

KARELIA

CBC // Cross-border cooperation



KARELIA CBC PROGRAMME

Programme Manual



List of abbreviations

AA	Audit Authority
BO	Branch Office
CCP	Control Contact Point
CBC	Cross-Border Cooperation
ENI	European Neighbourhood Instrument
ERDF	European Regional Development Fund
FU	Financial Unit
IFAC	International Federation of Accountants
INFOREURO	Monthly accounting rate of the euro, published by European Commission
IR	Implementing rules (EC) No 897/2014 of 18 August 2014
JMC	Joint Monitoring Committee
JSC	Joint Selection Committee
LFA	Logical Framework Approach
LIP	Large Infrastructure Project
MA	Managing Authority
NA	National Authority
OU	Operational Unit
PROMAS	Programme management system
ROM	Results-Oriented Monitoring
TOR	Terms of Reference
VAT	Value Added Tax

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PART A: APPLICATION



The Programme is financed by the European Union, The Russian Federation and The Republic of Finland.

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1. The Karelia CBC Programme

1.1 General description

The Karelia CBC Programme 2014–2020 improves cooperation between Finnish and Russian regions with the support of the European Union, the Russian Federation and Finland. The European Union is financing the Programme out of the European Neighbourhood Instrument (ENI).

Regulatory foundation:

- Commission Implementing Regulation (EC) No 897/2014 of 18 August 2014 laying down implementing rules for cross-border cooperation programmes (CBC IR)
- Regulation (EC) No 232/2014 of the European Parliament and of the Council of 11 March 2014 (ENI Regulation)
- Regulation (EC, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the European Union and repealing Council Regulation No 1605/2002
- Programming Document for EU support to ENI Cross-border cooperation (2014–2020)

The structures and procedures prepared for and applied in the implementation of the Programme are in compliance with the Implementing Rules for Cross-Border Cooperation Programmes.

In Russia, the legal context for the implementation of CBC Programme comprises:

- Concept for the Foreign Policy of the Russian Federation
- Strategy for the Social and Economic Development of the North-Western Federal District of the Russian Federation until 2020
- Russian national legislation on procurement (№ 44-FZ dated 5.4.2013 and No 223-FZ dated 18.7.2011)
- Applicable Codes of the Russian Federation
- Applicable Decrees of the President of the Russian Federation and the Government of the Russian Federation
- Concept for Cross-Border Cooperation of the Russian Federation
- Concept for the Long-term Social and Economic Development of the Russian Federation through to 2020

In Finland, a law on the management of ENI CBC Programmes (Laki ulkorajan ylittävästä yhteistyöstä 657/2015) came into force in June 2015.

The Karelia CBC Programme is implemented according to the Programme document prepared by the participating countries and regions.

The European Commission adopted its implementing decision C(2015) 9134 on the ENI CBC Karelia 2014–2020 Programme on 17 December 2015.

1.2 Objectives and priorities

The projects to be funded from the Programme must be in line with the strategy and objectives of the Programme and support the thematic objectives and priorities of the call for proposals in question.

The overall objective of the Programme is to make the Programme area attractive for the people to live and work and businesses to locate and operate.

Four thematic objectives have been chosen for the Karelia CBC Programme and four priorities have been created to contribute to each thematic objective. The thematic objectives and contributing priorities are:

Thematic Objective	Priority
1. Business and SME development	1. Growing cross-border business cooperation
2. Promotion of local culture and preservation of historical heritage	2. Attractive cultural environment
3. Environmental protection, climate change adaptation	3. Clean and comfortable region to live
4. Promotion of border management and border security	4. Well-functioning border crossing

Priority 1. Growing cross-border business cooperation

This priority enhances long-term business cooperation across the border. Special attention is paid to improving conditions for cooperation between Russian and Finnish SMEs as well as to attracting investments on both sides of the border.

The overall objective of all projects selected under this priority is

Increased cross-border economic interaction and trade

The specific objective of a project must be connected to one of the following elements of the priority:

- 1 Identifying bottlenecks, barriers and obstacles for cross-border economic interaction and trade
- 2 Solving / removing the barriers hindering cross-border economic cooperation
- 3 Activities increasing the capacity of enterprises to start cross-border economic cooperation
- 4 Activities increasing the area's attractiveness as a target for investment

Priority 2. Attractive cultural environment

This priority facilitates the development of sustainable, diverse and versatile cultural services. To achieve this objective, it is seen as important to improve the skills and capacities of cultural stakeholders. Improved skills help to build the cultural services to operate on a sustainable basis. Crossing the border may also open up new possibilities for cultural services.

The overall objective of all projects selected under this priority is

Programme area's cultural services are easily reached and their quality is good

The specific objective of a project must be connected to one of the following elements of the priority:

- 1 Improving the skills and capacities of cultural stakeholders
- 2 Increasing the diversity of cultural services with new forms of cross-border cultural activities
- 3 Creating new cross-sectoral initiatives
- 4 Helping young people in danger of dropping out of active society with inclusive cultural activities

Priority 3. Clean and comfortable region to live

A clean environment is a key attraction factor of the Programme area and its notable natural resources a clear strength. Activities promoted under this priority have a multiple nature: on the one hand, they improve people's living conditions by creating environmentally friendly living areas and improving their basic infrastructure; on the other hand, the priority / call for proposals includes activities which have a direct environmental dimension such as environmental awareness, which also act as inducements for people to stay in the region.

The overall objective of all projects selected under this priority is

Improved living and working environment

The specific objective of a project must be connected to one of the following elements of the priority:

1. Increasing environmental awareness
2. Improving people's physical living environment
3. Increasing the biodiversity of border areas
4. Using nature in the promotion of health and wellbeing

1.3 Programme management structures

Joint Monitoring Committee

The Joint Monitoring Committee monitors and follows the Programme implementation. It also makes the final decisions on project selection.

The Committee consists of ten members: two central government representatives and three regional representatives from each participating country.

Joint Selection Committee

The Joint Monitoring Committee has set up a separate Joint Selection Committee to assess project applications. The final decision on project selection is made by the Joint Monitoring Committee based on the assessment conducted by the Joint Selection Committee.

The JSC consists of regional and national-level representatives from both participating countries.

Managing Authority

The Managing Authority is responsible for the day-to-day management of the Programme. It manages the project selection procedures and signs the contracts with projects' lead partners. The Managing Authority also follows and monitors project implementation, controls the financial management of projects and processes payments to the projects.

The Managing Authority is also responsible for the implementation of the Programme's communication and information activities.

The participating countries have appointed the Council of Oulu Region to act as the Managing Authority.

Branch Office

The Petrozavodsk Branch Office assists the Managing Authority to fulfil its Programme and project management tasks on the Russian side of the Programme region. It also works actively with communication and information activities directed towards national, regional and local stakeholders.

National Authorities and Control Contact Points

Both countries have appointed National Authorities to support the Managing Authority in the management of the Programme in accordance with sound financial management practices. The National Authorities are responsible for the setting up and effective functioning of management and control systems at national level. The National Authority also represents the country on the Joint Monitoring Committee.

The control contact points support the Managing Authority in fulfilling its project-level control and verification tasks.

Audit Authority and members of the group of auditors

The Audit Authority ensures that audits are carried out on the management and control systems, on an appropriate sample of projects (sample checks) and on the Programme's annual accounts.

The Audit Authority is assisted by a group of auditors made up of representatives from both participating countries.

The participating countries have appointed the governmental financial control function of the Ministry of Finance of Finland to act as the Audit Authority for the Karelia CBC Programme.

Regional Authorities

Regional Authorities from both sides of the border participate in project selection procedures on the Joint Selection Committee and represent their region on the Joint Monitoring Committee. They inform the regional decision-makers in their region about the progress of the Programme and actively communicate with other Regional / National Authorities located in each region. The Regional Authorities also support the Managing Authority in organising Programme information events at the regional level.

The key Regional Authorities in Programme implementation are:

Finland: Regional Council of Kainuu

Regional Council of North Karelia

Council of Oulu Region

Russia: Ministry of Economic Development of the Republic of Karelia

1.4 Programme funding

The overall financing of the Programme for 2014–2020 is 43 million euros. The European Union finances 50% of the Programme. Russia and Finland are both financing 25% of the Programme. In addition, the project partners participate in the financing; every project budget include a minimum 10% of own contribution.

1.5 Programme management system, PROMAS

The Programme is hosting an electronic management system, PROMAS, at <https://promascbc.fi>.

PROMAS is used to create and submit funding applications, reports, payment requests and amendment requests. In addition, the majority of requests for additional information from the Managing Authority are processed using PROMAS. Some documents are to be delivered, as a signed hard copy, to the Managing Authority, in addition to the electronic version.

The lead partner fills in the application (both the concept note and the full application) in PROMAS. The lead partner applies for a username and password during a call for proposal. The username is application-specific: therefore, if the same organisation submits multiple different applications, own username is applied for each application. The same username can be used by multiple individuals working with the same application / project.

More specific instructions regarding the use of the PROMAS can be found from the Programme's website. If you encounter a problem, please contact the Managing Authority for assistance.

2. Partnership

2.1 Lead partner principle

The number of organisations participating in the implementation of a project depends on the content, objectives and operational methods of the project. In every case, project implementation requires a minimum of two organisations. Every project must include as a minimum requirement one partner from Finland and one from Russia.

In every project there are one lead partner and one or more partners. The lead partner assumes overall responsibility for the implementation and management of the project. The partners participate in project implementation as agreed.

The lead partner operates as the link between the Managing Authority and the other partners involved in the project. The MA is in a contractual relationship only with the lead partner, and therefore all contract-related issues are discussed between the MA and the lead partner. Issues such as communication and visibility and any technical issues may also be dealt with directly between the MA and the partners.

i *Number of partners has a significant role in project implementation: large consortium means plenty of administrative work, small consortium may not be sufficient for all the activities.*

According to the project managers of the Karelia ENPI CBC projects a consortium sized from 3 to 5 organisations were relatively easy to manage and efficient too work with.

The lead partner must be a Finnish or Russian organisation located in the Programme area or its adjacent region.

2.2 Responsibilities of partners

Each project partner has legal and financial responsibilities. The lead partner principle brings additional responsibilities and tasks to the lead partner compared to the responsibilities and tasks of a regular partner.

The lead partner:

- has an overall responsibility for the implementation of the project,
- receives the financial contribution for the implementation of project activities from the MA,
- pays the Karelia CBC Programme grant to the project partners according to the partnership agreement and ensuring that the partners receive the grant with no delay according the payment plan of the partnership agreement,
- ensures that the costs reported in the partners' financial reports are in accordance with the budget of the grant contract and the action plan,
- holds the authority to reject a partner's cost if it does not belong to the project or the cost is ineligible,
- ensures that the costs of the partners are audited according to the requirements of the Karelia CBC Programme,
- is responsible for repaying the Karelia CBC Programme grant to the Managing Authority in cases of recovery. (Note! The lead partner will be responsible for reclaiming the Programme grant from the partners.)

The Lead Partner has final responsibility of implementation and finances of the project.

Partners:

- actively cooperate in the development and implementation of the project;
- cooperate in the staffing and/or financing of the project (partners' share of own contribution) in accordance with the partnership agreements;
- have a responsibility to guarantee the sound financial management of the received Programme funds and to recover unduly paid Programme funds;
- have other obligations based on partnership agreement made with the lead partner.

2.3 Financial capacity of project partners

It is vital to ensure that each partner participating in a project is capable of setting up a separate accounting system or an adequate cost centre put in place specifically for the project.

Project partners should have the ability to receive funds from abroad and send funds abroad. Partners should also have the capability to take care of the final costs of the project before the balance payment is made.

2.4 Expectations for the lead partner and partners

The lead partner and partners should have:

- Sufficient financial and human resources for implementing and managing the project-related activities and responsibilities;
- Sufficient core competence relevant to the project activities;
- Commitment from the very beginning to the final stages and beyond the implementation the project.

Experience of management in EU-funded projects is an advantage but not a requirement.

Sufficient knowledge of English in every partner organisation is important for the efficient implementation of the project.

2.5 Partnership agreement

The mutual responsibilities, rights and obligations of the lead partner and the partners are defined separately for each project in the partnership agreements signed between the lead partner and the partners. A separate agreement is made with each project partner.

A model template is provided by the Managing Authority on the Programme website. The template can be used as a basis for the Partnership Agreement or the lead partner can draft an agreement by themselves, however taking into account that at least the following points need to be addressed in the agreement:

- role, objectives and responsibilities as well as shared responsibilities of each organisation;
- the right of the Managing Authority and other relevant bodies to carry out verifications as defined in the Conditions of the Grant Contract;
- budget of the partner;
- principles concerning the own contribution; its accumulation, documentation and reporting;

- principles concerning bookkeeping and the sound financial management;
- payment procedures between partners;
- expenditure verification and reporting of the factual findings;
- procedures and liabilities between lead partner and partner in case of recovery.

Points that can be taken into account:

- processing possible needs for change;
- distribution of resources;
- outputs produced by each partner;
- obligation to inform the lead partner on any issue endangering the implementation of the project;
- implementation dates and durations of the measures to be implemented by each of the partners;
- work plan;
- means of decision-making;
- dispute settlement methods and possible compensation for contract breach;
- structure of financial administration;
- reporting duties and related deadlines;
- working language(s);
- proprietary rights and possible copyrights;
- principles concerning the eligibility and non-eligibility of costs and reporting the costs to the lead partner;
- use of InforEuro.

Managing Authority is not in any case a party of any partnership agreement and not responsible of the content of the agreements.



It is important to start the negotiations with the partners as early as possible. Many delays in the previous programme were caused by prolonged negotiation processes.

3. Eligibility of the partners

3.1 Geographical eligibility

The Programme area consists of the core region, adjoining regions and major economic, social and cultural centres.



The Programme's core regions are:

in Finland: Kainuu, North Karelia, Oulu Region
 in Russia: Republic of Karelia

The adjoining regions are:

in Finland: Lapland, South Karelia, North Savo, South Savo
 in Russia: Leningrad, Murmansk, Arkhangelsk

The major economic, social and cultural centres are:

in Finland: Helsinki
 in Russia: City of St. Petersburg, City of Moscow

As a rule, all projects in the Karelia CBC Programme have to include at least one partner from the core region in Finland and one partner from the core region in Russia. (Partner refers to both lead partner and other project partners.)

Core region requirement does not apply if the partner is a national level public entity based in Helsinki or Moscow who doesn't have structural units in the programme region that could act as project partner or an international organisation with a base of operations in the Programme area. In these cases at least one partner from both countries is though required.

Partners from adjoining regions are eligible if required by the nature and objectives of the project and necessary for its effective implementation. Partners from adjoining regions have to bring expertise or know-how that is not available in the core area.

From Helsinki and Moscow only national-level public entities that do not have their structural units in the Programme core region can act as project partners.

Partners from St. Petersburg may participate in projects where required by the nature and objectives of the project and necessary for its effective implementation. Partners participating in projects from St. Petersburg have to bring expertise or know-how that is not available in the core area.



*Only partners from the above-mentioned regions can participate in projects.
Any partners from other regions are ineligible.*

3.2 Organisational eligibility

In order to be eligible for a grant, lead partners and partners must be legal persons and directly responsible for the preparation and management of the project with their partners, not acting as an intermediary.

The lead partner and partners can be e.g. national, regional or local public authorities or organisations, municipalities, joint municipal boards, public utility companies, chambers of commerce, organisations and associations, universities and higher education institutions, research institutes, and private companies, and networks made up of these as well as non-governmental and international organisations.

Note that even if a private company acts as a lead partner or partner in the project the project cannot be profit-making. Subsidies are not granted for individual enterprises.

Lead partners and partners will be excluded from participation in the call and no grants will be awarded to them if:

- during the grant awarding process they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;
- they have been convicted of an offence concerning their professional conduct by a judgment which has the force of res judicata (i.e. against which no appeal is possible);
- they have been guilty of grave professional misconduct proven by any means which the Managing Authority can justify;
- they have not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established or with those of the country of the Managing Authority or those of the country where the contract is to be performed;
- they have been the subject of a judgment which has the force of res judicata for fraud, corruption, involvement in a criminal organisation or any other illegal activity detrimental to the Community's financial interests or for serious breach of contract in procedures concerning funds granted from the Community budget;
- they have been ascertained to be guilty of a breach of contract concerning a procurement procedure financed out of the Commission budget or other support.

By signing the concept note / grant application, the applicant assures that it is not involved in situations of the above kind. The ineligibility of one individual partner may lead to the rejection of the whole project.

4. Project types

There are three types of project in the Karelia CBC Programme:

- **Regular projects**, are typically intended for development purposes;
- **Micro projects**, have a preparatory nature;
- **Large Infrastructure Projects** (LIPs), are investment projects selected with a direct award procedure.

Applicable European Union rules on state aid are noticed with all types of projects financed by the Programme. State aid refers to financial support that can distort competition and the trade between the EU Member states.

4.1 Regular projects

Regular projects are development projects selected through two-phased calls for proposals. This is the most common type of projects.

Regular projects may be implemented under priorities 1, 2 and 3 (described above in chapter 1.2.). The total costs of regular projects should be at minimum 55,556 euros.

Maximum duration of a regular project is 36 months.

4.2 Micro projects

The objective of a micro project is to make necessary preparatory actions for development or investment projects or to undertake surveys or pre-feasibility studies to justify activities implemented later in larger projects

A micro project may aim at a regular project within the Karelia CBC Programme context but or at a larger project funded from other financial instrument. Note that the preparation of an application for a regular call for proposal cannot be the sole scope of a micro project.

Micro projects are connected to the priorities 1 and 3 (described above in chapter 1.2.).

Also micro projects are cooperation projects, and the partnership requirements for cross-border cooperation described in Sections 2.1 and 2.2 apply.

The maximum total cost of a micro project is 50,000 euros. Note that this amount includes 10% of own contribution. In other words, the maximum Programme financing for micro projects is 45,000 euros.

There are only two eligible cost types in micro projects: staff and travel.

Micro applicants include a detailed budget in the application. The budget is confirmed as a part of the grant contract. Costs won't be challenged after approval of the budget and no expenditure verification is needed.

By signing the grant contract the project partners commit to producing the outputs defined in the project description with the confirmed budget. If, at the end of the project, outputs are not on a sufficient level or not produced at all, the grant is either cut or not paid at all. Also the pre-financing paid to the project can be recovered partly or fully.

Maximum duration of a micro project is 12 months.

4.3 Large Infrastructure Projects

Large Infrastructure Projects (LIP) are investment projects that have a clear cross-border impact. Large Infrastructure Projects are jointly identified by the participating countries in agreement with the European Commission.

Only invited applicants may apply for Large Infrastructure Projects.

4.4 State aid

State aid relevance of Karelia CBC projects is checked during the project selection process on activity level: activities within the project are considered relevant for state aid rules if the project has activity/activities with economic nature offering goods and services to the market with a clear impact to the competition and trade between the EU Member states.

Not only the private entities are subject to state aid rules but also public entities or other organisations if they carry out such economic activities that were described above.

In case the selected project includes activities where the state aid rules apply the Programme uses, case by case, the following options to proceed:

- de minimis rule is applied (maximum aid of 200 000 € per a period of 3 years);
- the potential comparative advantage is cancelled (open access principle allowing the advantage available for all);
- state aid relevant activities are cut from the project.

State aid legal concept is not applicable for Russian Federation as such, but because of the cooperation nature of the projects financed by the Programme, the state aid relevance is checked from all the projects.

5. Project finances

5.1 Size of the project

The minimum size for a grant of a regular project is 50,000 euros (own contribution excluded). The (theoretical) maximum is the total amount of funding available on the call for proposal in question.

The maximum size for a micro project is 50,000 euros (own contribution included). No minimum size is defined.

The costs of the project must be proportionate to the proposed activities and outputs.

5.2 Own contribution

Projects are not granted 100% funding; each project must demonstrate also own funding for project implementation. Every project budget includes a minimum 10% of own contribution.

The own contribution is funding from the lead partner and partner(s) or from an external donor. In practice this means that part of the project costs is covered by the lead partner, partners and if relevant by an external donor. External funding is money paid to one or more of the project partners.

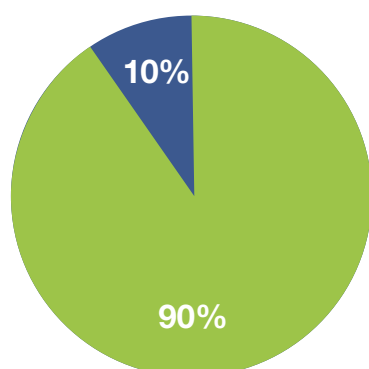
Other finances from the European Union budget can't be used as an own contribution.



The budget of the project must include all project-related costs, not just those paid with the Programme funding. The own contribution isn't something extra in addition to the total costs of the projects.

All project-related costs are reported in the financial report. However, there's no need to mark which invoices are considered as own contribution.

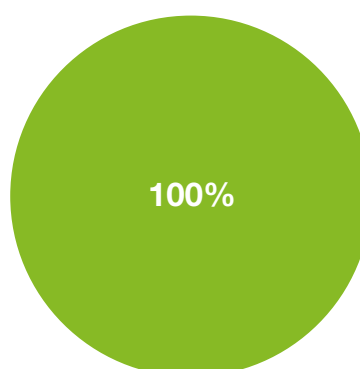
Own contribution



Programme funding

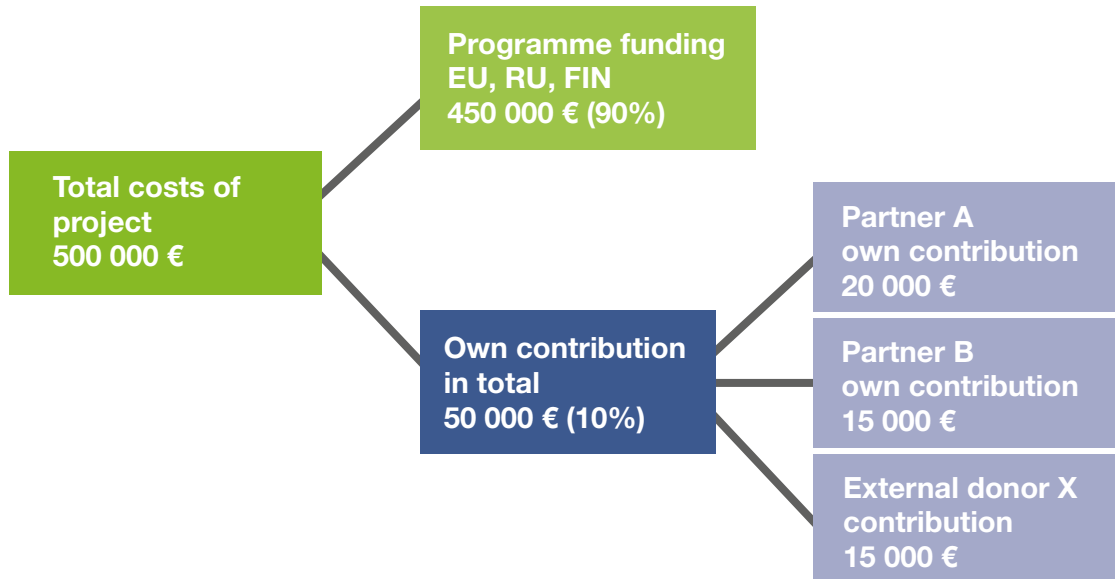
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Total costs of the project



Funding examples:

A)

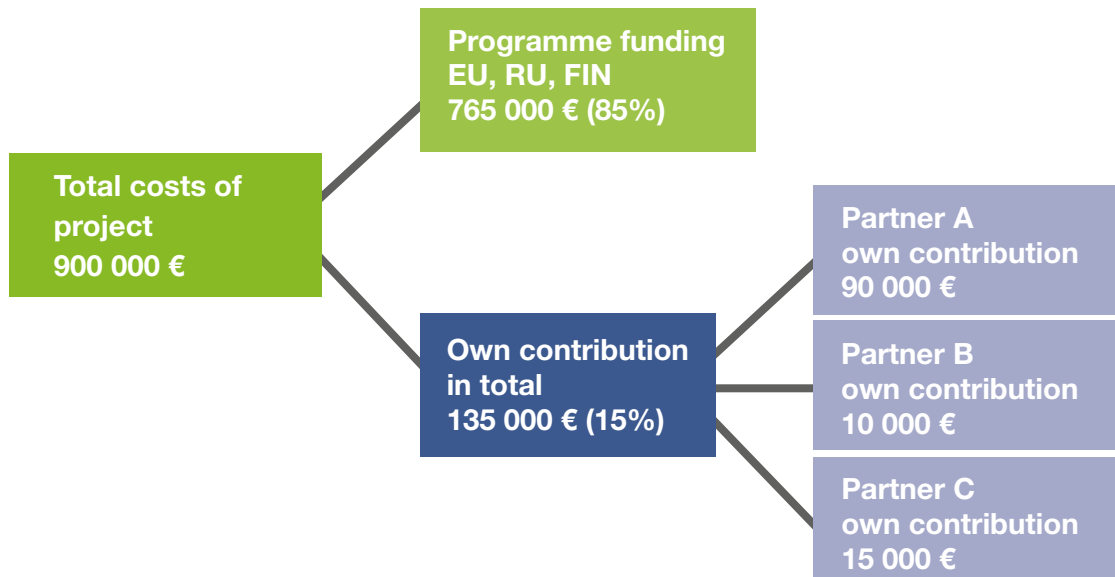


Own contribution of the project consists of project costs paid by partners A and B and of an external donation. Partner A pays salaries and other project-related costs and reports all costs in the financial report. Partner B has only staff costs in its budget. It reports all project-related staff costs in the financial report.

In addition external financier X donates 15 000 Euros to the project. It pays the money to the Partner A, who pays project-related costs with the money. All costs are reported in the financial report.

The amounts of own contribution are reported on the financial report (Sources of funding sheet).

B)



Own contribution of the project consists of project costs paid by partners A, B and C.

Partner A has all kinds of project-related costs in its accounting records. All costs are reported and as Source of funding 90 000 Euros is presented as own contribution. Also Partners B and C report all their costs in the financial reports and the defined part of those costs is considered as own contribution.

The amounts of own contribution are reported on the financial report (Sources of funding sheet).

6. Project design

6.1 The Logical Framework Approach

An essential tool for good project-design is the Logical Framework Approach (LFA). The LFA is an analytical process and set of tools used to support project planning and management. It can be seen as an aid to thinking. The LFA process produces Logical Framework Matrix (LFM) which is an obligatory annex to the project application.

The Logical Framework Approach is divided into an analysis phase consisting of four steps and a planning phase.

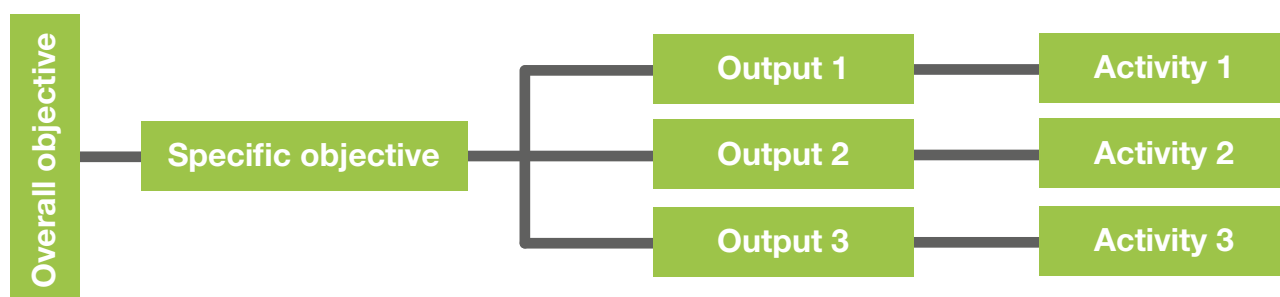
Problem analysis identifies the negative aspects, in other word the problems, of the existing situation. A problem tree is developed to describe the cause and effect relationships between the identified problems.

Objective analysis converts the problems into solutions. This defines the desired final situation.

The purpose of **stakeholder analysis** is to identify the individuals/groups affected by and/or interested in the proposed action. Stakeholders

In the **strategy analysis** the best implementation strategy is chosen based on the information already gathered. The specific objective is chosen at this point.

The specific objective is directly linked to the overall objective that is common for all projects funded from the same priority. Overall objective can't be reached by one project alone. Reaching the specific objective, however, should be a realistic task for a project.



In the planning phase the logical framework matrix is developed, activities scheduled and resources defined.

6.2 Concept note

Concept note is a short description of the project idea submitted in the first phase of the call for proposal.

In the concept note partners present their project describing:

- the problem the project is planning to solve and how it has been identified;
- the objective of the project;
- the expected change the project will make to the current situation;
- the target groups and beneficiaries of the project;
- the main outputs the project will produce;
- the approach planned to take (type of activities to be implemented);
- why cross-border cooperation is necessary for implementation of this.

The Concept Note is filled in and submitted in PROMAS. In addition a signed hard copy needs to be delivered to the Managing Authority or to the Branch Office.

Micro applicants submit only the concept note, with the required annexes. The project selection and grant contracts are based on the concept notes.

6.3 Full application

Full application is submitted in the second phase of the call for proposal. It includes more detailed description of the project. The information provided in the concept note is the basis of the full application.

In the full application:

- the problem is described;
- the specific objective of the project is named and linked to one of the four elements of the priority;
- the activities are described and linked to outputs;
- the sustainability of outputs and expected results is described;
- the project budget is presented

It is possible to propose minor changes to the idea presented in the concept note. For example partners may be added or replaced and activities and outputs can be modified. However the scope of the project may not be changed.

6.4 Project budget

Regular projects declare only the total costs and the amount of applied funding in the concept note. Detailed budget is not needed in the first phase of the call. A detailed budget is annexed to the full application. The Programme financing requested in the full application may not vary from the initial estimate presented in the first phase by more than 20%.

The project budget consists of a cost estimate and a financing plan. In the cost estimate, the costs are itemised by the cost type (heading). The costs do not need to be itemised by partner or country of implementation.

The cost types are:

- Staff
- Travel
- Equipment and supplies
- Investments
- Small-scale investments
- External expertise and services

In addition to these direct costs, a maximum of 7% of the total direct costs excluding investments can be added to the cost estimate for administrative costs. Selected applicants submit a calculation basis for these costs during the contracting process. Once the calculation basis has been approved the costs won't be challenged.

Micro applicants submit a detailed budget annexed to the micro application (concept note).

The cost types for micro projects are:

- Staff
- Travel

Any administrative costs cannot be added to the cost estimate.

Budget templates can be downloaded from the Programme website at www.kareliacbc.info

6.5 Other annexes

Obligatory annexes are submitted with the concept note/ full application. All templates can be found from the Programme website at www.kareliacbc.info

In addition to the listed annexes the Managing Authority may request for other annexes if necessary.

Any other annexes are not taken into account when evaluation the application. Do not attach any other annexes to the application.

Logical Framework Matrix

The Logical Framework Matrix (LFM) provides summary of the project design, based on the logical framework approach. A template provided by the Programme is used.

The regular projects submit the LFM as an annex to the full application and the micro projects as an annex to the concept note.

Letters of intent and partnership statements

Letters of intent and partnership statements confirm partner organisation's participation in the project.

Letter of intent is a signed document containing the name of the project and the basic information (name, address and business ID) of the lead partner and partner organisation. In the letter the organisation declares its will to participate in the project implementation as a partner. Letters of intent are submitted as an annex to the concept note. No letter of intent is needed from the lead partner or in the micro applications.

Partnership statement is a form providing basic information of the project and of the partner organisation's role in its implementation. It is signed and submitted as an annex to the full application, or in the case of micro applications to the concept note.

Partnership statement is not needed from the lead partner.

Communication plan

Communication plan provides information on the planned communication and visibility activities, means and target groups. It is submitted as an annex to the full application.

Obligatory annexes

In concept note:

- Letters of intent

In full application:

- Logframe matrix
- Partnership statement(s)
- Budget
- Communication plan
- Other annexes listed in the invitation letter, if any

In micro application:

- Logframe matrix
- Partnership statement(s)
- Budget

7. Applying

7.1 How to apply

The Managing Authority informs on upcoming calls for proposals on the Programme website www.kareliacbc.info

Once a call for proposal opens the Guidelines for the Call are published on the Programme website. Guidelines offer detailed information on what kinds of projects are financed on the call in question. The evaluation grid, which is the basis of the selection process, is included in the Guidelines. The evaluation grid describes the criteria used for evaluating the applications.

It is highly important to read the Guidelines.

Applications are filled in PROMAS, www.promascbc.fi. In PROMAS, the lead partner requests a user-ID for a specific call for proposal. With the user-ID it is possible to log in to the system, fill in and submit the application.

7.2 Types of Calls for Proposals

Calls for proposals may be either one- or two-phased.

Micro projects are selected through one-phased call for proposal. Applicants for micro projects submit only a concept note with the required annexes.

Regular projects are usually selected through two-phased call for proposal.

On the first phase of a two-phased call, applicant submits only a concept note with the required annexes. Based on the evaluation of the concept notes the best proposals are invited to the second phase of the call.

On the second phase the applicant submits a full application and the required annexes. The required annexes are defined in the Guidelines of the Call and/or in the invitation letter.

By signing the grant application, the applicant declares that they accept, if they are awarded a grant, the contractual conditions as laid down in the Grant Contract and in its conditions.

7.3 Selection process

Administrative check

The selection process begins with an administrative check where the Managing Authority checks that the concept note/ application is formally right, all necessary parts are filled in and the concept note/ application meets the general eligibility conditions.

Shortcomings may lead to rejection.

Concept notes/ applications passing the administrative check proceed to the quality assessment.

Quality assessment and decision making

Evaluation of the concept notes and applications is undertaken by the Joint Selection Committee. The Joint Selection Committee conducts its deliberations on the basis of assessors' assessments. Concept notes/ applications are scored using the evaluation grid provided in the Guidelines of the Call.

Following the evaluation the concept notes with the highest scores are invited to the second phase of the call. On the second phase the applications with the highest scores are selected to be funded.

The Joint Monitoring Committee confirms the project selection.

Applicants are informed in writing of the Joint Monitoring Committee's decision concerning their application and, in case of rejection, the reasons for the negative decision.

7.4 Request for rectification

Applicants believing they have been harmed by an error or irregularity during the award process may make a written request for rectification and submit it to the Managing Authority. The request for rectification must clearly state the claim and the grounds on which it is based and it must be signed. The request must be made within 14 days of receipt of the decision.

PART B: IMPLEMENTATION



The Programme is financed by the European Union, The Russian Federation and The Republic of Finland.

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1. Starting a new project

1.1. Contracting

As soon as the Joint Monitoring Committee has made a decision on projects to be awarded, the Managing Authority starts negotiations with the applicants i.e. the lead partner organisations.

The Joint Monitoring Committee might have set some conditions for a project to be contracted, and in that case the Managing Authority ensures that any necessary changes to the project plan or project budget are made before contracting. During the contracting process, the project budget is also checked and the lead partner must be ready to justify each cost if asked. The lead partner has to submit the calculation basis for administrative costs for the Managing Authority to approve it before contracting.

The payment and reporting schedule is set during the contracting process.

During contracting process:

- necessary changes are made to the project plan and/or budget
- calculation basis for administrative costs is checked and approved
- payment and reporting schedules are determined

Once the Grant Contract is concluded the Managing Authority delivers it in two copies, which MA has signed for its own part, to the lead partner. The lead partner signs the contracts and returns one of the signed copies to the Managing Authority. The Grant Contract may be returned via registered mail, courier service or delivery on site.

1.2. Implementation period

The project's implementation period, i.e. the start and end date, are defined in the Grant Contract. However, both parties, the Managing Authority and the lead partner, have to sign the contract before the implementation of the project may begin and costs are considered as eligible.

The implementation of the project can't in any case begin before the defined start date.

1.3. First advance payment

An advance payment defined in the Grant Contract is not made to the lead partner automatically; it needs to be requested separately from the Managing Authority by submitting a payment request. The request is filled in and submitted electronically in the PROMAS. A printed and signed version is submitted to the MA as a hard copy.

It is recommended that the request for an advance payment is submitted when delivering the signed Grant Contract to the Managing Authority. The MA makes the advance payment to the lead partner within 45 days of receipt of the request.

2. Project management

2.1. Administrative management

Every project should designate a project manager to be responsible for operative management of the project and communication with the Managing Authority. Most common responsibilities for project manager are overall management, reporting, coordination and communication. It is highly important to reserve sufficient resources for project management.



“Competent project manager is the greatest asset for project”

Project groups can be utilised in the project administration and communication. The project group acts primarily as a support for project implementation and as an instrument for communication within the project. The project group discusses the details and practical issues of project implementation. Project groups are usually formed for each project, and include usually representatives from the lead partner and partners.

The Managing Authority participates in project group meetings as necessary. If necessary, the project group can utilise external experts and Regional Authorities in its work.

Reasonable costs due to project group meetings are acceptable costs for the project. The project is not liable to cover possible costs caused by the Managing Authority's or Regional Authorities participation in meetings.

2.2. Quality management

Project's internal quality management is one of the key issues when aiming for good results. In order to ensure efficient implementation of the project the lead partner should have regular communications with all partners. The lead partner should also act as a link between partners and make sure that every actor in the project knows what is going on among the other partners.

It is highly recommended to monitor the progress of the implementation and finances regularly and with sufficient frequency. This enables intervening to any problems and challenges in time.



Frequent follow-up with partners allows quicker reaction to possible problems and challenges.

2.3. Communication management

The lead partner and partners must pay attention to the communication and publicity of the project. A communication plan is delivered as part of the grant application and is updated either during the contract negotiations or once the project has been launched. The project partners are responsible for the implementation of the communication activities according to the plan.

The objective of communication and visibility activities is on the one hand to support efficient project management and on the other hand to disseminate good practices and to create a positive image of the support from the EU, Russia and Finland as the financiers of the cooperation.

Projects must communicate their activities in accordance with the Programme's communication instructions. The financing received by the project is to be emphasised in all communications. Communication activities are reported as part of the project reporting.

Internal communication

Internal communication is a project management task aiming to ensure an effective exchange of information and coordination among project partners. The lead partner takes responsibility for establishing tools and procedures that keep the whole partnership aware, knowledgeable and involved.

An internal project kick-off meeting with all partners is recommended to be organised alongside the first project group meeting. The aim of this meeting should be to stress the importance of keeping partners informed and involved at all times. It also helps to ensure a coherent understanding of the responsibilities and administrative procedures as well as the overall objectives, work plan and timing.

As such, the kick-off meeting often becomes an initial team-building event. It ensures that all partners are ready to start their work on the project implementation and know what steps to take next. Depending on the size of the project partnership, a kick-off meeting usually takes one or two days and is organised by the lead partner.

The lead partner has the main responsibility for coordinating the project implementation, but direct contacts between the partners are also encouraged – as long as the lead partner stays informed.

External communication

The aim of the external communication is to disseminate good practices and project results. It is important to understand that the project is a tool for achieving results and that the results are more interesting than the tool. In communication, more attention should be paid to talking about the (expected) results than the existence of the project.

One of the objectives of communication is to create positive image of the support from the EU, Russia and Finland as the financiers of the cooperation. For this reason, projects must use the Programme logo in their communications and in all their products. In addition, the phrase: “This project is financed by the European Union, Finland and Russia.” should be used wherever possible and relevant.

The language used in visibility activities is chosen according to the target group. Even if the official language of the Programme is English, it is often more efficient to use Finnish and Russian.

More specific guidance for communication can be found in Part D of the manual. The symbols to be used in communications are available to be downloaded from the Programme’s website.

2.4. Financial management

Accounting system

The partners of the project have to keep accurate accounts of the implementation of the project based on a double-entry accounting system.

It is highly recommended that a separate set of accounts specifically for the project is established in the accounting system. Project expenditure, interests, own contribution paid by external donors and revenues must be easily identifiable and traceable in the accounting system.

The accounting system must tally with the financial reports so that all project-related costs can be easily traced and identified between the system and reports.

Expenditure verification in the project

Every project partner which reports project costs and draws up a financial report for the Managing Authority should arrange expenditure verification. In an expenditure verification an external auditor verifies expenditures related to the payment request.

Verification must be made in accordance with the standards agreed by International Federation of Accountants (IFAC). The auditor must either be a member of IFAC or commit to undertake the work in accordance with IFAC standards.

The expenditure verification process is comprehensively described in Part C.

3. Reporting and payment procedures

3.1 Basic principles

The Grant Contract obligates the lead partner to regularly report on the progress of the project to the Managing Authority

Reporting involves reports on both the measures and expenses of the project.

Reporting comprises:

- project updates (brief progress reports);
- interim report(s);
- final report.

The Grant Contract and the approved project plan form the basis of reporting – the progress of the project is compared to the objectives, activities, action plan and expenses presented and approved in them.

Reports should give correct and reliable information of project's progress and expenses. In case of any false or misleading information in reports the Managing Authority may impose sanctions. Subject to seriousness of failure may the consequences be warning, rejection of the costs or termination of the Grant Contract.

In the reports, the lead partner must assess both their own and their partners' operations and the progress of the project as a whole. The interim and final reports also include separate assessments from each of the partners.

All reports are prepared in PROMAS. The report does not have to be filled in completely in one go; you can save an unfinished report in the system and continue filling it in at a later time. The ready-made report is sent to the Managing Authority via the system. Note that the narrative part of the final report must also be printed out, signed and delivered to the Managing Authority.

The annex templates needed in reporting are available for downloading from the Programme's website. The required annexes must be uploaded to the PROMAS.



Submitted only via PROMAS: project updates, interim reports, financial part of the final report, expenditure verification reports, and all the required annexes unless otherwise stated.

Submitted also as a hard copy: narrative part of the final report, payment requests.

Reporting schedule

The reporting schedule is determined in contracting process. The reporting period is 6 months for project updates and one year for interim reports.

Project updates are submitted to Managing Authority within 15 days after the end of the reporting period.

Interim reports are submitted within 1 month after the end of the reporting period. Payment requests and Expenditure Verification Reports must be delivered to the Managing Authority within 3 months after the reporting period.

Final report, final payment request and Expenditure Verification Report must be submitted within 4 months from the end of the project.

Below is presented a model report schedule for a project with an implementation period from 1 February 2018 to 31 January 2021, i.e. 3 years.

Report	Reporting period	Submitted by
Project update	1.2.2018 – 31.7.2018	15.8.2018
Interim report	1.2.2018 – 31.1.2019	28.2.2019 (within 1 month)
Payment request and Exp. Verific. Report	1.2.2018 – 31.1.2019	30.4.2019
Project update	1.2.2019 – 31.7.2019	15.8.2019
Interim report	1.2.2019 – 31.1.2020	28.2.2020 (within 1 month)
Payment request and Exp. Verific. Report	1.2.2019 – 31.1.2020	30.4.2020
Project update	1.2.2020 – 31.7.2020	15.8.2020
Final report, Payment request and Exp. Verific. Report	1.2.2020 – 31.1.2021	31.5.2021 (within 4 months)

Processing of reports

A report is considered to have arrived in due time if it has been submitted in the PROMAS within the set time limit. The Managing Authority starts the processing when a report is submitted in PROMAS. However, the final report and payment requests are approved only after receiving the printed versions.

As a rule, the Managing Authority processes the reports in order of receipt. The Managing Authority checks the reports and compares the information to the Grant Contract and the project description.

The operational unit of the Managing Authority reviews the narrative and financial sections of the interim and final reports. The report is primarily checked by the project's contact person.

The operational unit reviews the accuracy of the information in the narrative reports. Particular attention is paid to ensuring that the completed actions are in accordance with the approved project plan and that the project is progressing as scheduled.

In reference to the financial report, the operational unit confirms e.g.:

- that the individuals participating in the implementation of the project are acceptable;
- that the reported travel is in accordance with the project plan;
- that the presented costs are related to the implementation of the project;
- that the presented costs are in line with the budget;
- that the potential changes made to the budget during the reporting period are all acceptable.

The operational unit has a target schedule to process the report within 45 calendar days. Additional information may be requested from the lead partner, which must be delivered within 30 days of the request. The processing time stops until the additional information as a whole has been submitted, and starts running again after the information has been submitted.

After approval of the report, the operational unit transfers the processing **to the financial unit** of the Managing Authority. The financial unit also has a target schedule of 45 days for their checkings and payment processing. The financial unit reviews the Expenditure Verification Report as well as the costs accrual time frame for funding eligibility, and verifies that the costs are actual and itemisable.

The financial unit may also request additional information from the lead partner of the project, who must respond within 30 days. If additional information has not been submitted within 30 days, the Managing Authority may continue the process and make a payment order based on the information available, not taking into account any costs with inadequate information.

The financial unit prepares the payment order, which is delivered to the lead partner with a request for rectification. If it so desires, the lead partner can submit a demand for rectification for the payment decision.

3.1 Project update

Project update is a description of the progress of a project in a specified form. In a project update, the focus is on the description of the measures implemented during the reporting period, also taking account of possible changes concerning the work plan.

Reporting periods are defined in the Grant Contract. The project update needs to be submitted within 15 days of the end of the reporting period.

A project update is filled in and submitted in PROMAS. It doesn't need to be sent to the Managing Authority as a hard copy. The MA approves the project update in PROMAS.

3.2 Interim report

In an interim report, the realisation of the measures, expenses and funding of the project during the reporting period are declared. The interim report consists of two separate sections – narrative and financial part – and the required annexes.

Reporting periods are defined in the Grant Contract. An interim report must be submitted within one month of the end of the reporting period.

Narrative report

In the narrative part of the interim report, the lead partner assesses the measures implemented and the results attained during the reporting period. In the report, attention is paid to the challenges, achievements and cooperation between the partners. Workplan is updated, realised cumulative values for indicators are provided and the communication and visibility activities are described.

The following documents are annexed to the narrative report:

- Partner assessments;
- Communication and visibility indicators and outputs form;
- Lists of attendees of seminars and other events organised by the project.

Annexes are submitted only electronically in PROMAS.

Financial report

The financial report is an Excel-based spreadsheet where the realised expenses of the reporting period are reported by cost type. Costs are described specific to receipts: an informative description is provided for each receipt.

From the perspective of financial reporting, there are two kinds of partners: reporting partners and invoicing partners. **Reporting partners** maintain project accounting of their own costs and the costs invoiced by an invoicing partner. Reporting partners report these costs in a financial report. **Invoicing partners** maintain project accounting of their own but invoice all project-related costs from a reporting partner. The financial report is filled in by every reporting partner of the project.

The financial report consist of the following Excel spreadsheets:

- Financial reports of the lead partner and each reporting partner;
- Consolidated financial report combining the information provided in the partner-specific financial reports;
- Realised finances.

The financial report in Excel format is submitted to the Managing Authority only electronically in the PROMAS.

Please ensure that the financial report is not locked and can be accessed by the Managing Authority. The Managing Authority fills in e.g. the paid amounts of Programme funding and the amounts of ineligible costs in the financial report.

A financial report template is available on the Programme's website, including more specific guidance for filling it in. Financial reporting is widely described in Part C.

3.3 Final report

The realisation and the results of the project are described in the final report. Also the final report consists of narrative and financial reports.

The narrative report differs from the narrative report of the interim report: in the final narrative report the project is analysed more thoroughly and the implementation period of the project as a whole is taken into account.

For the final financial report the same template is used as for the interim report. The costs from the final reporting period are reported.

The final report is submitted in PROMAS. In addition a hard copy of the narrative part is signed by the project manager and sent to the Managing Authority within four months of the end of the project. The annexes required are the same as for the interim report.

3.4 Payments

Payment request

Payment request is a document for claiming funding from the Managing Authority. There are three kinds of payment requests:

- First pre-financing payment request;
- Interim payment request;
- Final payment request.

The payment request is filled in and submitted to the Managing Authority electronically in the PROMAS. In addition, the payment request must be printed, signed by the authorised person from the organisation and delivered to the MA as a hard copy.

The following documents are annexed to the payment requests **only electronically** in PROMAS:

For the first pre-financing payment request:

- Financial Identification Form (FIF) from the lead partner.
- The Managing Authority asks for further clarification in case the bank account details in the payment request and in the FIF are not consistent. In case the FIF is not completed in full and in correct data, the Managing Authority is not able to pay the Programme funds to the lead partner's bank account.

For the interim payment request(s):

- Signed and dated general ledgers from the lead partner and each reporting partner corresponding with the costs reported in the financial report, (only for the reporting period in question);
- Filled-in and signed lead partner's checklist;
- Expenditure Verification Reports, including annexes, from the lead partner and each reporting partner;
- Please note that the Terms of Reference 'ToR' is submitted to the Managing Authority together with the first interim payment request and in case the audit contract is terminated and a new contract is signed with another audit firm.
- Financial Identification form, from Lead Partner, ONLY IN CASE the bank account details are changed

For the final payment request:

- Signed and dated general ledgers from the lead partner and each reporting partner corresponding with the costs reported in the financial report, (only for the reporting period in question);
- Filled-in and signed lead partner's checklist;
- Expenditure Verification Reports, including annexes, from the lead partner and each reporting partner;
- Financial Identification form from the lead partner, ONLY IN CASE the bank account details are changed;
- **From the Lead partner and partner organizations which are not public bodies or governmental departments:** bank account statement indicating the amount of interests accrued to the project during the implementation period or if not available, the method of calculating the interest.

Payment procedure

Approval of interim or final report is prerequisite for a payment. The amounts and schedules of payments are defined in the Grant Contract. Depending on the duration of the project there are one or two interim payment.

In Karelia CBC programme there are two alternative options for payment procedures.

Option 1:

The first pre-financing payment is made as soon as the Grant Contract has been signed. This pre-payment is 30% of the grant referred in the Grant Contract.

Interim payments are based on the reported and verified expenditures. The amount of the payment is calculated by using the funding percentage defined in the Grant Contract. The amount of the eligible costs of the reporting period are multiplied by the funding percentage.

For example:

(Funding percentage) 90% x (eligible costs) €100 000 = (interim payment) €90 000

Total amount of the first pre-financing payment and the interim payments cannot under any condition exceed 80% of the grant.

Example:

The grant of the project is EUR 500 000, 90% of the total costs. The first pre-financing payment is 30% of the grant = EUR 150 000.

Reported and verified eligible costs from the first reporting period (=first year) are EUR 140 000. The interim payment is 90% of the eligible costs of the reporting period = EUR 126 000. In case costs were EUR 250 000 the payment would be EUR 225 000.

When the grant is EUR 500 000 the maximum total amount paid in advance is EUR 400 000

Option 2:

All payments are made against reported and verified expenditures. There are no pre-financing payments. The final payment must be requested within four months from the end of the project.

3.5 Expenditure Verification Report

In the Expenditure Verification Report, the external auditor verifies that the costs listed in the financial report are actual, correct and according to the programme rules and national legislation.

The verification schedule for each partner is determined in the contracting process. As a main rule, an Expenditure Verification Report is needed from each reporting partner for each payment request excluding the first pre-financing payment.

The Expenditure Verification Report related to an interim report is submitted to the Managing Authority at latest within 3 months after the end of the reporting period. The Expenditure Verification Report and the final report are submitted to the Managing Authority at the latest within 4 months after the end of the project.

Detailed information on expenditure verification can be found in Part C.

4. Implementation of micro projects

4.1. Contracting

As soon as the Joint Monitoring Committee has made a decision on micro projects to be awarded, the Managing Authority starts negotiations with the applicants i.e. the lead partner organisations.

The Joint Monitoring Committee might have set some conditions for a micro project to be contracted, and in that case the Managing Authority ensures that any necessary changes to the project plan or project budget are made before contracting. During the contracting process, the project budget is also checked and the lead partner must be ready to justify each cost if asked. In a micro project there are only two kinds of eligible cost types: **staff and travel**.

The budget is confirmed as a part of the Grant Contract. Costs won't be challenged after approval of the budget and no expenditure verification is needed.

The implementation period is defined in the Grant Contract. Duration of micro projects may not exceed 12 months.

4.2. Payments and reporting

Payment schedule and amounts are defined in the Grant Contract. Maximum of 80% of the grant is paid in advance. The **advance payment** needs to be requested separately from the Managing Authority by submitting a payment request. The first pre-financing payment request is filled in and submitted electronically in the PROMAS. A printed and signed version is submitted to the MA as a hard copy.

It is recommended that the request for an advance payment is submitted when delivering the signed Grant Contract to the Managing Authority. The MA makes the advance payment to the lead partner within 45 days of receipt of the request.

A **project update** is a description of the progress of a project. It is filled in and submitted electronically in the PROMAS.

The lead partner submits the **final report** to the Managing Authority within one month from the end of the project. The final report of a micro project consists only of a narrative report and a proof of the output as defined in the Grant Contract. The final report is filled in and submitted electronically in the PROMAS. Printed and signed hard copy of the final report is delivered to the Managing Authority with the payment request. Neither financial report nor expenditure verification is needed.

By signing the Grant Contract the project partners commit to producing the outputs defined in the project description with the confirmed budget. If, at the end of the project, outputs are not on a sufficient level or not produced at all, the grant is either cut or not paid at all. Also the pre-financing paid to the project can be recovered partly or fully.

The balance payment is paid to the lead partner's bank account within 45 days receiving the balance payment request and the final report.

5. Modifying the project

5.1 Change requests

It is possible to make changes to the project description and Grant Contract for well-grounded reasons. Such amendments may concern for example the work plan, partners, budget or implementation period of the project. The specific objective of the project can never be changed or the total costs of the project increased. The amendment must not cause such changes to the Grant Contract that could call a favourable funding decision into question or put the applicants for funding into unequal positions.

Project extensions can be applied for with due cause. The amendment request must be submitted to the Managing Authority at the latest two months before the project's original end date. However, all project activities have to end by 31 December 2022.

Changes that need to be applied in advance and require an appendix to the Grant Contract:

- Changes between budget headings exceeding 15%;
- Changes in implementation period;
- Changes in work plan;
- Partner additions or dismissals.

Change requests are applied for in the PROMAS. In a change request, the lead partner briefly describes the proposed change and the grounds for it. Additional material, such as a revised budget, is annexed if necessary. The Managing Authority either approves or rejects the change and prepares a contract addendum if needed. Addendum needs to be signed by both the Managing Authority and the Lead Partner in order to come into force.

5.2 Budget changes

Transfers within headings can be made freely, provided that the transfers are necessary and appropriate when considering the realisation of the implementation and objectives of the project. In other words, for example funding can be transferred in personnel expenses from one defined task to another at the lead partner's decision. It is, however, advisable to inform the project's contact person about internal transfers within headings.

Justified transfers can be made between headings without advance approval by the Managing Authority when the transfer concerns at the most 15% of the smaller cost type in question. Changes cannot be made to administrative costs. The project's contact person is to be informed about transfers between cost types.

Transfers between headings that exceed 15% of the smaller cost type between cost types require a change request and a Grant Contract addendum. The amendment request is to be submitted to the Managing Authority in advance, at the latest 1 month before the implementation of the change.

Note that exceedings over 15% of a cost type with no approval in advance may lead to rejection of the exceeding costs incurred.

		Original Budget	Budget after change	Change in %
Example 1:	Staff	30,000	25,000	16.67
Change request is needed	Travel	60,000	65,000	-8.33
Example 2:	Staff	30,000	32,000	-6.67
Change request is not needed	Travel	60,000	58,000	3.33

5.3. Notifications of minor changes

The Managing Authority needs to be notified also of minor changes in the project implementation.

It is advisable to keep in touch with the project's contact person and inform him/her on the progress and events of the project also informally. For example small changes in the work plan and the small budget transfers can be communicated by email.

Contact information must be kept up to date in the PROMAS. In addition, the contact person must be notified of a change of the project manager.

6. Monitoring

6.1 Result-oriented monitoring

The Managing Authority monitors the implementation of projects. Each project sets up its own specific objective within the framework defined in the guidelines of the call for proposals. Project's progress towards this objective is followed not only by checking and monitoring project reports and but also in some cases by result-orientated monitoring (ROM).

Checking and monitoring of project reports by the Managing Authority is a regular activity which concerns all projects. Result-orientated monitoring activities are carried out by the Managing Authority in addition to the day-to-day management of projects based on sample and risk analysis. The objective of the ROM activities is to ensure the attainment of objective set and the achievement of the intended results.

ROM activities are conducted by the Managing Authority. In practice this means personal visits in premises of partner organisations. In addition to these monitorings, the European Commission may also carry out result-orientated monitoring missions.

6.2 Other checks

The Managing Authority may carry out on the spot checks based on sample and risk analysis. The checks are organised in the premises of partner organisations.

Audit Authority and Group of Auditors may carry out sample checks based on sample and risk analysis. The checks are organised in the premises of partner organisations.

7. Closing the project

7.1. Preparing to close the project

If extension is needed for the implementation period it needs to be applied at least two months before the project is about to end. Extension is applied by submitting a change request.

A feedback discussion is organised between the lead partner and the Managing Authority at the end of the project. The goal is to provide both the Managing Authority and the lead partner an opportunity to provide and receive feedback about the project's implementation and administration. The feedback discussion does not revoke the lead partner's and partners' obligation to assess the results and implementation of the project in the final report.

At the end of the project the main focus should be on dissemination of the project results and on the project management. It is recommendable to start preparing the final report already before the project is closed.

7.2. Reporting

The final report and the final payment request are to be submitted to the Managing Authority within four months of the end of the implementation period of the project.

The expenses are eligible for funding during the project implementation period defined in the Grant Contract or in its amendment. As an exception, expenses related to the last expenditure verification and budgeted project evaluation are acceptable even after the project implementation period has ended. All expenses are to be paid by the date of submitting the final report.



Usually the Managing Authority has questions on the final report and on the final payment request. Somebody has to be able to answer the questions even if the project manager is not working for organisation anymore!

7.3. Archiving

The lead partner and partners must store all original project-related documents for five years after the balance payment to the Programme, which means at least until the end of 2030. The archiving must be organised so that the project documents can be easily retrieved.

The stored material must particularly incorporate the project application and contract, reports, receipts, account-related and bookkeeping documents and tender documents, contracts, materials pertaining to audits and other checks, and communications between the lead partner, partners, the Managing Authority and the auditor. The materials are stored as a single entity.

The Managing Authority and other relevant organisations have the right to conduct checks and audits also after conclusion of the project.

7.4. Termination of the Grant Contract

If the Managing Authority or the lead partner determines that the Grant Contract cannot be appropriately implemented, it must contact the other party of the contract. Negotiations are the primary method for resolving the issue. However, if mutual agreement is not reached, either party can terminate the contract by giving two months' notice in writing.

The Managing Authority can terminate the contract without notice or payment obligations if, for example, the lead partner has left its set objectives unachieved without cause, or the lead partner has either filed for bankruptcy or is preparing to cease operations. If the contract is terminated, the lead partner primarily only has the right to receive funding for the completed part of the project.

The project is discontinued automatically if the Managing Authority has not, under the Grant Contract, processed a single payment within three years of signing the contract.

Even in the case of project discontinuance, the prerequisite for the payment of the funds is the submission of an acceptable final report and payment request.

The Managing Authority prepares a discontinuance decision regarding the project.

PART C: FINANCIAL MANAGEMENT



The Programme is financed by the European Union, The Russian Federation and The Republic of Finland.

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1. Accounting

1.1. Accounting models

Each project partner has financial responsibilities although the lead partner has the overall responsibility (read more about financial responsibilities of the lead partner from Part A of the manual). Each project partner establishes a cost centre for the recording of project-related costs in their accounting system and pays special attention to the quality of invoices, accounting records and other supporting material, so that they are understandable, clear and accurate.

i *It is important to involve the accounting department of the organisation in the financial management of the project in order to ensure accurate organisation of the accounts and accounting procedures in accordance with the Programme rules.*

Depending on the nature of the project, there are two options for organising the accounting records: **decentralised model** and **partly decentralised model**. No matter which accounting model is chosen, the lead partner has overall responsibility for the project. The best time to decide on the accounting model is during the contracting process.

Decentralised model of accounting

In the decentralised model of accounting, the project costs are recorded into the lead partner's and partners' accounting records in accordance with how the project costs are budgeted and incurred by each party of the project. Each party of the project maintains financial reporting. In addition, the lead partner of the project is responsible for maintaining the consolidated financial report.

i *The decentralised model is the most common and primary model to organise the financial management of a project.*

Partly decentralised model of accounting

It is possible to partly decentralise the accounting system **if only minor salary and travel costs will be incurred to a project partner**. This arrangement requires prior approval from the Managing Authority and the lead partner.

In this model, the partner pays the incurred project costs first and charges the costs from the lead partner or some other partner afterwards. The charging partner is characterised as **an invoicing partner** and the partner from whom the costs are charged is the **reporting partner**. The invoicing partner and the reporting partner have to be from the same country.

The invoicing partner prepares a summarised invoice and attaches to it all copies of the invoices, supporting documents and the accounting material concerning the incurred and reported project costs. The documents and the material need to be clear, informative and understandable. All the Programme rules and responsibilities (procurement, eligibility of costs, accounting rules, etc.) apply to the invoicing partners.

In the partly decentralised model of accounting, the financial report is maintained only by the reporting partners. The project costs of the invoicing partner are reported in the financial report of the reporting partner. The costs belonging to the invoicing partner need to be clearly marked in the financial report of the reporting partner. The reporting partner has to establish in the accounting records of the project a partner-specific account(s) or code(s) under which all the invoicing partner's invoices are recorded.

Example:

Example of the partly decentralised model of accounting:

A project has a total of four partners, including the lead partner. The lead partner and Partner 1 are from Russia. Partners 2 and 3 are from Finland. The project decides to use partly decentralised accounting, since only minor costs are budgeted for two of the partners.

The budget for Partner 1 is 9,000 euros and only includes salary costs of two persons and travel costs. Partner 1 pays the incurred project costs first and invoices the costs from the lead partner. The lead partner reports the costs of Partner 1 in its own financial report. The costs of Partner 1 are marked clearly in the financial report. In this case, the lead partner is a reporting partner and Partner 1 is an invoicing partner.

It is also decided to partly decentralise the accounting for Partners 2 and 3. The partner budget for Partner 3 is 5,000 euros and includes only salary costs. Partner 3 first pays the incurred project costs and charges the costs from Partner 2 afterwards. Partner 3's costs are reported in the financial report of Partner 2. The costs of Partner 3 are marked clearly in the financial report of Partner 2. In this case, Partner 2 is a reporting partner and Partner 3 is an invoicing partner.

When it is time to submit an interim report or final report, the lead partner draws up a financial report of its own, including costs of Partner 1. Partner 2 draws up a financial report of its own including costs of Partner 3. The lead partner and Partner 2 have recorded all the incurred project costs in their accounting records. The invoicing partners' (Partners 1 and 3) costs are marked clearly in the accounting records and financial reports. In addition the lead partner draws up a consolidated financial report.

Choosing the accounting model

When choosing the accounting model it is useful to consider the following points:

- The complexity of the project has a major impact on the choice of accounting model:
 - if the project partners (other than the lead partner) have several activities and tasks and the incurred costs include more than salaries and travel costs, the decentralised model should be the principal choice;
 - if the partners' costs mainly consist of minor salaries and/or travel costs, partly decentralised model can be chosen.
- If the lead partner makes advance payments to the partners, the decentralised accounting model is strongly recommended.

AUDITOR

Inform the auditor how the financial management, accounting and financial reporting (decentralised model or partly decentralised model) is being organised.

1.2 Accounting records

As a basic rule, project costs are recorded in the accounting records in accordance with the accounting principles and rules of the country concerned and complying with the organisation's usual accounting practices.

Establishing a cost centre

It is highly recommended that the lead partner and partners establish their own cost centre in the accounting records. Only costs incurred and related to the project, revenues, interest and own contribution received from external donors and Karelia CBC Programme funding are recorded under the project's cost centre.



The costs incurred and related to the project are much easier to control in the accounting records and report in the financial report when a specific cost centre is established. It is also easier to extract the project costs, revenues, own contributions received from external donors and interest from the accounting records and to submit the Managing Authority a general ledger including only project-related costs, revenue, own contribution from external donors and interest.

If it is impossible to establish a separate cost centre for the project in the organisation's accounting system, the costs incurred and related to the project should be recorded in the organisation's accounting system under a specific project code. Revenues, own contributions received from external donors, Karelia CBC Programme funding and interests are also recorded in the accounting system using the specific project code.

A general ledger is an accounting report which lists all the invoices (the accounts and the invoices under each account) which are reported in a financial report. The reporting period of the general ledger and the financial report must be consistent. A general ledger needs to be provided, even if a specific project code is used.

Basic rules for project's accounting records

The accounting is based on an accrual double-entry system (debit/credit) or if this is impossible, a cash payment system. The project accounts must be accurate, up-to-date, understandable, reliable and easily identifiable and verifiable. All project costs need to be documented (original invoices, memo verifications, explanatory notes).

An original invoice is the document which is recorded in the accounting records and records the cost paid. The lead partner and partners guide suppliers to issue project-specific invoices (recording either the name of the project or the project code) in order to ensure transparency.

A clear audit trail must be established between the original invoice, the organisations' accounting system, the separate cost center (or specific accounting code) for the project and the financial report. The audit trail between the original invoice <-> organisation's accounting system <-> project accounting <-> financial reports needs to be clear and easily verifiable.

The project's accounting records should clearly record the heading under which the invoice in question is reported in the financial report. The general ledger of project costs (showing the heading under which each invoice is reported in the financial report) needs to be provided to the Managing Authority.

Example:

Example 1: Project cost recorded in the general ledger and reported in the financial report Extract of the general ledger of the project

Accounting records / general ledger Project cost centre 12366

Account 2000, travel costs

Date	Verificate No	Subject	Amount	Heading
18.9.2016	00600	Smirnov, travel bill (2,500 roubles)	2,500.00	2

Project cost under receipt number 00600 reported in the financial report under Heading 2. Travel costs

2. Travel costs	Number of invoice/receipt	Date of the invoice in the accounting records	Name of the currency (euro/rouble)	Total costs in currency (euro/rouble)	Total costs in currency (euro/rouble)	Exchange rate
Igor Smirnov, project seminar in St. Petersburg on 16.–17.9.2016, train ticket Petrozavodsk-St.Petersburg-Petrozavodsk	00600	18.9.2016	roubles	2,500.00	75.456321	33.13

Example:

Example 2: Project costs recorded in the general ledger and reported under several headings in the financial report

In a partly decentralised accounting model, an invoicing partner pays the incurred costs first, and charges the costs from the reporting partner in arrears. The invoicing partner specifies the amount of salary costs and travel costs on the invoice.

The reporting partner establishes its own cost centre in the accounting records for the project and also individual project account(s) or code(s) for the invoicing partner. The reporting partner also specifies the costs in the column of the accounting for the project.

Accounting records / general ledger

Project cost centre 12366

Project partner C code / Account 12698

Account 3000, purchases

Date	Verificate No	Subject	Amount	Heading
18.11.2016	00900	Partner C, salary and travel	400,617.29	1 (320,493.83 roubles) 2 (80,123.46 roubles)

Project cost under receipt number 00900 reported in the financial report under Headings

1. Staff (320,493.83 roubles) and 2. Travel costs (80,123.46 roubles)

1. Staff	Number of invoice/receipt	Date of the invoice in the accounting records	Name of the currency (euro/rouble)	Total costs in currency (euro/rouble)	Exchange rate	Total costs in currency (euro/rouble)
Partner C: Igor Smirnov, salary costs during 1.1.2016–31.10.2016, part- time worker, including holiday bonuses	00900	18.11.2016	roubles	320,493.83	80.123456	4,000.00
2. Travel costs	Number of invoice/receipt	Date of the invoice in the accounting records	Name of the currency (euro/rouble)	Total costs in currency (euro/rouble)	Exchange rate	Total costs in currency (euro/rouble)
Partner C: Igor Smirnov, travel costs during 1.1.2016–31.10.2016: project meetings with the lead partner and Partners A and B in Joensuu during 1.–5.2.2016 (bus ticket, accommodation, breakfast, daily allowances) and project seminar in St. Petersburg on 16.–17.9.2016 (train ticket Petrozavodsk-St. Petersburg-Petrozavodsk)	00900	18.11.2016	roubles	80,123.46	80.123456	1,000.00



If possible, it is recommended to modify the chart of accounts to correspond with the budget headings of the financial report. This makes it easier to report the costs in the financial report and to tally the costs between the financial report and accounting records of the project.

AUDITOR

For the expenditure verification is needed:

- *access to the accounting systems of the project;*
- *the opportunity to verify the accounting system and the system of entering project expenditures, revenues, interest and own contributions into the accounting system;*
- *The chart of accounts (specified for the project, if possible)*
- *all invoices and other documents related to the project, such as employment contracts, time recording system, salary statements, procurement documents, project contributions (Karelia CBC Programme funding, other funding), revenues and interests.*

The auditor also has the right to request any additional financial and non-financial material (which is not listed above) in order to verify the project.

2. Eligible and ineligible project costs

2.1. Principles

Eligible costs are project-related costs actually incurred by the lead partner or partner which would not be incurred without the project. However, there are types of costs which are considered ineligible even if they are related to the implementation of a project.

Eligible project costs

- ☐ Incurred during implementation period
- ☐ Indicated in the project budget
- ☐ Necessary for project implementation
- ☐ Identifiable and verifiable
- ☐ Comply with requirements of applicable tax and social legislation
- ☐ Reasonable, justified and comply with requirements of sound financial management
- ☐ Supported by invoices or documents

Ineligible project costs

- ☐ Debts and debt service charges
- ☐ Provisions for losses or liabilities
- ☐ Costs already financed by the EU
- ☐ Purchases of land or buildings exceeding 10% of the total eligible expenditures
- ☐ Exchange rate losses
- ☐ Duties, taxes and charges, if not non-recoverable
- ☐ Loans to third parties
- ☐ Fines, financial penalties and expenses of litigation
- ☐ Costs not recorded in the accounting records of the project and not supported by invoices
- ☐ Ineligible costs addressed as administrative costs
- ☐ In kind contribution

To be eligible a cost needs to:

- Be incurred during the implementation period of the project;
 - Services and works need to be related to activities performed during the implementation period of the project. Supplies need to be delivered and installed during the implementation period. Signature of a contract, placing of an order, or entering into any commitment for expenditure for future delivery of services, works or supplies after expiry of the implementation period do not meet this requirement.
 - Costs incurred should be paid before the submission of the final reports. An exception is made for costs relating to final reports, including only expenditure verification and final evaluation of the project.
- Be indicated in the project's estimated overall budget;
- Be necessary for the project implementation;
- Be identifiable and verifiable, in particular being recorded in the accounting records and determined according to the accounting standards and the usual cost accounting practices applicable to the organisation;
- Comply with the requirements of applicable tax and social legislation;
- Be reasonable, justified, and comply with the requirements of sound financial management, in particular regarding economy and efficiency;
- Be Supported by invoices or documents of equivalent probative value.



Sound financial management means the principles of economy, efficiency and effectiveness.

The principle of economy requires that the resources used by the institution in the pursuit of its activities are made available in due time, in appropriate quantity and quality and at the best price.

The principle of efficiency concerns the best relationship between resources employed and results achieved.

The principle of effectiveness concerns the attainment of the specific objectives set and the achievement of the intended results.

The following costs are considered ineligible:

- Debts and debt service charges (interest);
- Provisions for losses or liabilities;
- Costs already financed by the European Union budget;
- Purchases of land or buildings for an amount exceeding 10% of the eligible expenditure of the project concerned;
- Exchange rate losses;
- Duties, taxes and charges, including VAT, except where non-recoverable under the relevant national tax legislation;
- Loans to third parties;
- Fines, financial penalties and expenses of litigation;
- Contributions in kind.

Cost are considered ineligible also if:

- Costs are not recorded in the accounting records of the project, are not supported by invoices or there is no invoice available of the cost;
- Costs incurred and the financial report has not been submitted to the auditor for expenditure verification and therefore the expenditure verification report does not exist;
- Expenditure verification report is not submitted to the Managing Authority;
- Costs are incurred outside the reporting period;
- Costs are incurred outside the implementation period of the project (excluding costs relating to final expenditure verification or evaluation);
- Profit derives from the surplus of the receipts over the eligible expenditure in the project;
- Cost are purchases or subcontracting either from the lead partner or partner organisation itself (for instance the lead partner purchases services from a project partner);
- Costs are ineligible but addressed as administrative costs.

2.1. Value Added Tax (VAT)

The eligibility of the value added tax depends on the right to recover the tax:

- If the lead partner or partner can recover the VAT of the incurred costs of the project, the VAT is not an eligible cost for the project.
- If the lead partner or partner cannot recover the VAT of the incurred costs of the project, the VAT is an eligible cost for the project.



Find out the eligibility of the value added tax at the beginning of the project. If the value added tax is an eligible cost, the document showing the tax exemption needs to be available for the auditor.

If the lead partner or partner can recover the VAT but chooses not to use this right, the VAT is not an eligible cost for the project.

If the VAT is not recoverable by the lead partner or partner there needs to be an official document (for example a document of tax exemption concerning the specific project from the Tax Administration) showing the tax exemption of the project. The official document needs to be presented to the auditor in the first expenditure verification.

If the VAT is an eligible cost, the project costs are reported in the financial report and in the accounting records including the VAT. If the VAT is not an eligible cost, the project costs are reported in the financial report and in the accounting records excluding the VAT.

Since the eligibility of the VAT may vary between the project partners, each partner needs to find out the eligibility of the VAT separately.

AUDITOR

For the expenditure verification is needed:

- *document (from the Tax Administration if possible) showing the eligibility of the VAT;*
- *possibility to verify the entry system of the VAT in the accounting system (if the VAT is an eligible cost).*

The auditor also has the right to request any additional material (not listed above) in order to verify the eligibility of the value added tax and the recording of the VAT to the accounting records of the project.

3. Cost types

The following types of costs are eligible:

1. Staff
2. Travel
3. Equipment and supplies
4. Small scale investment
5. External expertise and services
6. Administrative cost
7. Investments

3.1. Staff

Costs of staff include gross salary costs and social security charges and other remuneration-related costs, according to the relevant national rules and laws, of the project personnel. Staff costs must relate to activities which the organisation would not carry out if the project was not undertaken.

The costs of staff assigned to the project under the following cumulative conditions are eligible:

- Costs relate to activities which the lead partner or partner would not carry out if the project was not undertaken;
- Costs do not exceed those normally borne by the lead partner or partner organisation;
- Costs relate to actual gross salaries including compulsory social security charges and other remuneration-related costs;
- Costs are reasonable and directly related to the implementation of the project;
- Part-time project employee's salary costs are based on the hourly rate calculated correctly (actual personnel costs divided by actual hours worked for the project);
- Project work is based on the employment contract or document;
- Salary is based on and paid in national currency.

Overhead salary costs, such as organisation's director's salary, are not budgeted under staff but under administrative costs. Overhead salary costs are not directly related to the project implementation.

Ineligible staff costs are:

- Bonuses, compensations or other additional expenses not compulsory and not based on the national rules and laws or on collective agreements;
- Taxable benefits linked to salary payments such as employer-provided vehicles, employer-provided accommodation or employer-provided telephone;
- Voluntary social charge;
- Efficiency wages or any other similar wage such as incentive salary received for working in an EU-funded project;
- Volunteer work or participation to the project activities, for example, working hours of people participating in a seminar organised by the project;
- Employee hired by a grant from another funding instrument;
- Services of project personnel procured from a partner, e.g. the lead partner organisation hires a project manager from a partner organisation;
- Stipends;

- In case of part-time employees, instead of real working hours, working hours based on:
 - unit costs or rates of work estimated in the budget;
 - work contract;
 - collective agreement;
 - standard working hours in a week;
 - estimation(s) of monthly working hours.
- Salaries based on an oral employment agreement;
- Project staff working for the organisation on a employment contract but for the Karelia CBC project on a service contract.

Working hours of the project personnel

An employee works either part-time or full-time for the project.

Working full-time for the project means that an individual dedicates 100% of their working time to the project. An employee working full-time for the project does not have to maintain a timesheet, however only project-related work is assigned to this person.

Working part-time on the project means that the individual does not dedicate 100% of their working time to the project. A part-time employee may work for the project a flexible number of hours per month. The part-time employee maintains a timesheet, which covers 100% of their actual working time. In addition to the hours spent on project activities, the timesheet should indicate time dedicated to other activities outside the project that contribute to the employee's salary payment (100% of the actual salary of the part-time employee).



Employee working full time (100%) and dedicating 100% of the working time for the Karelia CBC project is a full-time employee for the project.

Employee working with a reduced-time contract and dedicating 100% of the working time for the Karelia CBC project is a full-time employee for the project.

Employee working full time (100%) and dedicating less than 100% of the working time for the Karelia CBC project is a part-time employee for the project.

Employee working with a reduced-time contract and dedicating less than 100% of the working time for the Karelia CBC project is a part-time employee for the project.

The salary costs of an employee working part-time for the project are assigned to the project as a percentage calculated by dividing the actual hours worked for the project by the total actual monthly hours worked during the month in question.

The following two examples show how the salary of an employee who is working part-time for the Karelia CBC project is distributed.

Example:

An organisation has assigned a Project Assistant to work for the project as a part-time employee. The costs of the employee consists of:

- monthly gross salary 2,500 euros
- social charges 24%

The total monthly employment cost is 3,100 euros ($2,500 \times 1.24$).

According to the timesheet the Project Assistant has worked for the Karelia CBC project for 50 hours, for another EU-funded project for 50 hours, and for the organisation for 65 hours. In total, the Project Assistant has worked 165 hours during the month in question.

Percentage worked for the project during the month:

$$50/165 \times 100 = 30.30\%$$

The employment cost assigned to the project of the Project Assistant for the month is:

$$30.30\% \times 2,500 \text{ euros} = 757.50 \text{ euros}$$

$$\text{Social charges: } 30.30\% \times 600 \text{ euros} = 181.80 \text{ euros}$$

$$\text{Total: } 939.30 \text{ euros}$$

Salary costs based on normal working hours

The salary costs need to respect the maximum weekly working time defined by the national employment law. Salary costs are based on the normal working hours in the organisation. For instance, if in the organisation the normal working hours per day are 7.5 hours, the project salary costs are based on working hours of 7.5 hours. In general, the project work should be included in the normal daily working hours and not cause additional work.

Example:

Person is hired to work for the organisation as a full-time employee. According to the employment contract, the employees's daily working hours are 8 hours. In addition to the daily 8-hours working for the organisation, the same person works for the Karelia CBC project 8 hours daily based on a service contract. The total daily working hours are 16 hours (8 hours for the organisation + 8 hours for the Karelia CBC project). This means that the additional daily working hours is 8 hours.

Daily 16-hours working is not according to the Programme rules. The daily working hours for the organisation and the Karelia CBC project should be a total of 8 hours as determined in the employment contract. In addition, the Karelia CBC project work should be based on the employment contract not on a service contract.

In case an employee in Russia works for the Karelia CBC project based on a so called "internal outside activity", the work has to be based on a separate employment contract, not on a service contract. The same rules and principles for the payment of salary already described apply also in these cases. The employer has to make sure that the outside activity of an employee is according to the national laws and respects e.g. the maximum amounts of working hours per month accepted for this kind of work and the calculation basis for the holiday leave.

Overtime work

Salary for overtime work is accepted only in exceptional cases. Overtime work is related only to the implementation of the project. Justification must be made for the overtime work and there must be an order for the overtime work from the employee's superior. Salary costs concerning overtime work are paid according to the normal practices of the organisation and according to the national rules and laws applicable. If according to the normal practices of the employer no reimbursement is paid for overtime work overtime reimbursement cannot be included as project expenditure.

Timesheet

A timesheet template is available on the Programme website. If the organisation already has its own internal time recording system which provides the same information as in the Programme's timesheet, the organisation can use their own system. If the organisation does not have an internal time recording system, the Programme's timesheet template is used. If there is no timesheet maintained for a person working part-time on the project, the cost is ineligible.

In case an employee works at the same time for more than one project funded by the Karelia CBC Programme, a payroll clerk, an accountant or an accounting company fills-in a separate sheet in the timesheet template showing the distribution of monthly working hours and salary costs between the projects funded by the Karelia CBC Programme and other work.

The timesheet includes the following information:

- Project ID;
- Name of the project;
- Name of the employee and title according to the project plan;
- Reporting period;
- Monthly salary excluding and including social costs (based on work contract and the work hours reported in the timesheet);
- Brief description of project work carried out in the month concerned, hours worked for the project (per day and total hours in the month) and the percentage amount worked for the project, hours worked for other project(s) and the organisation (per day and total hours in the month) showing the total hours worked during the month;
- Signatures of the employee and the relevant superior.



It should be noted that the brief description of the project work carried out should be more detailed than "project work".

Salary costs during maternity, paternity and sick leaves

Salary costs during maternity, paternity and sick leaves are allocated to the project according to the national rules and laws applicable to the organisation, the normal practices of the organisation and according to the actual hours worked for the project prior to the leave.

Salary costs for a part-time employee in terms of maternity, paternity and sick leave are allocated to the project according to the percentage calculated of the actual hours worked for the project divided by the total hours worked during the current or previous reporting period.

The portion of costs for which the organisation can obtain reimbursement or compensation from another national or state authority or is entitled to social charge returns and tax returns is not eligible.

Holiday leave

Holiday leave accruing during the implementation of the project is an eligible cost, provided that the costs are in line with the normal practices of the organisation and according to the applicable national rules and laws.

For employees working part-time for the project, holiday leave is allocated to the project according to the actual hours worked for the project during the holiday credit year, divided by the total hours worked during the holiday credit year.

The organisation must maintain a separate calculation of holiday salary costs. The calculation must be clear and understandable and also show how the holiday salary is calculated and allocated to the project.

Reservations concerning holiday salary and holiday compensation are not eligible costs for the project. Holiday costs earned before or after the implementation period of the project are also not eligible.

For the expenditure verification is needed:

- *Accounting records for the project showing the project staff costs individually (gross salaries + social security charges and other remuneration-related costs based on the salary certificate);*
- *Salary scale of the organisation showing the normal salaries;*
- *Employment contract or document;*
- *Time recording system for part-time employees;*
- *Salary and payroll data and payslips;*
- *Justification for overtime work and an order for overtime work from the employee's superior;*
- *Calculation for holiday salary calculation and distribution;*
- *Calculation basis for the maternity, paternity and sick leave salaries and distribution in case of the part-time employees;*
- *Proof of payment of salaries and social security charges and other remuneration-related costs.*

The auditor also has the right to request any additional material (not listed above) in order to verify the eligibility of the salary costs.

3.2. Travel

Travel costs mean the project staff's expenditure on travel, accommodation and daily allowances on trips related to the project. Travel costs must be clearly linked to the project and essential for the effective delivery of the project activities. The principle of cost-effectiveness should apply to the choice of transport and accommodation. Travel and accommodation costs has to be properly documented.

All trips mentioned in the project budget are eligible for funding. Also, trips that are directly related and necessary in order to implement the project and take place in Finland or Russia are, as a main rule, eligible for funding. In order to be considered eligible the trips outside Finland or Russia must be either specified in the project budget or a prior approval from the Managing Authority needs to be requested.

Eligible travel costs of project staff include for example:

- Visa costs;
- Travel (public transport such as bus, train, metro) and flight tickets (economy class);
- Taxi fares;
- Car mileage (private or company car), not exceeding the set rates;
- Rental car costs (the procurement rules must be followed);
- Fuel costs, where relevant;
- Insurances which are necessary in order to carry out a trip;
 - e.g. car insurance in order to drive abroad (excluding insurances which are mandatory for the use of one's own car)
- accommodation (accommodation + breakfast).

Travel and accommodation costs and daily allowances are accepted according to the Programme rules and the normal practices of the participating lead partner and partner organisation. Each organisation pays only the travel expenses of its own project staff.

Reimbursement of the travel expenses must not exceed the national tax-exempt level or the rates approved by the Programme. If an organisation reimburses the travel expenses to the project staff at higher rates, the costs are recorded in the accounting records of the project and reported in the financial report according to the reimbursement rates set in the Programme Manual. The amount exceeding the set rates is ineligible.

If according to the national rules or normal practices of the organisation meals offered reduce the reimbursement amount of the daily allowances, this rule is also followed in the project. The daily allowances must be recorded in the accounting records of the project and reported in the financial report in national currency.

If an organisation does not possess formal practices on the reimbursement of the travel costs it follows the Programme rules. It is not acceptable to use higher reimbursement rates than those normally used in the organisation or change the normal practices of the organisation from the start of involvement in the Karelia CBC Programme's project. If the lead partner or partner organisation doesn't pay daily allowances to its staff, the payment of daily allowances is not an eligible cost in the project either.

The maximum reimbursement rates for daily allowances for the Programme are as follows:

- Finnish organisations: daily allowances according to the Official Decision of the Finnish Tax Administration on allowances for travel expenses.
- Russian state bodies on federal, regional and local level: the rates and rules set by the Ministry of Finance by the Russian Federation.
- Other Russian organisations use the following rates and rules in 2017:
 - Travels abroad: 2,500.00 roubles/day and travels in Russia: 700.00 roubles/day.
 - In case the duration of the travel is one day, the reimbursement rates for daily allowance are as follows:
 - -50 % in case of the travel abroad,
 - daily allowance shall not be paid for the travel taking place in Russia.
 - The daily allowances for travels abroad are determined and paid in roubles unless it is a normal practice of the organisation to determine and pay the daily allowances in other currency.
 - Daily allowances for travels in Russia are always determined and paid in roubles.

The maximum reimbursement rates of car mileage for the Programme are as follows:

- Finnish lead partner and partner: reimbursement of kilometre according to the Official Decision of the Finnish Tax Administration on allowances for travel expenses:
- Russian lead partner and partner: 12 roubles/kilometre and the fuel and parking costs.

Travel and accommodation costs and daily allowances for external experts and service providers cannot be included under this budget line. External travel costs are reported under the "external expertise and services" budget line. The principles of compensation and acceptable rates are the same as for the project staff.

Ineligible travel costs:

- travel costs exceeding the maximum rates;
- cost of a passport;
- travel expenses of persons other than project staff;
- travelling in first or business class unless it can be established that no other options were available or that this was the most economical option;
- daily allowances or km-reimbursements paid in another currency than the one normally used by the organisation in compensating these costs to its employees;
- travel expenses not based on an original invoice, ticket or document.

For the expenditure verification is needed:

- *accounting records of the project showing the travel costs;*
- *travel claims with annexes:*
 - *agenda or other document of equivalent probative value of the meeting, seminar or conference,*
 - *travel report or memo,*
 - *proof of participation (e.g. signed participation list, email confirmation);*
- *paid invoices:*
 - *travel tickets (train, bus, taxi, flight). If it is not possible to obtain a printed metro or bus ticket from a ticket machine, a signed clarification on a separate document is provided for the auditor for expenditure verification,*
 - *hotel bills,*
 - *participation fees, if any,*
 - *visa cost;*
- *daily allowance and car mileage claims;*
- *organisation's travel policy;*
- *for fuel costs a summary list of distance covered;*
- *proof of payment.*

The auditor also has the right to request any additional material (not listed above) in order to verify the travel costs.

3.3. Equipment and supplies and small-scale investments

Equipment and supplies are project-related tools and devices needed for the project staff in order to perform their daily work, for example Project Manager's computer or smart phone. The equipment and supplies serve the need of the project staff in order to implement the project.

Small scale investment are tools and devices related to the activities and outputs of the project. The investment is necessary and important in order to reach the objective of the project.



An example of a small scale investment: Objective of the project is to develop mediation practices. In order to develop the mediation, new mediation offices are established and office furniture acquired. In this case the office furniture is a small scale investment.

Equipment, supplies and small-scale investments, new or used, purchased, rented or leased are eligible if they:

- are necessary for achieving the objective of the project;
- are specifically purchased for the purpose of the project;
- correspond to market prices;
- are foreseen in the project budget;
- are bought during implementation period of the project.

The full price is eligible for the project if it is made only for the use of the project and no other EU funding is received for it.

The organisation handling the purchase, rental or leasing is responsible for ensuring that the relevant procurement rules are respected. The auditor verifies the procurement process.

Examples of equipment, supplies and small-scale investments:

- IT hardware (such as desktop computers, laptops, tablets, monitors, keyboards, mice, printers, scanners);
- IT software;
- devices (such as mobile phones, digital projectors, video cameras);
- office furniture;
- other machinery, equipment or goods necessary and in line with the objectives of the project;
- tools;
- instruments (for instance measuring instruments);
- materials;
- laboratory equipment.

Purchase of second-hand equipment

The purchase costs of second-hand equipment or supplies are eligible, provided that they comply with the applicable norms and standards and their price does not exceed the generally corresponding price on the market. The organisation provides clarification of the second-hand purchase, including information on when and where the purchase has been made. If EU financing has been used to the same item earlier, the cost is ineligible.

Example:

Example: Partner 1 purchases second-hand equipment from Organisation X who purchased the equipment when it was involved in an EU-funded project and used EU funds to purchase the equipment. If Partner 1 decides to purchase the second-hand equipment from Organisation X, the costs are not eligible since EU financing has already been granted for the equipment.

Examples of ineligible costs:

- items purchased, rented or leased from another project partner or from the organisation itself;
- items previously purchased with EU funding;
- cases where procurement rules have not been respected;
- artificially split purchases, for example sequential purchases just under the threshold values.

For the expenditure verification is needed:

- *accounting records of the project showing the costs;*
- *receipts and invoices;*
- *list of purchases;*
- *evidence of the procurement procedure and competitive bidding;*
- *evidence of the purchase process and procurement documents;*
- *price comparison for small purchases;*
- *contracts for rent and leasing costs. For contracts based on a daily fee, fees with the number of days contracted and the total amount of the contract must be provided;*
- *proofs of delivery;*
- *proofs of payment.*

The auditor also has the right to request any additional material (not listed above) in order to verify the small scale investments and equipment and supplies purchased during the project's implementation period.

3.4. External expertise and services

The costs of an external expert, consultant or other service provider, including travel costs, are included under the "External expertise and services" budget line. This budget line covers the costs paid on the basis of contracts or written agreements and against invoices, and requests for reimbursement to external experts and service providers.

The outsourced services are acquired to carry out certain task or activity linked to the implementation of the project provided that the work by external experts and service is in accordance with the project plan, essential for project implementation and the procurement rules (national and Programme) are respected and the price does not exceed the reasonable price level of the country of acquisition.

- the work by external experts and service is in accordance with the project plan and essential for project implementation;
- procurement rules (national and Programme) are respected and the price does not exceed the reasonable price level of the country of acquisition.

The work of an external expert or service provider is based on a contract or written agreement which describes the ordered service, task or activity and the duration and pricing. The contract provides a clear reference to the project. Any changes to the contract must comply with procurement rules and be documented. If an expert is paid on the basis of a daily or hourly fee, the rate, number of contracted days or hours and the total amount of the contract must be provided.

Examples of external expertise and services:

- studies and surveys:
 - evaluations,
 - handbooks,
 - external research;
- auditing;
- translations and interpretations;
- trainings;

- communication and visibility services;
- IT consulting;
- services related to organisation and implementation of events or meetings:
 - rent of venue,
 - catering,
 - interpretation,
 - use of external speakers and experts;
- travel and accommodation costs and daily allowances of the service providers, external experts, auditors or speakers;
- financial services costs related only to the requirements of the Karelia CBC Programme:
 - costs of bank transfers and financial guarantees;
- project financial management, in cases when tasks related to the project financial management are not performed by the project staff, but are outsourced to external parties.

Examples of ineligible costs:

- purchases from a partner or the organisation itself;
- purchases from the project employees;
- internal expenses of the organisation (for example translation or IT expenses);
- interest on debt;
- fines, financial penalties and expenditure on legal disputes and litigation.

AUDITOR

For the expenditure verification is needed:

- *accounting records for the project, showing the costs;*
- *receipts and invoices with relevant annexes;*
- *evidence of the procurement procedure and competitive bidding;*
- *evidence of the acquisition process and procurement documents;*
- *price comparison for small acquisitions;*
- *contracts or written agreements with clear reference to the project;*
- *proofs of delivery of services provided;*
- *proofs of payment.*

The auditor also has the right to request any additional material (not listed above) in order to verify the eligibility of external expertise and other services

3.5. Administrative costs

The administrative costs are lead partner's or partner's management costs linked to the project implementation. Administrative costs are funded on a flat rate basis. The flat rate can be a maximum 7% of the subtotal costs of the project, excluding investments.

A list of administrative costs together with the calculation methods is submitted to the Managing Authority in the beginning of the contracting process. The Managing Authority checks the list and the percentage of the eligible administrative costs is based on it. The percentage is defined in the Grant Contract and it sets the maximum amount of administrative costs. Administrative costs won't be challenged once the list has been approved.

If an organisation can't receive funding based on a flat rate the administrative costs are recorded in the accounting records according to the costs actually incurred. This procedure is agreed in the contracting process. Also in these cases a maximum percentage for administrative costs is set in the Grant Contract.

The administrative costs are reported as a lump sum in the financial report. There is no need to submit an accounting record of the administrative cost for the Managing Authority. No expenditure verification is needed for the administrative costs.

The Managing Authority cannot pay more than has been claimed in the payment request: if the project claims administrative costs less than the percentage set in the Grant Contract entitles the Managing Authority pays according to the claim, not according to the percentage.

A project party cannot report administrative costs if there are no costs incurred under the cost headings 1-5 during the reporting period.

Examples of administrative costs:

- general administration costs:
 - support of the management personnel of lead partner or partner organisation,
 - help-desk services within the organisation,
 - financial management (including the costs of accounting of the project),
 - occupational health care payments for project staff excluding the part for which the employer gets reimbursement;
- daily office running cost (miscellaneous supplies purchased in bulk such as pencils, pens and paper);
- rental costs of office including fixed costs such as electricity, heating, cleaning and water, included in the rent;
- internet;
- maintenance, repair and insurance for equipment and supplies.

Administrative costs do not include:

- cost not related to the project implementation or project management;
- ineligible costs;
- cost already declared under another budget heading.

3.6. Investments

Investments are costs related to infrastructure such as roads, energy networks, waste and water management, telecommunication networks and energy management.

If an infrastructural investment is included in a project, under the "investments" budget line are budgeted and reported all the costs related to that particular investment, for instance costs for site preparation, delivery, handling, installation, renovation and purchase of land. The "investments" budget line also covers all costs of external expertise and services that are linked to infrastructural investments.

An eligible investment:

- is described in the project plan and approved by the Programme;
- is not previously financed by the European Union;
- is made respecting the relevant procurement rules;
- is made respecting the Programme's communication and visibility rules;
- meets all compulsory requirements set by the Programme and national legislation, for example environmental impact assessments and building permissions.

Besides procured investments the costs under the heading may include for example:

- building materials;
- labour costs;
- building permits;
- environmental impact assessment;
- investment feasibility studies;
- other external expertise and services related to investments.

Examples of ineligible costs:

- purchase of land or building exceeding 10% of the total eligible costs of the project,
- cases where procurement rules have not been respected;
- artificially split purchases, for example sequential purchases just under the threshold values.

In case the nature, original objective or implementation conditions of the project funded by the Karelia CBC Programme are undermined within five years of the project closure (or within the period of time set out in state aid rules), the Managing Authority shall recover the amount unduly paid to the project. The recoverable amount shall be in proportion to the period for which the requirement has not been fulfilled.

AUDITOR

For the expenditure verification is needed:

- *accounting records;*
- *receipts and invoices;*
- *evidence of the procurement procedure and competitive bidding;*
- *contract laying down the works or services provided with clear reference to the project and the Programme. For contracts based on a daily fee, fees with the number of days contracted and the total amount of the contract must be provided;*
- *proofs of delivery;*
- *proofs of payment.*
- *proofs of installation.*

The auditor also has the right to request any additional material (not listed above) in order to verify the investment costs during the project's implementation period.

4. Financial reports and payment requests

4.1 Drawing up a financial report

Basic information on financial reporting is described in Part B of the manual. The financial report is an Excel-based spreadsheet which consists of the sheets: “Consolidated financial report”, “Financial report LP” “Financial report P1” “Financial report P2”, “finance” and “ineligible costs”.

- “Consolidated financial report” is filled in by the lead partner. It is intended to summarise the project costs and revenues reported in each reporting partner’s financial report into one table.
- “Financial report LP” is filled in by the lead partner, and “Financial report P1”, and “Financial report P2” by reporting partners. The realised expenses and revenues of the reporting period in question are reported in these sheets.

In case there are more reporting partners than ready-made sheets, add more sheets to the template.

- “Finance” is filled in by the Lead partner. On this sheet the realised financial contributions from the external donors and project partners are reported.
 - The amount of own contribution received from external donors is reported in every interim and final financial report according to the amount(s) realized during the reporting period and as recorded in the general ledger.
 - The total amount of own contribution from project partners is reported only in the final financial report. The reported amount should be according to the percentage of own contribution defined in the Grant Contract.
 - The lead partner and partners which are not public bodies or governmental organisations report the total amount of interest accrued from the pre-financing payments during the implementation period of the project. The total amount of interest is reported only in the final financial report.
- “Ineligible costs” is filled in by the Managing Authority. It lists the invoices found ineligible and the grounds for the ineligibility.

The Excel spreadsheet can be downloaded from the Programme website.

The lead partner and partner are responsible for the financial report and the information in it: the information in the financial report should be clear, accurate and understandable, and the financial report should be filled in completely.

When drawing up a financial report make sure that:

- The reported costs and revenues in the financial report are according to the project budget: there shouldn’t be costs that are not foreseen in the budget and the costs should be reported only under headings budgeted (if there are no small-scale investments foreseen in the budget, there can’t be small-scale investments in the financial report).
- The costs and revenues belong to the reporting period in question.
- The project revenues are reported and deducted fully from the total eligible expenditure.
- The costs and revenues are recorded into the accounting records of the project. The total sum of the accounting records of the project and the general ledger submitted to the Managing Authority should match the total sum of the financial report.
- The costs are reported according to the currency of the original invoice and converted into euros by using the InforEuro exchange rate. The original invoice is the document which is recorded in the accounting records and records the cost paid.
- The realised own contribution and interest accrued are reported according to the accounting records of the project.

In addition the lead partner has the following responsibilities:

- To collect each financial report into one file (each has its own sheet in the Excel-based spreadsheet).

- To check the financial reports of partners and deduct any cost they consider ineligible. The lead partner adds a row under the ineligible cost and adds into that row the deduction of the cost and grounds for deduction.
- To draw up the consolidated financial report (summarising the project costs). The expenditures are broken down under each heading as a total per partner.
- Total project revenues incurred (lead partner + partners) are deducted on the consolidated financial report sheet.
- To fill in the “finance” sheet.

i *If the financial report is poorly filled in you will receive more clarification requests from the Managing Authority. The more clarifications are needed, the longer the payment process takes. If you want to receive the payment faster pay attention to the quality of the report.*

Use of the InforEuro exchange rate

The financial reporting is done in euros and the programme contributions are reimbursed in euros. The costs incurred and paid in other currency than euros are converted by the project partners according to the official rates (InforEuro exchange rates) published by the European Commission. All decimals of the InforEuro exchange rates are used.

Invoices are converted into euros using the exchange rate for the month during which the original invoice was recorded in the accounting records (date of the invoice in the accounting records).

The exchange rate do not need to be used in the accounting records. InforEuro is required only when reporting the costs in the financial report.

The exchange rates (InforEuro) are available at:

http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm

i *If the original invoice is in euros, the cost is not converted in the financial report even if the currency is different in the accounting records.*

Costs related to the fluctuation of foreign exchange currencies are not eligible and shall not be reported in the financial report.

Example:

Example of the use of the InforEuro exchange rate: The project's accounting records has a receipt number 00900: Igor Smirnov travel 1.1.2016–3.1.2016 amounting to 8,000 roubles (bus ticket 500 roubles, and daily allowances 3 x 2,500 roubles).

The costs are converted into euros in the financial report by using the exchange rate of the month when the invoice was recorded in the accounting records. According to the accounting records, the date of receipt 00900 is 15 February 2016, so the month is February 2016, and according to InforEuro the exchange rate for February 2016 is 83.5018.

i *In order to avoid exchange rate losses, the lead partner and partners should carefully plan the amount and timing for transferring money from a euro bank account to a roubles bank account. In most cases the best plan is to transfer money according to the actual short-term needs.*

4.2. Submitting a financial report

A financial report, both interim and final, is submitted to the Managing Authority only electronically in PROMAS. The financial report is submitted as an Excel-file. Please ensure that the financial report is not locked and can be accessed by the Managing Authority. The Managing Authority shall fill in the paid Programme funding and the ineligible costs to the financial report.

The signed and dated **general ledgers** are submitted to the Managing Authority only as scanned documents electronically in PROMAS.

The signed and dated **lead partner's checklist** is submitted to the Managing Authority as a scanned document electronically in PROMAS.

The signed and dated **Financial Identification Form 'FIF'** is submitted to the Managing Authority as a scanned document electronically in PROMAS.

Pay attention to the quality of the scanned documents. All documents need to be clearly filled in and in readable condition.

4.3 Payment request

A payment request is prepared in PROMAS and submitted to the Managing Authority both electronically in PROMAS and as a signed hard copy. The payment request needs to be signed by an authorized person.

There are three different types of payment requests: First pre-financing, Interim and Final. The First pre-financing payment request is an advance payment, submitted once the Grant Contract has been signed, and it is not based on the reported realised project cost. Interim and Final Payment requests are connected to the Interim and Final reports.

5. Expenditure verification

5.1. Purpose and organising

Expenditure verification is an audit performed by an external auditor according to the rules and instructions provided by the Programme. It is performed for each reporting partner. Expenditure Verification Report is a condition for the payment and therefore a crucial part of a payment request.

The purpose of the expenditure verification is to:

- Ensure that the project's accounting records have been organised according to the rules of the Programme, the accounting principles and rules of the country concerned, and the organisation's usual accounting practices;
- Ensure that costs are easily traced between the invoice, accounting records and financial report;
- Ensure that the incurred project costs are real, correctly recorded in the accounting records of the project and reported accurately in the financial report and general ledger;
- Ensure that revenues, interest and funding have been correctly recorded in the accounting records of the project as well as in the financial report;
- Ensure that the organisation complies with the principle of sound financial management, particular regarding the economy, efficiency and effectiveness.

An expenditure verification plan is drawn up for each project with the Managing Authority during the contracting process. In the expenditure verification plan it is agreed who are the reporting partners, how the expenditure verification is organised and when the expenditure verifications are foreseen. The expenditure verification plan is saved as a memorandum in PROMAS.

As a rule, a Finnish audit firm performs the expenditure verification for Finnish actors and a Russian audit firm performs the expenditure verification for Russian actors.

In a **decentralised accounting model**, the expenditure verification is performed for the lead partner and all partners. As a main rule expenditure verification is performed for each partner for each interim and final report. However, for a partner(s) who has only minor and simple salary and travel costs, it is possible to perform the expenditure verification only once and submit the report with the final payment request. In this case the partner in question reports all incurred costs in one report and the Expenditure Verification Report covers the whole implementation period of the project. Use of this method is agreed with the Managing Authority in the expenditure verification plan.

In a **partly decentralised accounting model**, the expenditure verification is performed for the lead partner and reporting partners. In this case, the auditor of a lead or reporting partner verifies also the expenditure of an invoicing partner whose costs are reported in the financial report of the partner in question.

5.2. Choosing an auditor

The expenditure verification is performed by an independent auditor(s). The auditor performing an expenditure verification is tendered and contracted by the organisation who is being verified (lead partner or partner). As a main rule there are more than one auditor in every project.

The Auditor has to meet at least one of the following conditions:

- The Auditor or the audit firm is a member of a national accounting or auditing body or institution which in turn is member of the International Federation of Accountants (IFAC);
- The Auditor or the audit firm is a member of a national accounting or auditing body or institution. Where this organisation is not a member of the IFAC, the Auditor commits him/herself to undertake this engagement in accordance with the IFAC standards and ethics set out in the Terms of Reference.

- The Auditor or the audit firm is registered as a statutory auditor in the public register of a public oversight body in an EU member state in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (this applies to auditors and audit firms based in an EU member state);
- The Auditor or the audit firm is registered as a statutory auditor in the public register in the Russian Federation.

In addition, the auditor has to undertake the engagement in accordance with the following standards and ethics:

- The International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants (IFAC);
- IFAC Code of Ethics for Professional Accountants developed and issued by the IFAC's International Ethics Standards Boards for Accountants;
- Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Managing Authority requires that the Auditor is independent from the Lead partner and partner organisations and complies with the independence requirements of the Code of Ethics for Professional Accountants.

5.3. Expenditure verification package

When performing an expenditure verification, the expenditure verification package is used. The latest version of the package is always used. It can be downloaded from the Programme website.

The expenditure verification package includes:

- Terms of Reference template (ToR)
- Programme Manual
- Guidelines for the expenditure verification
- Report for Expenditure Verification and Factual Findings
- Checklist for the Expenditure Verification
- List of Ineligible Expenditure

In addition to abovementioned documents, the Grant Contract, and its annexes, or the Partnership Agreement are an annex to the Terms of Reference.

Terms of Reference template "ToR" is filled-in by the auditor. It is signed by the auditor and the organisation who is the subject of the verification. The Managing Authority is not a party to the ToR.

The ToR is submitted to the Managing Authority together with the first interim payment request. In case the audit contract is terminated during the project implementation, a new ToR needs to be signed with a new audit firm and submitted to the Managing Authority.

Programme Manual and **Guidelines for the expenditure verification** provide information for the auditor on the Programme rules and on performing the expenditure verification.

Report for Expenditure Verification and Factual Findings is filled in by the auditor. In the report the auditor lists the expenditure verified, the exceptions found, and the recommendations given to the organisation. In addition, in the report the auditor describes the difficulties encountered in the expenditure verification work.

The auditor attaches to the report a detailed list of the verified expenditure, revenue and funding. The list can be compiled by indicating or ticking the invoices verified in the financial report.

The **Checklist for the Expenditure Verification** is also filled in by the auditor. Its' purpose is to assist the auditor in their expenditure verification work. The Checklist is attached to the Expenditure Verification Report.

List of Ineligible Expenditure is an Excel-template where the auditor lists the expenditure found ineligible and the grounds for ineligibility. The list is attached to the Expenditure Verification Report.

In case the same auditor or audit firm performs the expenditure verification for more than one party of the project, the Expenditure Verification Report and its annexes are drawn up separately for each party.

The Expenditure Verification Report is an annex to the interim and final payment request. The reports and annexes are submitted to the Managing Authority as pdf documents electronically in the PROMAS. In addition, the pages signed by the auditor are submitted to the Managing Authority as a scanned document electronically in the PROMAS. These pages refer to the annexes “5 Report for Expenditure Verification and Factual Findings” and “6 Checklist for the Expenditure Verification”. The signed and dated Terms of Reference ‘ToR’ is submitted to the Managing Authority as scanned document electronically in PROMAS.

5.4. Quality of the expenditure verification

The Managing Authority and the Audit Authority shall perform quality control on the expenditure verification. The Managing Authority, based on its own or on the verification results of the Audit Authority, has the right to ask for re-performance of the expenditure verification and rewriting of the expenditure verification documents in case the quality is not in accordance with the Programme rules.

In case of unsatisfactory performance of the auditor or in case of late delivery of the expenditure verification report, the Managing Authority may decide to proceed with one or more of the following three options:

- reject the expenditure verification documents without accepting any financial compensation for the expenditure verification work;
- ask the partner concerned to designate a new auditor;
- exclude the auditor from further expenditure verification work for the project concerned and for any other project financed by the Programme funds.



Presenting well-drawn-up Expenditure Verification Report reduces clarification requests from the Managing Authority. The Managing Authority shall not accept an Expenditure Verification Report that contains inconsistencies or errors.

6. Own contribution, revenues and interest

6.1. Own contribution

The Lead partner and all partners have to participate in the financing of the project. Also external donors can participate in the financing.

The project budget covers all project-related costs, not only the costs covered by the Programme funding. Own contribution is the part which is not paid by the Programme. The amount of own contribution is defined in the Grant Contract. Usually it equals to 10% of the total net eligible costs.

Own contribution of Lead Partner and partners

The Lead partner and partners pay and report all project-related costs. The Programme grants funding according to the funding percentage defined in the Grant Contract. The remainder is considered as own contribution. It is important to note that own contribution isn't something extra in addition to the approved project budget.

In-kind costs or volunteer work are not eligible costs for the project and can't be used to cover the own contribution either.

The shares of own contribution should be agreed on the partnership agreements. The share doesn't have to equal to 10% of the costs of the partner in question, even that is a common practice.

The own contribution doesn't need to be separated in the accounting or in the financial report: there is no need to provide information which of the invoices are considered own financing.

The realised own contribution is recorded in the 'Finance' sheet of the final financial report. The realised own contribution is calculated according to the shares defined in the partnership agreements. Own contribution from the Lead partner or partners doesn't need to be paid or transferred to the project account. However, all project costs and funding received from the Programme and external donors have to be recorded in the accounting records of the project.

Example:

Net eligible costs of the project 200 000 €

Own contribution 20 000 € = 10%

In the partnership agreements it is agreed that the own contribution consists of the following shares:

Lead partner 5 000 € or 2,5% of the total project costs

Partner 1 3 000 € or 1,5% of the total project costs

Partner 2 12 000 or 6% of the total project costs

Lead partner's share of the project budget is 100 000 euros. During the project implementation the Lead partner pays salaries, travel costs, equipment and administrative costs worth 98 000 euros.

Partner 1's share of the project budget is 30 000 euros. During the project implementation the Partner pays salaries, travel costs and small-scale investments worth 30 000 euros.

Partner 2's share of the project budget is 70 000 euros. During the project implementation the Partner pays salaries, travel costs and equipment worth 64 000 euros.

The total costs reported at the end of the project are 192 000 euros of which the Programme contribution is 172 800 euros ($192\,000 \cdot 0,9$). The own contribution needed is 19 200 euros. In the financial report the own contribution is reported according to the shares agreed in the partnership agreements:

Lead partner: 4 800 € (2,5% of the realized total costs)

Partner 1: 2 880 € (1,5% of the realized total costs)

Partner 2: 11 520 (6% of the realized total costs)

The shares doesn't need to be recorded in the accounting records.

External donors

Own contribution can be money received from external donors. External donors are organisations not participating in the implementation of the project. EU funding can't be used as own contribution in the projects.

Own contribution can't be covered in full by donations from external donors. The Lead partner and partners need to cover at least part of the own contribution by themselves.

Donations from external donors need to be recorded in the project's accounting records. The Managing Authority follows up the amounts of the own contribution received from external donors; the lead partner and the reporting partner need to mark clearly the realised amount of own contribution received from external donors in the interim and final financial report. The donations cut the amount of the grant if the donations and the grant exceed the total realised costs of the project.

6.2. Revenues

Revenues are income generated by the project, for example entrance, admission or course fees collected from the users of services (seminars, training, concerts etc.) provided by the project activities.

A separate account for the revenues is established in the project accounting. All revenues, also those not foreseen in the project budget, are reported in the financial report. The revenues are fully deducted from the project's total eligible expenditure. The Managing Authority follows up the amounts of the revenues.

6.3. Interest

Interest is generated from the pre-financing payments.

As a rule, interest due on pre-financing payments is deducted from the final payment to the project. Interest must be recorded in the project's accounting records, under a separate interest account, and reported in the financial report if the lead partner or partner are not public bodies or governmental departments.

A bank account statement indicating the amount of interest accrued to the project during the whole implementation period is annexed to the final financial report. If no bank account statement indicating the amount of interest is available, the method of calculating the interest is annexed to the final financial report.

7. Procurement

7.1. Procurement principles

All procurements should comply with the applicable national laws, national and EU regulations, Programme rules and conditions of the Grant Contract.

The applicable rules of procurement depend on the location (Finland or Russia) and in case of Russian organisations also on the type of organisation (public or private) of the procurer. The Finnish organisations follow the Act of Public Contracts (2016/1397). The Russian public bodies follow the national laws on procurement, and the private bodies follow the rules annexed to the Grant Contract. As a main rule, Finnish partners procure in Finland and Russian in Russia.

The procurements need to:

- be indicated in the project's estimated overall budget;
- be necessary for project implementation;
- be identifiable and verifiable, in particular being recorded in the accounting records of the lead partner or partner and determined according to the accounting standards and the usual cost accounting practices applicable to the lead partner or partner;
- comply with the requirements of applicable tax and social legislation;
- be reasonable, justified and comply with the requirements of sound financial management, in particular regarding economy and efficiency, and supported by invoices or documents of equivalent probative value.

In addition to above, the lead partner and partners need to respect the following principles:

- Avoid any conflict of interest and respect the principles of equal treatment, non-discrimination, fair competition and transparency.
- Ensure adequate ex-ante publicity and proportionality. It needs to be ensured that the invitation to tender provides the same information for all bidders. The invitation to tender has to include all relevant information concerning the work, services or supplies needed and the time limit for receipt of tenders has to be reasonable.
- The offers are evaluated, and depending on the purchase, the best value for money or the lowest price has to be used as the selection criteria.
- In case of any negotiated procedure, whether a low-value procurement or any other type of procurement, a negotiation report must be produced. The report explains how participants in the negotiation were chosen, how the price was set and the grounds for the award decision.
- The lead partner and partners may apply their own procurement guidelines to the procurements under the national threshold values and to the low-value procurements as far as those procurement guidelines do not contradict the Programme rules. The procurement guidelines need to explain the basic principles for the choice and appropriateness of the chosen award procedure used for different type of acquisition. However, the basic principles on equal treatment, non-discrimination, fair competition and transparency as well as the requirement of sound financial management need to be applied.

If necessary for the implementation of the project, procurement procedures to award contracts may be launched before signing the contract

Failure to follow the procurement and Programme rules

Failure to comply with the national laws, national and EU regulations, Programme rules and conditions of the Grant Contract as well as with the principles above renders the related expenditure ineligible.

Depending on the seriousness of the failure, cut of Programme funding can vary from 10% to 100 % of the reported cost. In case of a systemic, repeated or serious failure to follow the procurement and Programme rules, the Managing Authority considers 100% of the expenditure ineligible.

A failure is considered serious and 100% of the expenditure ineligible in cases such as:

- Lack of publication of contract notice (the contract notice was not published in accordance with the relevant rules);
- Artificial splitting of works, services or supplies contracts;
- conflict of interest between the lead partner or partner organisation and the supplier;
- Award of additional works, services or supplies contracts (if such award constitutes a substantial modification of the original terms of the contract) without competition in the absence of extreme urgency brought about by unforeseeable events or an unforeseen circumstance for complementary works, services or supplies;
 - 'Substantial modification' means conditions which would have allowed for the admission of tenderers or the award of a tender to other than those initially admitted or accepted, extends the scope of the contract to works, services or supplies not initially covered or favours a contractor not provided for in the initial contract.
 - 'Unforeseen circumstances' means e.g. new requirements or technical conditions that the procurer would not have foreseen despite of its diligent technical investigation. Additional works, services or supplies caused by insufficient preparation of the tender or project are not considered 'unforeseen circumstances'.
- Fraud;
- Favouring a tenderer in a competitive procedure.

7.2 Procurements by Finnish organisations

A Finnish lead partner and partners (private, public or association) must comply with the Act of Public Contracts (2016/1397). Publication of a contract notice on goods, services or works made by Finnish organisations indicate price excluding the value added tax. This principle concerns all procurements, regardless of the value.

Procurements above the national and EU threshold values

Procurements exceeding the national threshold values determined in the Act of Public Contracts must be put out to tender. When procuring goods, services or works the lead partner and partners have to take into account what is regulated by the national procurement legislation valid at the time of procurement.

The national procurement legislation defines the national and the EU threshold values based on which the procurement process shall be conducted. In 2017 the national threshold values applicable are 60 000 euros (excluding value added tax) for supply and service procurements, and 150,000 euros (excluding value added tax) for building contracts.

Procurements under the national threshold values

The Act of Public Contracts is not applied in procurements below the threshold values. When a procurement is over 4,000 euros (excluding value added tax) but below the threshold value, the Finnish lead partner or partner is required to request tenders in writing (at least from 3 tenderers) or to organize an open tender procedure in order to ensure the reasonableness of the procurement. The procurement procedure and competitive bidding need to be documented (evaluation of the offers and decision on awarding the contract).

Low-value procurements

For low-value procurements below a value of 4,000 euros (excluding value added tax), it is recommended at least to conduct a price comparison via email, phone or Internet and prepare a memo recording the price comparison.

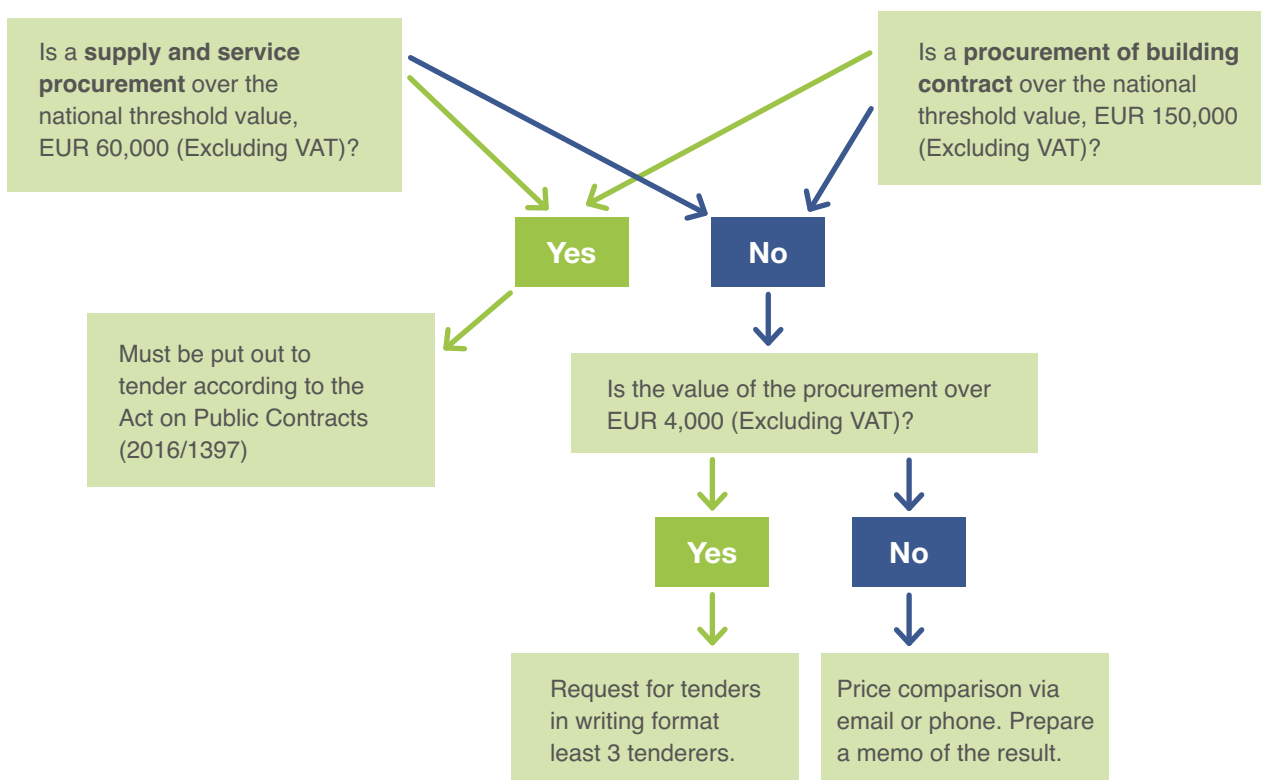
Competitive bidding already carried out by the organisation

If the organisation making the procurement has already carried out competitive bidding, it can be made use of in the project.

Electronic marketplace for public procurement

The HILMA Information Service, www.hankintailmoitukset.fi, is an electronic marketplace for public procurement, used for, for example, publishing competitive biddings. Further information and instructions on public procurement are also available on the public procurement online service at www.hankinnat.fi.

Finnish organisations



7.3 Procurements by Russian organisations

Public organisations

A Russian public organisation, in other words a federal, regional or local authority, acting as lead partner or partner has to follow the Russian national laws on procurement.

The contract is awarded to the tender offering the best value for money or as appropriate to the tender offering the lowest price. The purchaser needs to avoid any conflict of interests and respect the principles of equal treatment, non-discrimination, fair competition and transparency. The purchaser has to also ensure that the services, works or goods that are not originating from the Russian Federation receive the same treatment as Russian services, works or goods. Failure to comply with these rules renders the related expenditure ineligible. Competitive bidding must be documented and the documents need to be available for presentation to the Managing Authority and the auditor upon request.

Private organisations

A Russian private organisation must comply with the document “Award of procurement contracts by Russian private beneficiaries” which is an annex to the Grant Contract. This document describes in detail principles for contracts with the value of more than EUR 60 000 (excluding value added tax), procurement procedures for service, supply or works contracts and the use of negotiated procedure.

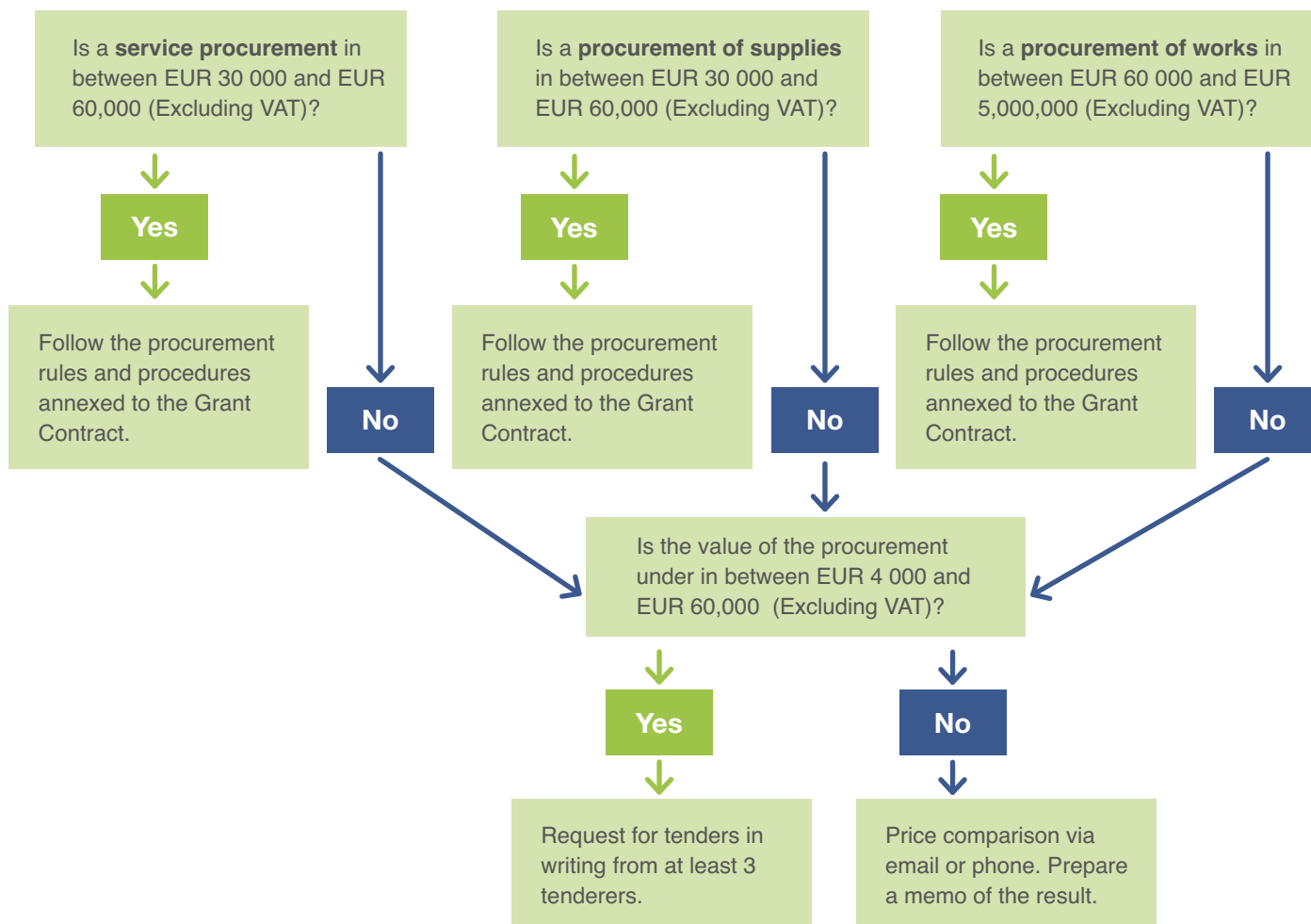
Low-value procurements not exceeding EUR 60 000 (excluding value added tax) are awarded in accordance with the national rules. In absence of such national rules, a negotiated procedure is used.

For low-value procurements below a value of 4,000 euros (excluding value added tax), a price comparison by email, phone or Internet is made and a memo of the procedure prepared.

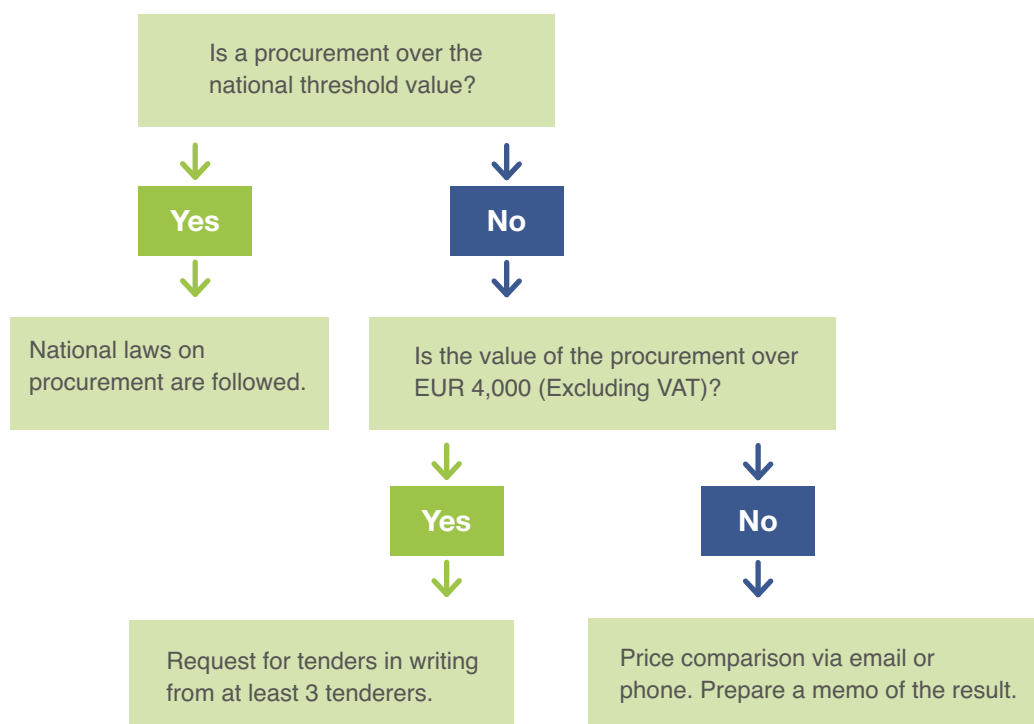
National preferences are prohibited, except for contracts with the value not exceeding EUR 20 000.

The publications of the contract notices on goods, services or works made by Russian private organisations has to indicate price excluding the value-added tax. This principle concerns all procurements and all threshold values.

Russian private bodies



Russian public bodies



8. Irregularities, fraud and corruption

The lead partner and partners are responsible for using the Programme funds only for the purposes of the project implementation as determined in the Grant Contract.

The lead partner and partners have to make sure that e.g. staff costs and procurement procedures do not include any risks of irregularity, fraud and corruption. The auditor verifies and reports in the Expenditure Verification Report whether the expenditure reported in the financial report include any risks of irregularity, fraud and corruption.

Irregularity means any infringement of the Grant Contract, implementing project, EU or national law resulting from an act or omission by anyone who has, or would have, the effect of prejudicing the funds of the Programme.

Fraud means any intentional act or omission concerning:

- the use or presentation of false, incorrect or incomplete statements or documents which has as its effect the misappropriation or wrongful retention of Programme's financial contributions;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misuse of such funds for purposes other than those for which they are originally granted.

Passive corruption means a deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the Programme's financial interests.

Active corruption means the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the Programme's financial interests.

Examples about the risk of irregularity, fraud and corruption (risk indicators) are e.g.

Procurements:

- Avoidance of required competitive procedure;
- Tailoring requests for bids or proposals so that they contain specifications which are tailored to meet the qualifications of a particular bidder or which only one bidder can meet;
- Leaking confidential information to help favored bidder to formulate a superior proposal;
- Making an amendment to a contract after it has been agreed between the lead partner or partner and the supplier;
- Awarding a sub-contract to a supplier whose member or staff has an interest, whether financial or otherwise (conflict of interest).

Staff costs:

- Labour costs for activities that are not carried out;
- Inflating the number of working hours;
- False documents supporting the existence of expenditure;
- Misrepresentation of hourly rates or actual working hours;
- Excessive numbers of working hours for project staff.

More examples about the risk of irregularity, fraud and corruption and about the risk indicators regarding the procurement and staff costs are described in the Guidelines for the Expenditure Verification.

Conflict of interest

As a general definition, a conflict of interest exists where the impartial and objective exercise of the functions of a financial actor or other person is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other shared interest with a recipient. Each project partner is responsible for ensuring that the appropriate measures are taken to minimise any risk of conflict of interest.

These risks are especially important during the procurement process. Special attention should be paid in cases where project staff is also involved in external companies participating in the tenders organised by the respective project partners. However, in all cases measures need to be carefully analysed to minimise any possible risks of conflict of interest. For specific requirements, the national legislation should be consulted. If a conflict of interest is detected in the procurement procedure, financial implications might be set.

