



# FIRST-LEVEL-CONTROL MANUAL

for the

## Community Initiative INTERREG III B – Alpinespace

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## **1 Legal Basis**

Legal basis for the first level control are the following documents:

- the Community Initiative Programme "Alpine Space INTERREG III B" (CIP), approved by the European Commission on 19 December 2001 (Decision number CCI No 2000 RG 16 0 PC 020),
- the Programme Complement, approved by the Monitoring Committee on 14 March 2002,
- the relevant EU regulations, in particular Council Regulation (EC) No 1260/1999, Commission Regulation (EC) No 438/2001, Commission Regulation (EC) 1685/2000, Commission Regulation (EC) No 448/2001 and Commission Regulation (EC) No 1159/2000 and
- the resp. information on first level control provided by the Member States participating in the CIP.

These documents as well as any further information about the programme can be downloaded on the programme website [www.alpinespace.org](http://www.alpinespace.org).

It is expected that the responsible body carrying out the 1<sup>st</sup> level control is familiar with the relevant EU-regulations (esp. Commission Regulation (EC) No. 1685/2000 and Article 4 of Commission Regulation (EC) 438/2001) and the relevant chapter of the CIP and the PC.

## **2 Project Implementation and ERDF-Cofunding within the INTERREG IIIB "Alpinespace"- Programme**

Project applications can be submitted to the Joint Technical Secretariat (JTS) during calls for proposals to be launched at least once a year (for dead-lines for submission see [www.alpinespace.org](http://www.alpinespace.org)). The JTS evaluates these applications in co-operation with the National Contact Points (NCP) and gives an assistance recommendation to the Steering Committee (SC). The SC which is composed of two representatives of each partner state (each from both national and regional level) decides on ERDF-funding (resp. approves or rejects the projects).

Based on this decision the Managing Authority (MA) asks the Lead Partner (LP) of the approved project to conclude a partnership agreement with its Project Partners (PP). This agreement regulates the contribution of all partners to the project and their responsibilities and obligations. After this agreements have been submitted to the MA, the MA concludes a subsidy contract with the LP. The subsidy from funds of the CIP will be awarded to the LP exclusively for the project as described in the application approved by the SC. The approval decision and the application documents it refers to are an integrated part of the subsidy contract. After signing this contract the LP is subject to several obligations and controls.

One obligation is to report continuously on the progress of the project. These progress report consists of an activity (shall inform about the project realisation) and a financial report (shall inform about the financial status and contains all certifications of expenditure) and has to be submitted to the JTS at least once a year.

A pre-condition for the payment of ERDF-funds is the complete and timely handover of these reports.

### **3 The First Level Control (Certification of Expenditure)**

In consultation with the Managing and the Paying Authority the Member States have established financial management and control systems at national level as set out in Art. 4 of Council Regulation (EC) No. 438/2001 (hereinafter called "first level-control").

According to this any expenditure related to a project will be certified by a responsible national authority or private institution authorised to do so (hereinafter called "certifying bodies"), depending on the individual organisation of the first level control in the single Member States.

Before the Subsidy Contract is signed the Member States shall notify the certifying body for the resp. PP and confirm that this body is authorised to carry out the first level control. With this notification the Member State ensures that the certifying body is independent from the project implementation.

Furthermore, the Member States provide adequate information on national requirements for the first level control to any body responsible for giving guidance to project applicants (Joint Technical Secretariat, National Contact Points, etc.).

The certification of expenditure shall confirm

- the delivery of the products and services co-financed,
- the reality and eligibility of expenditure claimed and
- that national and community rules, especially Commission Regulation (EC) 1685/2000, have been respected.

In the framework of this first level control the certifying body shall audit the total cost (i.e. the costs that shall be covered by national and ERDF-funds) of the project part in the respective Member State. The first level control – system installed by the Member States provides for both cases, projects funded by public and private funds and projects funded by private funds only.

To provide a basis for the first level control to take place at national level, it is necessary to break transnational projects down into national project parts including suppliers, service description and cost accounting.

In case of irregularities, first level control procedures have to secure – prior to certifying expenditure – that corrections are carried out by the resp. PP as required. If corrections cannot be made easily or if necessary corrections cause any delay in project implementation and/or any obligations for notification to European Institutions/bodies, first level control procedures have to foresee immediate information of the MA as well as the LP concerned. The same applies if control procedures lead to the necessity of a re-calculation of already disbursed ERDF-interim payments or a recovery of already fully accounted for and disbursed ERDF payments.

It is laid down in the subsidy contract that the LP guarantees vis-à-vis the MA that each project partner enables the certifying body at the resp. national level to audit the proper use of funds as will the LP itself. One of the clauses that have to be included in the partnership agreement between LP and project partners reads that each project partner shall enable the responsible certifying body in the state it is based in to audit the proper use of funds.

The LP collects the certifications of expenditure from all project partners and submits it to the JTS together with the financial report. Before paying out the funds, MA and PA will check proper compliance with the conditions stated in the subsidy contract, the CIP, the relevant EU regulations and decisions. In this respect they may rely on the certifications of expenditure issued by the responsible national authorities/institutions and restrict to plausibility controls. After all checks have been done the MA instructs the PA to transfer the ERDF-funds to the LP according to the subsidy contract and the results of the first level control.

#### **4 Description of the Organisation of the First Level Control in the single Member States**

##### a) Austria:

Depending on the type of national co-funding different “rules” for first level control according to Article 4 of Reg (EC) 438/2001 apply:

- In case national co-funding comes from a public body, first level control will be carried out within the public body itself according to national and EU law. The public body then is liable for ERDF-funds in case of cuts and recourses.
- In case national co-funding comes from a private body, first level control will be carried out in one of the following ways:
  - \* a public body takes over responsibility for first level control even if it is not financially involved in the project. In case of cuts and recourses it is the project partner who is liable; however, in case of bankruptcy or other reasons for non-liability of the project partner it is the public body who takes over the overall liability for ERDF-funds.
  - \* First level control is carried out by private auditors to be chosen by the project partner according to specific requirements defined by the Member State, represented by the Federal Chancellery. The costs for private auditors will be part of the total project costs to be co-funded within INTERREG III B programme. It is then – according to the rules for private auditors – the private auditor who takes over the overall liability for the correctness of operations.

In any case it is the Federal Chancellery, division IV/4 in its responsibility of national programme co-ordination who certifies vis-à-vis the Managing and Paying Authority that the respective public body/ private auditor is authorised to do so.

As regards administrative-internal system audits public bodies are subject to controls of their internal auditing units.

On an administrative-external level audits can be done by the federal court of auditors and on the regional level the regional court of auditors.

b) Germany:

If a project is funded with national public funds all relevant financial controls are carried out by the responsible public body which is funding and managing the national project part according to EU and national law.

If a project is funded with private funds only all relevant financial controls will be carried out by an independent external auditor. Liability of the private body will be secured by providing a bankguarantee covering the amount of ERDF-funds to be managed by the respective private body and lasting until 2012.

As regards administrative-internal system audits the public bodies carrying out the financial control and issuing the certification of expenditure are subject to controls of their internal control units.

On an administrative-external level they are audited by the federal court of auditors on national level and the court of auditors of Bavaria respectively the court of auditors of Baden-Württemberg on regional level.

c) Italy:

In case a project is funded with either National Public Funds and/or Private Funds, all financial controls are carried out by an independent external auditor selected by the Italian Ministry of Infrastructures and Transport-Territorial Development Department, DG European Programme, in accordance with EU Reg. 1260/1999, 438/2001, 448/2001, 1685/2000 and with National Law.

The certification of expenditures is then issued under the responsibility of the Italian Ministry of Infrastructures and Transport-Territorial Development Department, DG European Programme.

The Italian Ministry of Infrastructures and Transport-Territorial Development Department, DG European Programme as responsible authority, is subject to administrative-internal and external audit, in particular, at internal level the controls are carried out by its internal financial office and at external level by the Ministry of Economy and Finance.

d) France:

In France the public authorities which are responsible for the evaluation of projects also carry out the first-level controls (i.e. decentralised state administrations in the Regions).

When the French national contact point (NCP) receives a project application from the JTS for national evaluation, this application is sent to both the Prefecture de region and the Regional Council, according to the geographical location of the main French partner.

The Prefecture de region then formally designates the authority responsible for the national evaluation of the application and informs the JTS, through the NCP, of this designation.

During the implementation phase of an approved project, the authority responsible for the national evaluation carries out the first level controls, by checking that the requirements for an ERFD-co-funding have been satisfied. Furthermore, it will be checked if the payments of national, regional or local public co-financing are confirmed by probative documents.

If all these requirements are satisfied, a certification of expenditure is issued by the responsible authority. It is sent to the French NCP and to the French partner. The French partner then transmits this certificate to the Lead Partner that includes it in the financial report to be submitted to the JTS.

#### e) Non-Member-States

As regards project activities in Non-Member-States the respective National Contact Point of the Non-Member-State concerned will check and notify to the MA via the JTS that the project part in its country has been completed.

#### f) other control mechanisms

In addition to the control mechanisms mentioned in this document MA and PA are subject to audits by the internal control unit of the Government Office of the Land of Salzburg. Furthermore, the Federal Court of Auditors ("Bundesrechnungshof") and the Court of Auditors of the Land of Salzburg ("Landesrechnungshof") are entitled to audit MA and PA.

## **5 Implementation of the First Level Control**

### 5.1 Which documents have to be submitted (by the PP to the responsible national authority)?

It is laid down in Rule No. 2 of Commission Regulation (EC) No 1685/2000 that, as a rule, payments by final beneficiaries shall be supported by receipted invoices. Where this cannot be done (depreciation, contributions in kind and overheads), payments shall be supported by accounting documents of equivalent probative value.

Thus, each Project Partner (PP) has to submit all *invoices* and *vouchers* of all project expenditures that have occurred during the reporting period and that can be objectively and spatially be imputed to the project or about costs that are to be considered similar according to relevant EU-regulation to the responsible national authority for first level control.

### 5.2 What has to be checked?

According to Art. 4 of Commission Regulation (EC) No 438/2001 the first level control has to ensure that the delivery of the products and services co-financed and the real

ity of expenditure claimed is verified. In addition to this it shall ensure compliance with the terms of the relevant Commission decision under Article 28 of Regulation (EC) No 1260/1999 and with applicable national and Community rules on, in particular, the eligibility of expenditure, public procurement, State aid, protection of the environment and equality of opportunity. Therefore the above-mentioned regulation and the subsidy contract foresee verifications of individual operations on the spot.

The PP is obliged to support the responsible auditing bodies resp. the LP in that way that he

- retain all files, documents and data about the project at least until 31 December 2012, either in original or as certified copies on commonly used data media safely and orderly,
- enable the responsible auditing bodies of the European Union and the auditing bodies of the state it is based in to audit the proper use of funds,
- give these authorities any information about the project they request,
- give them access to the accounting books and accounting documents and other documentation related to the project, whereby the auditing bodies decide on this relation, at least until 31 December 2012,
- give them access to their business premises during the ordinary business hours and also beyond these hours by arrangement and allow them to carry out measurements and tests related to the project at least until 31 December 2012,
- provide the LP with any information needed related to such an audit without any delay.

The “check on the spot” purposes to ensure the proper implementation of the project and the physical existence of the co-financed objects. Where any physical or administrative verifications are not exhaustive, but performed on a sample of operations, the records shall identify the operations selected and describe the sampling method.

It has to be considered that 100% of the project costs indicated for the resp. PP in table 8.2 of the application form have to be covered by the first level control independent from the co-funding rate. Therefore also expenses without any subsidy claimed have to be certified.

Furthermore it has to be checked whether the invoicing expenses are correct and eligible.

### 5.3 What kind of expenditure is eligible?

The eligibility of costs is regulated by the Commission Regulation (EC) No 1685/2000 of July 28<sup>th</sup>, 2000 laying down detailed rules for the implementation of the Council Regulation (EC) No 1260/1999, as regards eligibility of expenditures of operations co-financed by the Structural Funds.

Expenditure may not be considered eligible for a contribution from the ERDF if it has actually been paid by the final beneficiary before the date on which the Operational Programme has been accepted by the European Commission (December, 21<sup>st</sup> 2000). This date constitutes the *starting point of the expenditure eligibility*. As a general rule, for expenditure occurring after this date, eligibility starts with the date indicated in the Subsidy Contract and ends with the date of project finalization.

Projects selected for co-financing through other Community financial instruments such as the 5<sup>th</sup> Framework Programme for research and technological development, Culture 2000, Media II, Socrates, Leonardo da Vinci, Tempus etc. are not eligible for assistance under this Initiative.

All operations to be funded by the programme should always be related to a specific measure in the programme according to relevant EU-regulations. As the CIP states, ERDF assistance will be granted with reference to the following cost categories related to the operations:

- permanent and temporary staff,
- external experts and consultants,
- travel and accommodation,
- conferences and seminar expenses,
- infrastructure investment,
- (technical office) equipment,
- information and publicity,
- general expenses
- other costs (bank fees, audit costs)

For all these expenditure the main precondition for eligibility is the compliance with the principles of efficiency, economy, expediency and legality of all actions.

#### 5.3.1 Permanent and temporary staff

As regards staff costs the MA/PA recommends strictly to follow the following guidelines:

- Only staff costs that are usual in the market of the respective Member State are eligible. The certifying body shall check this.
- The staff costs have to be clearly deducible of the accounting data.
- The staff has to keep records about its contribution to the project. The description of the work done should be detailed and specified. The value of that work has to be determined taking into account the amount of time spent and the normal hourly and daily rate for the work carried out. This records have to be countersigned by the project-responsible.

#### 5.3.2 External experts and consultants

Only fees that are usual in the market of the respective Member State and that don't exceed the limit of 1.300 € per day are eligible.

#### 5.3.3 Travel and accommodation

The following rules regarding the eligibility of expenditure occurring from travel and accommodation should be considered:

- As a general rule the most economic way of transport has to be used.
- Airfare is eligible from a mileage of 400 km and under the condition of a economy class ticket.
- Accommodation costs must not exceed 120 € / day.
- Daily allowances shall not exceed the usual daily allowances in the public authorities of the respective Member State.



#### 5.3.4 Conferences and seminars

Concerning the eligibility of conferences and seminars – expenditure the MA/PA recommends to make use of the premises that are available for free. If such premises are not available, the cheapest possibility shall be chosen.

#### 5.3.5 Infrastructure investment

The INTERREG III Guidelines, Point 14, provides that "key areas for infrastructure investments must also be identified. Owing to the limited financial resources, only small-scale infrastructure can be taken into consideration. Motorway, main road construction and other similar infrastructures are excluded. The operation selected must also demonstrate concrete, visible and innovative results. In the case of problems of water resources management caused by flooding or drought, INTERREG III funding can be used on an exceptional basis for infrastructure investment, taking into account the limited financial resources." Furthermore, it is possible to include relevant infrastructure investments in the project if they are financed by other funding sources.

In addition to this it has to be considered that infrastructure investments are not eligible under measure 1.1 and 2.1 and that competition and public procurement law have to be observed.

Operating costs for infrastructure investments are not eligible (see INTERREG III Guidelines).

#### 5.3.6 Office equipment

Only expenditure strictly related to the project will be eligible. Therefore mobile phones and organizer won't be co-funded.

Under the terms of Rule No 1.5. of Commission Regulation (EC) No 1685/2000 the costs of *depreciation* of real estate or equipment for which there is a direct link with the objectives of the operation is eligible expenditure, provided that:

- national or Community grants have not contributed towards the purchase of such real estate or equipment;
- the depreciation cost is calculated in accordance with the relevant accountancy rules; and
- the costs relates exclusively to the period of co-financing of the operation in question.

#### 5.3.7 Information and Publicity

Information and Publicity activities are eligible if they are in accordance with the Commission Regulation (EC) No 1159/2000 and the Information and Publicity plan and therefore confirmed by the Information Officer.

#### 5.3.8 General Expenses

As regards overheads (e.g. running costs) it is laid down in Rule No 1.7. of Commission Regulation (EC) No 1685/2000 that these expenditure is eligible provided that

they are based on real costs which relate to the implementation of the operation co-financed and are allocated pro rata to the operation, according to a duly justified fair and equitable method.

Only rental charges that are usual in the market of the respective Member State are eligible.

### 5.3.9 Other Costs

*VAT and other taxes and charges* do not constitute eligible expenditure except where it is genuinely and definitively born by the final beneficiary. VAT that is recoverable cannot be considered eligible, even if it is not actually recovered by the final beneficiary.

*Debit interest, charges for financial transactions, foreign exchange commissions and losses, and other purely financial expenses* are not eligible for co-financing by the Structural Funds (see Rule No.3.1 of the above-mentioned regulation). This includes expenditure arising from bank transfer (for example those that emerge from payments between LP and PP).

Where co-financing by the Structural Funds requires the opening of a separate account or accounts (for implementing an operation), *the bank charges for opening and administering the accounts*, are eligible.

*Legal fees for advice, notary fees, the costs of technical or financial expertise, and accountancy or audit costs* are eligible if they are directly linked to the operation and are necessary for its preparation or implementation or, in the case of accounting or audit costs, if they relate to requirements by the managing authority (e.g. first level control).

*Costs of guarantees provided by a bank or other financial institution* are eligible to the extent that the guarantees are required by national or Community legislation or in the Commission Decision approving the assistance. Therefore the bank guarantee the MA can ask for if the LP is a private institution is eligible.

*Fines, financial penalties and expenses of litigation* are not eligible.

According to the INTERREG III Guideline “*one-off*” *cultural events* (like exhibitions and festivals) are not eligible. Regular events can be supported only during the start-up phase. The guideline also states that the aspects supported of such events will be mainly organizational rather than artistic. Therefore the *payment of artists* is not eligible.

### 5.3.10 Contribution in kind

In respect of the definition given by the Commission, contribution in kind is considered as any contribution of work for which no invoices can be provided for.

According to Rule No 1.6. of Commission Regulation (EC) No 1685/2000 *contributions in kind* are eligible expenditure provided that:

- they consist in the provision of land or real estate, equipment or materials, research or professional activity, or unpaid voluntary work;
- they are not made in respect of financial engineering measures referred to in Rules 8, 9, 10 of the above-mentioned Regulation;
- their value can be independently assessed and audited;
- in the case of the provision of land or real estate, the value is certified by an independent qualified valuer or authorized official body;
- in the case of unpaid voluntary work, the value of that work is determined taking into account the amount of time spent and the normal hourly and daily rate for the work carried out;
- the provisions of Rules 4, 5 and 6 of the above-mentioned Regulation are complied with where applicable.

The total of this contribution in kind of partners coming from Member States must not exceed more than 15% of the total project budget.

#### 5.4 How to handle revenues

Under the terms of Rule No 2.2. of Commission Regulation (EC) No 1685/2000, revenue represents income which reduces the amount of co-financing under the Structural Funds that is required for the operation in question. Before the Structural Funds' participation is calculated and no later than at the time of the closure of the assistance, they are deducted from the operation's eligible expenditure in their entirety or pro rata, depending on whether they were generated entirely or only in part by the co-financed operation.

Examples for such revenue could be attendance fees for workshops and sales revenue of brochures.

Each Project Partner has to indicate any revenue in the financial part of the progress report and support this by accounting documents.

#### 5.5 What has to be done after finishing the control?

After the examination is concluded the responsible body fills in the certification of expenditure (see attached model) and returns it together with the other documents to the project partner. The checked documents have to be cancelled in order to avoid a resubmission.

The recording of the first level control is required. The records shall state the work done, the results of the control and the reasons for the decision about the eligibility of the checked expenditure. This should guarantee the comprehensibility of the operation for people who haven't been involved in the first level control.

## ATTACHEMENT: Certification of Expenditure



### CERTIFICATION OF EXPENDITURE

This certificate is issued by

\_\_\_\_\_  
(national public authority or private institution authorised to carry out the first level control in  
\_\_\_\_\_  
(name of the respective EU-member state))

for the benefit of the Community Initiative Programme "Interreg III B Alpine Space" regarding the handling of the subsidy approved under the before-mentioned programme.

\_\_\_\_\_  
(name and address of project partner that submitted the invoices and accounting documents)

\_\_\_\_\_  
(project name and reference number)

We have examined the attached documents supporting the total project costs of the project partner indicated above (i.e. costs that shall be funded by national and ERDF-funds) incurred in the accounting period \_\_\_\_\_ (start date – end date of period) amounting to \_\_\_\_\_ € (amount of total project costs of the project partner indicated above).

Based on our examination, we declare that

1. the documents submitted are complete and have been checked for accuracy in contents and accounting terms,
2. the products and services to be delivered by the above-mentioned project partner have been delivered,
3. the expenditure claimed has been paid and is supported by receipted invoices or accounting documents of equivalent probative value,
4. the project complies with the subsidy contract and the applicable national and Community rules, in particular as regards public procurement, State aid, protection of the environment and equality of opportunity.
5. the eligible expenditure amounts to \_\_\_\_\_ € (expenditure that has been proved and found eligible).
6. the national public co-funding amounting to \_\_\_\_\_ € has been paid out (if national public co-funding has not been paid out until now please fill in "0" and consider the instruction below).
7. The auditing authority/institution mentioned above is independent from the project implementation.

(If any of the points listed above is not fulfilled or not relevant (point 6) the deviation has to be identified and commented on in an additional sheet that has to be attached to this certification and also bear the legally binding signature as requested below).

Place, date

name and function of representative of the authority/institution indicated above  
Seal/stamp