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Interreg South Baltic Programme 2021–2027

General principles on First Level Control

in Interreg South Baltic programme 2021-2027

(version 1, October 2023)

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INTRODUCTION

The purpose of this document is to define the minimum quality standards of the First Level Control set by the Managing Authority and gives practical guidance on carrying out the First Level Control. This ensures the harmonised standards with regard to the FLC in Member States.

Member States are recommended to follow the principles in this document, implementing it into their own organisational structure and control arrangements.

This document shall also apply to third countries (Member States outside the programme area – in cases where project partners from those MS are present in the project partnership) accordingly, where relevant.

The document covers:

- how the control system is organised,
- the role of the FLC in it,
- what is CST2021,
- how to comply with management verifications.

This document sets also a list of annexes that are important during the control process

Annexes:1, 6 and 9 are the minimum standard and should be used directly by FLC in the version from the current GP version.

Annex 2 is the minimum standard and could be supplemented/amended by the FLC in line with national regulations.

Annexes: 3 to 8 are a proposal to be used at the national level. These attachments may be supplemented according to national needs and requirements or replaced by national documents, provided that in the case of checklists, national checklists will correspond to the scope of verification described in the GP.

Annexes 10-11 are an overview attachments.

Due to the different national FLC systems set in the Member States it is not possible to cover every situation in this document. More in-depth information about specific issues relevant in the context of FLC tasks can be found in other programme documents as well as EC and national regulations.

The information provided in this document will be continuously further developed and updated during the implementation of the South Baltic Programme.

1. ABBREVIATIONS

AA – audit authority

CPR – Regulation 2021/1060

CST2021 – Central ICT System

ERDF – the European Regional Development Fund

ETC Regulation – Regulation 2021/1059

EU – the European Union

FLC(s) – first level controller established based on Article 46 (3) of the Regulation 2021/1059 and Article 74 of the Regulation 2021/1060

GoA – Group of Auditors

GP – General Principles of First Level Control in Interreg South Baltic Programme 2021-2027

IMS – the Irregularity Management System

JS – Joint Secretariat of Interreg South Baltic Programme 2021-2027

LP – lead partner

MA – managing authority

MS(s) – member state(s)

NA – national authority

PM – Interreg South Baltic Programme 2021-2027 Programme Manual

PP(s) – project partner(s)

SCO(s) – simplified costs options that include: lump sum, flat rate, unit costs

SL2021 – application for managing projects

South Baltic Programme – Interreg South Baltic Programme 2021-2027

the EC – the European Commission

the ECA – European Court of Auditors

2. CONTROL SYSTEM AND THE LEGAL BASIS OF FLC IN SOUTH BALTIC PROGRAMME

2.1. General information

Each MS shall designate the FLCs¹ that will approve expenditures declared by project partners in projects implemented in the South Baltic Programme. Designated FLCs are responsible for verifying the legality and regularity of the expenditures declared in partner progress reports (also named payment claims).

The FLC systems vary among the MSs participating in the South Baltic Programme. There are two kinds of FLC systems in place:

- centralised system (Poland and Sweden)
- decentralised system (Denmark, Germany and Lithuania).

2.2. Centralised system

The FLC bodies designated by the governments are:

SWEDEN	Swedish Agency for Economic and Regional Growth (Tillväxtverket)
POLAND ²	Voivode of the Pomorskie Voivodeship (Gdańsk)
	Voivode of the Zachodniopomorskie Voivodeship (Szczecin)
	Voivode of the Warmińsko-Mazurskie Voivodeship (Olsztyn)

Contact details of the FLC bodies in Poland and Sweden are available at the Programme website: www.southbaltic.eu.

The FLCs in Poland and Sweden are funded by the MSs.

2.3. Decentralised system

The FLC bodies approved by dedicated National Authorities (Approbation bodies) are:

¹ According to Article 46 (3) of the Regulation 2021/1059 and Article 74 of the Regulation 2021/1060.

² Three Voivodes responsible for verification of expenditure of partners located on the territory of the respective voivodship.

Denmark	Independent private audit companies or auditors chosen by the partners for carrying out the verification (see PM chapter VI.6 Audit and Control).
Germany	
Lithuania	

The cost of the FLC in Denmark, Germany and Lithuania is covered by PPs. It is an eligible expenditure in the programme and must be planned in the project budget. Public procurement rules must be obeyed if applicable when selecting FLCs by partners.

2.4. Approbation procedures

Only approbated FLCs are entitled to approve partner progress reports in the South Baltic Programme.

The approbation procedure involves the following steps:

1. The partner presents the selected FLC to the responsible Approbation Body in the MS in the filled-in *Checklist with criteria for the approbation of a FLC* (Annex 1). Additional documents might be attached to the checklist (e.g., a checklist and documents related to public procurement procedure, Subsidy Contract and Application Form) if it is required by national rules. The approbation process of the FLC should be:
 - launched as soon as possible;
 - finalised by the end of the first reporting period at the latest.

NOTE: only the approbated FLC can receive access to SL2021! You can learn more about SL2021 in the chapter 5.

2. The Approbation Body verifies, in accordance with the programme requirements, the information on qualification and independence of the FLC provided in the checklist(s) and additional documents, if applicable.
3. The Approbation Body:
 - confirms the positive assessment of the FLC qualification *by sending this information by e-mail to PP, MA and JS³, who includes it to the SL2021 system;*
 - informs on any changes to it (i.e., if new FLCs are approbated).
4. The MA gives the approbated FLC access to SL2021.

³ E-mails to MA and JS are as follows: amisthb@southbaltic.eu and amiz.sthb@mfi.gov.pl. The information should include name of institution, name and surname of controller, address and contact details (phone, e-mail) to FLC and controlled PP as well as name and number of the project.

5. LP/PPs selects a new FLC and starts the approbation procedure again following programme's and national requirements if the proposed FLC is rejected or changed.

2.5. Approbation bodies

The following Approbation Bodies were assigned at the national level in decentralised FLC systems:

Denmark	Region Zealand , Alleen 15 DK-4180 Sorø, Denmark, (responsible for approbation of FLC of partners located in Region Zealand); Regional Municipality of Bornholm , Snorebakken 66, DK-3700 Rønne, Denmark (responsible for approbation of FLC of partners located on Bornholm).
Germany	Ministry of Economics, Infrastructure, Tourism and Labour Mecklenburg-Vorpommern , Unit 430, Johannes-Stelling-Straße 14, 19053 Schwerin, Germany.
Lithuania	Ministry of the Interior of the Republic of Lithuania , European Union Investments and International Programmes Department , e-mail: bendrasisd@vrm.lt .

2.6. Legal basis

The principles of First Level Control have been defined in this document, along with:

- CPR,
- ETC Regulation,
- the South Baltic Programme,
- PM,
- national guidance on the FLC system (if applicable),
- internal control procedures of the entities appointed to carry out the control.

3. Overview of the role of the FLC

3.1. Main responsibilities of FLC

FLCs carry out management verification which includes:

- administrative verifications of expenditures declared in reports by the LP and PPs;
- on-the-spot check at the premises of the LP and PPs.

Detailed information on management verification is laid down in Chapter 6 of this document.

3.2. Cooperation with partners

The FLC can have a positive impact on the verification process and assist partners providing:

- solutions to problems spotted when providing all the supported documents to reports in the SL2021 system;
- knowledge on what mistakes partners should avoid preparing reports, based on the experience of the FLC;
- information on national control rules;
- interpretation of national eligibility provisions, if possible, based on the experience of the FLC;
- information on the most common irregularities detected in projects that could be avoided e.g., in public procurement, State aid, VAT;
- individual or group learning sessions with project partners to advice on how to prepare reports and avoid mistakes and irregularities;
- support to partners when expenditure is questioned with regard to external audits.

Close cooperation between the FLC and partners during the verification of the project will certainly upgrade the effectiveness of the process in terms of keeping up with the deadlines and clearing up mistakes and irregularities. The latter might certainly decrease the risk of programme error rate occurrence.

While communicating with partners, the FLC should exchange the correspondence with partners in the SL2021 as often as possible, in particular if the correspondence concerns the verification process (in case of verification on a sample, only documents referring to the chosen expenses are needed). It will provide for the audit trail for the management verifications carried out at the first level of control.

3.3. Four „eyes“ principle and impartiality. Conflict of interest

The Four Eyes Principle (also the Two-man rule) is a widely used control mechanism that requires that any activity by an individual must be controlled (reviewed, double-checked) by a second individual that is independent and competent.

Four Eyes principle ensures more transparency and likelihood that potential irregularities will be detected.

With regards to management verifications the principle is not obligatory but recommended and can be implemented by engaging the second FLC in the process or the institution that supervise the performance of FLC.

Impartiality of FLC(s) must be ensured as they should be independent from the project, project activities and without private prejudice to the partner controlled. Therefore, before starting the control tasks the FLC employees should confirm its:

- **confidentiality** – FLC should not communicate to unauthorized persons or entities any confidential information related to the project disclosed to him/her in the course of activities carried out as the controller;
- **impartiality** - a declaration with regard to the verified project there is no conflict of interest pursuant to Art. 61 Financial Regulation⁴.

Furthermore, the FLC employees shall declare that:

- he/she is not in any factual or legal relation with the Partner's institution, which is the circumstance that could question my impartiality and affect the performance of my duties,
- he/she is not a member of the Partner's organisation nor any associations, organizations, foundations or other entities organizationally or personally associated with the Partner's organisation,
- his/her spouse or relative to the second degree is not employed in the Partner's organisation on a managerial position,
- he/she and any of the aforementioned persons took part in the preparation of the project documentation,
- in the event of circumstances indicating a possible violation of the principle of impartiality, he/she should declare to immediately inform his/her hierarchical superior about this fact and accept that the hierarchical superior may decide to exclude him/her from carrying out activities related to this project.

A sample declaration of confidentiality and impartiality can be found in Annex 2.

A conflict of interest exists where the impartiality or objectivity of a person who takes a decision related to the spending of EU funding is compromised for reasons involving family, emotional, political, economic interest or any other direct or indirect personal interest.

The Four Eyes Principle and impartiality of FLC are both control mechanisms that works in the field of prevention of conflict of interest (see chapter IV.7.2 Conflict of interest and anti-corruption of PM). More recommendations on this you can find in "Combating financial fraud. Manual" on the programme website as well as in the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and the Guidance on the avoidance and management of conflicts of interest under the Financial Regulation (2021/C 121/01).

⁴ As referred to in Article 46 of the Regulation (Eu) No 2021/1060 of the European Parliament and of the Council of 24 June 2021 on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments.

3.4. Documents required for verification

Verification of expenditures of partners is carried out based on the following documents:

- Application Form,
- Subsidy Contract,
- Partnership Agreement,
- Partner progress reports including the list of expenditure (including 0-report contains only preparation costs).

Documents abovementioned are all available in the CST2021 (you can learn more about CST2021 in the chapter 5).

Verification is carried out on the basis of the following documents proving the eligibility of expenditures:

Real costs	SCOs (lump sum, flat rate, unit costs)
Invoices or other documents with equivalent value of proof for example payslips including the amount eligible for the calculation of an expenditure in the project.	X
Contracts signed with contractors (including the annexes).	X
Delivery notes (for example a protocol of reception of products and services).	X
Documents proving the payment (a bank account statement) or other documents with equivalent value of proof.	X
Employment contracts and job descriptions.	The statement proving the need for staff employment to the project.
	The statement providing the need for travel and accommodation costs of the project partner's staff. Proof of travel (e.g., attendance list, recording of a meeting or similar evidence) at least once during the duration of the project for partner who receives a flat rate for travel and accommodation.

Payslips, calculation of salary. (where staff costs are calculated as real costs with no fixed % calculation method only).	
Job descriptions showing the % of the part – time employment prepared ex-ante/before the reporting period (where staff costs are calculated as real costs by the use of the fixed % method).	
Documents on the public procurement carried out in compliance with national and EU provisions.	
Statements of account reflecting the exchange of the amounts declared in national currency into euro.	
Other documents necessary for verification of expenditure, for example information on eligibility of the VAT (valid for projects with state aid).	
Participant lists with signatures of project-related activities, invitations, agenda, minutes, attendance records (i.e., seminars, working groups, meetings etc.).	
Calculation methods, rationale, and documentation for the value of any equipment to be used by the project.	
Specimens of booklets, outputs, tangible or intangible results of services, studies, publications etc., which are produced by the beneficiary.	
Other documents required by the FLC (i.e. if required by the national rules).	

4. Reporting process and the role of the FLC

FLC will receive the progress report for verification in CST2021 twice a year. The report will cover activities and expenditure of 6-months reporting periods. The project specific reporting periods are divided into cycles:

Cycle 1:

- from 1 January to 30 June;
- from 1 July to 31 December.

Cycle 2:

- from 1 April to 30 September;
- from 1 October to 31 March.

Reporting cycles will be applied in the rolling order (1st Call - Cycle 2; 2nd Call - Cycle 1; 3rd Call - Cycle 2; etc.).

Deadlines for the submission of the progress reports are laid down in the PM. The reporting may be done starting from the date following the date of signing of the Subsidy Contract, within 3 months.

Reporting in the project and exchange of project progress report and documents between the project partners and the FLC is carried out in the CST2021. Project partners operate in CST2021: complete and submit partner progress reports, communicate with FLC, send financial documents, public procurement documents, contracts and information on the working time of people involved in the project implementation. FLC can agree beforehand with the PP on which documents are required for uploading into CST2021. There is no need to upload documents for on-the-spot control, as these are checked by FLC during control on the premise or project site (if for any reason the control is made virtually, FLC can agree on which documents PP should upload).

NOTE: The FLC is obliged to use the English version of CST2021.

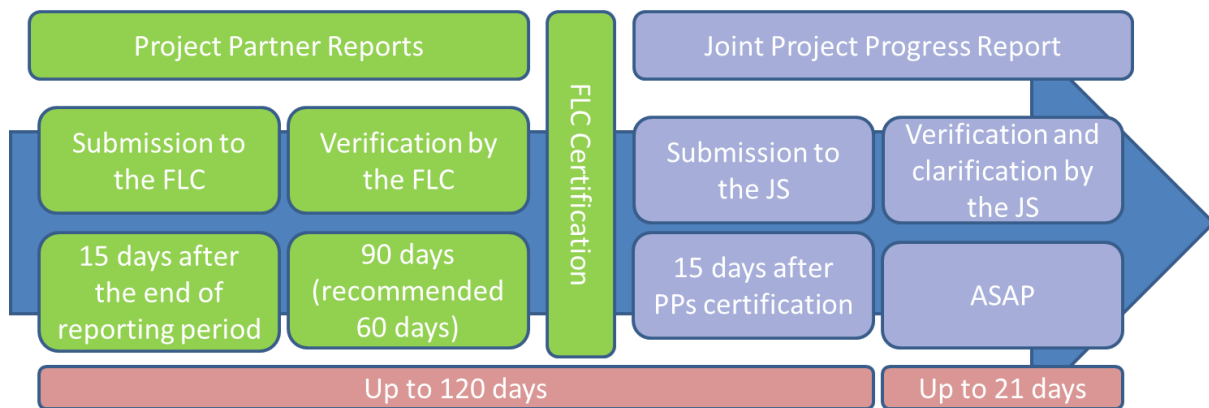
The obligatory deadlines for proceeding the progress report are as follows:

- PPs should provide a partner progress report and all necessary documents to the FLC within 15 calendar days after the end of the reporting period, leaving enough time for the FLC to carry out verification. In the decentralised FLC systems, the LP may allow PPs to agree individually with their FLCs on the time of delivery of documents for control⁵.

⁵ On the condition that it does not delay the delivery of the project progress report nor the time for the LP to prepare the project progress report.

- in line with the EU regulations the FLCs have 90 calendar days to complete verification of the partner progress report. However, in order to allow timely submission of the project progress report to the JS, the FLC is recommended to complete verification of partner progress reports in 60 calendar days (if possible) in order to facilitate a smooth reimbursement process;
- the compilation of the project progress report and submission to the JS in SL2021 has to be done until 120 calendar days after the end of the reporting period by LP;
- it is recommended that the LP schedules 15 calendar days for compiling the project progress report after partner progress reports are approved by the FLCs.

The following figure shows the timeline of reporting (the green fields are for management verification):



To be remembered:

- Partner may submit the so-called 0-report containing only preparation costs in accordance with the lump sum indicated in the approved Application Form. FLC is encouraged to finalize the confirmation of the lump sum amount within 30 days from its submission due to the technical character of approving 0-report which base on the lump sum only.

5. CENTRAL ICT SYSTEM (CST2021) AND THE ELECTRONICAL EXCHANGE OF DOCUMENTS AND INFORMATION

5.1. General information

In the 2021-2027 perspective, as a rule, the exchange of documents and information related to the project implementation among the partners and programme institutions is conducted electronically via a system designed for this purpose. Partners, LP and the FLC have an obligation to use the CST2021.

The CST2021 is a central system that provides for the handling of:

- processes related with the calls for proposals and assessment of application forms,
- projects from the moment of selection for co-financing, including project settlement,
- projects' monitoring, verification, control and audit,
- processes related with certification of expenditures to the EC.

The FLC will have access and will work in the following CST2021 applications:

- SL2021 – which lets the FLCs have access to projects assigned, documents, progress reports etc.,
- e-Controls – which lets the FLCs conduct and document the controls,
- reporting application – which lets the FLC's generate reports with data gathered in the CST2021.

The detailed information on how to use the system, its functionalities and technicalities is to be included in a separate user manual developed by the MA and published on the programme website.

The online trainings and the ongoing support are provided by the MA.

5.2. The SL2021

The SL2021 is an application for managing projects from the moment of selection for co-financing, in particular as regards:

- introducing changes in projects under implementation – FLCs will have access to preview the versions of the project and the attached documents,
- conducting correspondence between project partners and the FLCs,
- sending and verifying progress reports, including approval, correction, rejection and withdrawal thereof – FLCs will verify the progress reports submitted by the PP,
- sending and verifying data regarding financial schedules, including approval, correction and withdrawal thereof – FLCs will have access to this information,

- sending data on public procurements and contracts – FLCs will have access to this information,
- sending data on persons employed to implement projects, the so-called personnel base – FLCs will have access to this information;
- registering the results of on-the-spot checks (control reports) – using the e-Controls module

For FLC it is obligatory to work in the SL2021.

5.3. e-Controls

e-Controls application is a specific part of CST2021 (previously SL2014), solely devoted to the registration of controls⁶ on the projects as a monitoring system play a key role in programme management.

In addition to the registration of controls on the project, the **e-Controls** application in particular facilitates collection of information on financial corrections put on PPs upon approval of their expenditures i.e., at the level of on-the-spot checks/audits. Those corrections may include:

- amounts spotted by FLCs itself during the on-the-spot check;
- amounts detected by auditors, with regard to previously verified expenditures;
- amounts detected by the MA and NA, the EC, the ECA with regard to previously verified expenditures.

The application for FLCs aims to serve to gather all the information on financial corrections of controlled partners in one place.

All irregularities detected by external institutions have to be always gathered and examine in terms of the final amount of the findings in the notification on irregular expenditure (see chapter 6.9). This notification includes information on detected amount of irregularity within the controls/audits carried out. The amount detected by audit can go up due to the fact that the same irregularities might have occurred in previous progress reports approved by the FLC and not represented in the audited sample.

FLC or another body according to national regulations uploads the notification which confirms the final amount of irregularity in the application e-Controls (just by clicking the “**add file**” button on a

⁶ Registering the results of on-the-spot checks as well as any other external control on the project.

prepared scan of notification). This will be visible for MA as soon as it has been added. (the overview of the e-Controls application in CST2021 you can find in Annex 11).

WHY FLC needs e-Controls application?

1. The FLC will know where financial irregularities occurred in the project and on what amount. The MA will submit the results of audits to the NA and FLCs. The notification of irregularities should be issued then.
2. The e-Controls will allow to monitor the project in terms of reporting correct financial information to the MA.
3. It will help to avoid mistakes in calculation of final amounts of irregularities if registered in one place.

The application is user friendly and should not take more than 15 minutes per one registration.

NOTE: For MSs with a decentralized system of First Level Control, we suggest that the obligation to work in the CST2021 and use of the E-control application should be included during the process of designation of the FLC (issuing of approbation certificate). An obligation for the FLC to work in CST2021 (to fill it in with the data and control documents as necessary) is part of the contract between the FLC and the partner (as stated in PM).

5.4. Reporting application

Reporting application allows creating specific statistics and management reports – based on the data entered in the CST2021, including inter alia information on the EU funds' spending level, expenditure forecasts, state of implementation of the funds, controls conducted etc.

FLCs will be able to create their own reports or generate reports prepared by the MA.

5.5. Responsibilities of FLCs with regard to work in CST2021

Appointment of users. In decentralised systems, the information on persons entitled to work in the CST2021 comes from the list of approbated FLCs and in centralised system in Sweden from the persons who will perform the control tasks in Tillväxtverket. In Poland the Voivodes designate administrators who are responsible for user management in a given Voivodeship Office.

NOTE: during verification of progress report in SL2021, FLC should pay special attention to the following points and verify:

- whether the progress report is submitted under the proper version of the project (if annex is presented),
- whether the expenditure is declared within the proper budget position (cost category, cost description),
- whether the ERDF co-financing amount for every single expenditure or SCO is calculated properly and whether the SCOs have been correctly calculated by the PP (SCOs are not filled in automatically by the system),
- whether the summary for the budget item /project does not exceed the amounts in the current version of the project budget (and if exceed – check whether it is allowable according to the programme rules).

Detailed description of the method of performing the abovementioned tasks is presented in the CST2021 User manual.

NOTE: In justified cases, in particular in the case of system failure confirmed by the MA, it can be possible to verify the partner progress report submitted to the FLC in paper version. In this case the project progress report may be submitted to the JS in paper version as well (provided it was not possible to complete the data in SL2021).

After removing the cause of failure the missing information is immediately included or updated in the SL2021 by all the system users.

6. MANAGEMENT VERIFICATIONS

6.1. The purpose of verification

The management verification is the process of confirming the eligibility of expenses and the correctness of the project implemented by the project partner. It includes administrative verifications in respect of progress report made by partners as well as on-the spot verifications.

According to Article 74 of CPR management verifications (including administrative verifications) shall be carried out based on the proportionate risk analysis prepared by the MA ex ante and in writing. The risk analysis is established and reviewed and if necessary updated by the MA on annual basis.

This implies some crucial objectives for the South Baltic Programme:

1. In order to confirm the eligibility of declared expenses in the project, FLC works on a sample.
2. Sampling is based on methodology with predetermined risk-factors and risk-analysis.
3. During the administrative verification subjected to sampling are both: PP progress reports and declared expenses.
4. On-the-spot verifications are also based on a sample of projects and declared expenses.

Specific provisions for administrative verification and on-the-spot verification were laid down in the following subchapters 6.2 and 6.4.

6.2. Administrative verification

Administrative verifications are the control checks that the FLC carries out on a progress report while checking supporting documents submitted by the partner in the SL2021.

FLC shall focus their verifications on those reports where the risk is high. FLC shall follow the risk-based methodology prepared for the PP progress reports (Annex 6). The risk analysis for the progress reports should be done as the first step in administrative verification procedure. It allows to identify and fully check only those reports that are characterized by a high level of risk (so called “full-scope verification” of uncertain progress reports). Low risk progress reports are subject to limited verification.

See Annex 10 for more detailed information on sequence of risk analysis.

The scope of administrative verifications focus in particular on:

During the limited verification, FLC checks whether:

- the progress report has been correctly fulfilled in line with formal obligations;
- the progress report is correct in terms of calculations;
- /if it results from the program documents / the progress report fairly presents the progress of the project .

During the full-scope verification, FLC makes a limited verification and moreover checks:

- if expenditures declared are correct and eligible;

- if the PP and other entities engaged in the project implementation maintain a separate accounting system or adequate accounting code for all transactions relating to the project without prejudice to national accounting rules (does not apply to SCOs),
- /if it results from the program documents/the Subsidy Contract is correctly implemented in the part relating to the PP,
- if participants of action carried out in the project meet the participation requirements specified in the project;
- if the PP properly implements the obligations regarding visibility, transparency and communication and project is implemented in line with the EU requirements on communication. The above mentioned requirements are listed in Art. 47 of CPR and in points b) to e) of the article 36 (4) of the ETC Regulation⁷;
- if conditions for payments have been fulfilled for SCOs;

NOTE: When the SCOs were reported in progress report, the FLC should also:

- for a **flat rate** check if a PP:
 - correctly assigned the actual costs to a given cost category of expenditure, from which the costs settled at a flat rate are calculated,
 - has not presented the same costs twice (as a SCO and as a real cost)
 - correctly applied and calculated the % of a flat rate,
 - reduce the value of the flat rate properly, if needed due to irregularities in the costs that are the basis of the flat rate calculation;
- for a **lump sum** check if a PP:
 - completed the tasks in accordance with the standards and scope specified in the Subsidy Contract,
 - has achieved the indicator specified in the Subsidy Contract assigned to the lump sum;
- for **standard unit costs** if a PP:
 - performed the activities planned in the project in the correct scope (standard) specified in the Subsidy Contract.

- if eligibility rules have been respected (in particular with public procurement and fair competition, environment protection, State aid, equal opportunity as well as publicity and information requirements described in the PM);
- if the amounts of the expenditure seem to follow sound financial management and are in line with principles of economy, efficiency and effectiveness.

⁷ During the verification of the first progress report the controller should check whether the PPs provided a short description of the project, including its aims and results, and highlighting the financial support from the South Baltic Programme. on the partners official websites or social media sites (where such sites exist).

NOTE: Expenditures from uncertain progress reports should be verified on the basis of a sample of supporting documents.

FLCs shall use the sampling method approved by the MA. It is prepared ex ante and in writing (see Annex 7).

If the FLC detects any errors/irregularities in the chosen basic sample that may have an impact on other expenditure out of the sample, he/she determines the size of the complementary sample based on the professional judgment. The assessment of the detected findings should also include information if they result from the management and control system (systematic nature of findings). In this case the FLC describes it in the comments to the checklist and notifies it immediately to the MA by sending the checklist as scan via e-mail

(kontrolaEWT@mfi.gov.pl).

Obligations of the FLC with regard to administrative verification of the PP progress report:

- conduct risk analysis with the help of prepared methodology (Annex 6);
- verify the progress report in the SL2021 in deadlines set for the FLC⁸;
- fill in the checklist⁹ (Annex 3). The list can be extended by the FLC depending on the national requirements. It should be attached in the SL2021 in reporting module for audit purposes;

NOTE: Annex 3 Checklist for the administrative verification of a progress report is divided into part A to H.

In the case of a certain progress report, complete **parts A-C and parts F-H only**.

In the case of an uncertain progress report, fill in **all parts of the list**.

- use SL2021 communication channel with PP in the process of explanations and gathering additional documents;
- ask PP to delete all the ineligible expenditure from the progress report or make corrections on its own;
- approve the progress report in the SL2021.

It might happen, in some cases that the PP is not able to deliver necessary explanations and additional documents proving the eligibility of expenditure as part of the clarifications to the FLC within the set deadline. The FLC deems that expenditure ineligible in a given reporting period and finalizes the work (accepts only the expenditure that was not questioned). Related expenditure after final examination and approval by the FLC can be claimed in the next reporting period. However, this rule does not refer to the final report submitted by the partner.

⁸ The JS/MA will monitor the estimated timing of the submission of the progress reports by partners and the timing of verifications performed by the FLC.

⁹ This is checklist prepared by the MA. If NA have their own checklist, FLCs can use it, according to national rules.

6.3. Complaint procedure

Objections regarding the results of the First Level Control, if envisaged, are examined based on the national solutions of the Programme MS in which the PP is seated:

- The Danish, German and Lithuanian PPs may file objections regarding the results of verifications conducted by the FLC pursuant to the provisions set in the service contract signed with the FLC;
- The Polish PP may file objections regarding the results of verifications conducted by the FLC pursuant to Article 27 of the Act on the rules for the implementation of tasks financed from European funds in the financial perspective 2021-2027;
- The Swedish PP may file objections regarding the results of verifications conducted by the FLC and ask for reassessment pursuant to Förvaltningslagen – The Administrative Procedure Act (2017:900), 36 – 38 §§;

NOTE: The MA **does not** examine objections regarding the results of the First Level Control.

6.4. On-the-spot verification

On-the-spot verifications are performed by the FLC at the premises of the partner as well as in any other place where the project is being implemented. In justified cases and in line with national regulations, on the spot verification might be performed with the use of IT tools (virtual control). In this case they must be properly documented, with the help of e.g., photography of premises and project results (with the date indicator), video recording etc.

The FLC shall verify on the spot the project implemented by the partner based on the results of the risk analysis. MA has prepared on-the-spot methodology to be used by the FLC (see Annex 8). The FLC may draw up the on-the-spot verification plans (considers centralised systems) which may be reviewed by the MA upon the request.¹⁰

The scope of on-the-spot verifications focus in particular on:

- if the products and services co-financed have been delivered;
- if expenses declared by the partner are in line with the approved Application Form, the Subsidy Contract and the Partnership Agreement;

¹⁰ According to the European Commission's Reflection paper "Risk based management verifications Article 74(2) CPR 2021-2027". In Poland FLCs prepare their input to the on-the-spot verification plan prepared for all INTERREG programmes according to the national guidance for management verification of INTERREG programmes 2021-2027.

- if expenses declared by the PP in connection with the implemented project were actually incurred (if applicable) and are consistent with the law, the requirements of program documents and with EU and national rules;
- /if applicable/ if the PP progress report illustrates the progress of the project,
- if the PP maintain a separate accounting system or adequate accounting code for all transactions relating to the project without prejudice to national accounting rules (does not apply to SCOs);
- if the PP properly implements the obligations regarding visibility, transparency and communication are performed correctly;
- If the accessibility of the project's products for people with disabilities and the concept of universal design are reflected in the implemented project,
- if LP fulfils the obligation regarding the transfer of funds to the partners as specified in Art. 26 (2) of the ETC Regulation (applicable for the FLC of LP only).
- if conditions for storing documentation have been met.

NOTE! On-the-spot verification may be carried out on a sample of documents (the same sampling methodology applies as for selecting expenditures for verification, see Annex 7).

Obligations of FLC linked to on-the spot verification in the project:

- send the notification on on-the-spot verifications with sufficient time in advance to allow the PP to prepare all the available resources;
- fill in the checklist for on-the-spot verification (see Annex 4). FLCs are free to use their own or national checklists alternatively. FLC checklist should be attached in the application e-Control as PDF for audit purposes;
- use SL2021 communication canal for receiving additional documents or explanations;
- draw up a Control Report (see Annex 5) with recommendations for improvement up to 14 days or, within the period resulting from national regulation, if any;
- if applicable: launch the contradictory procedure (recommended at least 14 days for PP to submit the opinion)¹¹ or within the period resulting from national regulation, if any;
- registers the financial findings from results of the on-the-spot verifications in the application e-Controls (see chapter 5.3). Control Report should be attached as PDF file in application e-Controls for audit purposes;

¹¹ Polish partners and FLCs shall follow up the requirement on contradictory procedure set in the Act of 28 April 2022 on the rules for the implementation of tasks financed from European funds in the 2021-2027 financial perspective.

- perform follow up control (can be desk-based) on recommendations implemented by the PP;
- launch ad-hoc on-the-spot verification in the project if there is any reasonable suspicion of irregularities or fraud. Ad hoc verification can be carried out regardless of the fact that one on-the-spot check has already been carried out. The aim of such a verification is to verify the received signals or suspicion and confirm if there are facts that may lead to consider project expenditure as ineligible.

6.5. Public procurement and competitiveness

Ex-post verification of public procurement should be carried out not later than with the first procured expenditure that has been incurred and declared by the partner in the partner progress report.

Essential principles to be observed in conducting the procurement procedure include:

- non – discrimination,
- equal treatment,
- transparency and lack of conflict of interest,
- mutual recognition,
- proportionality,
- freedom to provide service and freedom of establishment.

FLC is obliged to:

- answer the questions on public procurement or competitiveness rules in the checklist (either national checklists specific for public procurement/ competitiveness rules can be used or specific questions can be added to the administrative checklist by FLC),
- communicate the results to the partner,
- register the procurement control in the e-Control application;
- apply corrections, if provisions on public procurement are not applied, according to Commission Decision of laying down the guidelines for determining financial corrections to be made to expenditure financed by the Union for non - compliance with the applicable rules on public procurement (applicable from 14.5.2019).

Please take into account that:

1. If the expenditures are incurred as simplified cost the procedures of public procurement are not verified, no documentation is provided by the partner.
2. The FLC might verify public procurement ex-post based on a sampling method if there are national regulations concerning the selection of public procurement.

3. The FLC verifies expenditures below public procurement threshold taking into account national requirements on competitiveness (see Annex 3 of PM for Polish project partners).
4. FLC shall take into account the most frequent irregularities in the application of public procurement procedures detected in projects with EU co-financing (see Annex 1 of PM).
5. The FLC shall take into account results of previous verifications of the public procurement carried out by other external control bodies.
6. Lack of conflict of interest should be verified based on the declarations on impartiality submitted both by persons involved in the procurement procedure on the partner side as well as by the bidder. FLC uses available public national register systems, e.g. on economic activity or other tools such as Arachne to make sure of the information declared by persons engaged in procurement procedures in the contracting institution and the bidder.¹²
7. Upon the partner's request, the FLC may ensure **an ex-ante verification of the public procurement** procedure prepared by the partner before the expenditure is incurred.

Verification ex-ante of public procurement is more of a preventive measure that aims at avoiding the potential findings and negative effects of possible infringements of the provisions of public procurement. This shall ensure that problems with the initial tendering as well as additional works / supplementary contracts during the project implementation are eliminated. The FLC, however, does not take the responsibility for further proceeding with the public procurement by the partner's institution.

Positive results of the ex-ante verification do not exclude the possibility of issuing reservations on the level of the ex-post verification of the public procurement.

6.6. State aid and de minimis aid in the project

State aid in the project might appear on two levels:

- direct State aid awarded by the MA or,
- indirect State aid awarded by partner(s) in the project to the final recipient(s).

The MA assesses whether there is direct or indirect aid in the project. The FLC carries out the verification of the State aid based on the questions in the checklist (see Annex 3). FLC should notify to JS about any unauthorised changes to the project, because they may result in changes of the level of State aid. However the assessment of changes in the project also those that may result in change of State aid level shall be done according to the programme manual.. Eventually the FLC must inform the JS on the occurrence of unauthorized State aid.

¹² Commission Notice Guidance on the avoidance and management of conflicts of interest under the Financial Regulation 2021/C 121/01 (Chapter 6.3).

Similarly, the FLC should check if a project with State aid has correctly applied the VAT in a project (recoverable VAT is not considered an eligible expenditure under GBER).

6.8.1. Direct State aid

In case of direct State aid or de minimis aid in the project, the FLC should check whether:

- the cumulative value of the expenditures incurred and declared by partner as eligible expenditures under State aid is not higher than the amount of aid actually awarded. It is important that the maximum amount of aid certified by the FLC must not exceed the amount specified in the Subsidy Contract (either based on adequate GBER aid measure or de minimis) must not be exceeded. In case the amount of State aid or de minimis aid is higher than in the approved Application Form, the difference is not eligible.
- the ceilings laid down in GBER or de minimis regulation is not exceeded.

6.8.2 Indirect State aid

In case of indirect State aid (based on art. 20a of GBER), the FLC should check whether:

- the ceilings laid down in GBER regulation is not exceeded,
- for Polish partners: if they have met the obligation to report the amount of awarded State aid in the SHRIMP application;
- for partners in other MSs: if they have met the obligation to report the amount of awarded State aid or de minimis aid (based on national regulations if applicable) and/or if a partner informed the JS of the amount of awarded aid.

6.7. Irregularities

The CPR's definition of:

- **„irregularity”** means any breach of applicable law, resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the budget of the Union by charging unjustified expenditure to that budget;
- **„systemic irregularity”** means any irregularity, which may be of a recurring nature, with a high probability of occurrence in similar types of operations, which results from a serious deficiency, including a failure to establish appropriate procedures in accordance with this Regulation and the Fund-specific rules.

In case the FLC of the partner detects an irregular expenditure in the CST2021 on the already approved expenditure, the FLC has to upload the scan of the signed Notification on irregular expenditure (annex 9) in the e-Control application (see chapter 5.3). The original stays at the archives of the FLC.

The MA will ascertain if the procedure of recovery of undue payments needs to be applied. The MA informs the FLC about possible way of proceeding in case the payment has not been made.

Reporting irregularities to the EC

Irregularities should be notified to the EC if they exceed 10,000 EUR ERDF (via the IMS system). As a rule, the MA asks the LP to repay the irregular amounts based on the call for payment. Upon the request of the partner and in accordance with the Subsidy Contract's provisions, the MA may, however, reduce the amount of the irregularity from the reimbursement of the ERDF for the project.

7. Role of FLC vs Audit

The AA carries out audits based on the sample of projects selected by the EC according to Article 49 of the ETC Regulation. The audit might include both administrative verifications and on-the-spot checks.

If irregularities are detected by auditors, the FLC may be:

- involved in the process of explaining the findings within the contradictory procedure by the partner on the level of partner assessment;
- asked by JS/MA/NA for contribution in formulating remarks/comments to findings during the contradictory procedure before issuing the final audit report and audit opinion by the AA.

NOTE: FLC input in the process of clarification which is of crucial importance and has a positive impact on the reduction of programme's error rate.

The MA on the level of the draft of the annual control report issued by the AA may need an up-to-date confirmation or information that:

- the contradictory procedure has been finalised with the auditor on the level of the MS,
- the FLC will not present new or further objections against the audit result.

If FLC keeps rejecting the opinion of auditors, the MA will forward the position of the FLC along with eventual additional argumentation to the AA in order to present it to the GoA. It will be verified if the irregularity is still a subject to ongoing bilateral procedures between the FLC and the auditor in charge.

After issuing the Final audit report with irregularities the MA will ask the FLC or any other relevant body (according to national rules of MSs and indicated by NA) to:

- verify if, except from the amount of irregularity indicated in the final audit report, there are any other expenditures of the concerned partner also affected by the same type of irregularity detected,
- prepare the notification on irregular expenditure (Annex 9), including both irregular expenses mentioned in the final audit report and similar ones identified by FLC . The final report ends the clarification process of the FLC with the auditor in charge,
- if necessary, prepare a report in IMS on the total amount of the irregularity (including the amount indicated by the auditor and the amount detected by the FLC in other progress report as the same type of irregularity e.g., wrong calculation of staff cost).

The notification on irregular expenditure will serve the MA for issuing the request for payment.

The same approach shall apply during the audits carried out by the EC or other authorised institutions such as the ECA.

The MA informs the AA (and if applicable the EC) on implemented follow-up measures and the irregular amounts recovered.

List of annexes

Annex 1 Checklist with criteria for the approbation of a FLC

Annex 2 Declaration of impartiality and confidentiality

Annex 3 Checklist for the administrative verification of a progress report

Annex 4 Checklist for on-the-spot check

Annex 5 Control Report

Annex 6 Methodology for selecting partner reports for full-scope administrative
verification (project progress reports)

Annex 7 Methodology for selecting expenditures for verification

Annex 8 Methodology for selecting projects for on-the-spot control

Annex 9 Notification on irregular expenditures

Annex 10 Flow chart – risk analysis and administrative verification of progress report

Annex 11 An overview of the e-Controls application in CST2021