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INTERREG IVA "2 Mers Seas Zeeën" Cross-border Cooperation Programme 2007-2013

First Level Control Manual

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1. Introduction

1.1. Purpose and objective of this manual

The objective of this manual is to assist First level Controllers in their checks of the expenditure claimed by the organizations they are to control.

Although Member States' first level control systems can be different, a clarification and harmonization of procedures regarding several issues is needed in order to better ensure a sound and successful implementation of First level Control.

This manual intends to ensure First level Controllers comply with European Regulations and the INTERREG IV A 2 Seas Programme rules.

It shall be read together with the INTERREG IV A 2 Seas Programme Manual where all Programme rules concerning the eligibility of the expenditure are set out in detail.

The manual will provide information on:

- The First Level Controller's duties, responsibilities and typologies of checks to be performed
- The reporting procedures (deadlines and process)
- The Progress report's components
- The INTERREG IV A 2 Seas Programme tools dedicated to the First level control
- The Programme eligibility rules

1.2. Terminology

In the programming period 2007 - 2013, the terms audit and control (and thus auditor and controller) are not interchangeable since they refer to two different categories of controls.

The word **control** refers to the check performed by the first level controller (FLC) in compliance with Art.16 of Regulation of the European Parliament and Council (EC) No. 1080/2006 (ERDF Regulation).

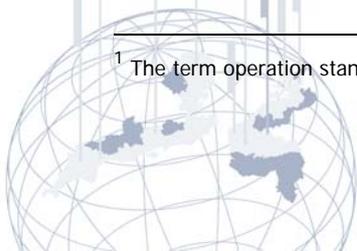
The duty of the first level controllers designated by the Member States is to validate the expenditure declared by each beneficiary participating in the **operation**¹.

The word **audit**, or Second Level Auditing (SLA), refers to the checks performed in compliance with Art. 62, (1), a and b of Council Regulation (EC) No 1083/2006 & corrigenda as well as amendments 284/2009 and 539/2010.

The duty of the second level auditors is to carry out the audits on projects on the basis of an appropriate sample to verify the declared expenditure.

The word **controlled beneficiary** refers to the terminology used by Art. 16(1) of Regulation of the European Parliament and Council (EC) No. 1080/2006 (ERDF Regulation). The term beneficiary thus addresses both Lead Partner and Project Partners.

¹ The term operation stands for project. The two terms, operation and project, are by all way equivalent.



The word **error** refers to all ineligible expenditure found before they were included into the application for payment to the European Commission (mostly detected by First Level Controllers, Joint Technical Secretariat-JTS and Certifying Authority-CA).

The word **irregularity** refers to an attempt to claim ineligible expenditure (whether deliberately or accidentally). According to Article 2 of Regulation (EC) 1083/2006, it is any infringement of a provision of Community law as the result of an act or omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the Communities by charging an unjustified item of expenditure to the general budget. An irregularity refers to all ineligible expenditure found after they were included into the application for payment to the European Commission (mostly detected by First Level Controllers during on-the-spot checks² and during Second Level Audits/Controls).

² Please refer to Section 3.5.2 and 3.5.3 for more information on the on-the-spot checks



2. Legal framework

The granting of a project by the European Regional Development Fund (ERDF) is principally submitted to the following EU Regulations:

- (EC) Regulation 1083/2006 – Council Regulation (EC) N°1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) N°1260/1999
- (EC) Regulation 1080/2006 – Regulation (EC) N°1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC)N°1783/1999
- (EC) Regulation 1828/2006 – Commission Regulation (EC) N°1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) N°1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) N°1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

More particularly:

Article 15 of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council states that “the managing authority shall perform the duties provided for in Article 60 of Regulation (EC) No 1083/2006, **with the exception of those concerning the regularity of operations and expenditure in relation to national and Community rules, as set out under point (b) of that Article.**”

Article 16(1) of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council stipulates that “In order to validate the expenditure, **each Member State shall set up a control system** making 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 its national rules. For this purpose **each Member State shall designate the controllers responsible for verifying the legality and regularity of the expenditure** declared by each beneficiary participating in the operation”.



3. First Level Control: general context

3.1. What is First Level Control?

The main aim of the First level control is to provide a guarantee for the Member State itself but as well to the Managing and Certifying Authorities (MA/CA) and the European Commission that projects costs are accounted for and claimed by in accordance and in compliance with the legal and financial provisions of the EC Regulations, the INTERREG IV A 2 Seas rules, the approved Application Form, the Subsidy Contract and the Partnership Agreement.

Moreover, it must ensure that the project accounts comply as well with the legal and financial obligations of each organization involved in the project, according to both its own legal status and the relevant national legislation.

Each beneficiary must have its own First Level Controller who is reliable for the verification of the expenditure paid and claimed by that beneficiary.

First Level Control is an integral part of the overall control system. **It is the base of the pyramid structure of the checks and constitutes the most important level of the overall project audit.**

A First Level Controller is the first independent body who is responsible at the level of the Programme for ensuring that 100% of the expenditure declared by the beneficiaries complies with the rules and is therefore eligible, legal and regular.

Moreover, on the top of having knowledge of 100% of the expenditure claimed by the beneficiary, the FLC knows the Member State's rules.

Thus, the FLC can detect errors and correct them before they become systemic.

First Level Control shall guarantee that:

- the beneficiary has a sound financial management and control system
- the declared expenditure relates to the activities carried out as stipulated in the last approved version of the Application Form
- the expenditure is in line with the European, national and Programme rules

3.2. Responsibilities

3.2.1. At Member States' level

Each Member is responsible for:

- Setting up its First Level Control system: for the INTERREG IV A 2 Seas Programme, 2 First Level Control systems are in place.

Belgium-Flanders has implemented a Centralised system for First Level Control.

France, The Netherlands and UK have implemented a Decentralised system.

Each Member State description is available on the Programme website under the following link:

<http://www.interreg4a-2mers.eu/how-to-apply/application-pack/en>

- Designating the First Level Controllers: each Member State having opted for a Decentralised system has designated a Central Approval Body in charge of the approval of the First Level Controllers. Information



regarding the Central Approval Bodies (pdf document entitled "FLC contact") is available on the Programme website under the following link: <http://www.interreg4a-2mers.eu/how-to-apply/application-pack/en>

- Ensuring the quality and effectiveness of the First Level Control³

3.2.2. At Lead Partner's level

Each Lead Partner is responsible for ensuring that the expenditure declared by the Project Partners participating in the operation has been incurred for the purpose of implementing the operation and corresponds to the activities agreed between the partnership and that the expenditure has been validated by the First Level Controllers of each Project Partner.

3.2.3. At First Level Controller's level

Each First Level Controller is responsible for ensuring that controls are carried out in accordance with Article 16 of the (EC) Regulation 1080/2006 and Article 13 of the (EC) Regulation 1828/2006.

3.2.4. At Managing Authority's level

The Managing Authority must satisfy itself that the expenditure of each beneficiary participating in an operation has been qualitatively validated by the approved First Level Controllers. This role is in compliance with the provisions set by Article 60 of Regulation (EC) 1083/2006.

3.3. Role of the First Level Controller when acting for a Project Partner

Good public auditing practice requires that the responsibility between the project management and the First Level Controller (FLC) is well defined.

The project management is responsible for and in charge of:

- Ensuring compliance with the principles of sound financial management
- Establishing appropriate administrative systems and internal control system
- Documenting that the funds have been applied in accordance with the EU and Programme requirements
- Preparing the 6 monthly payment claim

It is the FLC's responsibility to:

- Review and assess whether the management has complied with its obligation to ensure reliability, accountability and traceability
- Review and assess that the controlled beneficiary has complied with all relevant applicable EU, national and Programme rules
- Certify the eligible amount claimed by the beneficiary

³ Please refer to Section 4 for more information



3.4. Role of the First Level Controller when acting for a Lead Partner

The Lead Partner's FLC is to perform a two-step control:

- The first step is to proceed to the check on the expenditure declared as described above, considering that the Lead Partner is also a beneficiary in the project.
- In addition to this control, the Lead Partner's FLC's role is to check that the Lead Partner has correctly fulfilled its duties in the consolidation phase of the Progress Report. Therefore, the FLC has:
 - o To ensure that the Lead Partner fulfilled its own obligations in terms of overall project management and consolidation of the project's claims
 - o To ensure that all compulsory documentation supporting each progress report is provided by all project partners in a signed and correct form
 - o To perform a coherence check between each Partner's declared expenditure and the total amount reported into the Project financial report
 - o To satisfy him/herself of the quality of the checks performed by the other First Level Controllers.

In compliance with the provisions set by Article 16 of Regulation (EC) 1080/2006 and by Article 13 of Regulation (EC) 1828/2006 as amended by Article 1 of Regulation (EC) 846/2009, the FLC of the Lead Partner is not required to validate once more the expenditure already checked and validated by the FLC of the Project Partners. Each FLC bears the responsibility for the soundness, eligibility and correctness of the expenditure claimed by its own beneficiary in the frame of its own country.

3.5. The typologies of controls to be performed within First Level Control

3 different types of controls are to be performed for First Level Control:

- The administrative check
- The on-the-spot administrative check
- The on-the-spot physical check

3.5.1. The administrative check

This type of check is **to be performed on a 6 monthly basis**, each time the beneficiary is introducing a payment claim. It can (but not compulsorily) be performed at the First Level Controller's office and is therefore considered as a desk based check. The First Level Controller needs to be provided from the beneficiary with the completed Progress Report and List of expenditure, together with the supporting documentation allowing reconciliation between the costs claimed and the project activities.

100% of the expenditure claimed by the Project Partner must be checked by the FLC.

First Level Controllers are expected to:

- describe the methodology they used for performing the administrative check
- list all findings resulting from the check
- indicate the recommendations they give to the controlled Project Partner in order to improve the next payment claim and to avoid mistakes to happen again
- describe and provide information on how the controlled Project Partner took into account previous findings and/or recommendations made:
 - o By the FLC
 - o By other types of controls (Second Level Control, CA Certifying Quality Controls...)



- Answer to the thematic questions by Yes or No (using drop down menu next to each question) and to insert comments in the specific column.

The Programme has developed a specific checklist to be used by the First Level Controller when performing this check. *Please refer to Section 7.1.3 for more information regarding the administrative control checklist.*

3.5.2. The on-the-spot administrative check

The on-the-spot administrative check is:

- to **be performed at least once during the project life**
- to be undertaken on the premises of the controlled Project Partner/Lead Partner.

This on-the-spot administrative check is additional and complementary to the “regular” administrative check.

The FLC shall check the existence of the original supporting documentation to costs claimed and other items which cannot be verified when implementing a desk based check (such as separate accounting system, archiving, audit trail requirements, public procurement documentation, etc.).

The on-the-spot administrative check is integrating a **contradictory phase**, which is a period of time allocated to the controlled organization in order to provide answers and/or supporting documentation following findings and/or recommendations made by the First Level Controller.

First Level Controllers are expected to:

- describe the methodology they used for performing the on-the-spot administrative check
- list all findings and irregularities resulting from the check (before the contradictory phase)
- provide the explanations and justifications provided by the controlled organization in the framework of the contradictory phase.
- list the findings and irregularities which do still exist after the contradictory phase (if applicable)
- indicate the recommendations they give to the controlled Project Partner in order to solve the detected findings and/or to avoid future irregularities
- Answer to the thematic questions by Yes or No (using drop down menu next to each question) and to insert comments in the specific column.

The FLC can implement an on-the-spot administrative check on a sample basis which shall be clearly detailed and quantified in the description of the methodology of the on-the-spot administrative check.

The control rate corresponds to the percentage resulting from the amount of controlled expenditure on the amount of claimed expenditure for the controlled beneficiary. The methodology adopted by the FLC during the on-the-spot administrative check shall ensure that the control rate is sufficiently high and allows the FLC, the European Commission and the Programme Authorities to have a sufficiently strong level of confidence resulting from the control. In addition, the methodology shall also ensure that a representative sample is defined before each on-the-spot check.

The control rate is not set up at Programme level as:

- it does depend on the moment when the on-the-spot check takes place within the project life
- it depends if the First Level Controller checks original supporting documents during the “regular” administrative check or not



Nevertheless, if the FLC detects some weaknesses/irregularities from the sample, a deeper check shall be implemented and the perimeter of the sample shall be enlarged consequently.

The Programme has developed a specific checklist to be used by the First Level Controller when performing this check. *Please refer to Section 7.1.4 for more information regarding the on-the-spot administrative control checklist.*

3.5.3. The on-the-spot physical check

This on-the-spot physical check:

- shall **only** be performed **if the beneficiary has planned some investments** (in which case the on-the-spot physical check is mandatory)
- shall be **implemented on the place where the investment is located**
- is additional to:
 - o the "regular" administrative check
 - o The on-the-spot administrative check

This means that when a Project Partner / Lead Partner is involved in Investment activities, 3 distinct checks shall be performed by the FLC and 3 different checklists shall be filled in.

- must be **implemented during the last 6 months of the project life and in any case before the last Progress Report.**

The aim of this on-the-spot physical check is:

- to verify the progress and the reality of the investment
- to check the compliance of the investment with EU, national and Programme eligibility and publicity rules

The on-the-spot physical check is integrating a **contradictory phase**, which is a period of time allocated to the controlled organization in order to provide answers and/or supporting documentation following findings and/or recommendations made by the First Level Controller.

First Level Controllers are expected to:

- describe the methodology they used for performing the on-the-spot physical check
- list all findings and irregularities resulting from the check (before the contradictory phase)
- list the findings and irregularities which do still exist after the contradictory phase (if applicable)
- indicate the recommendations they give to the controlled Project Partner in order to solve the detected findings and/or to avoid future irregularities
- Answer to the thematic questions by Yes or No (using drop down menu next to each question) and to insert comments in the specific column.

The FLC can implement an on-the-spot physical check on a sample basis which shall be clearly detailed and quantified in the description of the methodology of the on-the-spot physical check.

No minimum or maximum control rate is set up at Programme level. The methodology adopted by the FLC during the on-the-spot physical check shall ensure that the control rate is sufficiently high and allows the FLC, the European Commission and the Programme Authorities to have a sufficiently strong level of confidence resulting from the control. In addition, the methodology shall also ensure that a representative sample is defined before each on-the-spot check. The reality and existence of the investment must be fully checked in the place of the investment.



In addition, if the FLC detects some weaknesses/irregularities from the sample, a deeper check shall be implemented and the perimeter of the sample shall be enlarged consequently.

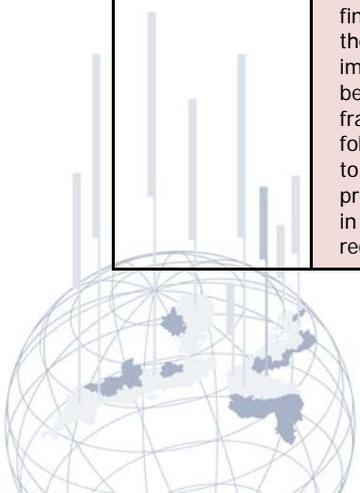
The Programme has developed a specific checklist to be used by the First Level Controller when performing this check. *Please refer to Section 7.1.5 for more information on the on-the-spot physical control checklist.*



4. The different levels of controls (other than First Level Control)

	Second Level Audits (SLA)	Certifying Quality Control (CQC)	Quality Control on First Level Control	Third Level Audits (TLA)
Responsible Authority	Audit Authority (AA) [externalized to Ernst & Young]	Certifying Authority (CA)	National Central Approval Body (CAB) or National Authority	DG REGIO, OLAF, Court of Auditors, others.
Who is concerned?	Projects (LP + 1PP and their respective FLC) are randomly selected by the Audit Authority in January each year A letter of notification will be sent in advance to the selected beneficiaries.	2 Projects (LP + 1PP) are randomly selected per year by the Certifying Authority A letter of notification will be sent in advance to the selected beneficiaries.	In a decentralized control system (UK, NL, FR), First Level Controllers are selected at random by the national Central Approval Body . In a centralized control system (BE/FL), the quality and efficiency of the First Level Control is checked by the National Authority .	Projects are selected by the Auditing Body . A letter of notification will be sent in advance to the selected beneficiaries.
Perimeter of the control	Second Level Controls are performed at the beneficiaries' premises between February and April each year. The audit is relating to the expenditure which has been declared to the European Commission (EC) within the previous year and is mainly focusing on: <ul style="list-style-type: none"> The conformity between the activities and expenditure undertaken and what has been planned within the last version of the approved Application Form The availability of all original supporting documentation A check on the correct application of the Programme rules (calculation of staff costs, indirect costs, revenues...) and on the eligibility of the expenditure claimed The respect of the Public Procurement procedures and Publicity requirements The existence of a sound audit trail (archiving, original 	Certifying Quality Controls are performed at the CA premises. The CA is requesting the controlled beneficiaries to provide all supporting documentation relating to a specific reporting period. Some checks are performed regarding : <ul style="list-style-type: none"> The completeness of the supporting documentation provided and the existence of a sound audit trail The evidence of the link between the costs claimed and the project activities The efficiency of the First Level Control performed Eligibility of expenditure claimed Check on exchange rate used, VAT status... 	Decentralized Control System (UK, NL, FR) The Central Approval Bodies are to check in their respective Member State that the First Level Controllers they have approved respect their commitments and implement an effective and efficient check on items which shall compulsorily be controlled. The quality of the documents filled in by the FLCs during the control they implemented is to be verified towards the Member State and Programme requirements. Centralized Control System (BE/FL) The National Authority is to check in that the First Level Controllers at central level respect their commitments and implement an effective and efficient check on items which shall compulsorily be controlled. The quality of the documents filled in by the FLCs during the control	TLA may have different purposes, targets and procedures according with the auditing bodies and their missions. Until now, the 2 Seas Programme experienced two DG REGIO audits on the First Level Control systems in place in France and United Kingdom. DG REGIO audits on First Level Control are carried out per Member State. The audit is relating to the expenditure which has been declared to the European Commission (EC). DG REGIO auditors performed a deep check on the following items: <ul style="list-style-type: none"> The respect of the Public Procurement procedures and Publicity requirements The efficiency and reliability of the First Level Control performed The eligibility of expenditure claimed The existence of a

	<p>probative documentation and obvious link between costs claimed and project activities)</p> <ul style="list-style-type: none"> The efficiency of the First Level Control performed 		<p>they implemented is to be verified towards the Member State and Programme requirements.</p>	<p>sound audit trail (archiving, original probative documentation and obvious link between costs claimed and project activities)</p> <ul style="list-style-type: none"> A check on the correct application of the Programme rules (calculation of staff costs, indirect costs, revenues...)
<p>General process</p>	<p>A draft audit report is produced by the auditors following the audit, containing, if appropriate, findings / recommendations addressed to the concerned parties (at project partner and FLC). 2 types of findings can be addressed by the auditors:</p> <ul style="list-style-type: none"> Sub-system findings (related to the functioning of the sub-system, stating if the irregularities detected are only formal or if they have or could have a financial consequence) Expenditure findings (related to the declared expenditure) <p>The audited bodies will bring answers, additional information and/or documentation to the JTS in the framework of the contradictory phase.</p> <p>The answers will be provided to the auditors who will analyze them and give a final opinion.</p> <p>A final audit report will be produced and provided to the respective audited bodies.</p> <p>If there are some financial corrections, these are to be implemented by the beneficiary in the framework of the following Progress Report to be submitted or, if the project is already closed, in the framework of a recovery procedure.</p>	<p>A draft control report is produced by the CA following the control, containing, if appropriate, comments and requests addressed to the concerned parties.</p> <p>The controlled bodies will bring answers, additional information and/or documentation to the JTS in the framework of the contradictory phase.</p> <p>The answers will be provided to the Certifying Authority. The answers will be analyzed and the CA will give a final opinion.</p> <p>A final control report will be produced and provided to the controlled organizations.</p> <p>If there are some financial corrections, these are to be implemented by the beneficiary in the framework of the following Progress Report. In case the project is already closed, any regularization shall be done through a recovery procedure.</p>	<p>A draft control report is produced following the control, containing, if appropriate, comments and requests addressed to the First Level Controllers.</p> <p>The FLCs will bring answers, additional information and/or documentation in the framework of the contradictory phase.</p> <p>A final control report will be produced and provided to the controlled FLCs.</p> <p>Quality checks might bring the auditing bodies to express recommendations for corrective and preventive measures and actions. The Programme partners (National Authorities and CAB) will support the JTS and the MA in ensuring that these recommendations are being timely implemented by the beneficiaries located in their territories.</p>	<p>In the framework of DG REGIO audits on First Level Control systems in France and UK, a draft audit report was produced by the auditors following the audit, containing, if appropriate, findings / recommendations addressed to the concerned parties (audited beneficiaries and FLCs).</p> <p>The audited bodies had to bring answers, additional information and/or documentation to the JTS in the framework of the contradictory phase.</p> <p>The answers were provided to the auditors who analyzed them and gave a final opinion.</p> <p>A final audit report was produced and provided to the respective audited bodies.</p> <p>In case of necessary financial corrections, these were to be implemented by the beneficiary/ies in the framework of the following Progress Report to be submitted or, in case of project closed, in the framework of a recovery procedure.</p>



5. The Progress Report: components

The Progress report is composed of:

The Lists of expenditure (1 per Project Partner)
The Partner Financial reports (1 per Project Partner): signed by the Partner + its First level controller
A Project Financial report: signed by the Lead Partner + its First level controller
A Project Activity report: produced by the Lead Partner
The First Level Control documents (Please refer to Section 7.1 for more information)

These documents are to be filled in and sent to the JTS by the Lead Partner twice a year (every six months) after validation of the FLCs in order to claim the expenditure.

NB:

- **For beneficiaries located in United Kingdom and the Netherlands**, the original FLC designation certificate (also called Annex 4 document) signed by both the First Level Controller and the Central Approval Body is also to be submitted together with the first Progress Report or whenever a FLC changes in the framework of the project life.
- **For beneficiaries located in France**, the original FLC designation certificate signed by both the Project Partner and the FLC remains at the Central Approval Body (CAB). Once the proposed FLC is approved, the CAB will deliver an original signed approval Certificate (Certificat d'Approbation). French Project Partners can provide either the original or a copy of this approval certificate to the JTS together with their first Progress Report or whenever a FLC changes in the framework of the project life.
- **For beneficiaries located in Belgium/Flanders**, no FLC designation is necessary since the FLC is already nominated at central level;

5.1. The Lists of Expenditure

The list of expenditure is the key document necessary to list all costs incurred by a given beneficiary during a certain reporting period. It is the starting point of the financial report and the basis for all consequent controls, corrections and declarations. The template of the list of expenditure is available on the web-site and should be filled in by each beneficiary on a regular and ongoing basis.

The list of expenditure is an Excel document made of 20 tabs:

1. Instructions
2. Summary of expenditure
3. BL1 Staff costs
4. BL2 Administration costs – Direct costs
5. BL2 Administration costs – overheads
6. BL3a External consultants



7. BL3b Suppliers Goods & Services
8. BL4 Travel and Accommodation
9. BL5 Full cost equipment
10. BL5 Depreciable equipment
11. BL6 Investment – Purchase of land
12. BL6 Investment – Purchase of real estate
13. BL6 Investment – Infrastructure work
14. BL7 FLC Internal controller
15. BL7 FLC External controller
16. Revenues
17. In kind equivalent BL1
18. In kind equivalent BL3A
19. In kind equivalent BL3B
20. In kind equivalent BL6

It contains a specific and protected section on the right hand side (red columns) dedicated to the First Level Controller (*please refer to Section 7.1.1 for more information*).

The FLC shall receive an electronic version of the List of expenditure completed by the beneficiary. Once the FLC has performed the necessary checks and validated the eligible amounts, the list of expenditure shall be sent back to the beneficiary in electronic and paper form. The amounts of eligible expenditure claimed by the beneficiary and validated by the FLC shall also be indicated in the Partner Financial Report and in the Certificate of validation of the expenditure (see § 5.2 and § 7.1.2 below).

5.2. The Partner Financial Report

This document provides an overview of expenditure incurred and paid at Budget Line level and at Activity level during a specific reporting period at beneficiary level.

Every beneficiary – including the Lead Partner - shall fill in this document. The FLC of the beneficiary shall ensure the consistency between the Partner Financial Report and the List of Expenditure.

The FLC shall receive an electronic version of the Partner Financial Report completed by the beneficiary. Once the FLC has performed the necessary checks in the List of Expenditures, the Partner Financial Report shall be amended according with the eligible amounts of expenditure validated by the FLC. The amended Partner Financial Report is to be printed and signed by the FLC who is to send it to the beneficiary in electronic and paper form together with the List of Expenditure and the Certificate of validation of the expenditure (see § 7.1.2 below).

More information on the other components of the Partner Financial Report is available in section 7.1 of this document.



5.3. The Project Financial Report

This document provides an overview of expenditure incurred and paid at Budget Line level and at Activity level during a specific reporting period at project level.

It is the result of the aggregation of all partners' information on expenditure incurred and paid.

Only the Lead Partner shall fill in this document as it refers to expenditure at project level. The FLC of the Lead Partner shall check the consistency between the Partner Financial Reports and the consolidated figures in the Project Financial Report.

The FLC shall receive an electronic version of the Project Financial Report completed by the Lead Partner together with the Partner Financial Reports and Certificates of validation of expenditure signed by the FLCs of the other Project Partners.

Once the FLC has performed the necessary coherence checks, the document is to be printed and signed by the FLC who is to send it to the Lead Partner.

5.4. The Project Activity Report

Produced by the Lead Partner, this document gives information on the progress of the project's implementation and the achievement of the project's results and outputs.

Even if it is filled in at project level by the Lead Partner, every beneficiary shall keep the traceability of the activities done in order to allow FLCs to make conciliation between costs and activities. In addition, every First level Controller shall receive a copy of the finalized Project Activity Report as it testifies the progress made at project level.

The FLC of the Lead Partner shall check the consistency between the Project Financial Report and the Project Activity Report to ensure that the financial progress of the project corresponds to the activities implemented and is in line with the Application Form.



6. The reporting procedures

6.1. The reporting periods

As stipulated in Section 5.2 of the Programme Manual, there are 2 reporting periods per year for each project and consequently 2 reporting deadlines.

The reporting periods and deadlines for submission of the progress reports are set in the Subsidy Contract as well.

The deadline for submitting the Progress Report to the JTS is 2 months after the end of each reporting period. The first and last Progress Report might cover a different reporting period than the usual six months.

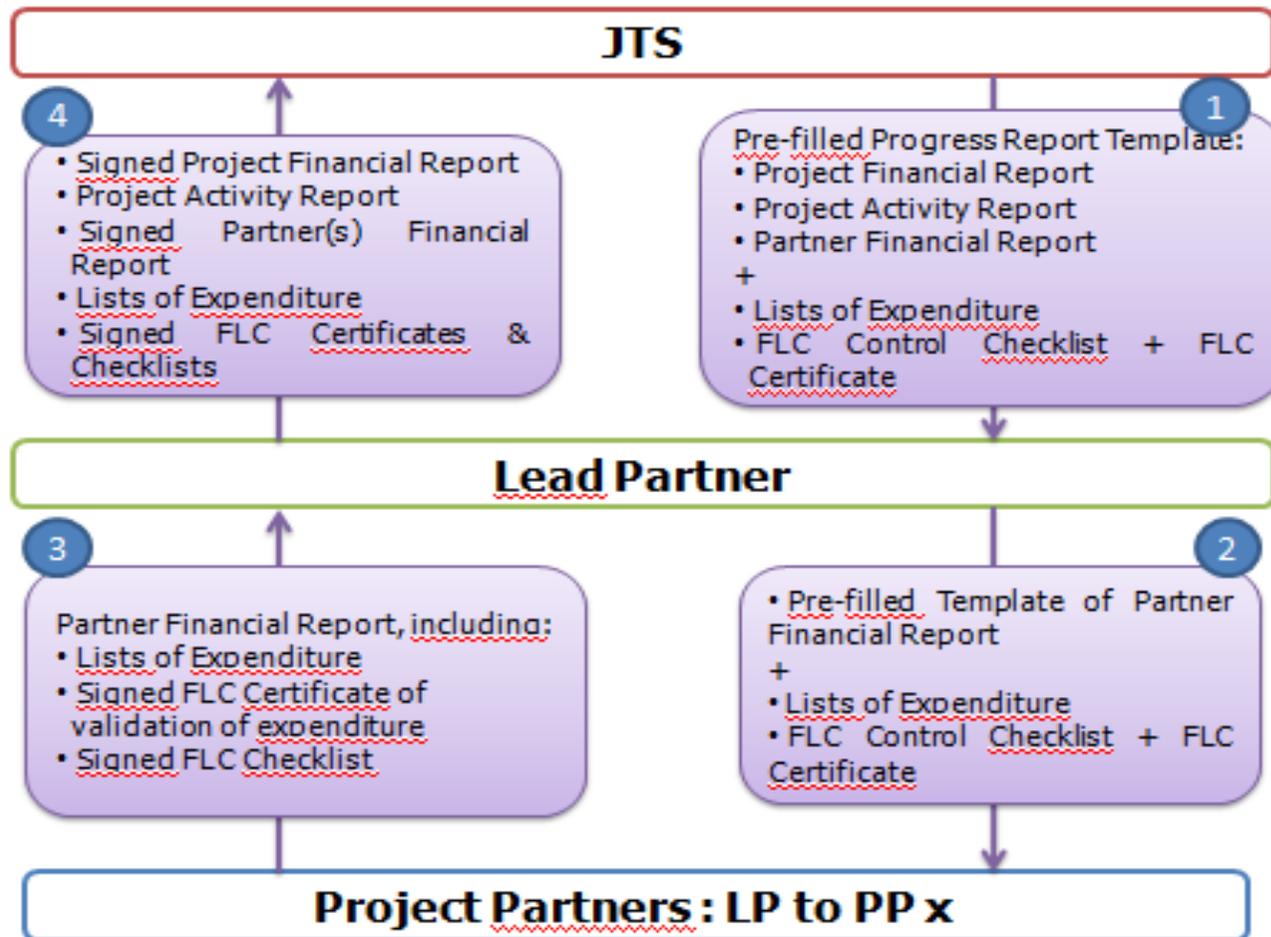
The reporting deadlines are the followings:

For expenditure that occurred between 01/01/year N to 30/06/year N	01/09/Year N
For expenditure that occurred between 01/07/year N to 31/12/year N	01/03/Year N+ 1

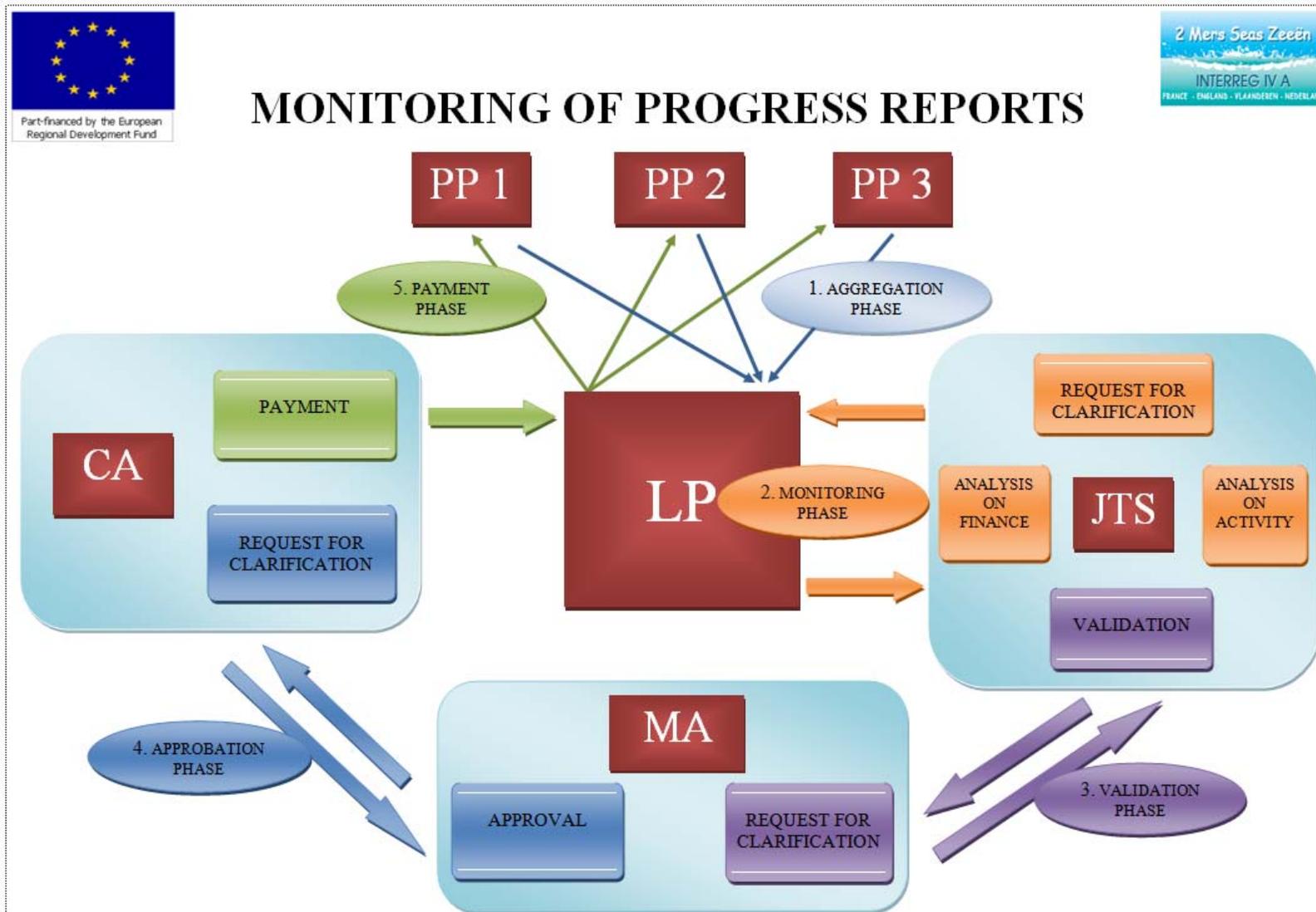
The JTS will observe the principle “first come, first served”, so Progress reports arriving first will also be given priority in the payment stage (as long as they fulfil the requirements and are deemed satisfactory by the JTS, after the admissibility check phase and the monitoring phase).



6.2. Overview of the documents' flow



6.3. Overview of the whole reporting process



7. First Level Control in the INTERREG IV A 2 Seas Programme

7.1. Programme tools dedicated to First Level Control

7.1.1. The list of expenditure

7.1.1.1. Presentation of the document

For each Budget Line, the columns in blue have to be filled in by the organization partner in the project while the columns in red have to be filled in by the First Level Controller.

As mentioned above, the list of expenditure is an Excel document made of the following 20 tabs:

1. Instructions
2. Summary of expenditure
3. BL1 Staff costs
4. BL2 Administration costs – Direct costs
5. BL2 Administration costs – overheads
6. BL3a External consultants
7. BL3b Suppliers Goods & Services
8. BL4 Travel and Accommodation
9. BL5 Full cost equipment
10. BL5 Depreciable equipment
11. BL6 Investment – Purchase of land
12. BL6 Investment – Purchase of real estate
13. BL6 Investment – Infrastructure work
14. BL7 FLC Internal controller
15. BL7 FLC External controller
16. Revenues
17. In kind equivalent BL1
18. In kind equivalent BL3A
19. In kind equivalent BL3B
20. In kind equivalent BL6

- The instructions contain guidance/information on:

- o How to fill in the form (colour code corresponding to pre-filled data, data to be completed by the Partner organisation, data to be completed by the First Level Controller and automatically calculated data);
- o The Sections contained in the lists of expenditure as listed above.



- The Summary of the expenditure contains:

Project key data + Partner's contact details	This section is to be filled in by the Partner organisation that needs to precise its VAT status by using a drop down menu
Total cost declared eligible by the FLC	The information is automatically reported from the data provided by the FLC in each of the budget lines/tab
In kind contribution	The information is automatically reported from the tabs concerning in-kind contribution
Total cost declared by the Project Partner	The amounts are automatically filled in by adding up all the total amounts per Activity coming from each budget line tab (in the "total cost declared by the Project Partner" section, at the top of each tab).

- The other tabs: All the other tabs are constituted as follows:

Project key data + Partner's contact details	This is automatically filled in on the basis of information provided in the "Summary of expenditure" tab.
Total cost declared by the Project Partner	<p>The amounts are automatically filled in by adding up the amounts claimed by the Project Partner:</p> <ul style="list-style-type: none"> • For the total cost at budget line level • For the total cost per Activity <p><i>NB: If the sum of the amounts per Activity is different than the total cost in Euro declared, an ERROR message appears. If this is the case, the FLC shall ensure that the information is amended to be consistent!</i></p>
Total cost declared eligible by the FLC	<p>The information is automatically reported from the FLC section (columns in red) by adding up the eligible amounts validated by the FLC.</p> <p><i>NB: If the sum of the amounts per Activity is different than the total cost in Euro validated by the FLC, an ERROR message appears. If this is the case, the FLC shall ensure that the information is amended to be consistent!</i></p>
Instructions	At the beginning of each budget line, instructions are provided so that the Project Partner knows which information is requested in each of the columns.
Table for the Partner to list the expenditure (blue cells) + Table for the FLC on the right hand side (red cells)	<p>The Partner has listed each single expenditure per budget line under the appropriate tab and has completed the different columns.</p> <p>The FLC is to check item by item the expenditures listed in the document with the support of the documentation (invoices, contracts, etc.) provided</p>



	<p>by the Project Partner and to complete the red sections on the right hand side. <i>Please, refer to Section 7.1.1.2 for more information on how to access to the red cells protected by a password.</i></p> <p>The FLC needs to choose from a drop down menu if the expenditure is fully, partially or not eligible, then to write the final amount and comment (if necessary).</p>
--	--

7.1.1.2. How to access to the FLC dedicated section and to complete it?

The document contains a specific section on the right hand side (red columns) dedicated to the First level controller.

This section requires a password which needs to be requested to the JTS by email and by the nominally approved first level controller.

Using the drop down menu, the FLC has to declare - directly in the list of expenditure and for each item of expenditure claimed by the Partner - if it is eligible, partially eligible or ineligible.

The FLC has to report in the appropriate column the eligible amount and add a comment in order to explain the difference (if existing) between the amount claimed by the Project Partner and the amount validated by the FLC.

Only the amounts validated by the FLC are taken into account to calculate the total eligible amount for the Partner.

Please note that the FLC is not allowed to validate an amount of eligible expenditure which would be **superior to the amount declared** by the Project Partner, and this for responsibility reasons.

If the FLC notices during the control that the Partner under claimed some costs, this shall be communicated to the Partner and the corresponding correction shall be made by the Partner itself.

Still, the issue can be reported for information only on page 2 of the Control Checklist for traceability reasons.

On the other hand, in case the FLC has to make negative corrections and to validate a **smaller amount than the expenditure declared** by the Partner, this must be done by the FLC directly in the list of expenditure (red column), without asking the Partner to change its claim.

This distinction of procedure is justified by the fact that the role of the FLC is not to declare additional eligible costs, but to check and validate up to the amount declared by the Partner organization.

*This document is also available on the Programme website under the following link:
<http://www.interreg4a-2mers.eu/monitoring/reporting-progress-report/en>*



7.1.2. The Certificate of validation of the expenditure

7.1.2.1. Presentation of the document

The FLC Certificate of validation of expenditure is a document that cannot be modified in any of its content. It must be filled in, signed and attached to the progress report it refers to.

The contact details of the First Level Controller must correspond to the contact details in the progress report and in the Designation Certificate; otherwise the validation is NOT acceptable.

The FLC Certificate of validation of expenditure is listing a series of checks that are to be performed by the First level controller together with documents that ought to be verified.

7.1.2.2. How is the FLC to fill in the document?

The FLC has to fill in the following data:

Project key data + Partner's contact details
Progress report number
Tick the appropriate box in the Revenue section to assess if revenues have been generated or not
State which Central Approval Body did approve him/her as FLC (<i>only for FLC based in UK, France and The Netherlands</i>)
Report the total eligible expenditure amount
Complete all FLC contact details + signature

By signing the Certificate, the FLC certifies the eligibility of the claimed expenditure towards the applicable European, Programme and national rules, and takes full responsibility on the efficiency and completeness of the checks performed.

This document is to be provided as an original paper signed version together with the Progress Report.

*The template of this document is also available on the Programme website under the following link:
<http://www.interreg4a-2mers.eu/monitoring/reporting-progress-report/en>*



7.1.3. The FLC Administrative control checklist

Please refer to Section 3.5.1 of this guidance for more information on the administrative check.

7.1.3.1. Presentation of the document

The FLC Administrative control Checklist is a document that needs to be entirely filled in by the FLC (the document does not contain any pre-filled or automatically filled in cells) and attached as an original paper signed version to the progress report it refers to.

It is a tool to guide the First Level Controller along the control procedure and to provide the Programme Authorities with sufficient information about the administrative control performed.

This checklist is not an exhaustive tool. Therefore, the FLC is entitled to report all potential detected mistakes or irregularities even if the checklist does not mention specifically the issue spotted.

The document contains 7 sections to be completed by the FLC, targeting:

- The completeness and accuracy of the Progress Report (identification of the controlled organisation, accounting, accuracy of the claim)
- The progress of the project
- Public procurements
- Compliance with Programme and Community rules
- The Budget Lines (staff costs, administration costs, external consultants and suppliers, travel and accommodation, equipment, investment, validation of expenditure-FLC)
- Revenues
- Budget

Section 8 is to be filled in if the controlled organisation acts as Lead Partner. Therefore, it shall be filled in by the Lead Partner's FLC only.

The template of this document is also available on the Programme website under the following link:
<http://www.interreg4a-2mers.eu/monitoring/reporting-progress-report/en>

7.1.3.2. Content

The FLC Administrative control Checklist is composed of the following sections:

Checklist content	Information to be provided
Project data	To be filled in by the FLC
FLC's data	To be filled in by the FLC



Controlled body	To be filled in by the FLC
Control references	To be filled in by the FLC
Administrative checks for the current Progress Report	<p>The FLC is:</p> <ul style="list-style-type: none"> - to describe here the methodology used for the administrative checks (for instance: the place where the control is implemented, the typology of documents checked, etc.). This description can be copied and pasted from the checklist of the previous progress report (if existing) unless the methodology has changed in the meantime. - to list all findings resulting from the administrative check (such as findings related to the way expenditures are reported, to specific invoices and/or other supporting documents, etc.). - to indicate the recommendations given to the Project Partner in order to improve the next Payment Claim and avoid similar mistakes
Follow-up on the results of previous administrative checks	<p>The FLC is:</p> <ul style="list-style-type: none"> - to detail here the measures put in place by the Partner following previous findings detected and/or recommendations defined by the first level controller (this section aims to ensure a follow-up on the results of the first level control implemented on previous Progress Report). - to provide information about the measures undertaken by the Partner following, if it is the case, the findings and recommendations defined by other types of control (second level audit, CA quality control, EC audit, etc.)
Signature	
Checklist	<p>The Checklist is requiring particular information on the following issues:</p> <ul style="list-style-type: none"> • The completeness and accuracy of the Progress Report <ul style="list-style-type: none"> * Correct identification of the controlled organisation * Accounting * Accuracy of the claim • Progress of the project • Public procurements • Compliance with Programme and Community rules • The budget lines • Revenues • Budget • Control on the Lead Partner (if this is the case)



7.1.4. The FLC on-the-spot administrative control checklist

Please, refer to Section 3.5.2 of this guidance for more information on the on-the-spot administrative check

7.1.4.1. Presentation of the document

The FLC on-the-spot administrative control checklist is a document that needs to be entirely filled in by the FLC (the document does not contain any pre-filled or automatically filled in cells). It is a tool to guide the First Level Controller along the control procedure and to provide the Programme Authorities with sufficient information about the on-the-spot administrative control performed. It is to be provided as an original paper signed version to the JTS by the Lead Partner (via the Project Partner).

This checklist is not an exhaustive tool. Therefore, the FLC is entitled to report all potential detected mistakes or irregularities even if the checklist does not mention specifically the issue spotted.

The document contains:

- a table to fill in, providing the financial perimeter of the on-the-spot administrative control.
- 7 sections are also to be completed by the FLC, targeting:
 - o The accounting system
 - o The ERDF and match-funding flows
 - o Public procurements (procedure, publicity and notification, award procedure...)
 - o Implementation of a sound audit trail
 - o The Budget Lines (staff costs, administration costs, external consultants and suppliers, travel and accommodation, equipment, investment, validation of expenditure-FLC)
 - o Revenues
 - o Publicity requirements

This document is also available on the Programme website under the following link:

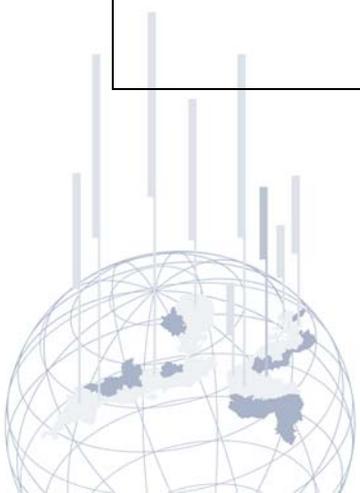
<http://www.interreg4a-2mers.eu/monitoring/reporting-progress-report/en>

7.1.4.2. Content

Checklist content	Information to be provided
Project data	To be filled in by the FLC
FLC's data	To be filled in by the FLC
Controlled body	To be filled in by the FLC
Control references	To be filled in by the FLC



<p>Summary of the on-the-spot check – BEFORE THE CONTRADICTION PHASE</p>	<p>The FLC is:</p> <ul style="list-style-type: none"> - to describe here the methodology used for the on-the-spot administrative check (for instance: how many on-the-spot checks will be done on this project partner during the project life, the main elements verified during the on-the-spot administrative check, the methodology used, etc.). - to list all findings and irregularities resulting from the on-the-spot administrative check BEFORE the contradictory phase (such as findings related to the original supporting documents checked on the spot, to the partner's accounting system, to the compliance with the audit trail requirements, to the archiving system, to the application of public procurement rules, etc.).
<p>Summary of the on-the-spot check – AFTER THE CONTRADICTION PHASE</p>	<p>The FLC is:</p> <ul style="list-style-type: none"> - to indicate here the explanations and justifications provided by the controlled organisation during the contradictory phase. - to list all findings and irregularities still existing after the contradictory phase (such as findings related to the original supporting documents checked on the spot, to the partner's accounting system, to the compliance with the audit trail requirements, to the archiving system, to the application of public procurement rules, etc.). - to indicate the recommendations given to the controlled organisation in order to solve the detected findings and/or to avoid future irregularities.
<p>Signature</p>	
<p>Frame of the on-the-spot check</p>	<p>The FLC is to fill in the table providing for each budget line:</p> <ul style="list-style-type: none"> • the approved budget on the basis of the information available in the last version of the approved Application Form • the cumulative expenditure which is the total expenditure that has been claimed by the controlled organisation, validated by the First Level Controller and accepted by the Certifying Authority from the beginning of the project until the date of the on-the-spot check. • the consumption rate is automatically calculated by dividing the cumulative expenditure amount by the approved budget amount. • the amount of expenditure checked is the total amount of expenditure verified at budget line level by the FLC during the on-the-spot administrative check • the control rate is automatically calculated by dividing the amount of expenditure checked by the cumulative expenditure amount.



	<ul style="list-style-type: none"> • the amount of ineligible expenditure is the total amount of expenditure deemed ineligible by the First Level Controller following the on-the-spot administrative check. • the revenues (if applicable)
Checklist	<p>The Checklist is requiring particular information on the following issues:</p> <ul style="list-style-type: none"> • The accounting system • The ERDF and match-funding flows • Public procurement • Implementation of a sound audit trail • The budget lines • Revenues • Publicity requirements

7.1.5. The on-the-spot physical checklist

Please, refer to Section 3.5.3 of this guidance for more information on the on-the-spot physical check.

7.1.5.1. Presentation of the document

The FLC on-the-spot physical control Checklist is a document that needs to be entirely filled in by the FLC (the document does not contain any pre-filled or automatically filled in cells). It is a tool to guide the First Level Controller along the control procedure and to provide the Programme Authorities with sufficient information about the on-the-spot physical control performed. It is to be provided as an original paper signed version to the JTS by the Lead Partner (via the Project Partner).

This checklist is not an exhaustive tool. Therefore, the FLC is entitled to report all potential detected mistakes or irregularities even if the checklist does not mention specifically the issue spotted.

The document contains:

- a table to fill in, providing the financial perimeter of the on-the-spot physical control.
- 2 sections other sections to be completed by the FLC, targeting:
 - o The evidence of existence and eligibility of the investment
 - o The compliance with publicity requirements

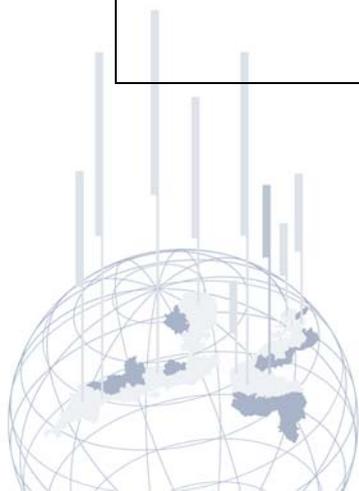
This document is also available on the Programme website under the following link:

<http://www.interreg4a-2mers.eu/monitoring/reporting-progress-report/en>



7.1.5.2. Content

Checklist content	Information to be provided
Project data	To be filled in by the FLC
FLC's data	To be filled in by the FLC
Controlled body	To be filled in by the FLC
Control references	To be filled in by the FLC
Summary of the on-the-spot check – BEFORE THE CONTRADICTIONARY PHASE	<p>The FLC is:</p> <ul style="list-style-type: none"> - to describe here the methodology used for the on-the-spot physical check (for instance: how many on-the-spot physical checks will be done on this project partner during the project life, the main elements verified during the on-the-spot physical check, the methodology used, etc.). - to list all findings and irregularities resulting from the on-the-spot physical check BEFORE the contradictory phase
Summary of the on-the-spot check – AFTER THE CONTRADICTIONARY PHASE	<p>The FLC is:</p> <ul style="list-style-type: none"> - to list all findings and irregularities still existing after the contradictory phase - to indicate the recommendations given to the controlled organisation in order to solve the detected findings and/or to avoid future irregularities.
Signature	
Perimeter of the on-the-spot check	<p>The FLC is to fill in the table providing for budget line 6:</p> <ul style="list-style-type: none"> • the approved budget on the basis of the information available in the last version of the approved Application Form • the cumulative expenditure which is the total expenditure that has been claimed by the controlled organisation under BL6, validated by the First Level Controller and accepted by the Certifying Authority from the beginning of the project until the date of the on-the-spot check. • the consumption rate is automatically calculated by dividing the cumulative expenditure amount by the approved budget amount. • the amount of expenditure checked is the total amount of expenditure verified for BL6 by the FLC during the on-the-spot administrative check



	<ul style="list-style-type: none"> • the control rate is automatically calculated by dividing the amount of expenditure checked by the cumulative expenditure amount. • the amount of ineligible expenditure is the total amount of expenditure deemed ineligible by the First Level Controller following the on-the-spot administrative check. • the revenues (if applicable)
Checklist	<p>The Checklist is requiring particular information on the following issues:</p> <ul style="list-style-type: none"> • Evidence of existence and eligibility of the investment • Compliance with Publicity requirements

7.1.6. The national FLC seminars

National First Level Control seminars are organized by each National Authority. Around 2 seminars are organised per year for the whole programming period in each Member State having opted for a decentralised FLC system. The JTS is taking part in these seminars.

All approved First Level Controllers are strongly invited to participate to these seminars as they ensure:

- A deep and standardised training regarding EU, national and Programme rules
- A detailed presentation of the requirements for the eligibility of expenditure
- A detailed presentation of the FLC tasks and responsibilities
- A detailed presentation of the Programme documents
- An interactive session for any specific question/issue and for good practice exchange

For more information or to register to the next national FLC seminar, please contact the following persons:

<p>For NL: Directie Financieel-Economische Zaken Ministerie van Economische Zaken, Landbouw en Innovatie Bezuidenhoutseweg 20 Postbus 20101 2500 EC Den Haag M. Erik de Hoog Tel : + 31 (0)70 379 6594 Email : b.d.dehoog@mineleni.nl</p>

<p>For UK: Communities and Local Government, European Policy and Programmes Division 3rd Floor Eland House Bressenden Place London SW1E 5DU United Kingdom Mr Arni Narain Tel: +44 303 4442706 Email: Arni.Narain@communities.gsi.gov.uk</p>
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For FR:

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Mrs Amandine DUPONT
Tel : +33 (0)3 28 82 70 85
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NB : For Belgium-Flanders (centralized system) a meeting is organized per year between the First Level Control Cell and the JTS.

The First Level Control Cell organizes a annual seminar and invites the Flemish Partners to meet them and discuss issues met in the treatment of the Progress Reports.

7.2. Additional Programme documents FLCs must have at disposal

In order to be able to check the coherence between the costs claimed and the activities performed, the FLC is to be provided at least with:

- A copy of the Programme Manual
- A copy of the signed Subsidy Contract which determines the ERDF granting conditions for the whole partnership as represented by the Lead Partner
- A copy of the signed Partnership Agreement which defines the relations within the partnership in order to implement the project as indicated in the approved Application Form and in the Subsidy Contract.
- A copy of the last approved version of the Application Form

7.3. How to ensure and prove the efficiency of the First Level Control?

When assessing the quality of a Financial Progress Report, the JTS often notices that the amount of the expenditure claimed by the Project Partner / Lead Partner equals the amount of expenditure declared eligible by the First Level Controller.

Still, when reading the information provided by the FLC within the Administrative control Checklist, it appears that the FLC has spotted some miscalculations/errors and has requested the controlled Partner to modify the amount claimed.

Even though the JTS is not opposed to communication between the FLC and the Partner, when the correction is made as such, it is impossible:

- To trace the amount of the correction/error as no difference between the amounts is visible
- To prove the efficiency of the First Level Control performed: the reliability of the FLC and the efficiency in checking the compliance with Programme and EU requirements cannot be demonstrated.



The JTS strongly encourages the First Level Controllers to provide as much information as possible within the Control Checklist, providing details on:

- The nature of the error/miscalculation detected
- The amount of the error/miscalculation detected
- The advice which have been provided to the controlled organization in order not to make the same mistake in the future claims



8. Eligibility Rules

8.1. Basic Eligibility requirements

Costs are eligible if they fulfill the conditions below:

- They were foreseen and indicated in the last approved version of the Application Form
- They comply with the principle of real costs meaning that they are paid out by a Project Partner listed in the Application Form
- Project expenditure must directly be linked to the project implementation as described in the Application Form
- Costs are incurred and accounted in compliance with the Legal framework (EU, national and Programme)
- Costs are incurred within the eligibility period which differs according to the Call for Proposals in which the project has been approved. The start and end dates for the eligibility periods are clearly stipulated in the Subsidy Contract signed between the Lead Partner and the Programme Managing Authority. The information is also available in the Annex 4 of the Programme Manual.
- Costs are correctly reported under the appropriate budget line
- Costs have been validated by an approved First Level Controller on the basis of a sound documentation and audit trail.

In terms of reporting, costs have to be claimed in the correct reporting periods according to their date of payment.

In duly justified cases it is possible to report costs which do not relate to the given reporting period provided that these costs:

- meet the basic eligibility requirements as listed above
- were paid during an eligible project phase
- were not reported and reimbursed during the previous progress reports or from any other EU, international, national or regional financial instrument

8.2. Budget Line 1 – Staff costs

This budget line entails:

- personnel costs
- personnel provided to the project as in-kind contribution⁴.

8.2.1. Staff employed by the Partner organisation

Only personnel directly employed by and included in the payroll of the partner organisation AND working on the project is considered as eligible costs. The cost for staff includes salaries, wages, employment taxes,

⁴ More information is available in– Annex 5 – Fact sheet on in-kind contribution.



social security, health insurance and pension contributions of the staff directly engaged in the project AND employed by the project partner institution on the basis of an employment/labour contract according to the law applicable in the country of the project partner location.

Additional information on staff costs is available in § 4.3.1 and in Annex 6 of the Programme Manual.

Control requirements:

In order:

- to assess the working time of all employees that are working fully or partially for the project and which is claimed by the Project Partner
- to check the staff costs calculation,

the FLC is required to check:

- whether the personnel employed refers to the one listed in the Application Form
- that the staff costs calculation is based on real salary costs (including employers' contributions)
- pay slips (or equivalent probative document) and labour contracts
- that timesheets are appropriately filled-in and signed (absolutely necessary if staff is working part-time on the project)

Questions guiding the FLC in checking the requirements are available:

- in Section 5.1 of the administrative control checklist
- in Section 5.1 in the case of an on-the-spot administrative check

8.2.2. Staff provided as in-kind contribution

Additional information on in-kind contribution is available in the Annex 5 of the programme Manual.

Control requirements:

In order to assess and objectively evaluate the value of the staff costs claimed as in-kind contribution, the FLC is required to check:

- the written agreement established between the Project Partner and the organization employing and paying for the staff working for the project.
- that the staff costs claimed are correctly calculated and based on real salary costs (including employers' contributions)
- pay slips (or equivalent probative document) and labour contracts
- that timesheets are appropriately filled-in and signed (absolutely necessary if staff is working part-time on the project)
- all supporting documents proving the value of the contribution
- that no payment is finally borne by the Partner organisation

Questions guiding the FLC in checking the requirements are available:

- in Section 5.1 of the administrative control checklist



- in Section 5.1 in the case of an on-the-spot administrative check

8.3. Budget Line 2 – Administration costs

Administration costs can be direct general costs or indirect general costs (overheads).

Administration costs (the sum of direct and indirect general costs) cannot exceed 25% of the total staff costs reported in Budget Line 1.

This threshold:

- must be taken in consideration both in the application phase (Application Form) and in the reporting phase (Progress Reports)
- applies at partner and at project levels
- is to be considered at cumulative level (and not in the framework of each individual Progress Report).

This means for example that if a Partner claims 100€ under BL1 in a Progress Report, he is allowed to claim 30€ under BL2 as long as, on a cumulative basis, the global amount claimed at PARTNER AND AT PROJECT level under BL2 does not exceed 25% of the global amount claimed under BL1.

The 25% limit is being monitored automatically. If the limit is not respected, an ERROR message will appear in the Excel template of the Progress Report.

8.3.1. Direct administration costs

The direct general costs are directly generated by and for the project.

The invoices must be addressed to the project partner who must mark it with the title and number of the project.

Other equivalent accounting documents (e.g. internal cost summary per cost centre) might also refer to the project staff, or carry any other detail that identifies them as directly linked to the project.

Control requirements:

Please, refer to Section 4.3.2.1 of the Programme Manual for more information on the eligibility requirements for this typology of cost and for access to the types of costs which can be included under this category.

In order to objectively evaluate the costs claimed by the Partner and to be able to validate the amounts, the FLC is to:

- check that the expenditure claimed is supported by an invoice and a proof of payment
- Ensure that the sum of direct and indirect administration costs (on a cumulative basis) respects the limit of 25% of BL1 costs

Questions guiding the FLC in checking the requirements are available:

- in Section 5.2 of the administrative control checklist
- in Section 5.2 in the case of an on-the-spot administrative check



8.3.2. Indirect administration costs

If the organisation generates indirect general costs (in case the direct billing is not feasible only for the project), the project shall use a pro-rata calculation method. This method aims at getting a share of indirect general cost attributable to the project.

The method for this pro-rata calculation must be duly justified, fair, equitable and documented.

The allocation of the organisation's eligible indirect administration costs to the project must be done uniquely on the basis of the following ratio: **“total number of people employed for the project (on a full time equivalent basis) / total number of people employed by the organisation (on a full time equivalent basis)”**. This ratio should be properly documented and periodically reviewed.

Control requirements:

Please, refer to Section 4.3.2.2 of the Programme Manual for more information on the eligibility requirements for this typology of cost and for access to the types of costs which can be included under this category.

In order to objectively evaluate the costs claimed by the Partner and to be able to validate the amounts, the FLC is to:

- obtain the global invoice and the proof of payment
- check the correct application of the Programme ratio on the basis of documents proving the total number of FTE people working for the organisation and for the project
- Ensure that the sum of direct and indirect administration costs (on a cumulative basis) respects the limit of 25% of BL1 costs

Questions guiding the FLC in checking the requirements are available:

- in Section 5.2 of the administrative control checklist
- in Section 5.2 in the case of an on-the-spot administrative check

8.4. Budget Line 3 – External consultants and suppliers

This budget line includes costs for:

- external consultants (BL3a)
- suppliers of services and goods (BL3b)
- professional and research work in the form of in-kind contribution⁵.

BL3 must be considered as one single budget line despite the split between BL3a and BL3b.

⁵ More information is available in a specific guidance on the in-kind contribution – Annex 5 – Fact sheet on in-kind contribution.



Please, refer to Section 4.3.3 of the Programme Manual for access to eligibility requirements and general information relating to Budget Line 3.

8.4.1. BL3a – External consultants

Control requirements:

In order to objectively evaluate the costs claimed by the Partner and to be able to validate the amounts, the FLC is to:

- evaluate the essentiality of the work for the project;
- check that the costs are reasonable according to the standard rates in the country where the contracting project partner is located;
- check that the consultants' daily fee does not exceed 800 euro (excluding VAT);
- check that Community and national public procurement rules are complied with prior to contracting (Please refer to the Annex 8 of the Programme Manual for more information on public procurement); questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- check that costs are budgeted in the Application Form;
- check that the basic principles of non-discrimination, transparency and objectivity have been respected;
- have access to all supporting documents (copy of the contract, invoice and proof of payment)

Questions guiding the FLC in checking the requirements are available:

- in Section 5.3 of the administrative control checklist
- in Section 5.3 in the case of an on-the-spot administrative check

8.4.2. BL3b – Suppliers of goods and services

Control requirements:

In order to objectively evaluate the costs claimed by the Partner and to be able to validate the amounts, the FLC is to:

- evaluate the essentiality of the goods/services for the project;
- check that the costs are reasonable according to the standard rates in the country where the contracting project partner is located;
- check that Community and national public procurement rules are complied with prior to contracting (Please refer to the Annex 8 of the Programme Manual for more information on public procurement); questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- check if 3 quotations have been requested (if below the lowest applicable threshold for public procurement)
- check that costs are budgeted in the Application Form;
- check that the basic principles of non-discrimination, transparency and objectivity have been respected;
- have access to all supporting documents (copy of the contract, invoice and proof of payment)



Questions guiding the FLC in checking the requirements are available:

- in Section 5.3 of the administrative control checklist
- in Section 5.3 in the case of an on-the-spot administrative check

8.4.3. Professional and research work in the form of in-kind contribution

Please, refer to:

- Section 4.3.3 of the Programme Manual for access to eligibility requirements and general information relating to Professional and research work in the form of in-kind contribution
- Annex 5 of the programme Manual for additional information on in-kind contribution

Control requirements:

In order to assess and objectively evaluate the value of the Professional and research work in the form of in-kind contribution, the FLC is required to check:

- the written agreement established between the Project Partner and the organization employing and paying for the expert working for the project.
- the work done for the project does correspond to the same type of activity the person would undertake within the external organisation providing the in-kind contribution.
- that the costs claimed are correctly calculated and based on real salary costs (including employers' contributions)
- payslips (or equivalent probative document) and labour contracts from the external organisation providing the contribution
- that timesheets are appropriately filled-in and signed (absolutely necessary in case of part-time on the project)
- all supporting documents proving the value of the contribution
- that no payment is finally borne by the Partner organisation

Questions guiding the FLC in checking the requirements are available:

- in Section 5.3 of the administrative control checklist
- in Section 5.3 in the case of an on-the-spot administrative check

8.5. Budget line 4 – Travel and accommodation

This budget line refers to:

- travel costs directly related to and essential for the effective delivery of the project.
- accommodation costs (based on national limits)
- subsistence costs/allowances for project staff occurring from project work related travel.

The travels can be inside or outside the eligible area.

- In case of travels inside the Programme area, the costs will be eligible as long as these were foreseen in the application form.



- In the case of travels outside the Programme area and not clearly stated in the approved Application Form, permission must be given by the JTS before the date of the travel.
Without this authorization, the cost will be deemed ineligible.

Please, refer to Section 4.3.4 of the Programme Manual for access to eligibility requirements and general information relating to Budget Line 4.

Control requirements:

The FLC is required to check:

- if 3 quotations have been requested
- if the expenditure is supported by an invoice (or other documents of probative value), travel tickets and a proof of payment
- the JTS permission for travel outside the Programme area (if applicable)
- if the principle of "most economic way of transport" is respected
- if the link between the travel and the project activities is well evidenced (invitation to meeting, agenda, minutes, registration/participants lists, ...)
- for travels by car, the documentation relating to the car power, the maintenance, the insurance, the itinerary followed (number of kilometres/miles)... This must be made available in order to verify the cost per kilometre/mile and therefore the cost claimed.

Questions guiding the FLC in checking the requirements are available:

- in Section 5.4 of the administrative control checklist
- in Section 5.4 in the case of an on-the-spot administrative check

8.6. Budget line 5 – Equipment

Please, refer to Section 4.3.5 of the Programme Manual to access to:

- the types of eligible equipment
- the eligibility requirements relating to this Budget Line for
 - o newly purchased equipment (depreciable and not depreciable equipment / equipment fully or partially used for a project)
 - o equipment already in use in the organisation
 - o second hand equipment
 - o resale of an equipment

Control requirements:

For newly purchased equipment, the FLC is to check the following points:

- the essentiality of the purchased equipment for the project;
- the equipment is not purchased from any other financial instrument (EU, national, regional or other grant)



- the costs are reasonable according to the standard rates in the country where the contracting project partner is located;
- Community and national public procurement rules are complied with prior to contracting or that 3 quotations have been requested (if below the lowest applicable threshold for public procurement); Please refer to the Annex 8 of the Programme Manual for more information on public procurement; questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- costs are budgeted in the Application Form;
- the basic principles of non-discrimination, transparency and objectivity have been respected;
- all supporting documents is made available (copy of the contract, invoice and proof of payment)
- the EU and Programme requirements on Publicity are respected; questions guiding the FLC in the check are available under
 - o Section 4 of the administrative control checklist
 - o Section 7 of the on-the-spot administrative control checklist
- the asset sinking plan
 - o if it is shorter or equal to the timeframe between the date of purchase of the equipment and the project's end date, the full cost of the equipment is eligible
 - o if it is longer than the timeframe between the date of purchase of the equipment and the project's end date, then, only the depreciation allowance corresponding to each 6-months reporting period is eligible. The FLC is to be provided with the calculation methodology and check if the allowance claimed is correct
- the full or partial use of the equipment for the project purposes
 - o if the equipment is not exclusively used for the project purposes, only a share of the equipment costs can be claimed. The FLC is to obtain the calculation methodology used by the Partner, verify that it is a justifiable and fair methodology and obtain all probative supporting documentation

For equipment already in use in the organization, in-kind contribution in BL5 is not eligible.

For second hand equipment, the conditions stipulated above are still applicable. In addition, the following requirements are to be checked by the FLC:

- statement from the seller of the equipment stating the origin of the equipment and confirming that at no point during the previous seven years it has been purchased with the aid of other financial instrument (EU, national, ...)
- document attesting that the price of the equipment does not exceed its market value and is inferior to the cost of a similar brand new equipment
- document attesting that the equipment has the technical characteristics necessary for the project and complies with applicable norms and standards



For resale of equipment, please refer to Section 4.3.5.4 of the Programme Manual.

Questions guiding the FLC in checking the requirements are available:

- in Section 5.5 of the administrative control checklist
- in Section 5.5 in the case of an on-the-spot administrative check

8.7. Budget line 6 – Investment

This budget line encompasses costs for:

- the purchase of land
- purchase of real estate
- infrastructure work (i.e. hard infrastructure work for physical works and utilities in the public interest)
- the provision of land and/or real estate in the form of in-kind contribution.

Please, refer to Section 4.3.6 of the Programme Manual for more information on the requirements relating to Budget Line 6.

Control requirements:

For the purchase of land and real estate, the FLC is to check:

- Community and national public procurement rules are complied with prior to contracting; Please refer to the Annex 8 of the Programme Manual for more information on public procurement; questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- That no other EU financial instruments contributed to the purchased item in the past
- The price is in line with the market price
- The link between the purchase and the objectives of the co-financed operation
- The existence of a certificate released by an independent evaluator stating that the price does not exceed the market value
- the EU and Programme requirements on Publicity are respected; questions guiding the FLC in the check are available under
 - o Section 4 of the administrative control checklist
 - o Section 7 of the on-the-spot administrative control checklist
 - o Section 2 of the on-the-spot physical control checklist

For infrastructure work, the FLC is to check:

- Feasibility studies, the environmental impact assessment, the planning permission



- Community and national public procurement rules are complied with prior to contracting; Please refer to the Annex 8 of the Programme Manual for more information on public procurement; questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- documents specifying the ownership of land and/or buildings where the works will be carried out may be required as well as proof of commitment to establish and maintain an inventory of all fixed assets acquired, built or improved under the ERDF grant (project's results must be kept unchanged for at least 5 years after the project's end).
- the EU and Programme requirements on Publicity are respected; questions guiding the FLC in the check are available under
 - o Section 4 of the administrative control checklist
 - o Section 7 of the on-the-spot administrative control checklist
 - o Section 2 of the on-the-spot physical control checklist

In order to assess the value of the provision of land and/or real estate in the form of in-kind contribution, the FLC is to check:

- The certification released by an independent evaluator stating that the price does not exceed the market value
- all documents supporting the value of the contribution as defined in the specific Fact Sheet 5 of the Programme Manual;
- the EU and Programme requirements on Publicity are respected; questions guiding the FLC in the check are available under
 - o Section 4 of the administrative control checklist
 - o Section 7 of the on-the-spot administrative control checklist
 - o Section 2 of the on-the-spot physical control checklist

Questions guiding the FLC in checking the BL6 requirements are available:

- in Section 5.6 of the administrative control checklist
- in Section 5.6 in the case of an on-the-spot administrative check
- in the on-the-spot physical control checklist

8.8. Budget line 7 – Validation of expenditure

Control requirements:

In the case of a Decentralised first level control system (United Kingdom, the Netherlands and France), controllers may be internal or external.

In case of an internal controller, the following documentation is to be made available:



- evidence of a clear and transparent separation of functions between the unit the controller works for and the unit involved in the project management must be provided
- a timesheet is to be used in order to record the time spent for the check
- a copy of the pay slip (or other probative document)
- a copy of the labor contract

The FLC being a member of staff of the Partner organization, the requirements are the same than for the costs claimed under BL1 (staff costs).

In case of an external controller, the controller shall be hired according to a contract, in compliance with public procurement rules at EU and national level. Therefore, the following documentation is to be made available:

- Community and national public procurement rules are complied with prior to contracting or that 3 quotations have been requested (if below the lowest applicable threshold for public procurement); Please refer to the Annex 8 of the Programme Manual for more information on public procurement; questions guiding the FLC in checking the public procurement procedure are available under:
 - o Section 3 of the administrative control checklist
 - o Section 3 of the on-the-spot administrative control checklist
- Availability of the hiring contract between the FLC organisation and the Project Partner Organisation
- Proof of the approval of the FLC by the national Central Approval Body
- Invoice and proof of payment

In the case of a Centralised system (Belgium-Flanders), the reimbursement request and the proof of payment are to be made available

Questions guiding the FLC in checking the requirements are available:

- in Section 5.7 of the administrative control checklist

8.9. Other eligibility considerations

8.9.1. Public procurement rules

Whenever public funding is concerned, public tendering rules must be observed and this for all costs, including EC Public Procurement laws and relevant national regulations. These rules are intended to ensure transparent and fair competition within the common market.

A specific guidance on the management of public procurement rules has been developed and is available in Annex 8 "Fact Sheet on public procurement" of the Programme Manual.

Control requirements:

The FLC is required to check if the controlled organization has complied with the procedures defined by the national and European public procurement rules, all calls for tender have been published at the relevant



level according with the procedure applied, rules concerning non-division of contracts have been respected, all received tenders have been evaluated against a list of criteria set in advance, and evidence of the evaluation has been provided through an assessment report which shows the application of those criteria.

Questions guiding the FLC in checking the public procurement procedure are available under:

- Section 3 of the administrative control checklist
- Section 3 of the on-the-spot administrative control checklist

8.9.2. Revenues

According to Article 55 of Regulation (EC) No 1083/2006, in the case of a revenue-generating project the current value of the net revenue must be estimated over a specific reference period. Where it is not possible to estimate the revenue in advance, the revenue generated within 5 years following project closure must be reported to the Joint Technical Secretariat.

A separate budget line for revenue is included in the templates of the application form and the financial progress report.

A specific guidance on the calculation and management of revenues generated by projects has been developed and is available in Annex 12 "Fact-sheet on Revenues" of the Programme Manual. In case the project generates revenues during or after the project implementation, please refer to the instructions provided in Annex 12 of the Programme Manual.

Control requirements:

The FLC is required to check if the controlled organization has benefited from revenues generated by the project, whether this was planned in the application form, correctly reported in the progress report and if any revenues shall be generated after the project implementation through an action plan submitted to the JTS.

Questions guiding the FLC in checking the revenues are available under:

- Section 6 of the administrative control checklist
- Section 6 of the on-the-spot administrative control checklist

8.9.3. Match-funding

Match-funding is the financial contribution provided by partners to match the ERDF grant. The amount of match funding must correspond to at least 50% of the budget at partner and project levels.

Match-funding can be provided by partners in cash and in-kind (further information about the use of in-kind contribution is available in annex 5 of the Programme manual).

Control requirements:

The FLC is required to control if the information of the origin and the real amount of match funding (including the in-kind contribution) is consistent with the application form. The FLC shall ensure that the beneficiary does not receive more match-funding than stated in the Application Form otherwise the amount of ERDF must be proportionally reduced.



Questions guiding the FLC in checking the match-funding are available under:

- Section 2 (questions 5 to 8) of the on-the-spot administrative control checklist

8.9.4. Shared costs

Some projects need to share part of those costs that concern the whole partnership (project web-site, for instance). The practice of sharing common costs is not recommended by the Programme because very complicated and heavy to put in place (one expenditure paid in a given Member State and shared with partners located in other Member States has to comply with the national eligibility rules of all Member States involved and with the European and Programme rules about traceability and audit trail).

However, in the event of shared costs cannot be avoided, partners are required to follow the procedure detailed in Annex 7 of the Programme Manual.

The shared costs must be in line with the information indicated in the shared costs tables of each partner in the application form. In addition, the costs must be justifiable (explicitly mentioned in the Application Form, in the partnership agreement or other official agreement).

As highlighted in the Programme Manual, it is recommended to limit the shared costs to the costs falling within the scope of the budget line 3.

Control requirements:

FLC shall check the eligibility of the claimed costs as well as the compliance with the Programme procedure for shared costs as indicated in Annex 7 of the Programme Manual.

Questions guiding the FLC in checking shared costs are available under:

- Section 1.3 (question 4) of the administrative control checklist

8.9.5. Publicity

All projects must comply with the publicity and information requirements laid down in the Commission Regulation (EC) No 1828/2006 (Articles 8, 9 and Annex I) and Commission Regulation (EC) No 846/2009. These Regulations can be downloaded from the Programme's web site: <http://www.interreg4a-2mers.eu/monitoring/communication-guidance/en>. Additional information is also available in the Programme Manual

All communication materials that have been funded through the project shall respect EU communication requirements to be considered as eligible costs.

Control requirements:

The FLC is required to check if the controlled organisation has complied with all relevant rules on publicity and information as set out in the EU regulations and in the Programme Manual (Chapter 7).



Questions guiding the FLC in checking Publicity requirements are available under

- Section 4 of the administrative control checklist
- Section 7 of the on-the-spot administrative control checklist
- Section 2 of the on-the-spot physical control checklist

8.9.6. State aids/de minimis rule

For further information, a specific fact sheet on state aid has been developed in the Programme Manual in Annex 9.

Control requirements:

The FLC is required to check if the controlled organisation has complied with state aid rules and thresholds.

Questions guiding the FLC in checking State aid and de minimis rule requirements are available under

- Section 4 (question 3) of the administrative control checklist

8.9.7. VAT

VAT does not constitute eligible expenditure unless it is genuinely and definitely borne by the partner's organisation and thus cannot be recovered. VAT which is recoverable by whatever means cannot be considered as eligible.

In the Application Form, partners' organisations are asked to provide a confirmation about their VAT status: if they are VAT payers (and cannot thus recover VAT by any means) or they are not VAT payers (and thus they can recover VAT). In reporting, Partner's organisations must mention their VAT status. Each First Level Controller shall check whether the VAT status is correct and the claimed expenditure complies with the VAT status.

Control requirements:

The FLC is required to check if the controlled organisation is liable in VAT, recoverable VAT has been deducted in order to avoid double funding and the VAT status has not changed during the project lifetime.

Questions guiding the FLC in checking VAT requirements are available under

- Section 1.2 (questions 6 to 8) of the administrative control checklist

8.9.8. Exchange rate

All expenditure incurred by Lead Partner and Project Partners must be reported in EURO. This rule applies also to those partners that are based in Member States not belonging to the EURO-zone.

All financial progress reports submitted by the project to the JTS must be undertaken in EURO.

Amounts of expenditure incurred in national currency different from EURO must be converted into EURO using the monthly accounting exchange rate of the European Commission in the month during which the expenditure was registered in the accounts of the project partner. This rate is published electronically by the European Commission each month under:

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



Control requirements:

The FLC is required to check whether the costs have been declared in € and converted with the correct exchange rate.

Questions guiding the FLC in checking the exchange rate requirements are available under
- Section 1.3 (question 3) of the administrative control checklist



9. Most common errors and irregularities identified relating to claimed expenditure

9.1. Most common sources of Errors and Irregularities detected (per Budget Line)

Regarding Budget Line 1: Staff costs

- Staff costs not calculated on the basis of real hourly rate

Regarding Budget Line 2: Direct and Indirect costs

- Non application of the Programme ratio for calculating indirect administration costs
- Programme ratio incorrectly used as the number of FTE is wrong
- Confusion/misunderstanding between direct and indirect costs
- Exchange rate used is not correct
- Recoverable VAT is not excluded

Regarding Budget Line 3: Consultants and Suppliers

- Daily rate for consultants exceeds 800€ (excluding VAT)
- Public procurement procedure is not in line with EU/national/Programme requirements
- Exchange rate is not correct
- Recoverable VAT is not excluded
- Costs are claimed but not foreseen in the approved Application Form

Regarding Budget Line 4: Travel and Accommodation costs

- Supporting documentation is not available (tickets, invoices, proof of payment)
- Costs claimed for travel by car are not sufficiently documented
- Link between the travel and the project activities is not sufficiently demonstrated
- No JTS permission given for travels outside the Programme area

Regarding Budget Line 5: Equipment

- Public procurement procedure is not in line with EU/national/Programme requirements
- Exchange rate is not correct
- Costs are claimed but not foreseen in the approved Application Form
- Mistake in the calculation of the share of the allowance which can be claimed when the equipment is partially used for the project

Regarding Budget Line 6: Investments

- Publicity requirements are not met



9.2. High risk projects and beneficiaries

Some projects or Project Partners are considered as “high risk” according to:

- The size of some project partnership which can be up to 30 Partners
- The typology of the organization of some of the Partners involved
- The typology of activities which are to be implemented (particularly when involving some investment)



10. Audit trail

All the necessary information relating to the implementation of a sound audit trail and to the requirements relating to its checking is provided in Chapter 6 of the Programme Manual.

The obligations are also stated in Article 11 of the Subsidy Contract and Article 4 (2) and (3) of the Partnership Agreement.

