to generate ERDF funding for that milestone. In case the amount of in kind contributions of a project partner during one milestone exceeds this maximum amount, the remaining contributions can be verified by the FLC for the following milestones by marking correct amounts into respective cost budget lines and project financing. In these cases supportive Excel table (available at the Programme website) should be used to monitor these in kind contributions. Before conducting the final payment the CA will check that the cumulative in kind contributions of project partners are in line with the approved application.

In case ineligible cost items are found, they must be deducted by the controller and any deductions documented in the CR. **The outcome of the national FLC process cannot be appealed. The appeal rights and relevant instructions of the LP are described in the Subsidy Contract. Only the final payment decision of the CA is appealable.**

Each national controller is obliged to validate the expenditure **within a period of three months** (Article. 16 (2) No 1080/2006) after the documents have been received from the PP/LP. **In case this is not possible, the controller shall without any delay inform the PP/LP in question.**

3.2.2 Administrative check

All partner payment claims submitted by the PPs and the LP are subject to a desk-based administrative check. Support documentation may include the following:

Supporting documents for the administrative checks:

1. Partner payment claim, incl. specification of budget lines (paper and electronic versions)
2. Bookkeeping list / General ledger, including cumulative costs
3. Copies of the original invoices and other accounting material (can be in electronic form)
4. Bank statements showing actual payments
5. Explanation of the depreciation method used (for the first depreciation of the item in question)
6. Certification that VAT is not recoverable if VAT is included in the project costs and the certification has not been submitted earlier(can be submitted electronically)
7. Calculation methods, rationale and documentation for the value of any in-kind contributions, unpaid voluntary labour, equipment or machinery to be used by the project
8. Impartial analysis of the value of any provision for land or real estate
9. Adequate documentation for payroll costs:
 - a. Copies of employment contracts
 - b. Time sheets of the part-time employees
 - c. Salary slips of the full-time / part-time employees
 - d. Payment orders / bank statements for the paid out salaries
10. Calculation methods and documentation for office and rent costs
11. Public procurement documents, contracts and related material to verify purchasing processes. Copies of project related contracts
12. Specimens of booklets, outputs etc which are produced by the project; Programmes and participant lists of seminars

A

NB! The list is not exhaustive and some documents are naturally used only if needed!

desk-based check is **not** considered sufficient without the elaboration of the supportive documentation. Documents are provided by the LP/PPs by sending the necessary copies together with the Partner Payment Claim to the controller, verified by signatures in relevant cases. If project has filled the reporting materials inadequately, documentation is missing or instructions have not been followed by project partner (e.g. timesheets have not been signed) FLC should ask project partners to correct the mistakes or clarify unclear issues.

After each subsidy contract is concluded between the MA and the LP, a copy of the Subsidy Contract, the approved project application and mandatory as well as necessary annexes to the application supporting FLC process will be available in the monitoring system of the Programme (CBMS2007). The FLC is advised to contact the JTS in case they can't access CBMS2007.

The following aspects are to be verified by the FLC:

- Delivery of the products, investments and services co-financed
- That the expenditure claimed is real paid out costs
- Eligibility of the total reported expenditure
- Compliance with the Commission decision on the programme, Community and national rules on eligibility, other national and Community rules including those on public procurement, State aid, financial management, double financing and generation on revenue
- Publicity rules and information, protection of the environment and equal opportunities

In practice this means verifying that:

- the project report is correct with no essential errors or omissions
- the conditions for receiving the grant are fulfilled in accordance with Subsidy Contract
- the subsidy is used for the purpose documented in the Subsidy Contract
- the information given by the LP/PPs is correct and documented
- the reported expenditure complies with all the relevant rules

Note that the project costs are eligible at the **earliest** on the day mentioned in the Subsidy Contract. As stated in the Programme Manual, the project can only start after a positive financing decision has been taken by the respective SC. **In practise this means that the first day after which costs can be eligible is the first working day of the month following the month during the SC decision was taken.**

3.2.3 On-the-spot-checks

According to the Art. 60 of Reg. 1083/2006 and Art. 13(2-5) of Reg. 1828/2006, it is obligatory to carry out **on-the-spot checks** on the project costs and activities. While the checks are to be carried out by the FLC, the JTS can assist in conducting them if needed.

On-the-spot check means that the controller will actually visit the project and verify that certain activities, purchases of services and products as well as investments have actually taken place in accordance with the approved application during the implementation, and that the related regulations have been respected.

In general following aspects are to be included in the on-the-spot checks:

- The reality of the operation
- Delivery of products and services in full compliance with the approved application
- Physical progress
- Compliance with Community and national rules on publicity, public procurement, equality between men and women, non-discrimination and environmental issues in relevant cases
- Accuracy of all information provided by the beneficiary regarding physical and financial implementation of the operation

The FLC must state the date of the on-the-spot checks, describe the checks performed and report any relevant findings, results and recommendations in the specific on-the-spot check list.

The controllers must conduct on-the-spot checks on at least 50 % of the projects at least once during the total project life span. These on-the-spot checks should cover the project in a way that allows **at least one project partner from each of the participating Member States/Åland hosting project partners** to be checked⁸. For instance, if a project has five partners in one participating Member State/Åland, one partner is enough to be on-the-spot checked.

⁸ In Finland the obligation to conduct on-the-spot checks according to the instruction received from the MA/JTS needs to be included in the contract between the FLC body and partner organization in order to ensure that Finnish partners are included in the sample adequately.

However, in Finland all the partners are to be on-the-spot checked by the certified controller in conjunction with the administrative checks, which in most cases will take place on the premises of the LP/PP. Also, in Latvia all the partners are to be on-the-spot checked by the FLC at least once during the project's implementation time. This does not, however, mean that project partners from other countries could be left out from the sample.

All project partners conducting investments must be on-the-spot checked based on the special character of the project, and it is recommended that there are at least two checks on the same investment project. The first would take place during the early phases of the project whereas the second one would be conducted closer to the concluding phase, or even after that.

The project group to be sampled is formed by allocating the sample among the approved projects of **each call** within each (sub)programme.

In each CR, the outcome of the control process is categorised according to three (3) level system as follows:

- 1. There are no deficiencies or only minor deficiencies are found**
- 2. Some deficiencies were found**
- 3. Deficiencies were found that have led or may lead to irregularities**

The selection of the partners is subject to a risk based consideration by the national FLC and the MA/JTS on the basis of the above mentioned **categorisation**, taking into account the relevant rules and regulations. The categorisation is determined for each LP/PP of the project by the national controller, and the *overall categorisation* of the project is in accordance with the **lowest score** assigned to any of the LP/PPs, meaning for instance that if at least one LP/PP receives score 3 during the FLC, the whole project will be categorised according to this ranking.

In case only one partner in a Member State/Åland can be checked (see above), it should always be the one with lowest score.

The first sample to be on-the-spot checked consists of **all** projects categorised to group 2 and 3. In case this sample does not cover 50 % of approved projects of a certain call, the sample will be completed by an **additional random sample** from category 1 until the total coverage is 50 % of all the approved projects of a certain call.

3.2.4 Documentation of the checks

The FLC checks are to be documented by the FLC bodies and the work records are to be retained for audit purposes **until 31.12.2025**, or longer, if required by national regulations.⁹ The checklist used by the national controllers should be sufficiently and transparently detailed. Irregularities identified in the course of the verifications should be recorded and all corrective and/or follow up actions documented. Follow up actions might include the submission of an irregularity report and/or a proposal for recovery of co-financing.

⁹ In Finland, the archiving arrangements and responsibilities are included in the agreement between the project partner and FLC body.

All the materials (see chapter 3.2.) should be kept in files by the FLC organisation that performed the verifications. **The most notable exception to this main rule is Finland, where the LP/PP organisation will file all the FLC materials (copies or originals depending on the case).** On-the-spot check lists must also be properly documented. The original DVEEs and CRs delivered by the national controllers will be stored and maintained by the JTS and CA.

3.3 Submission of the reports to the JTS

After the LP has compiled reports of the partners into one PR/PC, the LP sends the following materials to the JTS (electronic materials to: [report\(at\)centralbaltic.eu](mailto:report(at)centralbaltic.eu)).¹⁰:

Mandatory documents to be sent with the Progress Report and Payment Claim to the JTS (apply to all partners except for the confirmation letter):

1. Confirmation Letter (signed and mailed to the JTS)
2. Declarations of Validation of Eligible Expenditure (DVEEs) (originals)
3. Control Reports (originals); FLC checklists for Finnish project partners
4. General ledgers and cumulative general ledger for the reporting period signed by a person responsible for accounting (e.g. accountant). If a general ledger is not available, another equal list printed from the accounting system, approved by Financial Controller (CA) of the Programme (can be submitted electronically).
5. Certifications that VAT is not recoverable if VAT is included in the project costs and the certification has not been submitted earlier (scanned copy acceptable)
6. Minutes of the Steering Group meeting in which the **Interim and Final reports** (only) have been approved for the submission to the MA/JTS (scanned copy acceptable) (Other SG meeting minutes are not needed by the JTS)
7. Specimens of booklets, outputs, etc. which are produced by the project; programmes and participant lists of seminars
8. Copy of the controller certifications of the Finnish partners for the first PR/PC
9. List of bodies holding documentation related to project audit trail with contact information with the first PR/PC (Subsidy Contract §4 and §11)

3.3.1 Admissibility check (JTS)

The PR/PC will be received in electronic form by email, with a paper version of the confirmation letter signed by the authorised representative of the LP. The JTS personnel will import the validated electronic version to the monitoring system CBMS2007. During the import, an automatic notification will be sent to the LP stating the arrival of the PR/PC.

¹⁰ The LP submits to the Joint Technical Secretariat an electronic PR/PC and a **confirmation letter** signed by authorized person in the LP Institution. The information presented in the confirmation letter and electronic Progress Report and Payment Claim must be identical for the report to pass the admissibility check.

In addition the LP sends the *Partnership Agreement* (PA) and *Communication Plan* (CP) at the same time with the first PR/PC to the JTS. The PA and CP are to be submitted to application@centralbaltic.eu and then forwarded to the JTS Contact Person/Info Cell for further procedures. It must be noted that these documents are no longer part of the *JTS Technical Admissibility Check* (TAC) by the JTS.

After the JTS has received the PR/PC, the JTS Financial Officers (FO) and Assisting Financial Officer (AFO) conduct a technical admissibility check on the PR/PC. The results are documented in CBMS2007. The purpose of the admissibility check is to ensure that all mandatory annexes by each partner have been included and filled in as instructed, and that the PR/PC itself is completed according to the instructions. If some of the preconditions are not met, the JTS will send a clarification request to the LP. The PR/PC does not proceed to the next phase (assessment) until all the technical issues have been resolved.¹¹

The basic criteria for the admissibility check are mostly related to the **completeness of the provided documents and technical matters**:

- The PR/PC is filled in as instructed in the Programme Manual and the Practical Guide and the reporting periods and deadlines have been respected
- The signed Confirmation Letter has been provided and the information is identical to the PR/PC
- All required and signed DVEEs, CRs and on-the spot check lists in relevant cases are provided by each national controller on each partner
- All certification documents by Finnish controllers have been submitted (relevant for the first PR/PC)
- General ledgers and cumulative general ledgers (and VAT certifications if status changed) by each Project Partner have been provided¹²

3.3.2 Assessment phase (JTS)

After the PR/PC has passed the admissibility check, the JTS will conduct a content assessment of the PR/PC with the main focus on the progress made by the project and on the financial information provided. If necessary, the JTS consults the national FLC controllers on matters related to the eligibility of costs as well as the progress made in the project. JTS may also ask for clarification from the project LP. The results of the assessment phase are documented in CBMS2007. The assessment phase includes the following aspects:

- information made available to the JTS concerning planned changes (budget, partnership, output)
- budget changes (totals, work packages, budget lines)
- unauthorized budget changes (shifting of funds between work packages, budget lines, partners, objective areas)
- significant over/underspending of the project
- Cost efficiency (principle of proportionality and sound financial management)

In addition the JTS may react if it notices problems with the following:

- Eligibility of expenditure
- Conformity of reported expenditure with the plan (approved application) and the reported activities
- Compliance with public procurement rules
- Compliance with relevant national and EC rules and policies (i.e. equal opportunities, environment, etc.)

¹¹ The procedure after the submission of the PR/PC is documented and imported to the monitoring system CBMS2007

¹² In case a general ledger (or in relevant cases the VAT certification) would be missing or in case there were other issues to be corrected/complemented, the JTS FO/AFO will send to the LP a request to correct/complement by a deadline set but asking to send the document directly to CA which then takes the process further in time. These documents have to be submitted to the CA before the ERDF payment can be made to the project

3.4 The role of the Certifying Authority (CA)

The tasks assigned to the CA are primarily defined in (EC) No 1083/2006 § 61. The main task is drawing up and submitting to the Commission certified statements of expenditure. The certification must cover at least two aspects. Firstly that the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents. Secondly that the expenditure declared complies with Community and national rules and has been incurred only for operations approved in compliance with the programme's selection criteria and complying with Community and national rules. As it is the task of the nationally established first level control systems to ensure the compliance of expenditure, the checks by the CA are mainly limited to ensuring that the designated controllers have carried out both the administrative and on-the-spot checks adequately. The CA will especially check that the DVEE has been signed and dated for each partner and that any reservations have been addressed. In practice this is done in co-operation with the JTS (See Chapter 3.4).

Prior to processing a payment, the CA may carry out its own sample checks to satisfy itself that the final beneficiary is entitled to receive the requested co-financing. **These checks may also take place after the ERDF payment has been made but prior to the closure of the project.** The CA will consider information received from the JTS and the national FLC Controllers in implementing the sample checks.

The results of the sample checks are documented and reported in Annual Reports, and in case ineligible costs or/and irregularities are discovered, the respective costs will be deducted from the next PR/PC or from the Final Report/Payment Claim. In case this is no longer possible, the LP is obliged to repay the sums unduly paid. The CA may issue a repayment claim to the LP after consulting with the JTS and the national first level controllers, and in accordance with the conditions of the Subsidy Contract.

3.4.1 Certification phase (CA)

After the assessment of the PR/PC has been conducted by the JTS, the PR/PC will be submitted to the CA for certification and payment. The Financial Controller of the CA will ensure that the admissibility and assessment phases are carried out properly and the financial information is correct. If the reporting by the LP and the checks conducted by the JTS are considered adequate, the Financial Controller certifies the payment claim (PC). The relevant criteria for the certification phase include the following:

- The JTS has conducted the admissibility and assessment adequately
- The verification information received from national FLC is adequate and received in accordance with the reporting schedules set, including information on:
 - administrative checks
 - on-the-spot checks
 - categorisation of the overall check (*Cf. Chapter 3.2.3*)
- Overall check on the compliance with relevant national and EU rules based on the received information from the national FLC as well as from the JTS
- Successful arithmetic checks by the CA providing assurance for the statement of expenditure to the EC
- The outcome of the AA audit checks has been taken into account

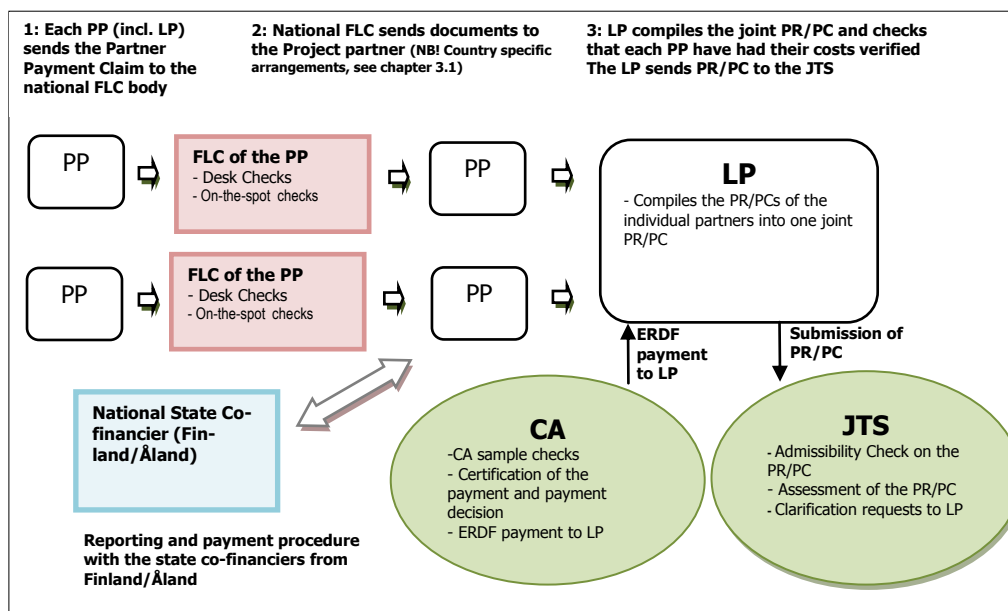
- Receives the missing general ledgers and cumulative general ledgers as requested by the JTS during financial assessment (or in relevant cases the VAT certifications) and ensures that they are part of the materials submitted with the PR/PC

3.4.2 Payment phase (CA)

Once the PR/PC has been certified, the Director of the Administration Department will approve the payment to be processed to the LP by signing a certification report. After the payment is processed, the payment decision is sent to the LP with appeal instructions included.

Once the payment has been received, the LP transfers the funds without delay to each PP of the project as agreed in the partnership agreement.

3.6 A flow chart on the work flow of the First Level Control (FI, LV, SE and Åland)

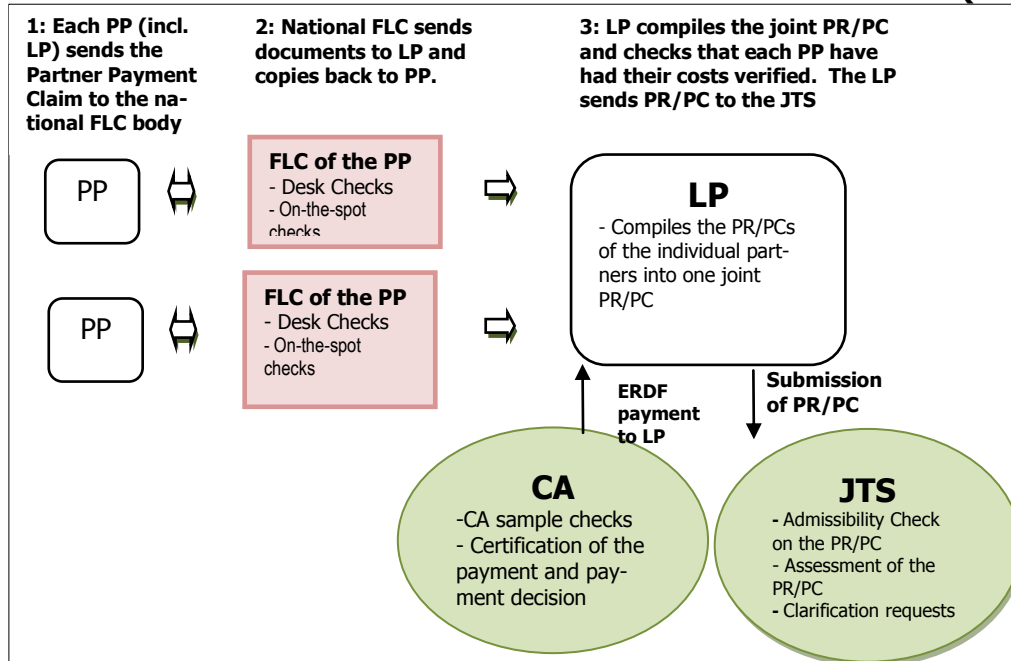


Picture: The overall FLC procedure¹³¹⁴

¹³ NB. The overall FLC procedure in Finland is a bit different from the one shown in the picture. In Finland it is always the PP/LP which stores materials and sends them to the next level.

¹⁴ The LP and the FLC of the LP need to agree on proper arrangements concerning the conduct and schedules of the LP Desk Check and verification of the conducted FLC of each partner!

3.7 A flow chart on the work flow of the First Level Control (EE)



Picture: The overall FLC procedure¹⁵

4. Control procedures of Technical Assistance

4.1 The basic set up of the Technical Assistance

Technical Assistance (TA) is used to finance the administration and management of the programme implementation. All the eligible costs incurred in the implementation and management of the MA, CA, AA and JTS functions are covered by TA. The operations of the JTS (Sub-secretariat/Info Point) as well as the main office of the JTS are part of the management of the Central Baltic OP.

The operation of the JTS Sub-secretariat/Info Point will be in most cases based on advance financing by the MA to the host organisations based on the signed Host Organisation Agreements. The reporting and control procedure is similar to the one with projects. The control procedure is in accordance with the Multilateral Agreement (§5).

Each advance payment by the MA shall be based on the estimated expenditure for the following half-year of operation of the JTS Sub-secretariat/Info Point based on the annual JTS budget drafted by the Head of Secretariat with contributions from the Host Organisations (HO) and annually approved by the MC. Interest earned on the advances must be reported annually as revenues by each HO. After each half-year period, the respective HO must present to the MA a payment claim, accompanied by a report specifying the expenditure actually paid out for the operation of the JTS Sub-secretariat/Info Point during that half-year. The MA will provide a standard pre-filled reporting form which must be used by the HO.

To ensure that the operations of the JTS Sub-secretariat/Info Point comply with the respective national legislation governing the use of public funds, the report

¹⁵ The LP and the FLC of the LP need to agree on proper arrangements concerning the conduct and schedules of the LP Desk Check and verification of the conducted FLC of each partner!

must be certified according to the same national procedure to be applied to projects co-funded by the Central Baltic OP and described in the FLC Manual as well as in the Programme Manual. The FLC costs will be financed by the HO as determined in the respective Host Organisation Agreement and in the TA budget. In Estonia it should be noted that for the TA fringe benefits are an acceptable cost.

In case of advance payments, if the actual expenditure paid out during the last half-year was lower than the advance payment for that half-year, the difference will be offset against the following advance payment. If the actual expenditure paid out during the last half-year was higher than the advance payment for that half-year, the difference will be added to the following advance payment, as long as the total amount does not exceed the annual limits set by the MA to each HO by 13 November of each year. The approved TA budget for each year determines the financial amounts available for the next advance payments.

The costs of the JTS main office in Turku as well as the costs of the MA, CA and AA are certified in compliance with the Finnish FLC system following the same procedure applied to the HOs. The control body and the controller are certified in accordance with the Finnish decentralised system as set out by the FMEE.

4.2 Reporting the use of TA by Host Organisations

The reports with supporting materials are to be sent to the national FLC after the activity report has been pre-checked by the Head of Secretariat as an internal procedure within the JTS¹⁶. The materials to be sent to the respective FLC organisations include:

- PR/PC (modified for the TA purposes) including
 - activity report and financial report
- Personnel cost report including time sheets (part-time employees)
 - Labour contracts in relevant cases

The following annexes should be included:

- General ledger (**signed** by the responsible accountant)
- Report on cumulative costs¹⁷
- Copies of invoices with relevant supporting documents, for instance:
 - agendas
 - lists of participants
 - travel orders
 - copies of dissemination material
 - bid-at-three documents, etc.

(The list is not exhaustive and is basically equivalent to the list in Chapter 3.2.2)

The national FLC will apply the financial eligibility rules of the Programme Manual during an **administrative check**. The administrative check will focus on TA

¹⁶ Before sending the relevant reports to the FLC, the PR/PC will be pre-checked within the JTS by the Head of Secretariat to ensure that relevant aspects regarding the activities implemented have been taken into account by the (sub)secretariat/Info Point from the point of view of the JTS Work Plan approved annually by the Monitoring Committee.

¹⁷ Report of cumulative costs confirms the spending up to the date (it must match with the cumulative amount in the payment claim). It ensures that audit trail is followed. If the general ledger from the accounting system shows the cumulative balance, separate report for that is not necessary.

costs rather than the activities themselves which have been pre-checked by the Head of Secretariat.

Each FLC organisation will receive a pre-filled Control Report to be used in the FLC process.

After the FLC process has been completed, the HO (except in Estonia, the FLC) will send to the MA (Administrative and Financial Assistant, see the contact information in Annex 4) the **signed original paper copies, as well as electronic versions of:**

- PR/PC (original, signed)
- Validated/Signed DVEE by the FLC
- Validated/Signed Control Report¹⁸
- General ledger, including cumulative costs

On-the-spot checks by the FLC apply also to the TA costs. The checks on the HO (including the Regional Council) are to be carried out as relevant and focus on the following:

- The reality of the operation
- Delivery of products and services in full compliance with the approved application
- Physical progress
- Compliance with Community and national rules on publicity, public procurement, equality between men and women, non-discrimination and environmental issues in relevant cases
- Accuracy of all information provided by the beneficiary regarding physical and financial implementation of the operation

In order to guarantee a fluent procedure and adequate liquidity of the HOs, the overall reporting procedure should take place as soon as possible after each reporting period, the maximum being the schedule set for the projects. However, due to the annual reporting obligations by the MA, the last reports of the year are to be handed in to the MA by the end of March. No advance payments will be made without the previous reports being approved by the MA and certified by CA.

The MA will conduct an admissibility check and assessment of the received reports before sending the materials to the CA for certification and payment. The basic criteria for the **admissibility check** are related to the **completeness of the provided documents:**

- The FLC has been conducted
- All the required and signed DVEEs and CRs are provided by the national controller
- The FLC of the Turku main office has been conducted in accordance with the Finnish FLC system and instructions of the FMEE

The MA may ask for additional information, including copies of supporting documents (time sheets, invoices, etc.) from the respective HOs if necessary.

The **assessment phase** includes the following:

¹⁸ Please notice that due to the advance payments the interest yields are included in the reporting and control procedures.

- The conducted activities and costs are in accordance with the approved **work plan** of the JTS and the approved TA budget
- The correctness of any budget changes
- The JTS has been notified of any significant over/under spending
- Cost efficiency (principle of proportionality and sound financial management)
- Eligibility of expenditure
- Compliance with public procurement rules
- Compliance with other relevant national as well as EU rules and policies

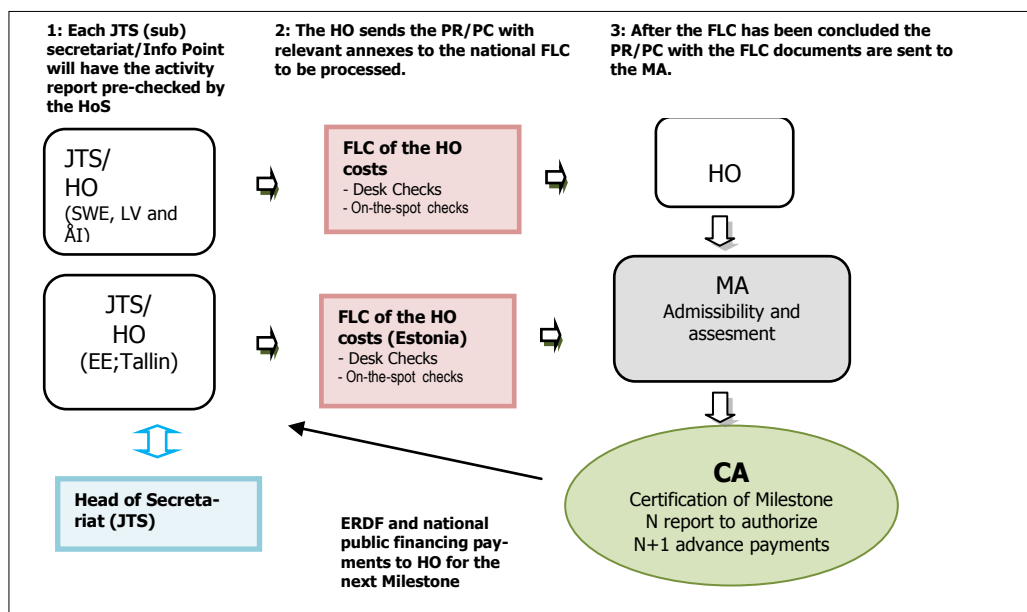
4.3 Certification of the TA Payment Claim by CA

After the admissibility and assessment procedure, the report on costs incurred by the respective HOs is handed over to the CA which in turn certifies the received report and costs. The CA may ask for additional information from the MA and from the respective HOs if necessary (including the supportive documentation sent to the FLC). The relevant criteria of the certification phase cover the following:

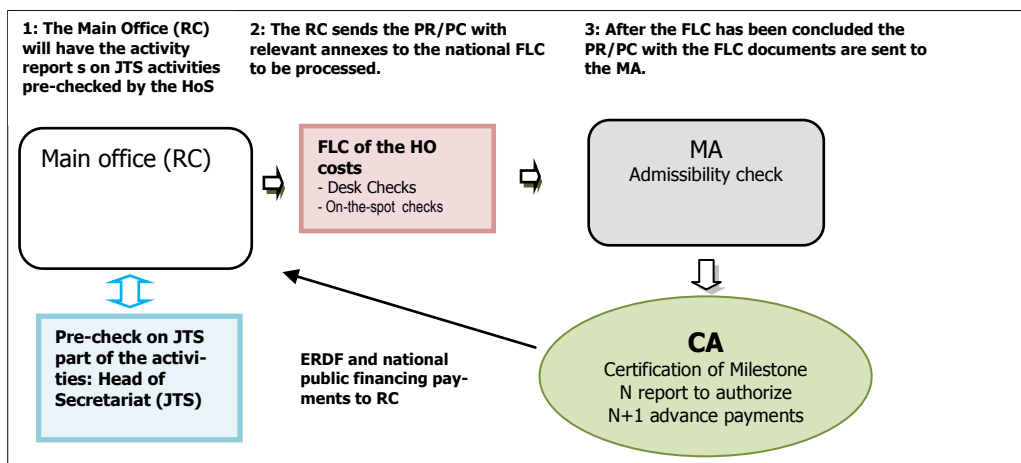
- The MA has conducted the admissibility and assessment adequately
- The verification information received from national FLC is adequate and received in accordance with the set reporting schedules
- Successful arithmetic checks by the CA providing assurance for the statement of expenditure to the EC
- The outcome of the AA audit checks has been taken into account
- Compliance with public procurement rules
- Compliance with other relevant national as well as EC rules and policies

After the certification, a payment is processed, taking any advance payments into account.

4.4 A flow chart on the work flow of the reporting and First Level Control on TA costs



Picture: The overall FLC procedure on TA costs (sub-Secretariats/Info-points)



Picture: The overall FLC procedure on TA costs (Main office)

5. Budget flexibility rule, changes and irregularities

The project budget must be followed according to the total costs per budget line per partner. If the project experiences a need to change the budget it may apply for a change under the budget flexibility rule or a budget change. Information on the most up-to-date budget can always be found in the CBMS. If a partner reports costs that exceed the approved budget line totals and a change has not been approved, the FLC should deduct any costs above the approved budget amount.

5.1 Budget flexibility rule

If a project partner needs reallocation of a partner budget they must inform the project Lead Partner as soon as the amount of the needed reallocation is clear. The LP has the responsibility to monitor that the project does not exceed the maximum amount that can be reallocated in the project level. A *specific reallocation Excel table* is to be used by the LP to support the follow up of the reallocation. LP gathers the partners' data by a deadline internally set within the partnership and inserts the data into a specific reallocation table and at the latest 1 month before the respective Milestone ends sends it to JTS. In addition the reallocation table includes a specific section where the LP/P2P justifies/explains the over allocation of specific budget line(s). The over-allocation limits are:

Project level

If a project has not applied for an official project change, it can under the flexibility rule reallocate the budget within the limits of a cumulative maximum of **10%** of the total project budget or a cumulative total of **40 000 EUR** transferred between budget lines,

Partner level

An individual partner may reallocate its own budget up to 10 % of total partner budget or cumulatively up to 20 000 EUR transferred between budget lines. It is up to the partnership to decide on how the reallocations between different partners are conducted. The LP has the responsibility to monitor and control this within the partnership. Within the budget flexibility rule it is not possible to

change the nature and intended use of equipment/investment items/other activities. The following budget lines are excluded from the flexibility rule:

BL 2.2 Other partner personnel contributing to the project

BL 2.3 Unpaid voluntary labour

BL 6 Investments

BL 8 In-kind contributions

The reallocation table is to be sent by LP to the JTS contact person by e-mail, **who confirms (by consulting the MA when necessary) the reallocation of the budget and sends the table further to the relevant FLC-s, CA, MA and FO-s¹⁹. The JTS contact person has to naturally confirm the positive result back to LP also.** The table is then considered as a valid budget until the official budget change needs to be done. In order to guarantee timely reporting, the reallocation table has to be sent to the JTS well before the end of the milestone (see above).

In case the project partnership exceeds the maximum amounts / percentages defined for the flexibility rule without an official change decision by the MA these costs will be deemed ineligible by the CA based on the PR/PC and information received also from the respective JTS FO/AFO and/or contact person. The reallocation under the budget flexibility rule is officially approved when financial report has been certified and the project has received the requested ERDF amount.

5.2 Changes on project budget, content and duration time

A change needs to be applied in case the project partnership has used up the possibilities given by the budget flexibility rule exceeding the 10 %/40 000 Euro – limits or it is already foreseen that the budget change will anyway be more than 10 %/40 000 Euros compared to the currently valid²⁰ project budget and/or the content of the project changes substantially or if project partnership changes, project needs to apply for prolongation or major changes appear in the project content (See Programme manual, Chapter 7) During the duration of the project, changes to project budgets, content, partnership structure and duration are allowed according to the procedure described in the Programme Manual and as confirmed in the Subsidy Contract. After the first and second subsidy contract amendment the project may again apply the budget flexibility rule until the end of the project.

Officially approved changes by the MA or by the respective Steering Committees (SC) will be made available in CBMS2007 and are to be taken into account by the national controllers. In cases where the FLC does not have access to CBMS2007, the controller should ask the LP for information and if clarification is needed, then contact the JTS. If expenditures by a PP exceed the approved budget on a specific budget line, the LP should initiate the budget change process. If no budget change has been approved, the FLC should deduct any costs above the approved budget amount.

¹⁹ NB! Up to the JTS contact person verify the acceptability of the applied flexibility!

²⁰ Valid budget = also after each amendment

5.3 Irregularities and related procedures

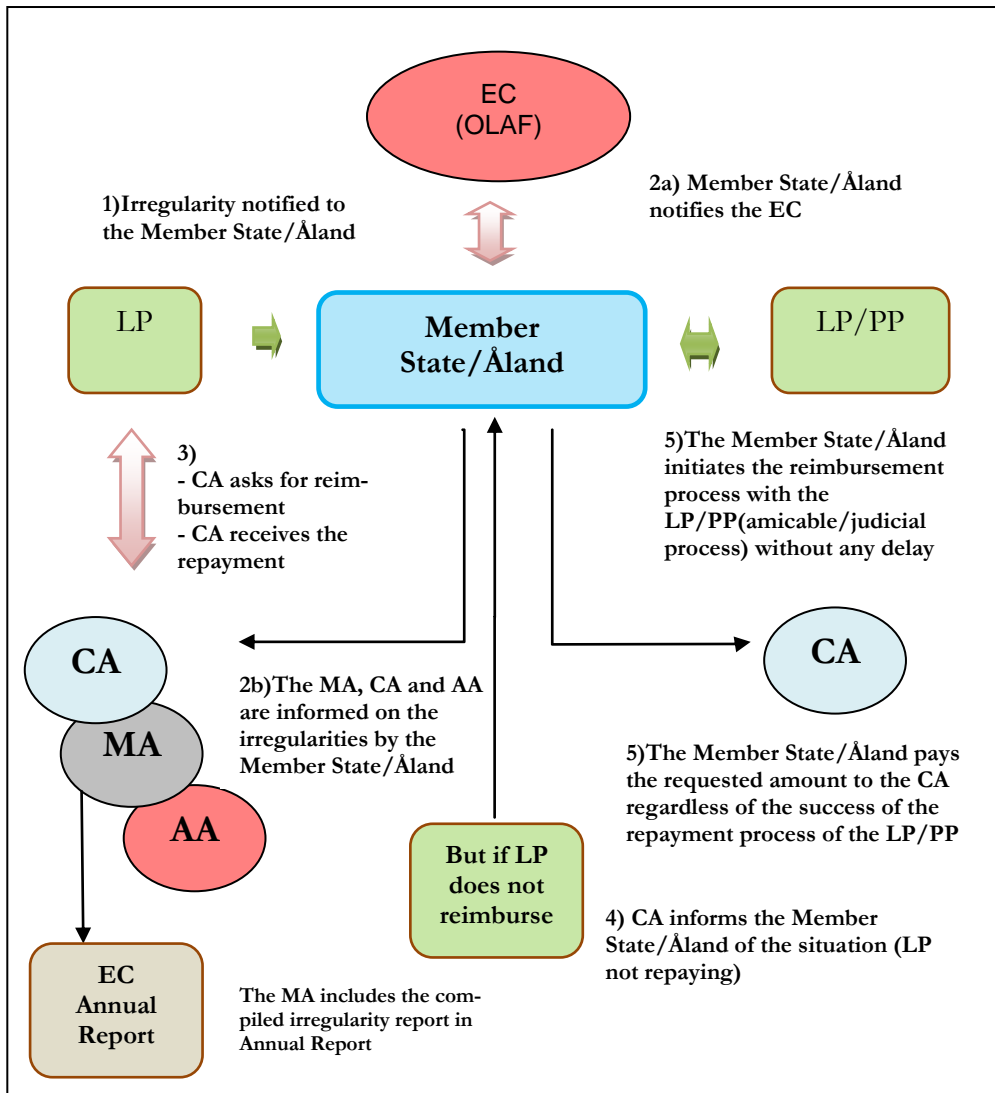
Any irregularity that has been the subject of a primary and administrative or judicial finding²¹ shall be reported by the Member States/Åland to the Commission (OLAF), if its amount is over EUR 10,000 ERDF. This report shall be prepared no later than two months following the end of each quarter and shall comprise the information as detailed in Article 28 (1) of (EC) No 1828/2006. Any information that could not be provided in the initial report shall be submitted in the following quarterly report of irregularities.

The Member States/Åland shall report to the Commission on irregularities detected and at the same time also report to the MA, CA and AA. The MA and FMEE will compile the cases on Finnish project partners to be submitted to the Commission/OLAF.

No later than two months after the end of each quarter, the Member States/Åland shall provide the EC with a follow-up report on these irregularities and the remedial action taken as required in Article 30(1) of the (EC) No 1828/2006. In case the amount is not recoverable, the Member States/Åland shall submit to the Commission a report detailing the reasons why it is estimated that the amount paid cannot be recovered according to the Article 30(2) of the (EC) No 1828/2006. If the loss of EU-funds results from a fault or a negligence of the Member States/Åland, the Member States/Åland shall reimburse the whole amount of the irregularity. In case the LP is unable to secure repayment from the respective PP, or if the CA, in accordance with the Subsidy Contract (§ 12) or Member State/Åland, through extrajudicial means of collection is unable to secure repayment from the LP or PP, the Member State/Åland will bear liability in connection with the eligibility of the costs, and pays the claimed payment to the CA. In case of on-going projects, the amount subject to irregularity can be deducted from the next payment claim. LP's obligations to comply with relevant irregularity rules are stated in the Subsidy Contract and the relevant obligations between LP/PPs are stated in the Partnership Agreement Model.

The relevant arrangements and practises regarding the obligations set by Art. 24 (a), (d), and (e) of the (EC) 1080/2006 have been set in the Multilateral Agreement. Concerning (e), the requirement to ensure the legality and regularity of expenditure paid outside the Community by the MA, CA and AA, it must be noted that these expenditures are borne by the LP/PPs from the programme area, and therefore, the cost items are reported as part of the PR/PCs, processed by the FLC and made available to the MA, CA and AA.

²¹ "primary administrative or judicial finding" means a first written assessment by a competent authority, either administrative or judicial, concluding on the basis of specific facts that an irregularity has been committed, without prejudice to the possibility that this conclusion may subsequently have to be revised or withdrawn as a result of developments in the course of the administrative or judicial procedure



Picture: Reporting of irregularities according to Article 28 of the (EC) No 1828/2006)

It is important to notice that **not** all ineligible cases belong to the "irregularity" – category.

6. Eligible expenditure

6.1 Financial eligibility

The operational rules regarding financial eligibility have been discussed in the Programme Manual. The FLC should follow the latest update of the Programme Manual, taking into account the call specific versions in relevant cases.

6.2 Public procurement

The relevant matters of public procurement at the programme level have been extensively addressed in the Programme Manual and are to be fully complied with.

6.3 Other eligibility considerations

The national controllers should be able to determine during first level control for instance:

- that the expenditure is eligible according to the content of the approved application (i.e. that the expenditure is clearly in line with the activities described in the approved application);
- that the expenditure is eligible according to EU-regulations, programme rules, and national rules of the country the partner is located;
- that the beneficiary has undertaken all necessary precautions to avoid conflicts of interests with suppliers of goods and services (There is a conflict of interests where the impartial and objective exercise of the functions compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with another person);
- that the purchase of equipment is in compliance with the programme document and manual as well as project application and budget (the calculation of depreciation/rental/leasing procedures are followed)
- that the recoverable VAT has been deducted;
- that no fines, financial penalties, expenditure on legal disputes, foreign exchange losses are included in the payment claim;
- that the expenditure has not already been supported by any other financing (EU, regional, local or other)

The list above is not exhaustive.

6.4 Compliance with Community rules

In the Programme Manual, the horizontal policies and other general issues related to the implementation of the structural fund programmes have been addressed. During the FLC, the national first level controllers should also be able to verify:

- That the project partner has acted in accordance with the relevant environmental EU and national regulations in relevant cases
- That the State aid/De Minimis rules have been respected (In the Central Baltic OP only De Minimis rule is applied)
- That the information and publicity requirements of the EU and the programme have been respected
- That the principles of transparency, non-discrimination, equal treatment and effective competition have been complied with

The basic control on these issues is to take place during the FLC and the respective result is to be provided in the Control Report. The key issue regarding the national FLC is that the relevant EU and national legislations have been respected and that the conduct is also in line with the objectives of the Programme itself. Further information related to these issues is available in the Programme Manual and the Guidance Note on management verifications.

Equality and non-discrimination

Pursuant to Article 16 of Regulation (EC) No 1083/2006 the FLC should check that operations respect and promote equality between men and women and that the integration of the gender perspective has been applied during the various stages of the project implementation. This involves a gender mainstreaming approach ensuring that all projects openly and actively take into account their effects on the respective situation of women and men, with a view to overcoming inequalities taking naturally into account the approved application. All relevant projects should contribute to improved equality between men and women, and should be able to demonstrate the impact in this respect during reporting phase.

In addition, the FLC should also check that appropriate steps have been taken to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the implementation of the project. Checklist provided by the MA used for FLCs include questions dealing with the respect of the principles of equality and non-discrimination. FLC should check the actual performance of co-financed projects taking into account the performance against the set target indicators. A good practice would be to verify from the attendance sheet of a training programme that the participation rate of men and women corresponds to that foreseen in the project proposal and to obtain explanations for any significant differences. Accessibility for disabled people is one of the criteria to be observed in defining operations co-financed by the Funds and to be taken into account during the various stages of implementation.

Provisions on accessibility for disabled persons are mentioned in the EU public procurement Directives and they foresee that, whenever possible, the technical specifications set out in the contract documentation, such as contract notices, contract documents or additional documents should be defined so as to take into account accessibility criteria for people with disabilities or design for all users. Management verifications should check that operations respect these provisions regarding accessibility. In particular, on the spot verifications should check whether the technical specifications or any other provisions foreseen in the contract documentation to ensure accessibility have been adequately implemented.

Environment

Community law incorporates over 200 legal acts in the environmental field. These legislative measures cover all environmental sectors, including water, air, nature, waste, and chemicals while others deal with cross-cutting issues such as access to environmental information and public participation in environmental decision-making. It should be noted that most of these need to be taken into account already either during the actual Programme preparation process or during project preparation and assessment of submitted applications by the JTS. While all the environmental *acquis* applies to co-financed actions, in the context of the

projects financed by the Central Baltic OP the following thematic areas or directives are potentially relevant:

- The **Environmental Impact Assessment** or EIA Directive²²
- The **Strategic Environmental Assessment** (SEA) Directive,
- **Environmental Information**
- **Nature** is covered by the Birds and Habitats Directives²³, in particular in relation to impacts on the network of Natura 2000 sites.
- **Water** – The Water Framework Directive²⁴
- **Waste** - The Waste Framework Directive

FLC in the environment area should verify that the beneficiary has complied with the relevant Directives in relevant cases by checking whether the relevant consents have been obtained from the competent national authorities in accordance with the applicable procedures. In case the above mentioned Directives and assessments are applied on project level they must have been taken into account already during project preparation and/or assessment by the JTS meaning that the control procedure involves cooperation and exchange of information between FLC and JTS. The competent national authorities are responsible for ensuring that EC environmental legislation is correctly applied, and for taking appropriate steps if this is not the case. During the projects assessment the JTS is obliged to contact relevant authorities to ensure proper environmental procedures.

7. The exchange rate used for the project expenditure outside Euro-zone

The Central Baltic OP operates in **Euros only**. This means that the application package, financial reporting and all payment claims have to use Euros. Therefore, all financial figures must be converted according to the **average monthly exchange rate of the Euro set by the Commission of the last month of the reporting period** published by the EC at:

<http://ec.europa.eu/budget/inforeuro/index.cfm?Language=en>

Likewise, the ERDF funding paid out to the LP, and the payments the LP forwards to the project partners, must be in Euros only. The currency risk is solely borne by the project partners as defined in the partnership agreement. The same currency practise applies to Technical Assistance.

²² Council Directive 85/337/EEC on the assessment of the effects of certain public and private projects on the environment, as last amended by Directive 2003/35/EC

²³ Council Directive 79/409/EEC on the conservation of wild birds; Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora

²⁴ Directive 2000/60/EC establishing a framework for Community action in the field of water policy, as last amended by Directive 2008/32/EC