



**GUIDELINES**  
**FOR FIRST LEVEL CONTROL**  
**on CBC Programmes, co-financed by IPA**  
**BULGARIA - SERBIA**  
**BULGARIA - MACEDONIA**  
**BULGARIA - TURKEY**

Version*	Date:	Notes
1.1.	May, 2011	Final approved version, valid for BG FLC only
2.2.	February, 2012	Minor updates - clarifications on adjacent area, Financial Report added to Invoice Report, introduced Checklists for procurement, valid for BG FLC only
3.3.	August 2012	Major update, valid for all IPA Partnering Countries
Approved by:	Nikolay Nankov, Head of Managing Authority	Signature:

*\*History of modifications (insert rows if necessary)*



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### NOTES

Annex 1	Certificate for validation of expenditures with annexes
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Annex 4	Irregularity Notification Form



## List of Abbreviations used:

ACRONYM	ENGLISH
AA	Audit Authority
BG-MK (or MK)	Bulgaria –Macedonia Cross-Border Cooperation Programme
BG-RS (or RS)	Bulgaria - Serbia Cross-Border Cooperation Programme
BG-TR (or TR)	Bulgaria – Turkey Cross-Border Cooperation Programme
CA	Certifying Authority
CC	Candidate Country
CBC	Cross-Border Cooperation
CfP	Call for Proposals
DG TCM	General Directorate “Territorial Cooperation Management”, Bulgaria (Managing Authority)
CVE	Certificate for validation of expenditures
EU	European Union
FA	Financing Agreement
FLC	First Level Control
GfA	Guidelines for Applicants
IPA	Instrument for Pre-accession Assistance
JMC	Joint Monitoring Committee
JTS	Joint Technical Secretariat
MA	Managing Authority
MRDPW	Ministry of Regional Development and Public Works, Bulgaria
MS	Member State of the European Union
MoU	Memorandum of Understanding
NA	National Authority
OP	Operational Programme
PCC	Potential Candidate Country
TA	Technical Assistance

## Glossary of Terms

<b>Managing Authority</b> [MA]	The institution (Ministry, division within the Ministry, independent structure) in a EU Member State, which is responsible for the overall management of the IPA Cross-Border Cooperation Programmes with shared management.
<b>National Authority</b> [NA]	The institution responsible for the coordination of the programme management in the partner (non-EU member) state and for setting up the control system in order to validate the expenditures at national level and ensuring co-financing.
<b>Joint Technical Secretariat</b> [JTS]	A structure assisting the Managing Authority, National Authority, the Joint Monitoring Committee, and, when necessary, the Audit Authority and the Certification Authority related to the discharge of their duties regarding the implementation of the Programme. The JTS is in charge with the day-to-day implementation of the Programme and acts as a liaison between the authorities managing and implementing the programme and the beneficiaries. The headquarters of the JTS for the respective IPA CBC programme are located in the relevant EU Member States, while ‘antennae’ offices are established on the partner country territory across the respective CBC regions.
<b>First Level Controller</b> [FLC-er]	Officially nominated person, who is responsible for verifying the legality and regularity of the expenditure declared by each project partner participating in approved IPA CBC project.
<b>Certificate for Validation of</b>	The central output of the controller’s work. It validates the overall correctness of the project’s use of all funds (IPA and national co-financing) spent by the project partners.

**Expenditures [CVE]**

The CVE must be free from any conditions or added notes that limit the validity, strength or scope of the controller's declaration. By signing the CVE, the Controller is verifying the expenditures requested for reimbursement and declares the proper use of funds.

**FLC Report (also  
Control Report)**

Usually complementing the CVE, containing the main findings and technical information related to non-verified expenditures and irregularities suspected.

**and Checklist**

This is the most commonly used instrument for performing control checks. It is an internal document, listing the procedural steps to be undertaken (in most cases – consecutively).

After completion of each step or check, the compliance is marked with a 'tick-mark' ["yes", "no" or "not applicable"]. Comments shall be provided if there is non-compliance, or appropriate action shall be recommended or taken to ensure it. Checklists' templates try to cover most of the possible cases in a procedure and sometimes more than one procedure, therefore some of its parts might be considered not applicable for certain checks.

Checklists, being also part of the project documentation and audit trail, should be kept by the Controllers in the respective project file.



## 1. PURPOSE OF THE GUIDELINES FOR THE FLC

The present **Guidelines** are developed at programme level, in order to ensure the common understanding of the rules and the requirements for control. Common methodological approach is provided to perform the verification of expenditure of the Project Partners in a harmonized way in each Participating Country.

They are intended to support and facilitate the work of the Controllers and are based on the general rules of eligibility of expenditure, set in the programming documents and guidelines for applicants in the Cross-border Cooperation programmes co-financed by IPA. Each national Controller is then applying the requirements of the respective national legislation along the principle **“the stricter rule should apply”**.

The Control Guidelines represent a selection of all control related issues laid down in different programme level documents and legislation listed under *Chapter 2 - Legal basis*. Besides these minimum requirements further programme level rules connected to control activities have been specified in order to implement the programme along a single set of rules.

The obligatory templates to be used by the Controllers are included in the present Guidelines.

This document was approved by the programme implementing bodies with national level responsibilities, that is, the Managing Authority in Bulgaria (Ministry of Regional Development and Public Works) and the National Authorities in the FYR Macedonia (Ministry of Local Self-Government), Serbia (Serbian European Integration Office) and Turkey (Ministry for EU Affairs).

## 2. LEGAL BASIS

### 2.1 EC Regulations

The main EC regulations relevant for the management of the Instrument for Pre- Accession Assistance (IPA) are as follows:

- Council Regulation (EC) No. 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA);
- Commission Regulation (EC) No. 718/2007 of 12 June 2007 implementing Council Regulation (EC) No. 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA).
- Commission Regulation (EU) No. 80/2010 of 28 January 2010 amending Regulation (EC) No. 718/2007 of 12 June 2007, implementing Council Regulation (EC) No. 1085/2006 establishing an Instrument for Pre-Accession Assistance;
- Regulation (EU) No. 540/2010 of the European Parliament and of the Council of 16 June 2010 amending Council Regulation (EC) No. 1085/2006 establishing an Instrument for Pre-Accession Assistance (IPA)
- Commission Decision C(2007) 2034 on the rules and procedures applicable to service, supply and work contracts financed by the general budget of the European Communities for the purposes of co-operation with third countries, with the exclusion of Section II.8.2



The articles of the above-mentioned EC regulations relevant for the setting up of the control system and for the verification of expenditure are as follows:

Reference to regulation (IPA)	Requirement
Art. 108(1) of Regulation (EC) 718/2007	Controller is designated by the Participating Country
Art. 108(1) of Regulation (EC) 718/2007	Control system is set up by the Participating Country
Art. 101(a) of Regulation (EC) 718/2007	The functions of the bodies involved in control are clearly defined
Art. 101(b) of Regulation (EC) 718/2007	Separation of functions is realized
Art. 101(b) of Regulation (EC) 718/2007	Independence of the controllers is ensured ( <i>arrangements on the independence / avoiding conflict of interest of the controllers</i> )
Art. 28(2)(j) of Regulation (EC) 718/2007	Verifications carried out by the Controller(s) cover the administrative, financial, technical, physical aspects of the operations (as appropriate)
Art. 28(2)(j) of Regulation (EC) 718/2007	Verifications performed by the Controller(s) ensure that
	– the expenditure declared by the partners is real (i. e. has actually been incurred)
	– the products and services have been delivered
	– the payment requests by the final beneficiary are correct
	– the operations and expenditure comply with the relevant Community and national legislation/rules
Art. 108(2) of Regulation (EC) 718/2007	Expenditure is validated by the Controllers within 3 months from the date of its submission to them

The EC regulations relevant for the **eligibility of expenditure**, are as follows:

- Art. 34 of Regulation (EC) 718/2007 (eligible expenditure)
- Art. 89 of Regulation (EC) 718/2007 (eligible expenditure)
- Art. 96 (4) of Regulation (EC) 718/2007 (responsibility of the beneficiary)
- Art. 97 (1) of Regulation (EC) 718/2007 (adjacent rule)

The following EC regulations should also be applied during the verification of expenditure:

- Art. 121 of Regulation (EC) 718/2007, (Public procurement)
- Art. 90 (6) of Regulation (EC) 718/2007, (State Aid)



- Preamble (16) of Regulation (EC) 718/2007, and Article (62) and (63) of Regulation (EC) 718/2007, (Publicity)
- Preamble (13) of Regulation (EC) 1085/2006, Preamble (6) of Regulation (EC) 718/2007, (Gender equality, Sustainable development)
- Art. 34 of Regulation (EC) 718/2007, (Generation of revenue)

All expenditure has to be in line with the EC regulations and the relevant national rules and legislation. The list of regulations is not exhaustive, rules and regulations may be amended during the programme implementation period.

## 2.2 Programme level documents

- IPA Cross-Border Cooperation Programme Bulgaria - Serbia, approved by the European Commission on 25.03.2008 with programme number C (2008) 1058;
- IPA Cross-Border Cooperation Programme Bulgaria - Turkey, approved by the European Commission on 20.12.2007 with programme number C (2007) 6477;
- IPA Cross Border Cooperation Programme Bulgaria - Macedonia, approved by the European Commission on 14.12.2007 with programme number C (2007) 6298.
- Respective CfP Guidelines for Applicants, Q&A on eligibility of expenditure
- Project Implementation Manual, available at programmes' Websites
- Present FLC Guidelines, available at programmes' Websites
- Practical Guide for contract procedures for EC external actions (PRAG) – current version from January 2012, available at <http://ec.europa.eu/europeaid/eprag>
- Communications and Visibility Manual for EU External Actions, available at [http://ec.europa.eu/europeaid/work/visibility/index\\_en.htm](http://ec.europa.eu/europeaid/work/visibility/index_en.htm)

## 2.3 National Legislation and Rules

### 2.3.1. Republic of Bulgaria

- Accountancy Act, VAT Act, Rules for its implementation, the Social Security Act and other legislation relating to the scope of the inspection and control;
- Decree 221/11.09.2009, published in State Gazette 75/18.09.2009, "Detailed Rules for the eligibility of expenditure under the program for cross-border cooperation between Bulgaria and Serbia, funded by the IPA for the period 2007 - 2013;
- Decree 275/23.11.2009, published in the State Gazette 95/01.12.2009, "Detailed Rules for the eligibility of expenditure under the program for cross-border cooperation between Bulgaria and Turkey, funded by the IPA for the period 2007 - 2013
- Decree 222/11.09.2009, published in the State Gazette 75/18.09.2009, "Detailed Rules for the eligibility of expenditure under the program for cross-border cooperation between Bulgaria and Macedonia, funded by the IPA for the period 2007 - 2013

### 2.3.2. Serbia

- Law on ratification of the Framework Agreement between the Government of Serbia and the European Commission on the rules for cooperation related to the financial support under IPA, ratified 26.12.2007, (State Gazette 124/07)
- Law on VAT
- Rules for VAT Exemption



- Labour Law
- Law on Contracts and Obligations
- Law on State Servants
- Ordinance of the Government of Serbia on reimbursement of costs for civil servants and appointees (regulating method for calculation and payment of per diems for in-country and abroad travel)
- Ordinance of the Government of Serbia for Nomination of the National Authority
- Financing Agreement between Republic of Serbia and the Commission of European Communities signed on 27.03.2009

### **2.3.3. Republic of Turkey**

- Framework Agreement between Turkey and the Commission of the European Communities on 16 May 2008
- Prime Ministry Circular No. 2011/15 TR
- Financing Agreements signed between Turkey and the European Commission
- Law on VAT
- Rules for Vat Exemption (Article 26 of IPA Framework Agreement signed between Turkey and EU on July 11, 2007.
- Labour Law
- Social Security Law
- Turkish Law of Obligations

### **2.3.4. Republic of Macedonia**

- Memorandum of Understanding between the Ministry of Local Self-Government and Ministry for Regional Development and Public Works
- Law on VAT
- Law on Trade Enterprises
- Rulebook on the Implementation of the Value Added Tax (VAT Rulebook)
- Profit Tax Law of the Republic of Macedonia.
- Law for Accountancy for Budgets and Budget Beneficiaries
- Law on Accounting Records of the Non-profit Organizations
- Financing Agreement between the Delegation of the European Union to the Republic of Macedonia and the Government of the Republic of Macedonia
- Law on Public Administrations
- Law on State Servants
- Labor Relations Act
- Law on Trade Enterprises

In case of conflict between the above programmes' rules and the national legislation, the stricter rule shall apply.

## **3. DESCRIPTION OF THE PROCESS OF FLC**

### **3.1. General description of the systems for FLC in the partner countries**





#### 3.1.1. FLC in Bulgaria

The Bulgarian FLC system is decentralized. The Controllers are employed as freelance contractors with a framework contract, selected through regular calls and included in a list of Controllers for ETC programmes (currently 72 Controllers under a total of 10 ETC and CBC programmes).

The designation of Controllers is done in accordance with the Internal Rules for Selection and Designation of Controllers. Following the procedure for selection and designation of a Controller a specific contract is signed for performing FLC of the respective PP and reporting period. The essential differences are that the BG Controllers always perform their duties on-the-spot at the location of the PP and cannot be the same Controller for the same PP for another reporting period.

#### 3.1.2. FLC in Serbia

The Serbian FLC system is centralized. The FLC unit (comprising currently 14 Controllers and Head of Unit) is located in the Ministry of Finance in Belgrade. Currently the unit is financed by an EU grant, but from October 2012 it is expected that 12 of the Controllers will become civil servants complemented by a few ones on technical assistance contracts. They are covering a total of 5 CBC and transnational programmes. The FLC Unit operates within the procedures of an internal FLC Manual. The mode which is followed is that a Controller is selected for the respective PP for the entire duration of the project and on-the-spot check is performed at least once in the project's lifetime.

#### 3.1.3. FLC in Turkey

The Turkish FLC system is decentralized. The Controllers are employed as freelance contractors with a framework contract, selected through regular calls and included in a list of Controllers for Bulgaria-Turkey IPA Cross Border Cooperation Programme (currently 5 Controllers).

The designation of Controllers is done in accordance with the general selection rules as specified in PRAG. Following the procedure for selection and designation of a Controller a specific contract is signed for performing FLC of the respective PP and reporting period.

#### 3.1.4. FLC in Macedonia

The Macedonian FLC system is decentralized. The Controllers are employed as freelance contractors with a framework contract, selected through regular calls and included in a list of Controllers for this Programme (currently 6 Controllers).

The designation of Controllers is done in accordance with the Methodology for Selection and Designation of Controllers. Following the procedure for selection and designation of a Controller an Engagement contract is signed for performing FLC of the projects financed under respective Call for Proposal. After, a Designation Certificate is issued by the MoLSG. When the verification is done, and the needed correct reports and documents are issued by the Controller, and after the payment is done by the MA to the LP/PP, MoLSG issues a Decision for payment of the Controllers.

Contact details of FLC:



Partner Country:	Address:	Contact Person details:
Bulgaria	DG Territorial Cooperation Management (CBC MA), MRDPW, 17-19 Kiril i Metodiy Str., 1202 Sofia, Bulgaria	Attn.: Ms. Maria Duzova –Director General Tel.: +35929405487 Fax: +35929870737 E-mail: <a href="mailto:MDuzova@mrrb.government.bg">MDuzova@mrrb.government.bg</a>
Serbia	Group of Controllers, Sector for Contracting and Financing of EU Funded Projects (CFCU), Ministry of Finance 20, Kneza Milosa.Street 11000 Belgrade, Serbia	Attn.: Mr. Dragan Popovic - Head of FLC for CBC Programs Tel.: + 381113642791 Fax: + 381113642787 E-mail: <a href="mailto:dragan.popovic@mfin.gov.rs">dragan.popovic@mfin.gov.rs</a>
Turkey	Ministry for EU Affairs Directorate for Financial Cooperation Cross-border Cooperation and Multi-beneficiary Programmes Ankara, Turkey	Şebnem Sözer Tel: +90-312-218 13 72 Fax: +90-312-218 14 89 e-mail: <a href="mailto:ssozer@ab.gov.tr">ssozer@ab.gov.tr</a>
Macedonia	Department for European Union, Ministry for Local Self Government, Bul. Mito Hadzivasilev Jasmin No,50, 1000 Skopje, R.Macedonia	Attn.: Ms.Nita Krliu– Acting Head of Department for European Union Tel.: + 389 3253 950 Fax: + 389 3253 920 e-mail: <a href="mailto:nita.krliu@mls.gov.mk">nita.krliu@mls.gov.mk</a>

### 3.2. General description of the process of control

According to Art. 108(2) of Regulation (EC) 718/2007 each Participating Country shall ensure that the expenditure can be validated by the Controllers within a period of three months following its submission to the Controllers.

For the three IPA programmes, the above three months have to be calculated from the end date of each reporting period until the deadline for the submission of the Request for payment by the Lead Partners to the MA.

The Controllers shall consider the reporting deadlines set for the Lead Partners and shall verify the expenditure of all Project Partners (including the LP) in due time in order to ensure that the Lead Partners can include the validated expenditure in the aggregated Request for payment

#### **The verification process is as follows:**

- Preparation and submission of Request for FLC (RFLC) by the **Lead Partner** (after



consultation between all partners) to the MA;

*Note: Additionally the LP has the obligation to submit Progress Reports to JTS/JTS Antennae according to the terms of their Subsidy Contracts*

- MA sends the RFLC to the NA and based on the RFLC, the MA/NA starts their respective FLC assignment procedures. The procedure results in ‘Designation Certificate’ (DC) or equivalent document issued by MA/NA/FLC to the respective Controller for the Project Partner in question and the conclusion of an assignment contract with the Controller (as applicable, depending on the specific provisions in each Participating Country).
- Verification of expenditure by the respective **Controller**;
- Preparation and submission of the aggregated Request for payment for the whole project by the **Lead Partner** to the MA.

As a general rule, the LP has to submit the Request for FLC and aggregated Request for payment on a 6 month basis measured from the start of the project implementation. In exceptional cases as described in the Subsidy contract the LP may submit Request for FLC and Request for payment on quarterly basis measured from the start of the project implementation. For the projects from the first calls for proposals under the programmes the LP has to submit the Request for FLC and aggregated Request for payment on a quarterly basis measured from the start of the project implementation. Preparation costs, which were specified in the approved Application Form, part of the Subsidy Contract, have to be included only in the Invoice report for the first reporting period submitted to FLC, and correspondingly in the first Request for payment.

Additional deadlines may be set by the Managing Authority (or by National Authority with a prior approval by the MA), in order to avoid decommitment of Community Funds at programme level. Additional deadlines may be set explicitly in the Subsidy Contract or communicated in advance to the Lead Partners concerned.

The specific procedures for FLC for each Participating Country are listed below:

### 3.2.1. Bulgaria:

No.	Action	Document	Responsible	Time
1	Prepare and send Request for FLC to MA	Request for FLC (Annex from PIM)	LP, after consultation with PPs	5 calendar days from the end of the reporting period
2	Selection and designation of Controller	Invitation by E-mail, Request for FLC attached, Declarations from Controller, Certificate for designation, Contract (templates in the Internal Rules)	FLC Coordinator, ODLI Dept., Controller	20 calendar days from receipt of Request for FLC



3	FLC on-the-spot	CVE and Annexes (Annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	30 calendar days from signature of Contract
4	Controller issues 3 original copies of the CVE and Annexes (for LP, MA, FLC), fills in 3 original copies of the Invoice report and Financial report <sup>1</sup> (for LP, MA, FLC) and 2 original copies of the FLC Report & Checklist (for MA, FLC) and if applicable - Checklist/s for conducted procurement procedures <sup>2</sup> ; Validates with a stamp beneficiary's Declaration for lack of double funding and revenue of the project and Declaration concerning its VAT status	CVE and Annexes (annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3) Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	30 calendar days from signature of Contract
5	Controller sends 1 original copy of the CVE and Annexes, 1 original copy of the	CVE and Annexes (annex 1), Invoice report and Financial report (Annex 2), FLC	Designated Controller	30 calendar days from signature of Contract

<sup>1</sup> The Invoice report and financial report should be stamped and signed by the controller on each page.

<sup>2</sup> The controller should issue a Checklist for conducted procurement procedure in any case of verification of expenditure incurred as a result of such procedure.



	Invoice report and Financial report, 1 original copy of the FLC Reports & Checklist and if applicable - Checklist/s for conducted procurement procedures to the MA	Report & Checklist (Annex 3) Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)		
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### 3.2.2. Serbia:

No.	Action	Document	Responsible	Time
1	Prepare and send a Request for FLC to FLC Unit with required documents	Request for FLC (own template in addition to Annex to PIM) Paper and electronic copy of filled in Invoice + Financial Report (part of Annex 1), Declaration for lack of double funding and revenue of the project, payment and expenditure supporting documents for the period, progress report for the period, approval by the MA for changes on the project or signed addendum (if applicable) ***	Each Serbian PP (Serbian LP – for himself)	10 calendar days from end of reporting period
2	Designation of Controller	Internal FLC Manual	Head of FLC Unit	Following receipt of Request for FLC
3	Performing FLC (desk based), at least one on-the-spot check for the duration of the project	-CVE and Annexes (Annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3), On-the-spot-check Report when applicable (Annex to	Designated Controller	Max. 40 calendar days from the date of official submission of the Invoice Report to the Control Body



		Internal Manual) and if applicable Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)		
4	Controller issues <ul style="list-style-type: none"> <li>– 3x original -CVEs and Annexes (PP, NA, FLC)</li> <li>– Invoice report and Financial report</li> <li>– 1x original FLC Report &amp; Checklist (FLC) and if applicable Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)</li> <li>– 1x original On-the-spot check Report when applicable (FLC)</li> <li>– Validates with a stamp beneficiary's Declaration for lack of double funding and revenue of the project</li> </ul>	CVEs and Annexes (Annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3), On-the-spot check Report when applicable (Annexed to Internal FLC Manual), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3) if applicable and stamped Declaration for lack of double funding and revenue of the project	Designated Controller	Within the above deadline

\*\*\* For the first reporting period the PP should also submit copy of the signed Subsidy Contract with all annexes (including approved AF, Partnership Agreement) and the approved Project Procurement Plan.

### 3.2.3. Turkey

No.	Action	Document	Responsible	Time
1	Prepare and send Request for FLC to MA	Request for FLC (Annex from PIM)	LP, after consultation with PPs	5 calendar days from the end of the reporting period
2	Selection and	Invitation by E-mail	CBC Unit of	20 calendar days



	designation of Controller	with the attachments of Request for FLC, Declarations from Controller, Designation Certificate (templates in the Internal Rules)	NA, Controller	from receipt of Request for FLC
<b>3</b>	FLC on-the-spot	CVE and Annexes (Annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	30 calendar days from signature of Contract
<b>4</b>	Controller issues 3 original CVEs and Annexes (for LP, NA, FLC) and 3 original FLC Reports & Checklists (for PP, NA, FLC), fills related part of Invoice report and financial report	CVE and Annexes (annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3) Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	Within the above deadline
<b>5</b>	FLC-er submits to NA original copies of Invoice Report, FLC Reports & Checklist, and CVE and annexes	CVE and Annexes (annex 1), FLC Report & Checklist (Annex 3) Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Controller	Within the 5 calendar days from the date of control

#### 3.2.4. Macedonia:

No.	Action	Document	Responsible	Time
<b>1</b>	Prepare and send Request for FLC to MA	Request for FLC (Annex from PIM)	LP, after consultation with PPs	5 calendar days from the end of the reporting period
<b>2</b>	Selection and designation of	Invitation by E-mail,	MoLSG, The Contact	20 calendar days from receipt of





	Controller		person for the Programme	Request for FLC
3	FLC on-the-spot	CVE and Annexes (Annex 1), Invoice report and Financial report (Annex 2), FLC Report & Checklist (Annex 3), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	30 calendar days from the date of Designation
4	Controller issues 3 original CVEs and Annexes (for PP, NA, FLC) and 2 original FLC Reports & Checklists (for PP, FLC), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	CVE and Annexes (annex 1), FLC Report & Checklist (Annex 2), Checklist/s for conducted procurement procedures (Annexes 3-1, 3-2, 3-3)	Designated Controller	Within the above deadline

MA and NAs (excluding Serbian NA) checks the quality of the first level of control through an inspection visit to the respective PP, which essentially will duplicate the verification carried out by the Controller. The Controller, whose work and performance will be checked, is to be selected by sampling or following alert, appeal or other such actions. Based on the outcome of this verification, the Controller can be subject to sanctions. A detailed description of the systems for quality control and sanctions of the Controllers are established in the MA and the respective partnering country (NA).

### 3.3. Scope of First level control

In accordance with Art. 28(2)(j) of Regulation (EC) 718/2007, verification to be carried out at national level shall cover **administrative, financial, technical and physical aspects of operations**. Verification shall ensure that the expenditure declared is real, that the products and services have been delivered, and that the operations and expenditures comply with relevant Community and national rules.

The process of verification carried out by the Controllers at national level includes 100% administrative verification and on-the-spot verifications, as appropriate.

#### 3.3.1 Desk based checks





Depending on the type of the control system established by the given Participating Country the desk based check can be performed by the Controller at his/her own premises (the Project Partner submits the documentation of the expenditure for verification to the Controller) and/or at the premises of the Project Partner.

100% of the expenditure declared by the Project Partner has to be verified by the Controller during this check. The desk based check shall cover at least the following verifications:

1.	Expenditures declared by the LP/PP are real and incurred for the project approved under the respective Programme.
2.	Expenditures declared by the LP/PP are supported by invoices or accounting documents of equivalent probative value.
3.	Expenditures declared by the LP/PP have been paid by the LP/PP and can be supported by adequate document(s).
4.	The products or services have been delivered in accordance with the subsidy contract(s), European and national legislation.
5.	Supporting documents presented/ submitted by the LP/PP are complete, accurate and acceptable as to their form and content.
6.	Expenditure declared by the LP/PP is eligible according to the common eligibility rules of the respective Programme as well as according to the relevant EU and national legislation.
7.	The Invoice Report (where required) prepared by the LP/PP is correct and consistent with the supporting documents.
8.	The part of the project implemented and expenditure declared by the LP/PP comply with the subsidy contract
9.	The part of the project implemented and expenditure declared by the LP/PP are in line with Community and national rules, including state aid rules, public procurement rules, publicity, rules on environmental protection and rules on equal opportunities.
10.	The part of the project implemented by the LP/PP receives financial contribution only under the respective Programme, i.e. double-financing of expenditure with other Community or national schemes and with other programming periods is avoided.
11.	The expenditure declared by the LP/PP within the meaning of Article 97 of Commission Regulation (EC) 718/2007 has been verified.
12.	The LP/PP maintains either a separate accounting system or an adequate accounting code for all transactions relating to the project.
13.	On the basis of the received supporting documents it can be stated that the LP/PP fulfilled the EU requirements concerning information and publicity.
14.	Eventual revenues have been deducted from the total eligible expenditure of the project part implemented by the LP/PP or the LP/PP declares that no revenues have been generated.
15.	The VAT reported (where applicable) is eligible, in line with the subsidy contract, the VAT status of the LP/PP and the respective national VAT legislation
16.	The expenditure reported complies to the 10% and 20% flexibility rules



17.	Adequate audit trail is maintained by the LP/PP.
18.	Expenditure declared by the LP/PP is not affected by irregularity or any suspected irregularity or fraud.

The results of the desk based checks have to be documented in the Annex “A” to Certificate for validation of expenditures and the FLC Report and Checklist.

### 3.3.2 On-the-spot checks

On-the-spot checks have to cover the additional verifications from financial, technical and physical aspects of the project, and can be performed on a sample basis or can be exhaustive depending on the control system of the Participating Country.

In case on-the-spot checks are carried out on a sample basis, the selection of the projects for on-the-spot checks has to be in line with an approved sampling methodology, and the selection also has to be documented. On-the-spot checks are considered exhaustive in case each Project Partner is checked on the spot at least once for the duration of the project.

The verification covering only administrative aspects performed at the premises of the Project Partner cannot be considered as on-the-spot checks, unless the requirements of the on-the-spot verification are covered.

The on-the-spot checks shall cover at least the following aspects of verification:

1.	On-the-spot check was carried out by the Controller at the LP/PP concerning the period covered by the present and previous certificates on validation of expenditure, depending on the requirements of the respective national control
2.	The expenditure declared corresponds to the accounting records and supporting documents stored or submitted by the LP/PP.
3.	The part of the project implemented by the LP/PP is progressing in compliance with the objectives of the project laid down in the subsidy contract
4.	The part of the project checked on-the-spot is implemented in compliance with Community and national rules, including state aid rules, public procurement rules, publicity, rules on environmental protection and rules on equal opportunities.
6.	Results from the project activities, services, goods and works were actually delivered on site and available. They were delivered as per the relevant Community, national and programme rules. They are not used for other purposes than the regulated in the approved Application Form, part of the subsidy contract
7.	Adequate audit trail and document storage is maintained by the LP/PP
8.	In the course of on-the-spot check no irregularity or any suspected irregularity or fraud were identified

### 3.3.3 Currency of project expenditure and exchange rates



As the Participating Countries have not adopted the Euro as their currency, each Project Partner shall convert into Euro all expenditure in the Invoice Report incurred in national currency using the exchange rate of the European Central Bank for the month in which the Invoice Report is submitted by the Project Partner to the Control Body.

The Controller is responsible for verification of the correctness of the exchange rates used for converting the expenditure incurred in national currency of the Participating Country into Euro.

The following method must be used:

The expenditures shall be converted into Euro using the monthly accounting exchange rate of the European Commission (*available at: <http://ec.europa.eu/budget/inforeuro/>*) in force in the month in which the expenditure is submitted by the Project Partner to the Control Body.

### **3.3.4 Tasks of the Controllers related to project changes**

The Controller has to take into consideration the rules for project changes set by the Programme, and shall conclude the necessary verifications of expenditure with regard to the project changes.

The relevant rules for project changes are described in the Subsidy Contract and in the Project Implementation Manual for the relevant programme.

The knowledge of the different types of project changes and the applicable procedures is of crucial relevance for the Controllers as one of the pre-conditions for issuing the Certificate - for validation of expenditure. The Controllers should check whether there have been project changes and verify whether the project changes and/or changes at partner level identified in the course of verifications have been approved by the MA/JMC or notified by the LP to MA before submission of the expenditure for validation.

## **4. VERIFICATION OF EXPENDITURE**

All originals of primary accounting documents (invoices, pay slips, travel bills, bank statements, payment orders, etc.) must be certified by the Controller with his individual stamp. If it is not possible to put a stamp on the original document due to its small size, it should be glued to a white sheet and the stamp should be placed as to at least partially cover the document. The Controller must not stamp copies of above documents, except for FLC archives. In the case it is needed to verify an original invoice (for example utilities' bills) which may be subject to partial reimbursement, the amount to be verified is stated together with the project code or acronym to which it belongs. In case the Controller deducts an amount from an original document due to ineligibility of costs, the verified amount and/or the deducted amount shall be stated on the document. The stamp of the Controller or the Control Body shall be also present on the Certificate on validation of expenditure, the FLC Report, the Invoice report and the financial report where required.

### **4.1. General eligibility criteria**



Costs are generally eligible for Community funding if they fulfill each of the following criteria:

- they have been actually incurred and paid by the LP or the PPs, and they can be verified on the basis of original invoices or other accounting documents of equivalent probative value;
- they are directly related to the project, necessary for the development, preparation, start, and/or implementation of the project, and they are planned in the approved project budget
- they have been incurred and paid within the eligibility period of the project;
- they comply with the principles of efficiency, economy and effectiveness;
- they have been incurred in the programme area – eligible and adjacent;
- they are compliant with national and EU rules

#### 4.2 Eligibility in time

On programme level, expenditure is eligible if it is actually paid between **1 January 2007** and **31 December of the third year following the last budgetary commitment for operations or part of the operations carried out within the Member States, and are incurred after the signing of the agreement for financing operations or parts of operations implemented within the beneficiary countries.**

The total period of eligibility for Priority Axes 1 and 2 of the Bulgaria-Serbia Programme is from the date of signature of the Financing Agreement between the Government of the Republic of Serbia and the European Commission on the Cross-Border Cooperation Programme between Bulgaria and Serbia, financed by IPA from the 27 March 2009 until 31 December 2016. The total period of eligibility of expenditure under Axis 3 of the Programme for Bulgaria is from 1 January 2007 until 31 December 2016.

The total period of eligibility for Priority Axes 1 and 2 of the Bulgaria-Macedonia Programme is from the date of signature of the Financing Agreement between the Government of the Republic of Macedonia and the European Commission on the Cross-Border Cooperation Programme between Bulgaria and the Former Yugoslav Republic of Macedonia under the Instrument for Pre-Accession Assistance: 13 October 2008 until 31 December 2016.

The total period of eligibility for Priority Axes 1 and 2 of the Bulgaria-Turkey programme is from the date of signature of the Financial Agreement between the Government of the Republic of Turkey and the European Commission on the Cross-Border Cooperation Programme between Bulgaria and Turkey under the Instrument for Pre-Accession Assistance, namely from 26 May 2009 until 31 December 2016.

Controllers must verify the eligibility of expenditure in time by taking into account the following:

- All expenditure must be incurred and paid between the project start date (except for the project preparation costs) and the end date of the respective reporting period.
- The project preparation costs shall be reported in the first reporting period and their eligibility in time is specified in the respective CfP documents.

#### 4.3. Eligible area



As a rule, eligible expenditure must be incurred in the eligible territory defined by the programme and, if applicable, in an adjacent area according to the provisions of the respective programme and CfP.

The Controller must determine what proportions of the activities are conducted in areas covered by the 10% and 20% flexibility rules in accordance with the provisions to that respect in the subsidy contract and the respective programme and CfP.

#### 4.4. Ineligible expenditure

In principle, the following expenditure is not eligible according to Article 89, Commission Regulation (EC) No. 718/2007:

- a) taxes, including value added tax **except** for value added tax, if each of the following conditions are jointly fulfilled:
- it is not recoverable by any means,
  - it is borne by the LP/PP,
  - it is clearly identified in the project proposal;
- b) customs and import duties, or any other charges;
- c) purchase, rent or leasing of land and existing buildings (it could be eligible for some programmes/calls and should be specified in the respective GfA);
- d) fines, financial penalties and expenses of litigation;
- e) operating costs;
- f) second hand equipment;
- g) bank charges, unless a separate bank account is opened for the project;
- h) costs of guarantees and similar charges, unless that the guarantees are required by national or Community legislation;
- i) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses, except for charges for transnational financial transactions;
- j) contributions in kind (e.g. free use of room, equipment or other facilities, unpaid voluntary work, generally any contribution without money flow);
- k) interest on debt.
- l) any costs incurred after the implementation period of the project, as defined in the subsidy contract;
- m) Cash discounts, rebates
- n) Commissions and dividend, profit payment,
- o) Purchase of business share and stock exchange share,
- p) Unjustified lump sum payments;
- q) Expenses of private consumption,
- r) Cost of subcontracted activities increasing the cost of the operation without adding proportionate value to it;
- s) Cost of subcontracted activities to any PPs;
- t) Cost of subcontracts in which the payment is defined as a percentage of the total cost of the operation unless such payment is justified by the LP/PP with reference to the actual value of the work or services provided (e.g. success fee);



- u) Cost of any services, purchase of goods, construction works or movable assets, not directly related to the project;
- v) Any expenditures not directly associated with the LP/PPs;
- w) Any form of double financing: expenditure which is already supported by a Community, or other international or national grant.

**The list of non-eligible expenditures is not exhaustive. Without prejudice to the provisions of paragraphs 1 to 4 of Article 89, Commission Regulation (EC) No. 718/2007, further rules on eligibility of expenditure may be laid down by the Participating Countries in the respective Cross-border Programmes and CfPs.**

#### **4.5. Verification of expenditure by budget lines, sub-lines**

Project expenditure is eligible under the following budget headings, which correspond to the budget lines (sub-lines) from the respective GfA and application form:

##### **BH1 – ADMINISTRATIVE COSTS**

This budget heading includes costs of staff involved in the project and all office related expenditure. The Administrative costs include:

- Project staff remuneration - the expenditure on the staff performing tasks directly related to project management (project manager, coordinator, accountant, secretary, technical assistant, procurement and other experts each of them involved for the whole duration of the project. The expenditure includes the gross salary, including all social security contributions and other salary associated taxes. The staff must be directly employed by the LP or PP organisation(s) with a valid work contract (full-time or part-time) or engaged with other appropriate contract by LP or PP organization according to the respective national legislation. The controller has to check whether the information provided by the project partner in the different reporting documents (timesheets, reports from business trips, staff payroll and etc.) is comparable and is connected to the implemented activities during the reporting period.
- Rent of office(s) - expenditure covering the rent of project office(s). The expenditure is eligible only if a different office than the existing one of the LP/PP organization is used. In this case the office shall be used only for the respective project;
- Overheads - expenditure that covers utility bills, phone, Internet, heating, etc.;
- Consumables - expenditure on printing/copying paper, pens, disks, folders, toner, etc.

Overheads and Consumables can be each allocated to the project according to two methods:

- a) costs directly allocated to the project;
- b) costs allocated proportionally to a project (flat rates based on average real costs).

Each Project Partner should decide on the most appropriate method which is suitable for the accounting of these costs. A combination of the two methods is not allowed.

- a) costs directly allocated to the project

This method can be applied if it is possible to allocate the costs directly to the project and those can be justified by respective invoices or accounting documents having an equivalent probative value.

- b) costs allocated proportionally to the project





This method can be applied if it is impossible to allocate the costs directly to the project. The general conditions for the use of flat rates are the following:

- Proportionally distributed costs must be attributable to the implementation of the project;
- The calculation of these costs shall be properly documented and reviewed yearly. In the course of FLC checks, the relevant accounting documents supporting the calculation method should be also made available for the Controllers.
- The costs must be distributed according to the following methods depending on the one which can best reflect the type of cost:
  - *the ratio of the number of people working for the project / number of people working in the organisation (LP/PP)*
  - *the ratio of the time spent on the project / time worked in total in the organisation (LP/PP)*
  - *space used for the project / total space in the organisation (LP/PP)*

The Controller has to check whether the total amount of overhead costs reported at the end of the project does not exceed the maximum amount planned in the respective Project Partner's budget. This means that the percentage of the overhead costs related to staff costs may deviate in the different reporting periods from the rate given in the Application Form. In case of overheads proportionally allocated to the project, the correctness of the calculation has to be checked by the Controller and cross-checked with the values in the overall bills or invoices for the respective month/s.

As overheads and consumables costs are highly dependent on project workload and seasonal deviations, for some months the stated in the Application Form unit rates can be exceeded, provided they are balanced with lower costs from other months so as not to exceed the total budget for overheads and consumables.

### **IMPORTANT NOTE!**

**The overheads and the salaries of the project team can be paid within 1 month from the project end date concerning the last month of implementation. This concerns only payment of the overheads and the salaries and no activities shall be performed or other costs made within this period.**

Documents to be provided and checked in the case of Administrative costs:

#### Documents proving expenditure:

- An order/list with the names of the project staff, their position/function and time allocated for working on the project (has to be available at the beginning of the project);
- Work contracts that define the relationships between the staff and the LP or PP organization;
- Job descriptions for all members of the project staff;
- CVs of project staff, if not already included in the Application Form
- Staff payroll
- Required documents for income tax and social security payments
- Permission/assignment letter of the staff who is also working for another institution/company/project.



- Detailed report on the work by days or hours (timesheet) as per template. Timesheets are not required for project staff working full-time on the project for the project duration.
- Contract for office rent, invoices for rent (if contract is with legal person), proof of ownership
- Protocols/Orders on the calculation method of overheads and/or consumables costs used, invoices from utilities, phone, etc.
- Invoices for consumables

Documents proving payment:

- Cash receipts, payment orders
- Bank statements

## **BH2 – TRAVEL AND ACCOMODATION**

This budget heading covers the expenditure by participants from both countries (the project team and / or direct beneficiaries), related to events within the eligible programme area, as follows:

- events associated with the project (technical meetings, meetings of joint working groups, meetings of the project team, workshops, trainings and seminars, fairs, etc.);
- business trips related to project activities.

Travel, accommodation and subsistence expenditure are eligible under the following conditions:

- travel should be within the eligible programme area. Any travel outside the eligible area shall be justified already in the AF and will further require specific approval by the JTS/MA
- as a general rule the most economical means of transportation should be used. Exceptions to this rule must be justified in each case;
- The PPs shall not exceed the limits (if such limits are set) as per the GfA of the respective CfP and the resulting budget.

Documents proving expenditure:

Travel costs:

- Invitation to a meeting / workshop / conference (if applicable); agenda and list of participants; minutes of meeting, other memoranda and materials, if applicable
- Duly completed mission authorization/ travel order / calculation of travel expenses stating the expenditure on daily allowances, accommodation and modes of transport;
- Approved business trip/mission report.
- Invoice for accommodation

When traveling by car (owned by the organization (LP/PP) or the expert):

- Car/vehicle details shall be specified in the mission order (registration number, brand, fuel consumption – if relevant;
- Completed and approved itinerary (destination, distance travelled) for the trip;
- Invoice for fuel (from a near date).

When traveling by rental car:





- Standard contract for car rental, invoice(s);
- Completed and approved itinerary (destination, distance travelled) for the trip;
- Invoices for car rental
- Invoices for fuel (from a near date);

When traveling by train / bus / plane:

- Boarding pass, bus or train ticket as relevant;

Documents proving payment:

- Cash receipts, payment orders, payslips
- Bank statements

### **BH3 – MEETINGS, CONFERENCES, EVENTS**

The expenditure on organizing meetings, seminars, press conferences, information campaigns, training, evaluation committees, etc. include:

- Rent of premises;
- Rent of audio / video and translation equipment
- Coffee breaks and catering for the participants in the events;

**The expenditure on alcoholic beverages and cigarettes is not eligible.**

- Training materials - the costs for production of materials needed to conduct the events (invitations, agenda, presentations, etc.);
- Costs of consumables such as pens, paper, folders, plastic envelopes, CDs, etc.
- Rent of vehicle for the event
- Accommodation for participants in the events

Documents proving expenditure:

- Tender documents – if applicable (see the approved Project Procurement Plan);
- Contract;
- Invitations – if applicable
- Agenda/Training programme
- Attendance list
- Invoices;
- Acceptance protocol(s)
- Copy of training materials, presentations, etc. – if applicable
- Copy of any information and publicity materials related to the event as appropriate, including photos.

Documents proving payment:

- Cash receipts, payment orders
- Bank statements



#### **BH4 – INFORMATION AND PUBLICITY**

This budget heading includes expenditure on:

- Purchase of advertising materials - such as promotional CDs, pens, hats, bags, notebooks, folders, etc.;
- Costs of development, design, translation, printing, etc. - of information and publicity materials
- Publications in the media advertisements on radio, TV, Web and the press.

The expenditure on information and publicity are eligible only when the requirements of European Commission on visibility are met.

##### Documents proving expenditure:

- Tender documents (if applicable – see the approved Project Procurement Plan);
- Invoice(s);
- Copies of the respective information materials, or photos as appropriate.

##### Documents proving payment:

- Cash receipts, payment orders
- Bank statements

#### **BH5 – EXTERNAL EXPERTISE AND AUDIT**

This budget heading includes expenditure on:

- Consultancy, studies, design, etc.;
- Translators, lecturers, trainers and other external experts – shall be different from the project team
- Costs of permits, certificates, etc. related to implementation of the respective activity. Bank charges for transnational financial transactions, bank fees for opening and maintaining a separate bank account required for the program (this pertains only to the separate bank account opened specifically for the purposes of the project;

##### Documents proving expenditure:

- Tender documents (if applicable – see the approved Project Procurement Plan);
- Invoice(s);
- Acceptance protocol(s)
- Reports required under the sub-contract – if applicable
- Deliverables;

##### Documents proving payment:

- Cash receipts, payment orders, payslips
- Bank statements

#### **BH 6 - INVESTMENTS**



- Expenditure on purchase of land only if it is eligible according the CBC Programme and GfA - only in exceptional cases where it is absolutely necessary for the project. The purchase of land must be well justified by providing all the documents to assess the value of the land. The value of the land must be certified by an independent qualified evaluator or duly delegated authority.
- Small scale construction:
  - Works site preparation (removal of waste materials and vegetation, drainage, etc.)
  - Actual works on site (construction, reconstruction, rehabilitation, extension and modernization of buildings / sites and associated facilities);
  - Connection to utilities - connecting to electricity, water and sewage, gas, etc;
  - Site organization - facilities/premises for workers and equipment, waste disposal, installing fences, etc.;
  - Rehabilitation of the land after the completion of the construction and / or activities for environmental protection;
  - Supervision (if necessary) - in accordance with national legislation.
- Supplies:
  - Purchase of computer equipment and furniture;
  - Installation and commissioning;
  - Software;
  - Purchase of motor vehicles is permitted provided that they are required to achieve the objectives of the project (e.g. specialized vehicles for intervention in case of disasters).

For equipment that will not be used by project partners or from the target group after the end of the project, and if its period of depreciation exceeds the duration of the project, only the depreciation costs for the period of the project will be considered as eligible expenditure. Depreciation rates should be calculated in accordance with national rules and the internal rules of the organization.

Depreciation is calculated pro rata for **each period** for which a periodic report is required and prepared. The entire amount of depreciation for the period of the project cannot be included in total in only one specific reporting period.

Only the proportional amount of depreciation for the period of the project is considered an eligible expenditure. If allowed by the respective national rules, even if the depreciation period exceeds the duration of the project, it would be still possible to accept the entire amount of expenditure for purchased equipment under the condition that the PP provides declaration that the equipment shall be used by them for the same purpose for at least 5 years after project closure.

The value of depreciation (the percentage used and the time duration of depreciation) is subject to verification.

Depreciation expenditure on equipment cannot exceed the purchase price of equipment.

## On-the-Spot checks



- The already reported investments are actually made and exist on site, according to the subsidy contract;
- Investments are used solely for the purpose of the project;
- Investments are properly accounted for and documented in the accounting system and project filing system of the project partner.

Documents proving expenditure:

For works:

- Contract for the purchase of land – if applicable;
- Tender documents – see approved Project Procurement Plan;
- Works Contract with annexes;
- Bills of quantities;
- Building permit;
- Forms / protocols certified by the Supervisor issued under respective national legislation for works;
- Documents proving the quality of construction materials and their compliance with the respective construction requirements and conformity assessment of construction products: declarations of conformity for products certificates for production control etc. – if required under the national legislation;
- Reports issued by the Supervisor;
- Taking over certificates or respective protocols under the national legislation
- Invoice(s) from the works contractor and the supervisor

For supplies:

- Tender documents – see approved Project Procurement Plan
- Supply contract(s)
- Acceptance protocol - certificates of provisional and final acceptance of goods (including serial numbers of equipment or other identification numbers);
- Statement/Certificate of origin of the equipment – as appropriate. Only a statement from the supplier is required for unit value of a piece of the equipment below 5000 EUR. For supplies with unit value above 5000 EUR a certificate of origin shall be submitted, including serial numbers or other identification of the supplied items;
- The method for calculating depreciation (amortization plan, accounting policies) – as appropriate;
- Inventory book/register. The supplies shall be entered into the inventory as per the requirements of the national legislation;
- Invoice(s) from the supplier

Documents proving payment:

- Cash receipts, money orders;
- Bank statements

**BH 7 - OTHERS**



Other eligible expenditures include:

- **Project preparation** - this item includes expenditure on the preparation of projects (costs of meetings between partners, consultations, studies, translation of documents, taxes and other charges or purchase of equipment necessary for the preparation of the project activities) carried out before signature of the Subsidy Contract – the supporting documents (invoices, contracts, acceptance protocols) should be issued before the signature of the Subsidy contract. This expenditure can only be reported in the first reporting period.

The starting date for eligibility of the project preparation expenditure is the official date of approval of the financing agreement between the Republic of Serbia and the European Commission (27 March 2009) but not earlier than one year before the publication date of the Call for Proposals.

The starting date for eligibility of the project preparation expenditure is the official date of approval of the financing agreement between the former Yugoslav Republic of Macedonia and the European Commission (13 October 2008), but not earlier than one year before the publication date of the invitation of Call for Proposals.

The starting date for eligibility of the project preparation expenditure is the official date of approval of the financing agreement between the Republic of Turkey and the European Commission (26 May 2009), but not earlier than one year before the publication date of the call for proposals.

- **Other specific project expenditure** – costs of specific activities envisaged in the AF, which cannot be included in any of the above budget lines. This expenditure is eligible only if they are described in detail and justified, depending on the complexity of the project.
- **Contingency reserve – to be used only after prior approval from MA;**

#### Documents proving expenditure and payment:

Documents proving expenditure and payment are listed in the respective budget lines.

## 5. REVIEW OF THE ACCOUNTING SYSTEM

In order to provide the necessary information and reporting to the MA/JTS and the Controllers, the PPs must have a comprehensive and reliable accounting system at contract level.

The PPs must keep accurate and regular records and accounts of the project and keep separate accounting for the analytical project expenditure.

While performing first level control, the Controller checks:

- Expenditure accounting is based on primary accounting records or other documents of equivalent probative value, issued on behalf of the PP. In cases where documents have been issued outside the respective Participating Country, they must be in English or the language of the partner country, but include a translation into the respective language of the Controller;
- All expenditure supporting documents for the project must be compiled independently of the other documents of the organization. They should be clear and precise and have all the details, required under the respective national legislation;



- Only for Bulgarian partners - the primary accounting documents (especially invoices), issued to the PPs should include the text "Expenditure is under project No ...../ code of project and/or acronym/ .... IPA CBC Programme Bulgaria- ... .. All expenditure must actually be paid within the respective reporting period;
- Presence of payment documents for each expense (Cash orders, payment orders, deposit slip, bank statements, etc.);
- Recovery transfers of expenditure / cash in the accounting records;
- Invoices or attached protocols should contain detailed information about the goods or services - the type, quantity and unit price. In the event that one invoice relates to more than one budget line, it is necessary to have a breakdown in the invoice or its attachment so as to conform to the breakdown in the budget (e.g.: office rent, rent of equipment, coffee breaks, etc.)
- Availability of other records/registers required under the respective national law (e.g. cash books, VAT journals, etc.)

## **6. TREATMENT OF VAT AS ELIGIBLE EXPENDITURE**

**Expenditure on value added tax is eligible for programmes funded by IPA, provided that:**

- a) the tax cannot be recovered in any way;
- b) it is demonstrated that the payment is borne by the PP organisation;
- c) the tax is clearly indicated in the project proposal;

Depending on the specific national legislation in each participating country, the Controller shall check the following documents:

- VAT status of the PP
- Presence and amount of eligible VAT in the budget of the respective PP, relation and correspondence with the items with non-recoverable VAT
- Correspondence between the items with non-recoverable VAT and payment documents
- As part of the check of the accounting system – availability of VAT records, as appropriate;
- Evidence of VAT recovered, if applicable
- VAT exemption documents, where applicable.

Bulgarian PPs are required to fill in for each reporting period a declaration according to template on details about their VAT registration and the Controllers should check and verify that.

## **7. EUROPEAN COMMUNITY HORIZONTAL POLICIES**

### **7.1 Information and publicity**

During the implementation of the project, the beneficiary should provide publicity on his projects, by conducting communication and promotional activities (campaigns, events,



promotional and informational materials, electronic media, etc.). The progress report lists specific measures to that effect, and measures to disseminate the project results. The controller should determine whether actions taken are in accordance with the rules of the programme and those regarding information and publicity.

## 7.2 Horizontal issues

Horizontal issues in the context of the EC are key principles in the implementation of each activity and are inseparably associated with each phase of the life time of the project and the programme. For the purposes of this document, here the principles of environmental protection, equal opportunities and non-discrimination are considered.

In performing his functions, the Controller has no obligation to assess the impact of the project, including horizontal issues. In this sense, it is relied on her/his professional assessment related to the observation of these basic principles in the implementation of project activities, in accordance with the information submitted by the PP.

### *Environmental Protection*

The Controller (especially during the on-the-spot checks) has to check whether the implementation of the project has any negative impact on the environment. Particular attention should be paid to activities performed or having an impact on the territories with special status.

### *Equal opportunities and non-discrimination*

During the inspection the Controller should check whether the PP did not commit any discrimination based on gender or other social attribute in the implementation of project activities. The check covers also an assessment whether each potential participant/sub-contractor, etc. had equal opportunities to participate in the project or was affected by the impact of actions.

In fulfilling his obligations, the Controller checks cumulatively:

- Information and Publicity - equal opportunities for access to information and information for the general public regarding the execution of activities according to the European guidelines on visibility and publicity and those of the programme.
- Trainings, seminars, conferences and other events – that participants are not selected on the basis of any discriminatory features (race, sex, religion, etc.), unless the activities are not aimed at a specific target group.
- The procedures for sub-contracting:
  - technical specifications / requirements for the key experts are not restrictive in terms of defining characteristics, scope and volume of needed products and services;
  - are not prepared in a manner that limits the participation of a specific participant (e.g. indicating the brand and model);
  - equal information is provided to all tenderers.

## 8. DOUBLE FINANCING AND REVENUES

### 8.1. Double financing

First level control includes checking the existence of any double funding of the respective expenditure from other Community or national schemes or from other programming





periods. For Bulgarian partners - the primary accounting documents (especially invoices), issued to the PPs must contain at least the code of the project, acronym and programme name and be certified by the Controller with his individual stamp proving that they are eligible for the respective IPA CBC programme.

The PPs are obliged to submit for each reporting period a declaration for lack of double funding and revenues for the project as per template. The Controllers check and verify these declarations.

## 8.2. Revenues

According to all IPA programmes' requirements revenue generating projects will not be funded. The Controller checks whether the accounting records of the project partner do not contain any revenue generated under the project.

## 9. CHECK OF THE EXPENDITURE UNDER TA

The activities concerning the preparation, coordination, management, monitoring, payment, reporting, assessment, information and control of the programmes and activities to strengthen the administrative capacity are financed under the priority axes "Technical Assistance" of the respective programmes. The beneficiaries under priority axis "Technical assistance" are the MA, NA and JTS of the respective programmes.

The expenditures under the Technical Assistance budget are also checked by the Controller and they should follow the same requirements regarding the verification process as do the expenditure under the projects of the other priority axes of the respective programmes described above.

## 10. SUB-CONTRACTING PROCEDURES

If the professional capacity of the project team does not allow them to perform independently certain activities, PPs may sub-contract some of the actions needed to implement the project.

The procedures for sub-contracting (procurement procedures) should follow the requirements of the Practical guide to contract procedures for EU external actions (PRAG) and comply with the signed Subsidy Contract and approved by the JTS Project Procurement Plan.

Regarding the procurement procedures implemented by the PP, the Controller checks the following:

- The Project Procurement Plan is available as approved by the JTS in its final version by the time of the check
- Compliance of the procedure with the approved Project Procurement Plan. There is no artificial split of the procedure in order to avoid, for example, an open procedure.
- The correct procedure is carried out in accordance with the thresholds for the type of contract

The version of PRAG (and templates) in force at the time of launching the tender shall be used. Most updated version of PRAG and templates is available at <http://ec.europa.eu/europeaid/prag/document.do?locale=en> . Please, note that during the project implementation phase, PRAG may be changed/amended. In case of substantial changes in the rules and procedures of PRAG, the MA will reflect the relevant changes in the





PIM. Nevertheless, the beneficiaries have the obligation to keep a close watch on the latest version of PRAG and to apply the respective procedures and annexes. In case of modification of PRAG rules/annexes, the procedures launched before the new version becomes in force, shall be procured and contracted following the previous version of the Guide.

- Compliance with any guidelines or templates provided by the MA/JTS, including in the Project Implementation Manual, specifically for single tender procedures. If the templates differ from the any provided by PRAG, the ones provided by the programme shall prevail
- Compliance with the EU visibility requirements and any specific ones for the respective programme.

Type of contract	Value in Euros	Type of the procedure	Particulates	Tender procedure documentation	Procedure by choice
<b>Service</b> (elaboration of strategies, studies, preparation and organization of events)	Up to 10 000	Single tender	Without publication, at least one tenderer invited, recommended deadline for submission of tender - 15 days	Tender dossier – minimum documents listed under Annex b8o of PRAG - Simplified tender dossier or following the provisions of the respective Project Implementation Manual distributed by the MA/JTS.	<b>Evaluation Committee (3 members), single tender evaluation report/ negotiation report.</b>
	10 000 – 200 000	Competitive negotiated procedure	Without publication, at least 3 tenderers invited, deadline for submission of tenders - 30 days	Tender dossier – see Simplified tender dossier for services – Annex b8o of PRAG;	<b>Selection process is based on comparison of received offers and is based on combination of price (20%) and technical quality (80%), Evaluation Committee (odd number of voting members – minimum 3, non-voting secretary and chairperson), evaluation report</b>
	Above 200 000	International Restricted tender	The invitation is published in the national media and on the web site of EUROPAID, two step evaluation: 1 <sup>st</sup> step-shortlist; 2 <sup>nd</sup> step-technical evaluation of the full bid, deadline for submission of tender - 30 days	Tender dossier (According to annex B8 of PRAG) –full tender dossier has to be prepared;  Procurement notice (PN)-public invitation to potential tenders has to be published;  Contract forecasts needs to be published 30 days prior to publication of PN on web site of Contracting Authority (grant beneficiary), national media, EUROPAID web site	<b>Step 1 - short – list panel, short list report, short list notice;</b>  <b>Step 2 – evaluation of received full proposal (the procedure is the same as the competitive negotiated procedure)</b>
<b>SUPPLY CONTRACTS (purchase of equipment and furniture, rent of equipment)</b>	Up to 10 000	Single tender	Without publication, at least one tenderer invited, recommended deadline for submission of tender - 15 days	Tender dossier – minimum documents listed under Annex c4p of PRAG - Simplified tender dossier or following the provisions of the respective Project Implementation Manual distributed by the MA/JTS.	<b>Evaluation Committee (3 members), single tender evaluation report/ negotiation report.</b>
	10 000 – 60 000	Competitive negotiation procedure	Without publication, at least 3 tenderers invited, deadline for submission of tender- 30 days	Tender dossier – see Simplified tender dossier for supplies – Annex c4p of PRAG;	<b>Evaluation Committee (odd number of voting members – minimum 3, non-voting secretary and chairperson), evaluation report</b>  <b>Steps of selection process – receipt and registration of tenders, opening, administrative compliance, technical evaluation, financial evaluation, conclusion of evaluation committee,</b>



<b>WORKS CONTRACTS</b> (repair and renovation works of buildings, facilities, etc.)				<b>notifications and signature of the contract.</b>	
	60 000 – 150 000	Local open tender	Procurement notice is published on the web site of Contracting Authority (grant beneficiary) and in national media; 30 days for submission of offers from the date of publication of PN	Tender dossier – full tender dossier needs to be prepared; Procurement notice (PN) – public invitation to potential tenderers	<b>see Competitive negotiated procedure</b>
	above 150 000	International open tender	Procurement Notice is published on web site of Contracting Authority (grant beneficiary), national media, EUROPAID web site; 60 days for submission of offers from the date of publication of PN	Tender dossier – full tender dossier needs to be prepared; Procurement notice (PN) – public invitation to potential tenderers; Contract forecast – needs to be published 30 days prior to publication of PN on web site of Contracting Authority (grant beneficiary), national media, EUROPAID web site;	<b>See Competitive negotiated procedure</b>
	below 10 000	Single tender	Without publication, at least one tenderer invited, recommended deadline for submission of tender - 15 days	Tender dossier – minimum documents listed under D4 Standard tender dossier or, following the provisions of the respective Project Implementation Manual distributed by the MA/JTS.	<b>Evaluation Committee (3 members), single tender evaluation report/ negotiation report.</b>
	10 000 – 300 000	Competitive negotiation procedure	Without publication, at least 3 tenderers invited, deadline for submission of tender - 30 days	Tender dossier – full tender dossier has to be prepared, Procurement Notice is without publication	<b>Evaluation Committee (odd number of voting members – minimum 5, non-voting secretary and chairperson), evaluation report.</b>  <b>Steps of selection process – receipt and registration of tenders, preparatory meeting, opening, administrative compliance, technical evaluation, financial evaluation, conclusion of evaluation committee, notifications and signature of the contract</b>
	300 000 - 5 000 000	Local open tender	PN is published on web site of Contracting Authority (grant beneficiary), in national media and on EuropeAid website; 60 days for submission of offers from the date of publication of PN;	Tender dossier – full tender dossier has to be prepared; Procurement notice (PN) – public invitation to potential tenderers	<b>see Competitive negotiated procedure</b>



## 10.1 Key issues related to subcontracting by PPs to be checked by FLC

- Failure to comply with the principle "value for money" - the product does not meet the required quality by the Contracting Authority (PP). The main difficulty comes from the diversity of activities performed by the PPs. There may be cases when it would be difficult for the Controller to decide on the matter but in any case must not neglect to check the compliance with this principle. If in doubt, s/he should note that in the FLC Report and should make financial corrections (CVE). The respective PP may send an appeal declaration about the case and the final decision is on competence of MA/NA.
- Conflict of interest - if there is any proof about a conflict of interest (between the Contracting Authority (PP) and the tenderer, or between two or more tenderers, the Controller may decide not to verify the amounts in question and justifies his decision accordingly. The respective PP may send an appeal declaration about the case and the final decision is on competence of MA/NA.

Conflict of interest exists when an impartial and objective performance of the functions of any person associated with the awarding public contracts may be compromised for some reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with another person (Article 52, paragraph 2 of Council Regulation (EC, Euratom) No. 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities).

The Controller may propose financial corrections in line with COCOF 07/0037/03-EN – Guidelines for determining financial corrections to be made to expenditure co-financed by the SF or the CF for non-compliance with the rules on public procurement, but final decision on determining and imposing these corrections is done by the respective MA/NA. These Guidelines are included as annex to the Subsidy Contract.

## 11. IRREGULARITIES

### 11.1. Legal basis

- EC 718/2007 (IPA Implementing Regulation), Art. 19
- EC 1828/2006 (ERDF, SF, CF Implementing Regulation), Section IV, amended by EC 846/2009 and EC 832/2010

### 11.1. Definitions

**“Irregularity”** shall mean any infringement of a provision of Community law resulting from an act or omission by an *economic operator*, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them by an unjustified item of expenditure.

Notably, this definition covers:



- Every **behavior**, intentional or unintentional (act or omission), of an economic operator, which has or would have the effect of prejudicing the general budget of the Communities or of the national budget.
- Actions leading to/resulting in **infringement** of European Community provisions or the national legislation.
- **“Suspected fraud”** means an irregularity giving rise to the initiation of administrative or judicial proceedings at national level in order to establish the presence of intentional behaviour.
- **Suspicion** is a situation in which there are data for infringement (alert, complaint/report or other sources of verification/audit, etc.) but not all facts and circumstances are clear (for instance monitoring procedures, audit, investigation, additional documentation etc, need to yet be conducted or requested).

**“Fraud”** is a type of irregularity, differentiated by its deliberate nature. Consequently, fraud is every intentional act or omission in respect of expenditure and revenue:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the General budget of the European Communities or budgets managed by, or on behalf of, the European Communities or the Participating Countries.
- non-disclosure of information in violation of a specific obligation, with the same effect.
- the misapplication of such funds/benefits for purposes other than those for which they were originally granted.

**NOTE! Fraud is a crime; therefore a given action could be qualified as fraud only by the court. Before the court delivers a ruling, the action must be considered a suspicion and all parties must observe the rules for confidentiality of information.**

## 11.2 Procedure for reporting and handling irregularities

Detection, establishing, reporting and follow-up of irregularities, including recovering amounts unduly paid are managed respecting the provisions of Article 114 of Regulation (EC) No.718/2007 and Articles 27 to 34 of Regulation (EC) No. 828/2006.

Detecting, establishing and reporting to the Commission of irregularities is the obligation of the respective Participating Countries and is managed on national level. It means that the irregularity procedure will be conducted by that responsible organization of the Participating Country, on whose territory the Project Partner concerned is located.

In order to ensure that the programme management bodies are informed on the irregularities detected by the Participating Countries, the irregularities have to be reported by the responsible body of the Participating Country to the MA.

## 11.3. Role and tasks of the Controllers in the process of detecting and reporting of irregularities

In case irregularity is suspected or detected by the Controllers, they should alert the designated Irregularity Officer or Body in the respective Participating Country using the



form in Annex 4 of the present Guidelines.

**The tasks of the Controllers are limited to the reporting of the suspicion of irregularities to the body responsible for irregularities in the relevant Participating Country.**

Controllers have to be aware of the procedure of reporting suspected irregularities laid down in the national procedures manuals.

## **12. CHECKING OF THE WORK OF CONTROLLERS**

### **12.1 Quality reviews on verifications carried out by the designated controllers**

The quality review 100% of the control activities is carried out on documents presented by FLC-ers and 10% is carried out at the premises of the designated controllers or at the respective PP premises, as appropriate in each Participating Country. The examination of control activities is the responsibility of the MA/NA which may be carried out by external experts contracted by them. These quality reviews also aim at ensuring the compliance of the control systems. They are normally done on a sample basis, or following a claim by the PP, or at any other times or methodology depending on the internal rules to this regard, applied by the respective Participating Country.

### **12.2 Second level control (audit)**

Second level control is performed by the Audit Authority (Group of Auditors) or by external auditors on behalf of the Audit Authority. The main objective of the second level control is to ensure the quality of verifications performed by the first level controllers. Second level control is performed on a sample basis. Projects selected for second level control will be audited at the premises of the Project Partners. The Controllers of the Project Partners concerned will receive feedback through the programme management bodies on the findings of the second level audit.

In case of irregularities, or ineligible expenditure detected by the second level control following the reimbursement of Community funding, the procedures described in Chapter 11 have to be followed.

## **13. MODIFICATION OF THE GUIDELINES**

When modifications of the present Guidelines are made in its latest approved version, the following rules shall be observed:

- The version of the Guidelines is indicated by 2 digits, separated by a dot (i.e. the present final version when approved is 3.3)
- Any subsequent additions and amendments made in the body of the Guidelines are indicated by increasing the 1st digit (i.e. 4.3) and indicating the date of approval
- Any subsequent additions and amendments of the Annexes to FLC Guidelines are indicated by incrementing the 2nd digit (i.e. 3.4) and indicating the date of approval



In this way any user of the Guidelines can recognise where changes have taken place and to what extent in general. Each version of the Guidelines will also include notes on the brief history of modifications.

Proposals to modify the Manual can be made by any of the bodies involved in the management and control of the IPA CBC Programmes, including also external auditors and evaluators, technical assistance teams, etc. to which the Guidelines were made available.

The steps to be followed shall be as stated below:

1. MA receives proposals for amendment through the National Bodies in the Partnering Countries or collects the ones made at MA country level.
2. Proposals are reviewed by MA and changes and quality control implemented following the internal procedures for issuing and approval of manuals, guidelines and instructions by the MA. Justification shall be made available for any proposals that will be rejected.
3. If the modifications have an impact on any other manuals, guidelines, instructions or other documents that are referring to the present FLC Guidelines, the documents MA shall update these accordingly.
4. The FLC Guidelines shall be made effective from explicitly stated date of validity. Every effort shall be made that the respective procedures, templates and requirements shall not be amended for a CfP with contracts already in implementation. If that happens and appropriate transitional period shall be granted to comply with the requirements (normally until the contracts completion, or at least one reporting period).
5. Amended FLC Guidelines and any other correspondingly modified documents are published on Programmes' Websites or appropriately distributed or notified to the respective involved bodies.