

KARELIA

CBC // Cross-border cooperation

Training of auditors and financial managers

The scheduled training event has been cancelled due to COVID-19 situation. The training material is published on the Programme website:

<http://www.kareliacbc.fi/en/payments-and-expenditure-verification>



18.6.2020

Purpose

1. Feedback on Payment Request, Financial Report and extract from general ledger (later "general ledger")
2. Feedback on Expenditure Verification Report and its annexes

Topics

1. Observations made by the Financial Unit of the MA regarding the Payment Request, Financial Report and general ledger
2. Observations made by the Operational Unit of the MA regarding the Financial Report
3. Observations made by the Financial Unit of the MA regarding the Expenditure Verification Report (including annexes)
4. Communication
5. Final financial reporting
6. Advantages of good-quality reporting

How to read the observations made by the Financial Unit of the MA

The structure of observations under each specific topic consists of the following:

- 1) Introduction of Programme rule
- 2) Finding (result of verification)
- 3) MA's action

1. Observations made by the Financial Unit of the MA regarding the Payment Request, Financial Report and general ledger

Specific topics

- Payment Request: "*Bank account information*"
- Payment Request: "*Requested amount*"
- Payment Request: "*Verified amount*" and signature
- Financial Report: InforEuro
- Financial Report: InforEuro and columns
- Financial Report: Columns
- Financial Report and general ledger
- Financial Report: Realized finance
- General ledger (project's cost centre/project code)
- Value-added tax "VAT"
- Administrative costs
- Two versions of the Financial Reports

Payment Request: *"Bank account information"*

"Bank account information"

Payment receiver	
Name of the account owner	<input type="text"/>
IBAN number	<input type="text"/>
Account number (non IBAN)	<input type="text"/>
BIC/SWIFT code	<input type="text"/>
Additional information	Bank account information have not changed.

I hereby certify that the information contained in this request is complete, faithful and reliable.

Payment Request: "*Bank account information*"

- Bank account information stated in the Payment Request must **fully match** with the bank account information stated in the "*Financial Identification Form (FIF)*"
 - In case not: delays the payment to the Lead Partner's bank account (the MA's accounting department is not able make the payment due to inconsistent information)
- In case of any change in the bank account information:
 - Submit the new "*Financial Identification Form (FIF)*" to the MA

Payment Request: "*Bank account information*"

Finding (result of verification) #1:

The bank account information is incomplete. The bank account information is not stated at all in the Payment Request or it is not consistent with the FIF or it states e.g. "*Bank account information have not changed*".

MA's action:

- The MA requested clarification from the Lead Partner and gave guidance for the next reporting.
- The MA requested clarification and the Lead Partner informed that their bank account has been changed. The MA requested the Lead Partner to submit the new FIF.

Payment Request: "*Bank account information*"

Finding (result of verification) #2:

The bank account document annexed to the Payment Request is in Russian language only (the bank did not agree to use the programme template "FIF").

MA's action:

- The MA requested the Lead Partner to provide a version translated into English in order for the MA's accounting department to make the payment to the Lead Partner's bank account.

Payment Request: "Requested amount"

"Requested amount"

Type of the payment request	Interim payment	▼
Start date of the reporting period	08/10/2018	
End date of the reporting period	30/09/2019	
Requested amount	202 000,00	€

Payment Request: "*Requested amount*"

- Interim Payment Request is based on the **reported and verified costs** incurred during the reporting period
- "*Requested amount*" is calculated (multiplied) by using the funding percentage defined in the Grant Contract
- Example of Interim Payment Request:
 - Reported and verified costs of the reporting period (total amount of costs reported in the Consolidated financial report): **100 000 €**
 - Funding-% defined in the Grant Contract: **90 %**
 - "*Requested amount*": **90 000 €**
- **Note:** First pre-financing payment + interim payment(s) = maximum 80% of the grant
- **Note:** Only the First pre-financing payment is an advance payment. No advance payments are included in interim payment(s).

Payment Request: "Requested amount"

Grant Contract:

- Article 4.2.

"The Managing Authority undertakes to finance a maximum of xxx € equivalent to xx.xx% of the estimated total eligible costs of the Project; the final amount of the eligible costs shall be established in accordance with Articles 14 and 17 of Annex II"

- Article 5.2.

Payments shall be made as follows:

First pre-financing payment xxx € (30%)

Interim payments xxx € (50%)

Final payments xxx € (20%)

➤ **NOTE:** The MA pays the exact amount of interim payment to the Lead Partner's bank account based on the reported, verified and eligible project costs of the reporting period (Interim Financial Report)

Payment Request: "Requested amount"

Grant Contract: Annex II Conditions, Article 16 - Payment

16.1. Payment procedures are set out in Article 4 of the Grant Contract and correspond to one of the two options below:

Option 1

The Managing Authority pays the grant to the Lead Partner in the following manner:

The first pre-financing payment shall be 30% of the grant referred to in Article 4.2 of the Grant Contract.

Interim payments shall be made on the basis of expenditure incurred and reported by the Partners as a main rule within 45 days of the Managing Authority approving an interim report accompanied by:

- a request for payment,*
- an expenditure verification report.*

Payment Request: "Requested amount"

Grant Contract: Annex II Conditions, Article 16 - Payment

The amount of the interim payments shall conform to the percentage of the grant laid down in Article 3.2 of the Grant Contract. The total amount of the first pre-financing payment and interim payments shall not exceed 80 % of the grant.

Any expenditure incurred must be verified according to the provisions of this document. A request for payment must be accompanied by an interim report.

The balance as a main rule shall be paid within 45 days of the Managing Authority approving the final report, accompanied by a request for payment of the balance and the expenditure verification report.

Payment Request: "Requested amount"

Grant Contract: Annex II Conditions, Article 18 – Final amount of financing by the Managing Authority

18.1. The total amount to be paid by the Managing Authority to the Partners may not exceed the maximum grant laid down in the Grant Contract neither in terms of absolute amount nor in percentage.

*18.2. If the total costs of the Project at the end of the Project are less than the estimated total cost as laid down in the Grant Contract, **the Managing Authority's contribution shall be limited to the amount obtained by applying the percentage laid down in the Grant Contract to the total costs of the Project approved by the Managing Authority.***

Payment Request: "Requested amount"

Grant Contract: Annex II Conditions, Article 18 – Final amount of financing by the Managing Authority

18.3. *The grant may not produce a profit for the Partners. Profit is defined as a surplus of the receipts over the eligible costs approved by the Managing Authority. The receipts to be taken into account fall within one of the two following categories:*

- *Income generated by the Project;*
- *Unused funds from financial contributions specifically assigned by the Programme or other donors to the Project when the request for the payment of the final balance is made. Any such co-financing from the Programme or other donors will not be considered profit until the Partners submit a request for the final payment.*

Payment Request: "Requested amount"

Finding (result of verification) #1:

The "Requested amount" is not based on the reported and verified costs but e.g. on total amount for the interim payments defined in the Grant Contract (*Article 5.2 Payments shall be made as follows: First pre-financing payment, Interim payments, Final payment*).

MA's action:

- The MA paid the programme funding in accordance with the programme rules, that is based on the funding percentage defined in the Grant Contract (% of reported, verified and eligible total costs).

Payment Request: "*Verified amount*" and signature

"Verified amount"

- This means the total amount of costs verified by the Lead Partner and partners' auditors.
 - Example:
 - Total amount reported in the Financial Report (Lead Partner + partners): 100 000,00 €
 - Auditors (Lead Partner + partners) verified 85% of the total amount reported: 85 000,00 €
 - "*Verified amount*" is 85 000,00 €

Signature of the Payment Request

- Payment Request is signed by the Lead Partner organization person with the authority to sign documents.

Payment Request: "Verified amount" and signature

Finding (result of verification) #1:

The Payment Request is signed by the project manager who has no authority to sign documents.

MA's action:

- The MA requested the Lead Partner to submit the Payment Request signed by the person who has the authority to sign documents (e.g. Grant Contract).

Financial Report: InforEuro

InforEuro exchange rate and the column "*Exchange rate*"

- New rule 25.11.2019 "*Explanatory Note to the Lead Partners and partners implementing the Karelia CBC 2014-2020 projects*"
 - Date of invoice recorded in the general ledger = month of InforEuro
 - Remember to use all the decimals!
 - Example:
 - Date of invoice in the general ledger is **15.4.2020**
 - Month of InforEuro in the Financial Report is **April 2020 (88.1385)**
- **Note:** The new rule must be used in the Financial Reports submitted to the MA during the years 2020-2023!

Financial Report: InforEuro

Expenditure description	Expenditures incurred										Budget per heading
	Amounts according to the original invoice and/or receipt										Costs (in EUR)
	Number of the invoice/receipt	Date of the invoice/receipt in the accounting records/general ledger	Month of the cost originally incurred	Name of the currency (Euro or Rouble)	Total cost in original currency	Exchange rate	Total cost of the reporting period per heading (in EUR)	Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)	Cumulated costs per heading accepted by the Managing Authority before current report (in EUR)	Cumulated costs (from start of implementation to present report included) (in EUR)	
1. Staff											
Lead Partner RUS: Project Manager Ivan Ivanov, May 2019, 100%	10022	15.5.19	May 2019	Rouble	105 000,00	72,2891	1 452,50	105 000,00			36 000,00
Partner 1 FIN: Researcher Maria Suominen, May 2019, 41.67 %	5003	14.5.19	May 2019	Euro	1 666,80		1 666,80	1 666,80			40 000,00
Partner 2 RUS: Coordinator Sergei Morozov, May 2019, 22.92 %	12345	15.5.19	May 2019	Rouble	16 044,00	72,2891	221,94	16 044,00			5 500,00
Total staff							3 341,24	121 044,00	89 000,00	92 343,42	81 500,00

Finding (result of verification) #1:

InforEuro exchange rate reported in the Financial Report is a mixture of old rule and new rule.

MA's action:

- The MA requested to use the InforEuro exchange rate systematically, not selectively. Necessary corrections were made to the Financial Report and the difference in amounts was deducted as ineligible cost.
- **Note:** The MA can accept maximum the amount of costs reported in the Financial Report and verified by the auditor.

Financial Report: InforEuro and columns

InforEuro exchange rate and the columns "Name of the currency (Euro or Rouble)", "Total cost in original currency" and "Total cost of the reporting period per heading (in EUR)"

Expenditure description	Expenditures incurred										Budget per heading
	Amounts according to the original invoice and/or receipt										Costs (in EUR)
<p>A good invoice/receipt description answers to the questions: What? Where? When? Who? Why? Please add also calculation basis for instance under the heading "Travel"</p>	Number of the invoice/receipt	Date of the invoice/receipt in the accounting records/general ledger	Month of the cost originally incurred	Name of the currency (Euro or Rouble)	Total cost in original currency	Exchange rate	Total cost of the reporting period per heading (in EUR)	Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)	Cumulated costs per heading accepted by the Managing Authority before current report (in EUR)	Cumulated costs (from start of implementation to present report included) (in EUR)	

Financial Report: Columns

Basic rule

- Invoices must be reported in the Financial Report in their original value and converted into euros by using the InforEuro exchange rate (according to the month of invoice recorded in the general ledger)
- In case the original value of the invoice is in euros, it must be reported in the Financial Report in euros

Financial Report: Columns

- Example:
 - During the project group meeting in Joensuu 4.6.2018-6.6.2018 Igor Smirnov stayed in a hotel, the invoice for the accommodation for 2 nights is 138.00 euros (69.00 euros per night), including breakfast.
 - The invoice for the accommodation
 - has been recorded in the accounting records of the project in roubles: invoice 00900, date of the invoice is 15.6.2018.
 - is reported in the Financial Report under these three columns in the original currency of the invoice, 138.00 euros
 - must be reported under the column "*Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)*" in roubles

Financial Report: Columns

Finding (result of verification) #1:

The original invoice is in roubles but is reported in the Financial Report under these three columns in euros.

MA's action:

- The MA made the correction in the Financial Report. The invoice must be reported under the column "*Total cost in original currency*" in its original value, roubles. The MA deducted the difference in amounts as ineligible cost.
- Exceptions:
 - invoices paid by credit card
 - invoices included in the travel claim
- **Note:** The MA can accept maximum the amount of costs reported in the Financial Report and verified by the auditor.

Financial Report: Columns

General ledger and the columns *”Total cost in original currency”* and *”Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)”*

Expenditure description	Expenditures incurred										Budget per heading
	Amounts according to the original invoice and/or receipt										Costs (in EUR)
A good invoice/receipt description answers to the questions: What? Where? When? Who? Why? Please add also calculation basis for instance under the heading "Travel"	Number of the invoice/receipt	Date of the invoice/receipt in the accounting records/general ledger	Month of the cost originally incurred	Name of the currency (Euro or Rouble)	Total cost in original currency	Exchange rate	Total cost of the reporting period per heading (in EUR)	Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)	Cumulated costs per heading accepted by the Managing Authority before current report (in EUR)	Cumulated costs (from start of implementation to present report included) (in EUR)	

Financial Report: Columns

- In case all invoices are incurred **in national currency**:
 - total amount under the column "*Total cost in original currency*" fully matches with the total amount of general ledger (annex to the Financial Report)
- In case invoices are incurred **both in national currency and in foreign currency**:
 - fill out the column "*Amounts according to the general ledger (Euro or Rouble)*
Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)"
 - total amount under this column will then fully match with the total amount of the general ledger (annex to the Financial Report)

Financial Report and general ledger

- Example of general ledger (annex to the Financial Report):
 - **Must be:** Financial information of the general ledger is RUB 1 000 000,00 = Financial information of Financial Report is RUB 1 000 000,00
 - **MUST NOT BE:** General ledger RUB 1 000 000,00 = Financial Report RUB 1 000 500,00 or RUB 900 000,00
 - The MA requests clarification on the difference in amounts and a corrected version of the general ledger and/or the Financial Report

Finding (result of verification) #1:

Financial Report reports an invoice that is dated near the end date of the reporting period. The invoice is recorded in the general ledger for the first dates of the next reporting period.

MA's action:

- The MA deducted the invoice as an ineligible cost of the reporting period. The invoice shall be reported in the Financial Report for the same reporting period as it is recorded in the general ledger
- **Keep in mind the basic rule: general ledger = Financial Report**

Finding (result of verification) #2:

Financial Report reports a salary cost of October. The salary cost of October is recorded in the general ledger of November. The reporting period ends on 31 October.

MA's action:

- The MA deducted the salary cost of October as an ineligible cost of the reporting period. The salary cost shall be reported in the Financial Report for the same reporting period as it is recorded in the general ledger
- **Keep in mind the basic rule: general ledger = Financial Report**

Finding (result of verification) #3:

Financial Report reports an invoice which is incurred before the start date of the project (Grant Contract).

MA's action:

- The MA deducted the invoice as an ineligible cost. The invoice was incurred before the start date of the project.

Financial Report and general ledger

Finding (result of verification) #4:

General ledger is in roubles. Financial Report reports invoices originally incurred in roubles and in euros. Only the invoices originally incurred in euros are reported in roubles under the column *Amounts according to the general ledger (Euro or Rouble)* *Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)*". Total amount of general ledger does not fully match with the total amount under this, or any other, column in the Financial Report.

MA's action:

- The MA requested that in the next Financial Report(s), in similar cases, all the invoices must be reported in roubles under the column *Amounts according to the general ledger (Euro or Rouble)* *Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)*"
- Keep in mind the basic rule: general ledger = Financial Report

Financial Report: Realized finance

Spreadsheet "*REALIZED FINANCE*"

- "*1. Own contribution, financial contribution received from external donors*"
 - Lead Partner reports the amounts in accordance with the recording of them in the Lead Partner and each partner's general ledger

- "*2. Own contribution addressed as project cost reported in the final financial report*"
 - Lead Partner reports these amounts as per Lead Partner and per each partner only in the Final Financial Report
 - Check the calculation basis for exact amounts per Lead Partner and per each partner from the project budget and Partnership Agreements

Financial Report: Realized finance

- Example of Final Financial Report:
 - Total amount of reported, verified and eligible costs of the project during the implementation period of the project: **100 000 €**
 - Funding-% defined in the Grant Contract: **90 %**
 - Programme contribution: **90 000 €**
 - Project own contribution: **10 000 € (10%)**
 - show the breakdown per Lead Partner, per each partner and per external donor
 - **Must be:** Total costs **100 000 €** = Total financing **100 000 €** (90 000 € + 10 000 €)

General ledger (project's cost centre/project code)

- Lead Partner and partners' general ledgers (annex):
 - General ledger is a mandatory annex to the Financial Report
 - General ledger is the dominant document and the Financial Report can be considered as its explanatory document
 - Financial reporting is based on the general ledger and the financial information in it
 - Reporting period of the general ledger = reporting period of the Financial Report
 - Amounts in the general ledger = amounts in the Financial Report
 - It is very important that the amounts between these two documents are consistent and fully match (audit trail)
 - One of the columns in the Financial Report must show the total amount of general ledger

General ledger (project's cost centre/project code)

- The MA accepts as eligible costs maximum the amount that is recorded
 - in the Lead Partner and each partner's general ledger
 - for the correct reporting period

- Amounts that are not recorded in the general ledger (annex)
 - Must not be reported in the Financial Report
 - In case these amounts are reported in the Financial Report:
 - The amounts are considered as ineligible and the MA deducts those amounts in the Financial Report

- Lead Partner and each partner must check that the general ledger fully matches with the Financial Report before submitting these documents to the auditor and to the MA

General ledger (project's cost centre/project code)

- Check especially:
 - General ledger shows a full list of all the invoices reported in the Financial Report
 - Financial information of each invoice recorded in the general ledger matches with the financial information of each invoice reported in the Financial Report (e.g. number and date of invoice)
 - General ledger indicates the number of cost heading for each invoice
 - Reporting period of general ledger matches with the reporting period of Financial Report
 - Total amount of general ledger matches with the total amount of Financial Report (relevant column)

General ledger (project's cost centre/project code)

- Check especially:
 - General ledger clearly indicates those invoice which are recorded in the general ledger BUT NOT REPORTED in the Financial Report (e.g. invoices not related to the project):
 - By using a ballpoint pen:
 - Indicate those invoices in the general ledger
 - Deduct the amounts of those invoices from the total amount of the general ledger
 - Calculate the new total amount which fully matches with the total amount reported in the Financial Report
- Keep in mind the basic rule: general ledger = Financial Report

General ledger (project's cost centre/project code)

- Final checks:
 - Clear audit trail of each invoice:
 - Invoice ↔ project accounting (project cost centre / project code): general ledger
↔ Financial Report
 - Report in the Financial Report **only** invoices that are recorded in the general ledger.
 - Invoices that are not recorded in the general ledger are ineligible and the MA deducts them in the Financial Report
 - General ledger is dated and signed (person authorized to sign documents)

General ledger (project's cost centre/project code)

- Final checks:
 - Lead Partner must check that the total amount of each partner's general ledger matches with the total amount of their Financial Report (relevant column)
 - **In case not:** Lead Partner shall request the partner to submit a general ledger that matches with the Financial Report (relevant column)
 - **Clear audit trail** of each invoice from the general ledger to the Financial Report and from the Financial Report to the general ledger exists
 - Verification of project costs is fast and no clarifications are needed (e.g. project auditors, MA, auditors performing the sample checks of projects)

General ledger

(project's cost centre/project code)

Finding (result of verification) #1:

General ledger submitted to the MA shows only the total amount per cost heading (no audit trail).

MA's action:

- The MA requested a general ledger that fulfills the programme requirements.

General ledger

(project's cost centre/project code)

Finding (result of verification) #2:

General ledger does not show the full list of all invoices and/or indicate the number of cost heading for each invoice and/or the clear total amount (no audit trail).

MA's action:

- The MA requested a general ledger that fulfills the programme requirements.

General ledger

(project's cost centre/project code)

Finding (result of verification) #3:

All general ledgers submitted to the MA were unclear, incomplete and/or missing (no audit trail).

MA's action:

- The MA requested a general ledger that fulfills the programme requirements.

General ledger

(project's cost centre/project code)

Finding (result of verification) #4:

General ledger does not match with the Financial Report. The general ledger does not record an invoice which is reported in the Financial Report.

MA's action:

- The MA deducted the invoice as ineligible cost in the Financial Report. The invoice is not recorded in the general ledger annexed to the Financial Report.

General ledger

(project's cost centre/project code)

Finding (result of verification) #5:

General ledger does not match with the Financial Report. The general ledger records also invoices which are not project-related, i.e. organization invoices.

MA's action:

- The MA requested a general ledger where those invoices are clearly indicated and where the total amount is matching with the total amount of the Financial Report (relevant column).

VAT is an eligible cost ONLY in the following cases:

- Document proving the eligibility of VAT for project costs is submitted to the auditor for expenditure verification and to the MA
- VAT is recorded in the general ledger (annex to the Financial Report)
- VAT is reported in the Financial Report that is submitted to the auditor for expenditure verification and to the MA
- Eligibility of VAT for project costs has been verified by the auditor

Finding (result of verification) #1:

Financial Report submitted to the auditor for expenditure verification excludes the VAT. Therefore the auditor has not verified the eligibility of VAT for project costs. Financial Report submitted to the MA reports the costs including the VAT.

MA's action:

- The MA deducted the VAT in the Financial Report. The VAT is an ineligible cost because the auditor has not verified the eligibility of VAT.

- In case the finding concerns the partner's financial reporting:
 - Lead Partner's auditor shall report this as a finding in the Expenditure Verification Report (e.g. headline "3.3 Consolidated Financial Report")

Administrative costs

- Administrative costs are reported in the Financial Report ONLY under the spreadsheet "*Consolidated financial report*" ("*7. Administrative costs (maximum 7% of 6, total eligible costs of the Action of heading 1-5)*")
 - Lead Partner reports these costs as one entry (total amount of Lead Partner + partners)
 - no breakdown of these costs as per Lead Partner and per partner

- The MA accepts the amount of administrative costs:
 - in accordance with the Grant Contract
 - maximum the amount reported in the "*Consolidated financial report*"

- **NOTE:** The spreadsheet "*Financial report*" of the Lead Partner and each partner does not include the cost heading "*Administrative costs*". Therefore, these costs are not reported in the individual Financial Reports of the Lead Partner and each partner.

Finding (result of verification) #1:

According to the Grant Contract 7.00% of administrative costs are accepted to the project. The project reports in the Financial Report more than 7.00% of administrative costs.

MA's action:

- The MA accepted 7.00% of administrative costs and deducted the surplus in the Financial Report as ineligible cost of the project.

Finding (result of verification) #2:

According to the Grant Contract 5.47% of administrative costs are accepted to the project. The project reports in the Financial Report 4.86% of administrative costs.

MA's action:

- The MA accepted 4.86% of administrative costs. The MA accepts maximum the amount of administrative costs reported by the project.

Two versions of the Financial Reports

- Financial Reports submitted to the auditor and to the MA must be **exactly the same version** (audit trail)
 - Partners shall submit to the Lead Partner and to the auditor exactly the same version
 - Lead Partner shall submit to the auditor and to the MA exactly the same version

- Lead Partner shall deduct in the partners' Financial Reports the invoices which are not in accordance with the project budget
 - Lead Partner makes the deduction in the partner's Financial Report by
 - adding a row under the invoice in question
 - deducting the ineligible amount + giving grounds for the deduction under the column A (use e.g. red colour)

 - It is important that both of these two rows (original amount and deducted amount) are shown in the Financial Report (audit trail)

Example of deduction made by the Lead Partner in the partner's Financial Report

Expenditure description	Expenditures incurred										Budget per heading
	Amounts according to the original invoice and/or receipt										Costs (in EUR)
	Number of the invoice/receipt	Date of the invoice/receipt in the accounting records/general ledger	Month of the cost originally incurred	Name of the currency (Euro or Rouble)	Total cost in original currency	Exchange rate	Total cost of the reporting period per heading (in EUR)	Amounts according to the general ledger (Euro or Rouble) Note! The amounts reported under this column must fully match with the amounts recorded in the general ledger (annex to the financial report)	Cumulated costs per heading accepted by the Managing Authority before current report (in EUR)	Cumulated costs (from start of implementation to present report included) (in EUR)	
1. Staff											
Partner 2 RUS: Coordinator Sergei Morozov, May 2019, 22.92 %	12345	15.5.19	May 2019	Rouble	16 044,00	71,9802	222,89	16 044,00			5 500,00
Partner 2 RUS: Coordinator Sergei Morozov, May 2019, 22.92 %: share of pension fund cost not related to the project is deducted	12345	15.5.19	May 2019	Rouble	-2 000,00	71,9802	-27,79	-2 000,00			
Total staff							3 348,42	121 044,00	89 000,00	92 343,42	81 500,00

Two versions of the Financial Reports

- Lead Partner submits to the MA all the Financial Reports as one file within one month after the end date of the reporting period
 - The MA's decision on the eligibility of costs is based on this version of the Financial Report (Lead Partner + each partner)
 - Updated version(s) of the Financial Report (Lead Partner + each partner) are not accepted (e.g. submitted as an annex to the Payment Request)
- **NOTE:** Findings, e.g. invoices deducted by the MA and the auditor are always considered as ineligible costs.

Finding (result of verification) #1:

Financial Report submitted to the auditor reports an invoice which is verified by the auditor. The Financial Report submitted to the MA does not report this invoice. The Lead Partner asks the MA to accept the invoice.

MA's action:

- The MA requested the Financial Report that reports also this invoice (version submitted to the auditor). The Lead Partner submitted the Financial Report including the invoice. The MA accepted the invoice because it was recorded in the general ledger for the correct reporting period, reported to the auditor and verified by the auditor.

Two versions of the Financial Reports

Finding (result of verification) #2:

Operational Unit of the MA checked the Financial Report (version submitted to the MA within one month from the end date of the reporting period) and informed the results to the Lead Partner (ineligible costs). Lead Partner submitted an updated Financial Report to the MA as an annex to the Payment Request (excluding those ineligible costs).

MA's action:

- The MA did not accept two different versions of the Financial Report. The MA deducted those ineligible costs in the Financial Report (original version) because the ineligible costs were based on the MA's verification result. In addition to that, the Lead Partner deducted those costs after the MA's verification results were available.
- **NOTE:** Findings, e.g. invoices deducted by the MA and the auditor are always considered as ineligible costs.

2. Observations made by the Operational Unit of the MA regarding the Financial Report

Specific topics

- Financial Report and the column A
 - Staff costs
- Financial Report and PROMAS
 - Acquisition List
 - List of employees

1. Staff costs

- Description for the part-time employees' working time must state:
 - percentage worked for the project in that specific month
 - Workpackage (WP) to which the salary relates to
 - Example:
"Igor Smirnov, salary of October 2019 + obligatory social security charges, working time 24 %, WP 3"

- Document and explain the difference between the number of "employees budgeted" and "employees reported"
 - Example: Budget states 3 employees BUT the Financial Report reports 5 employees
 - Explain the reason for the difference (number of employees, salaries, workpackages)

Acquisition List

- Check that the procurements listed in the "*Acquisition List*" uploaded in PROMAS is matching with the procurements reported in the Financial Report (audit trail)
 - In case not: Explain the reason for the difference

List of employees

- Check that the names of employees listed in the "*List of employees*" uploaded in PROMAS is matching with the names of employees reported in the Financial Report (audit trail)
 - In case not: Explain the reason for the difference
- In case employee(s) work for the projects based on "internal outside activity" instead of employment contract, inform the MA (Operational Unit) in advance
- In case of need for the overtime work and/or work e.g. during the weekend, inform the MA (Operational Unit) in advance

3. Observations made by the Financial Unit of the MA regarding the Expenditure Verification Report (including annexes)

Specific topics

- Role of Partner and accounting model
- Report for Expenditure Verification and Factual Findings (Annex 2)
- Checklist for the Expenditure Verification (Annex 3)
- Two versions of Financial Report

What does the following terminology mean?

Role of the Partner in the Project:	<input type="checkbox"/>	Lead Partner
	<input type="checkbox"/>	Reporting Partner
	<input type="checkbox"/>	Invoicing Partner
In case of the Invoicing Partner:		
<ul style="list-style-type: none"> ▪ Name of the Reporting Partner: 		
Accounting model of the Project:	<input type="checkbox"/>	Decentralized accounting model
	<input type="checkbox"/>	Partly decentralized accounting model

Role of partner and accounting model

Role of the Partner in the Project (Programme Manual, "15.1 Accounting models"):

Invoicing Partner

- Role needs a prior approval from the Lead Partner and the MA (only minor salary and travel costs)
- Does not submit a Financial Report or an Expenditure Verification Report to the MA
- Prepares a summary of its costs (including annexes such as copies of invoices + supporting documents + general ledger)
- Submits the summary (including annexes) of its costs to another partner, to a so-called "Reporting Partner"

Reporting Partner

- Submits the Financial Report and Expenditure Verification Report to the Lead Partner (Financial Report = costs of Reporting Partner + Invoicing Partner)
 - Invoicing Partner's costs are clearly indicated in the Financial Report
- **NOTE:** Reporting Partner's auditor performs the expenditure verification (costs of Reporting Partner + Invoicing Partner)

Programme Manual, "15.1 Accounting models":

Two accounting models of the Project

1. Decentralized accounting model

- Project costs of the Lead Partner and each Partner
- All Partners are "Reporting Partners"
- Lead Partner and each Partner prepare their own Financial Report
- Auditors perform the expenditure verification to the costs of the Lead Partner and each Partner

2. Partly decentralized accounting model

- Project costs of the Lead Partner and each Partner
 - At least one of the Partners is an "Invoicing Partner"
 - Invoicing Partner does not prepare its own Financial Report BUT reports its costs to the another Partner, to a so-called "Reporting Partner"
 - Reporting Partner reports the costs in the Financial Report (costs of Reporting Partner + Invoicing Partner)
- **NOTE:** Reporting Partner's auditor performs the expenditure verification (costs of Reporting Partner + Invoicing Partner)

Annex 2: Reporting the results of findings under the headlines

- Submit complete reports (e.g. Annexes 2 and 3) to the MA
 - Including also the headlines e.g. "4.4. Final Financial Report", even though the question is about the Interim Report
- Make the Report user-friendly:
 - It is recommended to write the comments and findings on a separate row, not on the same row with the question

Annex 2: headline "3.2 Financial Report" *Example of a user-friendly reporting*

1. What has been verified, i.e.

Write the comments and findings here. Not immediately after the question "1. What has been verified, i.e.". Leave an empty row between the question and your comments/findings.

2. Irregularities (one-time or systemic), difficulties, exceptions, deviation and/or material misstatements found:

Write the comments and findings here. Not immediately after the question "2. Irregularities (one-time or systemic), difficulties, exceptions, deviation and/or material misstatements found:". Leave an empty row between the question and your comments/findings.

3. Recommendations and follow-up measures (including previous and current reporting periods):

Write the comments and findings here. Not immediately after the question "3. Recommendations and follow-up measures (including previous and current reporting periods):". Leave an empty row between the question and your comments/findings.

Report for Expenditure Verification and Factual Findings (Annex 2)

Headline '2. Expenditure, revenue and own contribution':

<u>Partner's Financial Report</u>	Budget €	Reported €	Verified €	ECR %	Ineligible costs €
<u>Consolidated Financial Report</u>	Budget €	Reported €	Verified €	ECR %	

Finding (result of verification) #1:

The auditor excludes the amounts of ineligible costs under the column "Verified €".

MA's action:

- Reported costs considered ineligible by the auditor are still considered verified costs and should be included in the column "Verified €". It is important to remember to include ineligible costs in the amount of total verified costs, so that the correct Expenditure Coverage Ratio "ECR" can be calculated.

Report for Expenditure Verification and Factual Findings (Annex 2)

Headline '2. *Expenditure, revenue and own contribution*':

<u>Consolidated Financial Report</u>	Budget €	Reported €	Verified €	ECR %
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Finding (result of verification) #2:

The auditor does not consider the "Administrative costs" as verified costs.

MA's action:

- Administrative costs are considered verified costs. In the column "Verified €", the sum of administrative costs should be added to the sums, where appropriate. It is important to remember to include administrative costs as verified costs, so that the correct Expenditure Coverage Ratio "ECR" can be calculated.
- Please see also Annex 2, question "5. *Total amount of Administrative costs reported in the Consolidated Financial Report is in accordance with the percentage defined in the Article 4.3. of the Grant Contract*".

Report for Expenditure Verification and Factual Findings (Annex 2)

Headline '3.4 Rules for accounting and record keeping', "3.5 Reconciling the Financial Report to the accounting system and records":

1. What has been verified, i.e.

- List of documents and other information on which the verification is based on.
- Description of verification procedures (where relevant).

2. Irregularities (one-time or systemic), difficulties, exceptions, deviation and/or material misstatements found:

There is no discovered irregularities, difficulties, exceptions, deviations or material misstatements

Finding (result of verification) #3:

The auditor does not answer the question "1. What has been verified, i.e...".

MA's action:

- The MA recommends accuracy in future reporting and to answer all the given questions.

Checklist for the Expenditure Verification (Annex 3)

Headline '3.5 Reconciling the Financial Report to the accounting system and records', question 3:

3. Total amount of expenditure reported in the Financial Report is consistent with the total amount of project's general ledger (in national currency).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #1:

Total amount of general ledger submitted to the MA does not match with the total amount of Financial Report. The Lead Partner submits a different version to the auditor and to the MA.

MA's action:

- The MA requested the Lead Partner to submit a general ledger that fully matches with the Financial Report.

Checklist for the Expenditure Verification (Annex 3)

Headline '4 *Eligibility of the reported expenditure*':

What does the "principle of sound financial management, particularly regarding economy and efficiency" mean?

According to the Guidelines for the Expenditure Verification (Annex 1) this principle means:

"...(expenditure incurred is in line with the planned activities and at a reasonable cost)...(the activities/outputs/results are achieved at the best price, i.e. the results to be achieved justifies the expenditure)...How the Partner organization has organized the financial management of the project, its resources, internal circuits, systems and reporting...how the requirement of cost-effectiveness of projet expenditure is fulfilled"

Checklist for the Expenditure Verification (Annex 3)

Headline '4 Eligibility of the reported expenditure':

'List of supporting questions'	Yes	No	N/A	Comments
<p>The principle of sound financial management, particularly regarding economy and efficiency is complied.</p> <p>Please describe how this is ensured.</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The budget have been followed

Finding (result of verification) #2:

In addition to the comment "*The budget have been followed*", the auditor could explain how the Partner organization has organized the financial management of the project and how it has ensured the cost-effectiveness of the project. Alternatively, the auditor can explain this in Annex 2 (headline "*4 Eligibility of the reported expenditure*").

Finding (result of verification) #3:

The auditor does not give any and/or more detailed description.

MA's action:

- The MA recommends to make a brief summary. Examples of auditor's comment: "*Partner organization's internal control environment has been documented*", "*The resources used by the institution as part of its activities were available in time, in the appropriate quantity and quality, and at the most optimal price...*"

Checklist for the Expenditure Verification (Annex 3)

Headline '4.1.1. Ineligible costs, e.g. Value Added Tax, interests':

'List of supporting questions'	Yes	No	N/A	Comments
1. Reported expenditure include certain taxes and/or the Value Added Tax ('VAT').	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Clause 2, Article 146 of the Tax Code of Russia
2. Value Added Tax ('VAT') is an eligible expenditure for the project.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Finding (result of verification) #4:

The above image shows a contradiction. VAT is actually an eligible cost for this partner and this is stated in Annex 2 of this particular report. Based on Annex 3, however, it seems as if VAT has been included in the costs, even though it is not eligible and thus should be deducted from the payment. That is not the case.

MA's action:

- There are sometimes inconsistencies in this section. If costs include VAT and VAT is eligible, check "Yes" for questions 1-2. Remember to add description for questions 1-4 when needed. It is important to make sure that Annexes 2 and 3 are consistent about the role of VAT in the reporting. Contradictions demand the MA to ask for clarifications.

Checklist for the Expenditure Verification (Annex 3)

Headline '4.2 Reported expenditure, Headline 'Staff (Financial Report heading 1)'':

<p>4. Full-time and part-time employees: Russian Project employee(s) work based on "internal outside activity".</p> <p>In case yes, please explain the names of these employees.</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<p>5. Full-time and part-time employees: Russian Project employee(s) work based on "internal outside activity", fulfil the following requirements:</p> <p>a) The work is based on employment contract, not on a service contract.</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>All Project employee(s) work based on employment contract, not on a service contract.</p>

Finding (result of verification) #5:

The auditor has answered "No" to the question 4 and "Yes" to the question 5. The answer is contradictory. In case not any of the employees work based on "internal outside activity", the answer to the question 5 should be "N/A".

MA's action:

- The MA recommends accuracy in future reporting.

Checklist for the Expenditure Verification (Annex 3)

Headline '4.2 Reported expenditure, Headline 'Staff (Financial Report heading 1)''

<p>5. Full-time and part-time employees: Russian Project employee(s) work based on "internal outside activity", fulfil the following requirements:</p> <p>Please explain the arrangement, and</p> <ul style="list-style-type: none"> - whether the salary for these two employment contracts ("internal outside activity" and actual project work assignment) is consistent with each other - what are the maximum working hours per day, per week and per month according to the national employment law, organization's normal working hours and as reported by the project in the Financial Report. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #6:

The auditor does not explain the arrangement.

MA's action:

- The MA recommends accuracy in future reporting and to answer the given question.

Checklist for the Expenditure Verification (Annex 3)

Headline '4.2 Reported expenditure, Headline 'Staff (Financial Report heading 1)'':

15. Full-time and part-time employees: Partner organization has a reliable method how to monitor the (total) working time and the length of the working day of each project employee.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16. Full-time and part-time employees: Partner organization has principles, rules and method to accept overtime work and these are properly documented.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17. Full-time and part-time employees: It is ensured that employees have not worked overtime.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Finding (result of verification) #7:

The auditor has answered "No" to the question 17. However, the auditor does not give further explanation (why it is not monitored whether the employees work overtime or not). Or is it an error and the auditor meant to answer "Yes" to this question?

MA's action:

- The MA recommends accuracy in future reporting and, in case of any deviation, to explain it shortly.

Checklist for the Expenditure Verification (Annex 3)

Headline "Travel (Financial Report heading 2)":

<p>8. In case of own car or company car:</p> <p>a) Option 1: Costs of km-reimbursement and the use of the car are based on driver's log, i.e. exact mileage recorded in the driver's log, the unit rate, total cost of the travel exists.</p> <p>b) Option 2: Summary list of fuel expenses showing the distance covered, the average consumption of the car used and the fuel cost exists.</p> <p>It is ensured that the compensation of using own car or company car does not include both the options (Option 1 km-reimbursement and Option 2 fuel costs). Which of these two options is used?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #8:

The auditor does not give an answer to the question "Which of these two options is used?"

MA's action:

- The MA recommends accuracy in future reporting and to answer the given question.

Checklist for the Expenditure Verification (Annex 3)

Headline "Travel (Financial Report heading 2)":

10. It is ensured that 'fees' or 'remunerations' are not paid for attending courses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #9:

The auditor does not give an answer to the question.

MA's action:

- The MA recommends accuracy in future reporting and to answer the given question.

Checklist for the Expenditure Verification (Annex 3)

Headline "External expertise and services (Financial report heading 5)":

<p>2. Partner organization has already earlier carried out the competitive bidding on those procurements purchased for the project.</p> <p>Please explain what are these procurements.</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #10:

The auditor does not give an answer to the question "Please explain what are these procurements?"

MA's action:

- The MA recommends accuracy in future reporting and to answer the given question.

Checklist for the Expenditure Verification (Annex 3)

Headlines regarding procurements:

'Equipment and supplies (Financial Report heading 3)', 'Small-scale investments (Financial Report heading 4)', 'External expertise and services (Financial Report heading 5)', 'Investments (Financial Report heading 7)':

<p>1. Procurement procedures are performed in accordance with the national laws and Programme requirements.</p> <p><i>* e.g. threshold values, market rates, no procurement artificially divided into smaller entities in order to avoid competitive bidding, transparency of procurement)</i></p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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Finding (result of verification) #11:

Annex 3 does not request the auditor to list the procurement procedure used per procured item. However, a short list under each relevant headline/heading (e.g. question 1) would have an informative value. Some auditors have already decided to add this short list in Annex 3.

MA's action:

- The MA recommends to use this option in future reporting.

Checklist for the Expenditure Verification (Annex 3)

Headline "4.3. Revenues (Financial Report heading 9) and own contribution"

<p>1. Revenue incurred in project is recorded in the project's general ledger.</p> <p><i>* e.g. the sales of tickets to an event organized by the project</i></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<p>1. Revenue incurred in project is recorded in the project's general ledger.</p> <p><i>* e.g. the sales of tickets to an event organized by the project</i></p>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	We have verified that no revenues of the Action exist

Finding (result of verification) #12:

Question and comment above: Annexes 2 and 3 state about revenues "N/A".

Question and comment below: Annexes 2 and 3 state about the revenues "We have verified that no revenues of the Action exist"

MA's action:

- The MA recommends to comment in accordance with the question and comment below. That comment is more informative.

Checklist for the Expenditure Verification (Annex 3)

Headline "Finalizing the verifications of the Interim and Final Reports"

Annex 1 Guidelines for the Expenditure Verification, headline "3.2. *Value as principle factor*" says e.g.

- *"Value should be the principle factor used by the Auditor to select expenditure items or classes of expenditure items for verification..."*
- *"Auditor ensures that different type and different value of expenditure items are selected for the verification..."*
- *"The verification coverage of expenditure items should not mean a selection of high value expenditure items only as the Auditor shall seek to cover all expenditure when selecting items for verification".*

Checklist for the Expenditure Verification (Annex 3)

Headline "Finalizing the verifications of the Interim and Final Reports"

<p>3. If less than 100% is verified, please indicate for which budget headings a sample has been applied and describe the sampling method.</p>	<p>A sample has been applied to all budget headings that are reported. A sampling method of highest value selection has been applied to invoices. A sample from all project employees has been used when verifying salaries. Focusing on salaries that are based on time sheets where not all hours are allocated to the project.</p>
<p>3. If less than 100% is verified, please indicate for which budget headings a sample has been applied and describe the sampling method.</p>	<p>Travel, staff and external expertise and services, haphazard sampling</p>
<p>4. Verification coverage of expenditure items reported</p>	<p>73% - 73% - 73%</p>

Finding (result of verification) #13:

Examples of sampling method used by the auditors. Other method used by the auditor " *External expertise and services were verified 100%. All other budget headings were sampled. Sample was minimum 50% and it was based on auditor's judgement. Overall ECR% was 73%*".

MA's action:

- The MA recommends that the application of verification methods described in the Annex 1 Guidelines (headline "3. Verification methods of expenditure") is ensured in all circumstances.

Two versions of Financial Report

Finding (result of verification) #1:

Partner submits to the MA two versions of the Financial Report. The original version of the Financial Report submitted to the MA (within one month after the end date of the reporting period) and to the auditor reports a travel invoice. The auditor finds this travel invoice ineligible and recommends the Partner to exclude this invoice in the Financial Report. The Partner submits to the MA an updated Financial Report excluding this invoice. The auditor does not report the ineligibility of travel invoice as a finding in Annex 2.

MA's action:

- The MA requested clarification from the Partner by email regarding the difference in amounts between these two Financial Reports. The Partner explained the reason for the difference. The MA deducted the travel invoice in the Financial Report (original version submitted to the MA within one month after the end date of the reporting period). Partner deducted the invoice after the expenditure verification and based on the auditor's advice.
- **NOTE:** Findings, e.g. invoices deducted by the MA and the auditor are always considered as ineligible costs
- **NOTE:** The MA's decision on the eligibility of costs is based on the original version of the Financial Report (Financial Report submitted to the MA within one month after the end date of the reporting period)

4. Communication

- Communication (Lead) Partner ↔ auditor
 - Lead Partner shall submit to the auditor:
 - Payment Order
 - Lead Partner's Financial Report accepted by the MA
 - Consolidated financial report accepted by the MA
 - Each partner shall submit to the auditor:
 - Partner's Financial Report accepted by the MA
- **NOTE:** Keep your auditor informed about the MA's verification results and eligibility/ineligibility of costs

5. Final financial reporting

Final financial reporting

- Start preparing the financial reporting well before the end date of the reporting period (e.g. once a month)
 - This makes the reporting process less laborious and makes it easy to meet the reporting deadlines
 - Check once again that the Financial Report fully matches with the general ledger

- Final Financial Report
 - All costs are incurred (e.g. delivered and installed) during the implementation period, not after the end date of the project
 - All costs must be paid before submitting the Final Report
 - All costs are recorded in the general ledger by the end date of project
 - **Exception:** Costs related to the expenditure verification and budgeted evaluation of the project
 - List these costs in the Financial Report and report the date of payment
 - Record these costs in the project's general ledger and annex the general ledger to the Financial Report

6. Advantages of good-quality reporting

Advantages of the good-quality reporting

Financial reporting which fulfils all the programme requirements:

- Fast verification process at the auditor and at the MA
- No need for clarification requests
- Fast payment processing times and payment of programme contribution to the Lead Partner's bank account
- Cuts down the number of projects waiting for the processing of their financial reporting (waiting list of projects' Payment Requests)
 - all projects receive their payment fast
 - MA processes the financial reporting in the order of reception and registration of the Payment Request at the MA (hard copy version of the signed Payment Request)

Advantages of the good-quality reporting

- The MA draws the conclusions about the eligibility of project costs based on the following documents:
 - Financial Report and Consolidated financial report
 - General ledger (invoices are not annexed, if needed, submitted to the MA upon request)
 - Expenditure Verification Report (including annexes)
- In case the financial information matches between these documents:
 - The Payment Order is drawn up soon
 - Lead Partner and partners have no need to provide clarification and can use their time for the implementation of project activities
- In case the financial information is not matching between these documents:
 - MA submits clarification request(s) to the Lead Partner

In case you have any questions, please send us email to the following email address:

kareliacbc@kareliacbc.info

You can send your questions in English, Finnish and Russian.

KARELIA

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Thank you for your attention!

Material available at the Programme website:

<https://kareliacbc.fi>



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