

# **Control Guidelines for INTERREG IPA CBC Programmes**

Version 4.0.

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## Abbreviations

AA	Audit Authority
CA	Certifying Authority
CB	Control Body
CBC	Cross-border Cooperation
eMS	Electronic Monitoring System
EU	European Union
ETC	European Territorial Cooperation
FLC	First Level Control
IPA II	Instrument for Pre-Accession Assistance for financial period 2014-2020
JS	Joint Secretariat
LB	Lead Beneficiary
MA	Managing Authority
MRDEUF	Ministry of Regional Development and EU Funds
NA	National Authority
PP	Project Partner
TA	Technical Assistance

## 1. Executive Summary

The objective of this document is to provide guidance to Control Bodies designated by Participating Countries in the Interreg IPA Cross-border Cooperation Programme Croatia – Serbia 2014-2020 and Interreg IPA Cross-border Cooperation Programme Croatia - Bosnia and Herzegovina – Montenegro 2014-2020 in line with the provisions of Article 23(4) of Regulation (EU) No 1299/2013.

The current guidelines serve as basis for the work of the Control Body, for the controllers to be able to correctly perform their work. The document offers information and guidance for the controllers for the validation of expenditures of the beneficiaries (Lead Beneficiaries or Project Partners) for Interreg IPA CBC Programme Croatia – Serbia 2014-2020 and Interreg IPA CBC Programme Croatia – Bosnia and Herzegovina – Montenegro 2014-2020. Also, the document describes the role and responsibilities of the controllers, establishes the procedure for expenditure verification of each beneficiary participating in an operation<sup>1</sup> and offers the tools to be used by the controllers. The guidance covers the regulatory requirements, general principles and purpose of verifications, the bodies responsible for establishing the national control systems, the timing, scope and intensity of the verifications.

Due to different national control systems set in the Participating Countries it is not possible to cover every situation in this document. More detailed information about specific issues relevant in the context of national control system can be found in other Programme and national documents (e.g. Description of National Control System), as well as EU and national regulations (see chapter 2. Legislative and institutional framework).

## 2. Legislative and institutional framework

### 2.1. European legislative framework

European legislative framework governing European Territorial Cooperation, including the eligibility of expenditures, is given in<sup>2</sup>:

- Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, hereinafter referred to as CPR,
- Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal, hereinafter referred to as the ETC Regulation,
- Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No

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<sup>1</sup> Operation = project

<sup>2</sup> Please check <http://eur-lex.europa.eu> for possible corrigendums of stated regulations.

1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012,

- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the union's instruments for financing external action,
- Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-Accession Assistance (IPA II),
- Commission Implementing Regulation (EU) No 447/2014 of 2 May 2014 on the specific rules for implementing regulation (EU) No 231/2014 of the European Parliament and of the Council establishing an Instrument for Pre-Accession Assistance (IPA II),
- Commission Delegated Regulation (EU) No 481/2014 of 4 March 2014 supplementing Regulation (EU) No 1299/2013 of the European Parliament and of the Council with regard to specific rules on eligibility of expenditure for cooperation programmes,
- Financing Agreement between Republic of Serbia and European Commission and Republic of Croatia (including Memorandum of Understanding - Annex V of the Financing Agreement),
- Financing Agreement between Bosnia and Herzegovina and European Commission,
- Financing Agreement between Montenegro and European Commission,

## **2.2. Programme legislative framework**

IPA CBC programme framework encompasses the following documents<sup>3</sup>:

- Interreg IPA Cross-border Cooperation Programme Croatia – Serbia 2014 – 2020 (version 4.0.),
- Interreg IPA Cross-border Cooperation Programme Croatia – Bosnia and Herzegovina - Montenegro 2014 – 2020 (version 5.0.),
- Description of the management and control system (for both Interreg IPA CBC programmes),
- Programme Rules on Eligibility of Expenditures for Interreg IPA Cross-border Cooperation Programme Croatia – Serbia 2014 – 2020 (relevant valid version),
- Programme Rules on Eligibility of Expenditures for Interreg IPA Cross-border Cooperation Programme Croatia – Bosnia and Herzegovina - Montenegro 2014 – 2020 (relevant valid version),
- Manual for Managing Technical Assistance (applicable for both Programmes),
- Programme Visibility Guidelines (applicable for both Programmes),
- eMS Manual (applicable for both Programmes),
- Call specific documents (e.g. Application package, Project Implementation Manual, etc.) for both Interreg IPA CBC programmes,
- Additional MA decisions and instructions, if applicable.

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<sup>3</sup> All documents stated under Programme framework can be found on programmes' websites:

<http://www.interreg-hr-ba-me.eu/>

<http://www.interreg-croatia-serbia.eu/>

### 2.3. National legislative framework

For matters not covered by eligibility rules laid down in, or on the basis of EU or Programme rules, the national rules of the Participating Country in which the expenditure is incurred shall apply.

- Legislation relevant for project implementation (e.g. VAT legislation, Labour Acts, Income tax legislation, Occupational Health and Safety Act, etc.)
- other documents (relevant internal regulations/ordinances of beneficiaries, internal rules of compensation and remuneration, travel, etc.).

### 2.4. Institutional framework

For the financial perspective 2014 – 2020, countries participating in mentioned Interreg IPA CBC programmes have set up a centralised control system. In centralised first level control systems, in each participating country a central body is appointed to carry out the first level control.

Appointed Control Body in the Republic of Croatia is Sector for First Level Control within the Directorate for European Territorial Cooperation in the Ministry of Regional Development and EU Funds (MRDEUF).

Appointed Control Body in Bosnia and Herzegovina is Central Financing and Contracting Unit (CFCU) within the Ministry of Finance and Treasury of Bosnia and Herzegovina.

Appointed Control Body in Montenegro is Directorate for Finance and Contracting of the EU Assistance Funds (CFCU) within the Ministry of Finance and Social Welfare of Montenegro.

Appointed Control Body in Republic of Serbia is Sector for Contracting and Financing of EU Funded Programmes (CFCU,) Division for First Level Control of IPA Projects within the Ministry of Finance of the Republic of Serbia.

The verification of Lead Beneficiary's / Project Partners' expenditure is free of charge in all of the above-mentioned participating countries.

Detailed description of the programmes' management structure is given in the Cooperation Programmes and Descriptions of the Management and Control System.

## 3. Control process in Interreg IPA CBC programmes

### 3.1. Scope and role of the First Level Control

First Level Controllers are responsible for verifying the legality and regularity of the expenditure declared by each Lead Beneficiary and Project Partner participating in the operation located in their territory. Following the completion of the control, the Controller issues an FLC Certificate on the eligible and validated expenditures of the Lead Beneficiary/Project Partner.

The role of the First Level Control is to establish the correctness and the eligibility of the expenditures incurred by the beneficiaries and thus, to guarantee the Managing Authority that all Programme provisions and legal requirements, as well as provisions of the signed Subsidy Contract have been respected.

The main objectives of the First Level Control are:

- to verify the existence of all services, supplies and works co-financed by the Programme and the reality of the expenditures reported by the beneficiaries;

- to observe if the expenditure incurred and paid is in line with the latest approved version of the Application (or in line with the notified Operation modifications);
- to observe the respecting of the EU legislation, Programme rules and, when applicable, national legislation regarding the eligibility of expenditures, public procurement procedures, information and communication;
- to verify that all invoices requested for reimbursement are related to activities proposed for financing.

### 3.2. Reporting and certification process

#### 3.2.1. Timeframe for preparing Partner Progress Report and certification

After the end of each reporting period the beneficiaries need to report about implemented activities and expenditures incurred and paid within that period taking into account that payment of costs incurred in the last reporting period must take place within 1 month after the Operation implementation end date. During the Operation implementation period, each LB/PP shall prepare a Partner Progress Report (including list of expenditures) reporting on the activities and the expenditures for the relevant reporting period and submit it to the Control Body of the participating country in which the respective beneficiary is located in order to obtain a validation of eligible expenditure (FLC Certificate).

Partner Progress Report has to be submitted to the Control body via eMS within 15 calendar days after the end of the reporting period or in the case of Final Partner Progress Report, within 1 month following the end date of Operation implementation.

Validation of Partner Progress reports should be carried out by the Control Body within **maximum of 3 months** from the first submission of the Partner Progress Report.

The Controller may ask for clarifications or request additional documentation from the LB/PP, and they must be provided within 7 working days from the request. All official communication is done via eMS in Programme language (English). Clarifications/additional documentation needed for the verification of expenditures should be requested by the Controller maximum 2 times. Exceptionally clarifications may be requested more than 2 times.

In case of insufficient supporting documentation or in case of suspicion on irregularity, which prevents the Controller from validating the reported expenditure in the current reporting period, the Controller may put the expenditure on hold until the final progress report at the latest, i.e. place it in the “sitting duck” status. Leaving the expenditure in the “sitting duck” status does not mean that this expenditure is ineligible, but it stays recorded in the eMS as pending. The expenditure will be visible to the Controller when performing the verification of the next Partner Progress Report. In the next report the beneficiary is obliged to submit only the missing supporting documentation requested by the Controller. Exceptionally, when duly justified, a “sitting duck” expenditure may be included in other Partner Progress Reports. In case some expenditures are marked as “sitting duck” the Controller shall provide a short explanation within FLC Certificate under section 6.a „Description of findings and observations”.

It is recommended to check if there are any sitting duck costs before issuing the FLC Certificate. In case the Certificate does not include the approved sitting ducks please consult the eMS Officer in the MA.

**Table 1: Timeframe for reporting and FLC verification**

	Reporting period (months covered by the report)	Verification timeframe	
	Deadlines		
<b>Submission of the 1<sup>st</sup> Partner Progress Report by the LB/PPs to the Controller</b>	Report covers first 3 months of Operation implementation	<b>The Controller must validate reported expenditure within 3 months from the date of submission of the Partner Progress Report / statement of expenditures to the Controller.</b>	
	<b>15 calendar days from the end of the reporting period</b>		
<b>Submission of Partner Progress Report by the LB/PPs to the Controller</b>	Report covers every 6 months of Operation implementation		
	<b>15 calendar days from the end of the reporting period</b>		
<b>Submission of Final Partner Progress Report by the LB/PPs to the Controller</b>	Covers last months of Operation implementation (6 months or less)		<b>The Controller must validate reported expenditure within 3 months from the date of submission the Report.</b>
	<b>1 month from the Operation implementation end date</b>		

Within a period of 3 months upon the submission of the Partner Report by the LB/PP, the controllers need to perform the necessary verifications of the Partner Progress Report, which means that all open issues have to be clarified and additional documentation has to be submitted to the Controller within given period. This period cannot be extended/suspended, even if LB/PP fails to submit the requested clarification/documentation. In case no expenditure is declared to the Controller in the reporting period or if they are ineligible, the Controller shall nevertheless issue an FLC Certificate.

Following the issuance of FLC Certificates to all Operation beneficiaries for the relevant reporting period, the Lead Beneficiary prepares the Project Progress Report and submits it to the JS via eMS, within one month following the issuance of the last FLC certificate for the relevant period.

JS performs administrative check and content analysis of submitted Project Progress Report. In case of additional comments, the LB may be asked to provide clarifications to the JS. Also, JS may apply financial corrections. Following JS approval of the Report, the Report is forwarded to the MA.

MA checks and verifies Project Progress Report. In case of additional comments, the LB may be asked to provide clarifications. Also, MA may apply financial corrections. Following the approval of the Report, the MA issues Payment Order in the eMS and forwards the documentation to the Certifying Authority.

Certifying Authority performs relevant checks of Project Progress Report and Payment Order and after approval of the Report reimburses the approved amount to the LB within 90 days from the date of submission of the Project Progress Report to the JS/MA. The LB is responsible for transferring the EU contribution to the PPs participating in the Operation after the reception of the funds by the CA.

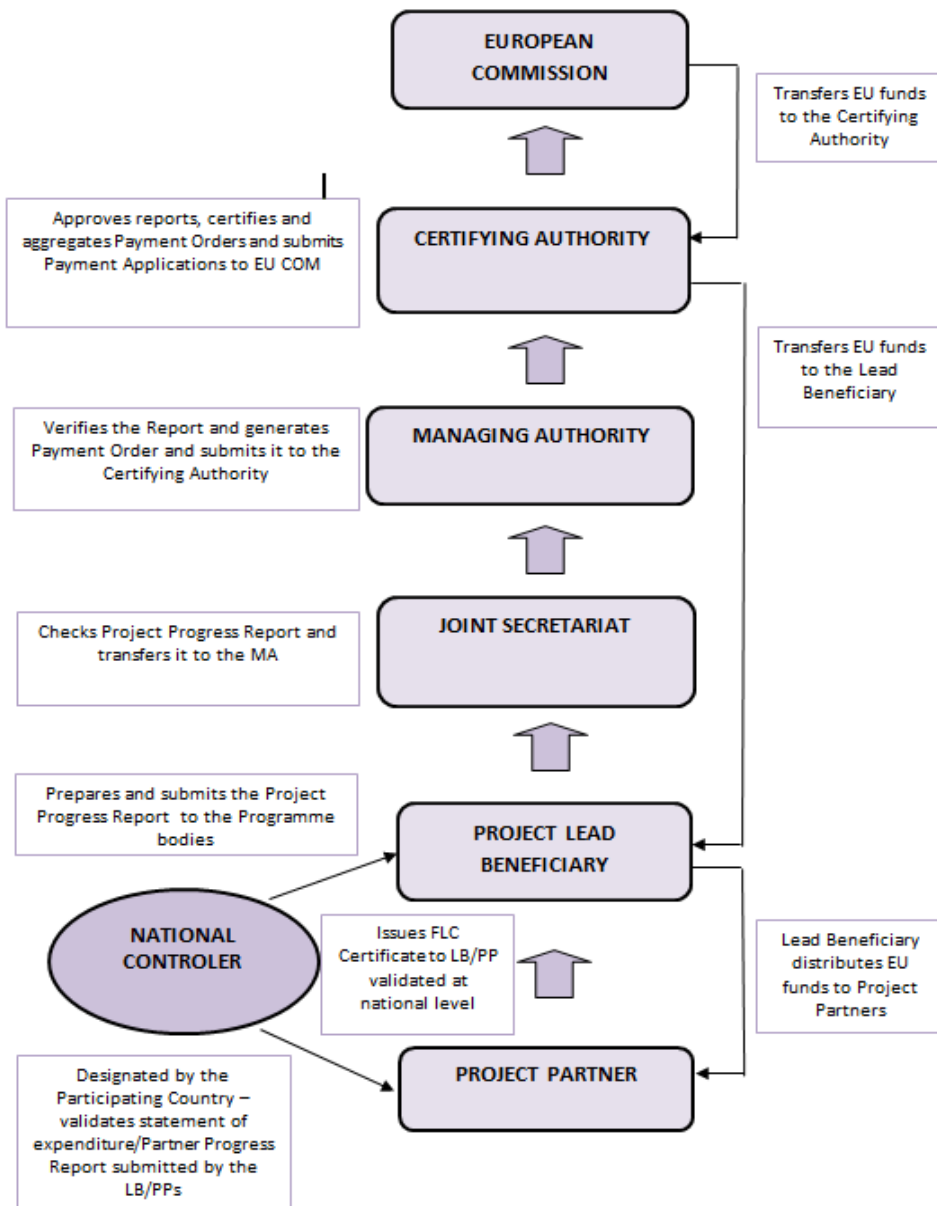
**NOTE!**

Additional interim reporting deadlines may be set by the Managing Authority in order to avoid de-commitment of EU Funds at Programme level. These deadlines may be set explicitly in the Subsidy Contract or communicated by the MA in advance to the Lead Beneficiaries and to the Controllers.



The MA is responsible for ensuring that each Control Body verifies the expenditures and issues a signed certificate of validated expenditures (FLC certificate) within 3 months upon the submission of the Partner Report by the LB/PP, in accordance with Article 23(4) of ETC Regulation. JS monitors deadlines for validation of eligible expenditure (issuing of FLC Certificate) by providing two rounds of reminders to the FLC (with clearly stated deadlines and requests for clarification of delay) before alerting MA on the concerned delay. If significant delay occurs, the MA may issue official warning letter to the respective FLC. In that respect, MA ensures that relevant Control Bodies comply with the given rule.

Graphic image 1: Graphic representation of reporting and payment process



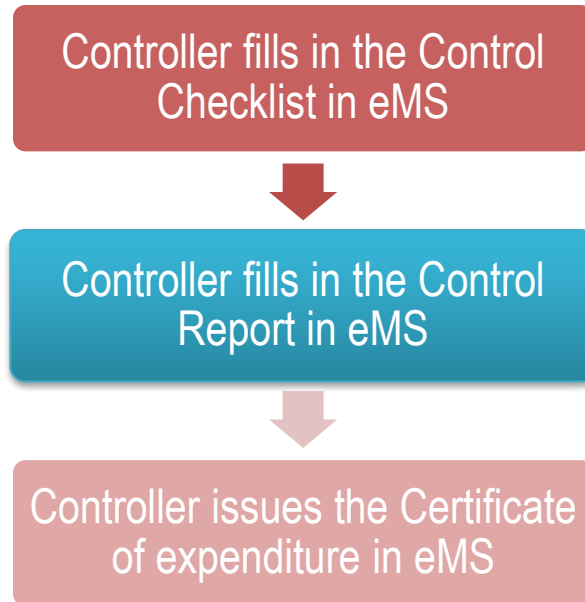
### 3.2.2. FLC certification within eMS

The Controller verifies the expenditure declared by the beneficiary on the basis of the invoices or accounting documents of equivalent probative value and other supporting documents defined within Programme rules on eligibility of expenditures (and national FLC Guidelines/Manuals, if applicable), verifies the delivery of services, supplies and works, and the compliance of expenditure with relevant EU legislation, Programme rules and national rules.

During the process of verification of expenditure, the Controller fills in the **Control checklist** (offline template of Control Checklist is Annex 1 to this document) and the Control report (offline template of Control report is Annex 2 of this document), according to the findings during the verification of expenditures.

Following the completed verification process the Controller generates a FLC Certificate in the eMS (offline template of FLC Certificate is Annex 3 of this document).

**Graphic image 2: The control process in the eMS**



The FLC Certificate is valid without signature. However, each Control Body may decide to sign the FLC Certificate and upload it in the eMS (if required by the national/internal rules of the Control Body). Following the finalization of the FLC process and issuing the FLC Certificates, the LB can immediately access the Certificates through the system.

At different stages of the workflow, the eMS enables reverting the Report to a previous stage. This can be done due to insufficient quality of the Report or in order to correct mistakes in performed FLC work (e.g. not completed FLC Checklist, mistakenly certified expenditure, etc.).

In case of insufficient quality of the Report the Controller can:

- a) Revert the Report to the LB/PP
- b) Open the Attachments section in the eMS (Attachment upload open).

In case there is a need to perform any corrections in FLC work the Report can be reverted from JS to the Controller. In such case, the Controller shall inform the Head of JS, Head of Service and Programme Manager in the MA in written form (through eMS mailbox), stating the reasons for the request, and if applicable attach additional supporting documents<sup>4</sup>. Following the examination of the request, the JS shall revert the Report to the Control Body providing the deadline of 5 working days to make requested corrections.

<sup>4</sup> The report can also be reverted from JS to FLC if an error is detected during the JS/MA/CA report approval process. In such case, Head of JS informs FLC and MA through eMS mailbox and reverts the report.

### 3.3. Detailed description of the Control procedure

First Level Control certification process represents validation of expenditure submitted by the beneficiaries in accordance with the applicable rules on eligibility of expenditures. The control regarding the effective implementation of the Operation consists of:

- **desk based check** of the documents (administrative verifications). Such verifications will cover 100% projects and 100% expenditure.
- **on-site verification** of the technical execution and of the finances (e.g. accounting records, based on a sample).

The controllers should check every expenditure item entered in the operation accounting records, the supporting documents (such as time sheets, invoices, etc.) and the costs per budget lines. The controllers should look at key documents in the audit trail indicated in Programme rules on eligibility of expenditures to make sure that the expenditures claimed by the beneficiary are incurred, that the activities have taken place in accordance with the set eligibility rules. In addition to the abovementioned documentation, the controller may ask any other relevant supporting document in order to verify the declared expenditure.

#### 3.3.1. Tasks to be performed within control activities of operations

In order to perform the control activities of operations financed by the Interreg IPA CBC Programmes the Control body has the following tasks:

- To verify the conformity, regularity and legality of the expenditure related to the operation, including physical progress of the supplies/services/works procured and compliance with the terms and the conditions of the contracts;
- To verify the compliance of the expenditures with the latest approved Application and signed Subsidy Contract;
- To verify that co-financed supplies and services have been delivered and the works have been performed;
- To verify that the expenditure declared by the beneficiaries relates to the reporting period (or previous reporting periods) and has been incurred and paid in the reporting period (or previous reporting periods). For simplified cost options: to verify that conditions for payments have been fulfilled and to check the flat rate calculation;
- To verify adequacy of supporting documents and -the existence of an adequate audit trail - the correctness of the invoiced supplies, services and works regarding the eligibility and the evidence of the real spending of funds (the invoices contain eligible expenditure included in the contract which correspond to the objectives of the contract);
- To check that the expenditure related to the operation are either registered in the separate accounting system of the beneficiary, or that all transactions related to the Operation have an adequate accounting code;
- To verify that the information and publicity requirements of the Programme have been respected (in accordance with provisions of Programme Visibility Guidelines);
- To perform checks to avoid double financing of activities;

- To check the record-keeping and archiving rules for the documentary evidence related to the implementation of the operation;
- To perform checks regarding the absence of conflict of interests of the persons involved in the procurement procedures;
- To check that one expenditure item is not covered under more than one expenditure category or under more than one budget line under a given expenditure category;
- To verify that amounts in the Partner Progress Report do not exceed amounts in the latest approved version of the Application or in line with notified modification of the operation<sup>5</sup>;
- To apply financial corrections following COCOF Guidelines<sup>6</sup> concerning the breach of public procurement/ eligibility rules in accordance with the applicable EU regulations, Programme rules and national legislation;
- To check target groups as mentioned in the Application;
- To perform on-site verification of operations which are in implementation in line with chapter 3.3.4. of this document;
- To assure the quality check of the work done by the Controller;
- To report irregularities and fraud – if applicable;
- To issue FLC Certificate and other documents according to control procedures in force.

### 3.3.2. Tasks to be performed within control activities of TA funds

In order to perform the control activity of TA funds the following tasks shall be performed:

- Verification of the conformity, regularity and legality of the expenditure declared by the TA beneficiaries, as well as their compliance with the EU legislation, Programmes rules and national rules (from administrative, technical, financial and physical point of view);
- Verification of delivery of co-financed supplies and services and payment of expenditures declared by the TA beneficiaries;
- Verification that expenditure relates to the eligible period;
- Verification that the expenditure relates to the activities listed in the TA Application;
- Insurance that the supporting documents are adequate and the existence of an adequate audit trail;
- Verification of, where applicable, compliance with relevant Programme public procurement rules;
- Verification that the Programme rules on publicity (Programme Visibility Guidelines) have been respected;
- Verification of delivery of the supplies/service in full compliance with the terms and conditions of the TA agreement and the TA Application;

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<sup>5</sup> As described in section 3.3.3 Control of the expenditure based on relevant documents (desk based checks).

<sup>6</sup> [http://ec.europa.eu/regional\\_policy/sources/docoffic/cocof/2013/cocof\\_13\\_9527\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/cocof/2013/cocof_13_9527_en.pdf)

[http://ec.europa.eu/regional\\_policy/sources/docoffic/cocof/2013/cocof\\_13\\_9527\\_annexe\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/cocof/2013/cocof_13_9527_annexe_en.pdf)

- Control that the expenditures made by the beneficiaries are registered in the accounting system, a separate account or that the expenditure have a specific code and can be identified in the accounting system;
- Implementation of on the spot verifications for all the technical assistance beneficiaries to verify that the supplies and services were contracted and delivered according to the provisions of the TA Agreements and the TA Applications shall be performed once during the TA operation implementation and shall include one reporting period;
- Reporting any irregularities or fraud;
- To issue FLC Certificate and other documents according to control procedures in force.

#### **NOTE!**

While controlling the reported TA expenditure, the Controller should consult the Manual for Managing Technical Assistance.

### **3.3.3. Control of the expenditure based on relevant documents (desk based checks)**

In order to perform the desk based check of expenditure the following must be available to the Controller within the eMS:

- Application,
- Subsidy Contract / Addendum / notified modifications,
- Partnership Agreement between the Lead Beneficiary and the Project Partners,
- Partner Progress Report / statement of expenditures.

The Control Body conducts desk based checks through the following steps:

- Checks that the Partner Progress Report together with the supporting documents (invoices, etc.) is submitted from the beneficiaries via eMS in due time and if all requested parts (narrative and financial) of the report are correctly filled in.
- Performs cross-check of the activities performed by the beneficiaries in the reporting period taking into account their description in the approved Application (including notified modifications, if applicable).
- Checks whether the costs requested within Partner Progress Report are within the budget lines (except for Staff costs and Travel and accommodation which are monitored on the level of expenditure categories) in the approved Application (including notified modifications, if applicable), comparing the operation expenditures with the activities of the project. In case of TA operations the costs shall be monitored on the level of expenditure categories.
- Checks the invoices (whether the expenditure is eligible, incurred and paid, the invoices are formally compliant to the relevant EU, Programme and national regulations and rules).
- Checks whether the reported expenditure comply with relevant EU, Programme and national eligibility rules, whether public procurement and accounting rules are respected, as well as rules related to visibility and publicity.
- Checks whether the net revenues generated by the operation (e.g. from the sales of brochures, fees related to the participation to different events, etc.) have been deducted from the total eligible expenditure.
- Checks if the supporting documents prove that double financing has been avoided.

- Checks whether there is a proof of the execution (for infrastructure and works) and/or delivery of services/supplies (interim/final report for services if applicable, and the Provisional/Final acceptance certificate for works). Pictures as a proof of equipment and works carried out must have visibility labels in line with Programme Visibility Guidelines and must show that the equipment is being used.
- Issues the FLC Certificate declaring the total eligible expenditure per expenditure categories<sup>7</sup>, and total amount certified including Programme (EU) co-financing and national co-financing for the activities performed by the LB/PP for the reporting period.

If, during the control of Partner Progress Report, an error related to the Partner Progress Report was discovered by the Controller, appropriate deductions or financial correction (e.g. in case of failure to comply with the procurement rules) shall be applied to the expenditure in question. The Controller is obliged to select the type of correction in the List of expenditure.

In case the LB/PP declared a lower amount than the Controller considers eligible according to the supporting documentation, the Controller should clarify the situation with the beneficiary to establish the exact amount which should be certified. The Controller may apply a positive financial correction or revert the report to LB/PP for correction, if applicable.

The Controller is obliged to provide explanation on the positive/negative correction within Control Report within section *FLC Corrections* and within FLC Certificate under section 6.a „Description of findings and observations”.

In case the Controller detects an error affecting the amounts in previously issued Certificates, the Controller shall inform the JS Project Manager and MA Programme Manager immediately via e-mail and fill in the Request for application of financial correction (Annex 5 of this document).

#### NOTE!

In case there is a need for multiple corrections regarding the same reporting period/project, please fill in a separate Request for each correction.

### 3.3.4. On - site verifications

Each Control Body is responsible to ensure on-site verifications of the LB/PP located on their part of the Programme area.

On-site verifications of individual operations are carried out by the controllers at the premises of the controlled LB/PP and/or in any other place where the operation is being implemented (e.g. infrastructure, provision of services, etc.). In exceptional cases (such as natural hazard, social and medical crisis or any other unforeseen circumstances) or in case of projects without physical investments, the verification may be performed online.

On-site verifications carried out by the controllers can be classified as follows:

- On-the-spot checks (during operation implementation and/or after the submission of the Final Partner Progress Report prior to issuing the Final FLC Certificate);
- Ad-hoc checks.

On-the-spot checks should be performed:

<sup>7</sup> Preparatory and closure costs are approved by the JS and MA without certification by the Control Body.

1. at least once during the operation implementation period, or
2. on sample basis according to the risk assessment performed for each LB/PP.

Risk assessment methodology shall take into consideration one of the following criteria:

- a) Project partner has budgeted EUR 5.000 or more (without the VAT) in the expenditure category Equipment, or
- b) Project partner's budget contains an investment in infrastructure/works of any value, or
- c) Any potential risk identified by the Control Body.

In case the on-the-spot checks are carried out on a sample basis, the risk methodology has to be properly documented.

In general, on-the-spot checks should include following aspects:

- Verification of the reality of the operation - to review whether the operation activities are being successfully executed;
- Verification that the progress of the operation is in accordance with the latest progress reports;
- Verification that the equipment and/or any infrastructure/works have been in reality delivered and they are used for the purpose of the operation (additionally, that the delivery of the supplies/services/works corresponds to issued invoices and the terms and conditions of the Subsidy Contract);
- Verification if the EU and Programme rules on information and communication (Programme Visibility Guidelines) have been respected;
- To check the effectiveness of accounting system, proper archiving of documents (ensuring audit trail) and that double-financing of expenditure with other EU/national funds is avoided.

*Ad-hoc check* is performed by the controller in case where the controller questions the eligibility of expenditure. In that case, an ad-hoc on-site check for the purpose of verifying that the expenditure is indeed eligible may be performed.

The controllers can perform additional on-site verifications, if necessary.

On-site verification performed, as well as any comments and/or points to follow up are noted by the controller in OTS checklist (part 2 of Control checklist) within the eMS.

### 3.3.5. Methodology for the quality control

During the process of desk based verification of expenditures declared by the LB/PP, the controller performs 100% check of all expenditures.

In order to comply with the requirements of the quality check, additional checks on sample basis will be performed by another employee of the Control Body (Controller reviewer). Each Control Body shall decide on the sampling methodology for the quality control.

The minimum sample size is at least 10% of all LB/PP partner progress reports in the relevant reporting period. The sampling methodology should be based on risk analysis and may include random option, if applicable.

If the initial 10% sample shows that the quality of the information provided is not as good as expected, the sample size shall be extended. In such cases the expansion of sample size shall be determined by the Control Body.



Exceptionally, in case of TA Partner Progress Reports, the minimum sample size for random sampling is at least 10% of the total costs declared in each reporting period (at least 2 items) taking into account complexity of the reported costs.

NOTE!

Quality control must be performed prior to issuing FLC certificate.

#### 4. General rules on eligibility of expenditures

When examining eligibility of expenditures a controller should keep in mind the following questions:

1. WHAT IS FINANCED? – scope of intervention, priorities and types of activities

The main principle governing the eligibility of costs is that expenditure must be directly connected to operation activities, and it must be necessary for operation implementation.

2. WHEN? – time period

There are limits as regards the time period during which expenditure can take place. Implementation period for individual operations is defined in the Application and Subsidy Contract.

For Interreg IPA CBC Programme Croatia-Serbia:

Croatian LB's/PP's expenditures incurred and paid between 1 January 2014 and 31 December 2023 are eligible for funding. Serbian LB's/PP's expenditures incurred and paid after the submission of the Cooperation Programme (14 November 2014) and in line with Financing Agreement signed between Serbia, Croatia and European Commission, and not later than 31 December 2023 are eligible for funding.

For Interreg IPA CBC Programme Croatia-Bosnia and Herzegovina-Montenegro:

Croatian LB's/PP's expenditures incurred and paid between 1 January 2014 and 31 December 2023 are eligible for funding. Bosnia and Herzegovina and Montenegro LB's/PP's expenditures incurred and paid after the submission of the Cooperation Programme (18 November 2014) and not later than 31 December 2023, and they are in line with Financing Agreements signed between Bosnia and Herzegovina and European Commission, and between Montenegro and European Commission are eligible for funding.

3. WHERE? – geographical location

At Programme level, a limited percentage of the expenditure can be incurred outside the Programme area. In Interreg IPA CBC programmes this is up to 20% of Programme EU budget<sup>8</sup>. Eligible NUTS level III regions (or equivalent regions in the non-member states) are stated in the respective cross-border cooperation programmes.

NOTE!

<sup>8</sup> In line with Article 44 of Regulation (EU) 447/2014.

The following costs are not counted towards the 20% ceiling, and should not be marked in the field “Expenditure Outside of the Programme Area” in the report:

- travel and accommodation costs related to promotion and capacity building activities;
- travel and accommodation costs of staff of the beneficiaries located in the Programme area who travel to the location of an event or an action outside the Programme area.

However, travel and accommodation costs incurred in relation to other activities in relation to projects fully or partially located outside the Programme area are counted towards the 20% ceiling, therefore those costs should be marked in the field “Expenditure Outside of the Programme Area”.

In case of approved expenditures outside Programme area, please tick yes in the FLC Certificate and indicate the approved amount.

4. WHICH COSTS? – expenditure categories and eligible items under each category

Eligible expenditure categories are eligible elements under each category as defined in the Programme rules on eligibility of expenditures. Programme rules on eligibility of expenditures also define the list of ineligible costs.

5. HOW CALCULATED? – calculation of eligible expenditure, including simplified cost options

The expenditure has to be calculated in the correct way in order to be eligible. In the majority of cases, the amount of expenditure will be indicated on the paid invoice, pay slip, etc. However, there might also be costs that only partially relate to the operation and here the relevant share must be determined; e.g., the cost of staff working part-time on the operation.

6. HOW JUSTIFIED? – audit trail

Documentation must be available to prove that the expenditure is eligible. The audit trail should not only demonstrate what was paid, but also the need for this expenditure, whether it complies with all relevant rules, and that value-for-money principles were observed.

#### **4.1. Verification regarding project modifications**

Control Bodies will consider the eligibility of costs and the activities carried out in relation to the last applicable or modified version of the Application.

The modifications of the Application are considered valid from the date on which the beneficiary submitted the modification request to the JS (by e-mail or via EMS).

#### **4.2. Public procurement verifications performed by the Controllers**

##### **4.2.1. General principles**

For the award of service, supply and work contracts by the beneficiaries, the procurement procedures shall follow the provisions of Chapter 4 of Title II and Annex I of Regulation No 2018/1046 on the financial rules applicable to the general budget of the Union which apply on the territory of all participating countries.

For the award of service, supply and work contracts by the Managing Authority under the specific budget allocation for technical assistance operations, uses the procedure of its national law.

Whenever a project purchases services, supplies and work it is very important that the public procurement function is discharged honestly, fairly, and in a manner that secures best value for public money. This is in line with EU Treaty principles and EU Directives on public procurement. Essential principles to be observed in conducting procurement include transparency, non-discrimination and equal treatment and effective competition.

Detailed information on financial thresholds and procurement procedures, as well as proposed templates is given in Project Implementation Manual. The relevant version of Project Implementation Manual to be used by the beneficiaries is the one available at Programme website, at the time of launching the tender in question.

#### **4.2.2. Rules of nationality**

Experts and other persons employed or legally contracted by project partners may be of any nationality.

#### **4.2.3. Rules of origin**

In line with the amendment of the financing agreements concerning the implementation of relevant Interreg IPA CBC Programme, all supplies purchased under a procurement contract, or in accordance with a grant agreement, financed under IPA II shall originate from an eligible country or from any country which is eligible under the rules of the Member State.

As the Croatian national rules do not contain any restrictions regarding the rules of origin, all goods financed under both Interreg IPA CBC Programmes can originate from any country, irrespective of any thresholds.

#### **4.2.4. In house contracting**

In house contracting represents an exemption from the public procurement procedure if the conditions for in-house contracting given by the EU regulations are fulfilled.

Expenditure referring to tasks contracted with the in-house provider by the beneficiary (including staff and travel and accommodation costs) should be planned under external expertise and services expenditure category if the following conditions are met:

- costs incurred by the in-house provider are charged on a real costs basis without any profit margin;
- the contracting of the in-house provider complies with national public procurement rules.

## **5. Control verifications of other financial provisions**

### **5.1. Currency exchange**

For reporting purposes all expenditure incurred by project partners in a currency other than the euro shall be converted into euro in the eMS by using the monthly accounting exchange rate of the European Commission in the month during which expenditure was submitted for verification to the controller. The monthly exchange rate is published on:

[http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/inforeuro\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/inforeuro_en.cfm)

This method shall be applicable to all beneficiaries. The conversion shall be verified by the Controller.

The following rules shall be applied for the conversion:

- the date of submission of expenditure for verification to the controller is the day on which the LB/PP submitted for the first time the Partner Progress Report through the eMS to the Controller. Date of further submissions due to completion and/or clarification to the Partner Progress Report and date of on-site verifications by the Controllers shall not be considered.
- the date of online submission is registered through eMS, which can be traced any time in the system.

## 5.2. Net revenues

'Net revenue' means cash in-flows directly paid by users for the goods or services provided by the operation, such as entrance fees for events, charges for books, films, DVDs and similar publications, charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services less any operating costs and replacement costs of short-life equipment incurred during the corresponding period. Operating cost-savings generated by the operation shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies.

Please note that interests on pre-financing payments (on the funds transferred by the CA to the LB) shall not be deducted from the total eligible costs of the operation.

All revenues generated by operation activities during the implementation of the operation must be deducted from the eligible costs claimed in statement of expenditure within each Partner Progress Report.

Detailed procedure for the revenues incurred during or after operation implementation is given in Programme rules on eligibility of expenditures.

## 5.3. VAT

In line with Article 43(2) of IPA II IR, value added tax shall not be supported by cross-border cooperation programme, except where it is non-recoverable according to the national VAT legislation.

In that respect, Value added tax (VAT) is eligible, if the following conditions are fulfilled:

- a) it is not recoverable under national VAT legislation;
- b) it is established that it is borne by the beneficiary;
- c) it is clearly identified in the invoice.

For **Croatian** beneficiaries complying with all the above indicated criteria, VAT is allowed to be claimed within Partner Progress Report, whereas, for those beneficiaries not complying with the criterion a), the VAT is not eligible to be claimed within Partner Progress Report. Beneficiaries in Croatia are obliged to present the declaration on VAT status (VAT Statement) with the 1<sup>st</sup> Partner Progress Report. In case the VAT status changes during the operation implementation, the new VAT Statement status has to be presented with the first subsequent Partner Progress Report. The change of VAT status entails change in the Application.

Beneficiaries from **Bosnia and Herzegovina** are obliged to follow relevant national procedure for exemption of VAT. The legal basis for VAT exemption is "Instruction on procedure for exercising the right to customs and tax exemptions in accordance with the Framework Agreement between Bosnia and Herzegovina and the European Commission on arrangements for implementation of the Union's financial assistance to Bosnia

and Herzegovina within the Instrument of Pre-Accession Assistance (IPA II), (Official Gazette No. 91, from 30 November 2015)".

Beneficiaries from **Montenegro** are obliged to follow relevant national procedure for exemption of VAT. The legal basis for VAT exemption is the following: Rulebook on value added tax exemptions for investors and supply of certain products and services ("Official Gazette of Montenegro", 17/15 of 17 April 2015, 68/15 of 12 August 2015) and Instructions on how to implement the procedure for exercising the right to exemption from value added tax for projects financed by the European Union (EU) from 17 June 2019.

Beneficiaries from **Serbia**<sup>9</sup> are obliged to follow relevant national procedure for VAT exemption: Law on VAT (Official Gazette of the Republic of Serbia No. 84 / 2004, 86 / 2004, 61 / 2005, 61 / 2007, 93 / 2012, 108 / 2013, 6 / 2014, 68 / 2014, 142 / 2014, 5 / 2015, 83 / 2015, 108 / 2016, 7 / 2017, 113 / 2017, 13 / 2018, 30 / 2018 and 4 / 2019) with subsequent modifications, Rulebook on procedure for exercising the right to value added tax refund and on manner and procedure of value added tax refund and reimbursement (Official Gazette of the Republic of Serbia, 120 / 2012, 40 / 2015, 82 / 2015, 86 / 2015, 11 / 2016, 21 / 2017, 48 / 2018, 62 / 2018, 44 / 2018, 104 / 2018 and 16/2019) with the subsequent modifications.

#### 5.4. Accounting

When performing the checks, the Controllers shall verify the following aspects:

- If the beneficiary keeps an analytical accounting system for the operation or if other accounting methods have been put in place as to allow the identification of costs.
- Have all invoices been issued with reference to the operation and the Programme.
- Have the actual paid amounts been registered in the accounting system.
- Is each reported expenditure justified by an invoice or an accounting document with equivalent value, according to the national accounting and fiscal rules.
- Is each reported invoice accompanied by a proof of payment (e.g. payment order, account statement, home register, confirmation on bank transfer, receipts etc.).
- That expenditures of the Operation are registered in the accounting system.

## 6. Electronic Monitoring System and record keeping

The Programmes have decided to use eMS, a programme monitoring system that allows Programme bodies and beneficiaries to collect and store all necessary information related to the Programme and operations, as well as to communicate with each other electronically.

In principle, the eMS is to be used to support beneficiaries and Programme bodies (JS, MA, CA, AA, NA, FLC) in carrying out their tasks. The FLC will use the system mainly to carry out administrative verification of the Partner Progress Report / statement of expenditures, including:

- reviewing submitted documents,
- asking for clarifications/additional information,
- deducting/correcting or approving reported expenditures,
- filling out control checklist and report,

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<sup>9</sup> Beneficiaries in Serbia cannot get VAT exemption for preparatory costs being that they are incurred prior to signing the Subsidy Contract. Therefore, for preparatory costs, VAT is considered eligible.

- and issuing a FLC Certificate.

Detailed information on how to use the system, its functionalities and technicalities is given in eMS Manual. The MA is responsible for ensuring functioning of the eMS.

## 6.1. Document storage and record keeping

Control Body will keep records on all verifications performed for the operations within the Programmes (FLC Certificates, as well as related checklists and control reports) by storing and keeping them accessible in the form of electronic original documents in eMS. Only in exceptional cases when it is not possible to upload documents in eMS those documents may be kept in hard copy in Control Body premises. Control Body must notify MA/JS in written in such cases.

All FLC supporting documents, if applicable, shall be kept within the archive premises of the Control Body for a two-year period from 31 December following the submission of the accounts in which the final expenditure of the completed Operation is included in order to be available to the Commission, the European Court of Auditors or any other authorised authority upon request.

## 7. Handling the complaints on FLC Certificate

Procedures for resolution of received complaints on FLC Certificate are described in relevant Descriptions of national control systems.

## 8. Handling of irregularities and frauds

According to Article 2 (36) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013, the meaning of irregularity is any breach of Union law, or of national law relating to its application, resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of expenditure to the budget of the Union.

‘Suspected fraud’ means an irregularity that gives rise to the initiation of administrative or judicial proceedings at national level in order to establish the presence of intentional behavior, in particular fraud, as referred to in Article 1(1)(a) of the Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on the protection of the European Communities' financial interests.

The Convention drawn up on the basis of the Treaty on European Union on the protection of the European Communities' financial interests defines fraud as any intentional act or omission relating to:

- (i) 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;
- (ii) non-disclosure of information in violation of a specific obligation, with the same effect;
- (iii) the misapplication of such funds for purposes other than those for which they were originally granted.

Fraud always involves an intentional act, while errors or irregularities are unintentional misstatements.

At the level of Programme management, irregularities can be detected by every employee of the FLC/JS/MA/CA/AA in the course of:

- verification of documents,
- carrying out controls and monitoring visits,
- carrying out official duties, other than control actions (for example receiving information from other bodies involved in the management and control system or receiving information from other sources, e.g. written complaints, grievances, etc.).

The suspicion on irregularity/fraud shall be reported to the MA by sending the Irregularity alert form (Annex 4 of this document) in writing on the following e-mail addresses: [irregularities\\_fraud@interreg-croatia-serbia.eu](mailto:irregularities_fraud@interreg-croatia-serbia.eu) and/or [irregularities\\_fraud@interreg-hr-ba-me.eu](mailto:irregularities_fraud@interreg-hr-ba-me.eu). Additionally, procedures for reporting, managing and resolving irregularities and fraud are described in relevant national documents.



## Annexes

Annex 1 FLC Control checklist

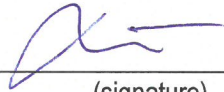
Annex 2 FLC Control Report

Annex 3 FLC Certificate

Annex 4 Irregularity Alert Form

Annex 5 Request for Application of Financial Correction

Verified:

  
\_\_\_\_\_  
(signature)

28.2.2022.  
(date)

Approved:

  
\_\_\_\_\_  
(signature)

28.2.2022.  
(date)