

# KARELIA

CBC // Cross-border cooperation



## Launching event: Workshop 2. Finances

Petrozavodsk, 6.9.2018

Vuokatti, 4.10.2018



5.10.2018

## Important documents

### Grant Contract and its annexes:

- Annex I Project Plan
- Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme
- Annex III Project Budget

### Other:

- Award of procurement contracts by Russian private beneficiaries
- Terms of Reference for an expenditure verification of a grant contract
- Partnership Agreement
- Programme Manual

## Programme Manual

- Part A Application
  - Part B Implementation
  - **Part C Financial management**
  - Part D Communication
- Lead Partner and each partner shall familiarize themselves with the Programme Manual **before**
- the project accounting is established
  - any project cost is incurred

## Templates for the financial reporting

- Financial Report
  - Expenditure Verification Report and its annexes
  - Financial Identification Form ('FIF')
  - Lead Partner's checklist
  - Timesheet for part-time employee
- Available for downloading at the Programme's website [www.kareliacbc.fi](http://www.kareliacbc.fi)

## Financial responsibilities

- Lead Partner:
  - Overall responsibility for the implementation of the project
  - Receives Programme financing and pays a part of it to the partners
  - Ensures the sound financial management of the project
  - Organizes project accounting according to the Programme rules
  - Ensures that the costs reported in the partners' Financial Reports are in accordance with the budget
  - Deducts the partner's costs which are not in accordance with the budget
  - Ensures that partners' costs are verified by competent auditor (Programme rules)
  - Is responsible for the payment of amount recoverable to the MA
  - Has the final financial responsibility of the project's finances
  - Informs all partners about the Programme requirements

## Financial responsibilities

- Partner (Invoicing Partner and Reporting Partner):
  - Ensures the sound financial management of the project
  - Organizes the project's financial management and financial reporting in accordance with the Programme rules
  - Respects the Programme rules (e.g. the eligibility of project costs, procurement rules)
  - Ensures that its share of own contribution is realized in accordance with the budget and Partnership Agreement
  - Pays its share of the amount recoverable to the Lead Partner

## Invoicing Partner

- Only minor salary and travel costs incur during the implementation period of the project
- Requires Lead Partner and MA's prior approval
- Role is described in the Partnership Agreement
- Invoicing Partner and Reporting Partner shall be from the same country
  - "Reporting Partner" in this case is another partner or the Lead Partner
- Ensures that the Programme rules are applied (e.g. project accounting, eligibility of costs)

## Invoicing Partner

- Submits an invoice about its project-related costs to the Reporting Partner
- Invoice shall be clear, informative and understandable, and includes necessary annexes:
  - Copy of each original invoice
  - Supporting documents to the invoices (e.g. travel claims including train/flight/bus tickets)
  - Accounting material (e.g. general ledger on invoiced project costs)



## Reporting Partner

Upon reception of the Invoicing Partner's invoice, the Reporting Partner:

- Checks the invoice and its annexes (e.g. all costs are related to the project, calculation basis, in accordance with the budget)
  - Records the invoice of the Invoicing Partner under a partner-specific account in its project accounting
  - Reports the Invoicing Partner's costs in the Financial Report
    - Invoicing Partner's costs are clearly indicated in the Financial Report
- The difference:
- Only the Reporting Partner draws up the Financial Report (incl. costs of Reporting Partner and Invoicing Partner)
  - Invoicing Partner's costs are verified by the Reporting Partner's auditor

## Project's financial management

- Accounting model (decentralized or partly decentralized)
- Accounting records (accrual double-entry accounting system, records only project-related costs)
- General ledger
- Bank account details
- Financial reporting and its templates
- Expenditure verification, its templates and procedures
- Reporting deadlines (e.g. invoicing partner to reporting partner, reporting partner to auditor, reporting partner to lead partner)

## Project's financial management

- Eligible costs and ineligible costs
- Responsibility for ineligible costs
- Eligibility of value-added tax ('VAT')
- Procurements and procurement procedures
- Revenues (also revenues not foreseen by the project)
- Own contribution
- Communication on problems (e.g. budget, realization of finances)
- Procedures for recovery
- Monitoring system (budget vs. realized project costs + realized finances)

## Value-added tax ('VAT')

- Lead Partner, reporting partner, invoicing partner
- In case the VAT is an eligible cost for the project:
  - Official document showing tax exemption (issued by the Head of accounting department and/or the Tax Authority)
  - Submitted for each project
- Official document is submitted to the auditor for expenditure verification and to the MA
- VAT is recorded in the general ledger and the cost including the VAT is reported in the Financial Report

## Bank account

- Possibility to receive funds from abroad and send funds abroad
- Organization which is not a public body or governmental department:
  - Is interest accrued?
    - In case yes, recommendation: Establish project-specific bank account
    - Submission to the auditor and the MA:
      - Bank account statement indicating the amount of interest accrued to the project
      - Method of calculating the interest (in case of no bank account statement)
  - Interest is deducted from the payment of the balance (MA's Payment Order)

## Bank account

- Lead Partner submits the Financial Identification Form to the MA
  - Bank account details in the FIF and in the Payment Request shall be consistent
- Plan when money is transferred from the Lead Partner's bank account to the partners' bank accounts (e.g. money needed for the upcoming procurements in order to avoid delays in implementation)
- Plan when the funds are transferred from Euro bank account to the Rouble bank account (exchange rate losses)
- Final payment: Is not an advance payment
  - Lead Partner and partners take care of the final costs until the last tranche is paid by the MA to the Lead Partner's bank account

## Project accounting

- Financial management of the project shall be in accordance with:
  - National legislation (e.g. accounting policies, principles and rules of the country concerned)
  - Usual practices of the organization (e.g. accounting standards and usual cost accounting practices applicable to the organization)
  - Programme rules
- Principles shall not be contradictory to the Programme rules (in case yes: MA's prior approval required)
- Documentation and archive (archive plan and updated archive plan)

## Project accounting

- Accurate, up-to-date and regular accounts based on accrual double-entry accounting system;
- Recommendation: a separate set of accounts specifically for the project
  - Including separate accounts for own contribution from external donors, revenues, bank account interest, invoicing partner's project cost (invoices)
- All project costs must be appropriately documented (original invoices, memo verifications, explanatory notes)
- Project-related costs must be **easily** identifiable, verifiable and traceable in the accounting system
- All project-related costs are recorded **only** under the project accounting established for the project
- Inform and involve the accounting department about the project and its features **before** establishing the project accounting



## Project accounting

- Informative general ledger (dated and signed)
  - Lists **all** invoices reported in the Financial Report
    - List of invoices in general ledger = list of invoices in Financial Report
  - Invoices which are not project-related:
    - Indicate and deduct from the total amount of general ledger
    - total amount of general ledger = total amount of Financial Report
  - In case possible:
    - chart of accounts in project accounting = cost headings of valid budget
- Submit informative, clear and understandable general ledger to the auditor and the MA

## Project accounting

- Project-specific invoices (name of project and/or ID number)
  - Guide suppliers to issue project-specific invoices
  - Accurate documentation how the invoice is related to the project
    - Description/documentation in the invoice = description in the Financial Report
    - Allocation of the invoice (total amount) between cost headings of Financial Report

## Example of audit trail: one invoice reported under two cost headings in the Financial Report

**General ledger**

Project cost centre 1234

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Account 2000, equipments

Date	Verificate Nr	Subject	Amount, euro	Cost heading(s)
15.11.2018	00800	Company AB, computers	2,000.00	3 (500.00) 4 (1,500.00)

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Financial Report:	Number of invoice	Date of invoice in general ledger	Month of cost originally incurred	Name of currency (Euro or Rouble)	Total cost in currency (Euro or Rouble)
<b>Cost headings</b>					
<b>3. Equipment and supplies</b>					
Computer for project manager	00800	15.11.2018	10/2018	euro	500.00
<b>4. Small-scale investment</b>					
Computers (3 pcs) for the mediation center	00800	15.11.2018	10/2018	euro	1,500.00

## Audit trail

- Valid budget = project accounting = Financial Report (cost headings, project costs)
- Original invoice  $\Leftrightarrow$  organization's accounting system  $\Leftrightarrow$  project accounting  $\Leftrightarrow$  Financial Report
- Reporting period of general ledger = reporting period of Financial Report
- Date of invoice in general ledger = date of invoice in Financial Report
- Date of cost originally incurred = Month of InforEuro exchange rate in Financial Report
- Cost heading in valid budget = cost heading number for each invoice in general ledger = cost heading for each invoice in Financial Report
- Total amount of general ledger (e.g. salaries, grand total of reporting period) = total amount of Financial Report (e.g. project costs, revenues, interest, own contribution)

## Financial Report

- Excel-based spreadsheet describing costs (invoices) by cost heading (budget) incurred during the reporting period
- Informative description (links invoice to the project activities):
  - Travel claim: who travelled, where, when, why
  - Calculation basis (e.g. daily allowances)
- Revenues are deducted
- Correct use of InforEuro exchange rate
- Correct use of (ready-made) calculation formulas
- **NOTE!** The MA accepts maximum the amount of eligible costs claimed in the Payment Request

## Eligibility of costs

- Incurred during the implementation period, are reasonable, justified, necessary and cost-effective for the project implementation (according to the budget)
- Recorded in the project accounting (correct amount and correct reporting period) and supported by invoices
- Lead Partner accepts only eligible costs of the partners reported in partners' Financial Reports
  - Lead Partner deducts the ineligible costs in the partners' Financial Reports
- Proof of payment, proof of delivery, proof of installation
- No project costs after the end date of the implementation period
  - Exception: costs related to the last expenditure verification and budgeted project evaluation
- All costs shall be paid by the date of submitting the Final Report

## Expenditure verification

- Needed from the Lead Partner and each partner (Financial Report)
- Condition for the payment
- Use of the expenditure verification templates (expenditure verification package) is compulsory
- The MA shall not accept Expenditure Verification Reports that contain inconsistencies or errors
- Documents submitted to the auditor shall be clear, understandable and accurate

## Expenditure verification

- Auditor:
  - Verifies the costs reported in the Financial Report
  - Gives statement about the eligibility of project costs
  - Reports ineligible costs
  - Reports about exceptions and deviations, and about difficulties encountered during the verification process
  - Reports about risk indicators (especially staff costs, procurements)
  - Gives recommendations to the Lead Partner/partner and monitors the implementation of them



## Financial management and reporting

- The Lead Partner checks that each partner has submitted a full set of:
  - Financial Report (correct reporting period, project costs reported under correct cost headings (valid budget), eligibility of project costs, deduction of ineligible project costs, revenues, own contribution, interest)
  - General ledger (correct reporting period, correct total amount, dated and signed)
  - Expenditure Verification Report including annexes (documents are properly filled in)
  - VAT Registration Document (in case the partner is not entitled to reclaim the VAT from project costs)
- Each partner shall check the accuracy of the abovementioned documents before submitting them to the auditor and to the Lead Partner

## Financial management and reporting

- ❖ **Check and verify that what is reported is also recorded in the project accounting**
- ❖ **Sound financial management of the project**
- ❖ **Importance of documentation and audit trail**

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**Thank you for your attention!**



5.10.2018