

CITY.REGION-NET

The role of cities in integrated regional development

Kick-Off Meeting KIELCE
8th - 9th July 2008

Principles of the Financial Management System

based on presentations of the URBACT Secretariat
and other technical working documents which can be found on:
<http://urbact.eu/footer/documentation/general-documents.html>

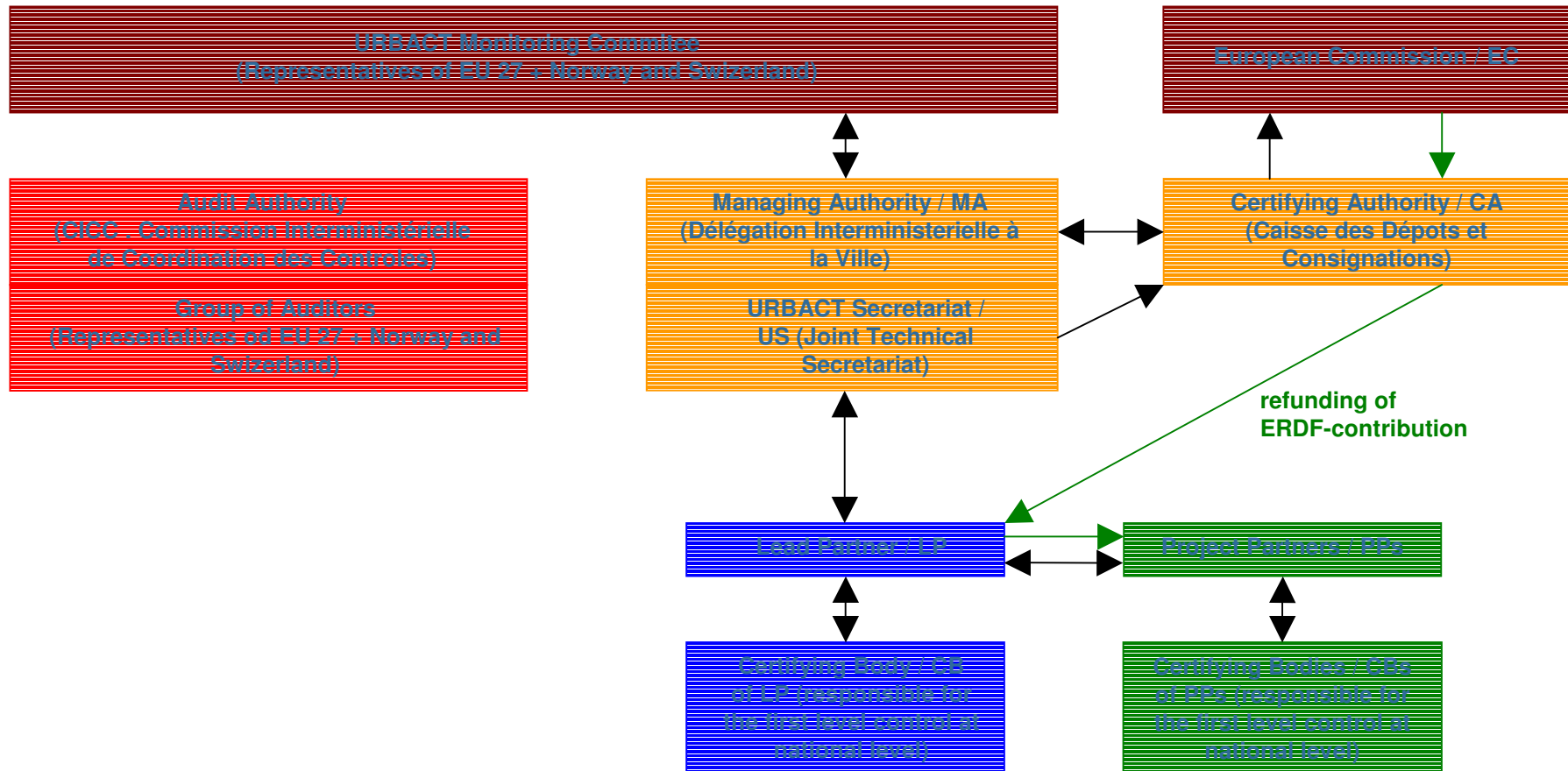
Overview

- **Legal Framework**
- **Responsibilities of Partners and Lead Partner**
 - **Decentralized Financial Management System**
 - **Sound Financial Management Principles**
 - **Accounting and Certification of Expenditures**
 - **Working with PRESAGE-CTE**
 - **Eligibility of Expenditures**
 - **Common Problems in the Project Payment Cycle**
 - **Financial Corrections and Recovery Issues**
 - **Reporting Responsibilities and Tasks**
 - **Audit Trail Requirements**
 - **Summary**
- **First Level Control System**
- **Second Level Control System**
- **Necessary changes in the financing plan to be decided**

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URBACT System Structure



Legal underpinning of the programming period 2007-2013 – official documents:

- **Council Regulation 1083/2006 (General Regulation)**
- **Council and Parliament Regulation 1080/2006 (ERDF Regulation)**
- **Commission Regulation 1828/2006 (Implementation Regulation)**
available on http://ec.europa.eu/regional_policy/sources/docoffic/official/reglem_en.htm
- **URBACT II Operational Programme**
available on <http://urbact.eu/footer/documentation/general-documents.html>
- **Programme Manual (Technical Working Document)**
available on <http://urbact.eu/footer/documentation/general-documents.html>
- **Description of Management and Control System**
(to be completed)

Legal Framework at Project Level

- **Subsidy Contract between MA and LP**
- **Joint Convention between LP and PPs**
- **Letters of Commitment from PPs**

What is the Memorandum of Understanding (MoU)?



DONE

- **Agreement between Member/Partner States, the Managing Authority and the Certifying Authority**
- **Legal basis for management of rights and duties among Member/Partner States and Programme institutions**
- **It states rules and procedures for ERDF management in the Programme**
- **It ratifies responsibilities in case of irregularities**

Impact of MoU on project level

- **Approbation of certifying bodies by the Member State**
- **Basic principle to claim ERDF by Partners in the territory of the Member States**
- **Obligations and responsibilities of MA and CA towards the projects**
- **Procedures for recovery of irregularities**

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Decentralized System as applied type of administrative and financial management system:

A keeping of the financial contribution at PPs-level, who

- spend in advance, account and certify its own contribution in PRESAGE-CTE (liability for its own actions)
- provides the LP with the certificate of expenditure signed by the appointed CB at the end of each reporting period

LP ensures that the expenditure is accounted by the PPs in the correct budget lines without exceeding the maximum available amount and has been certified by the appointed CB.

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Budget and time-line principles to prevent budget problems:

- detailed work schedule
- realistic estimate of the resources required
- realistic annual financial plan
- **respect of deadlines!**
- follow up of PP expenditure by the LP
- management of PP financial contributions

When projects are approved, they agree to act in accordance with the:

- **approved application**
- **approved partnership**
- **approved budget and timeline**
- **relevant rules and regulations**

The LP acts as an administrative link between the project and the programme:

- **joint decision on the desirable project financial management structure realistic spending plans**
- **ready to start project activities very quickly**
- **deadlines for reporting and certification**
- **strong management and control systems set up at LP and PPs' level**

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Accounting & Certification of expenditures (declaration of expenditure)

- Expenditure must be accounted by LP and PP in PRESAGE-CTE (with personal login and password provided by the URBACT Secretariate)
- Only expenditures that have been validated by the LP can be certified by the Certifying Body of the PP in PRESAGE-CTE (with personal login and password)
- The LP has to submit the certificates and statements of expenditure signed by the PPs' and LP's certifying bodies incl. a global project's payment claim at the latest within 3 months after the end of each reporting period = development phase: within 21 January 2009)

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URBACT II IT monitoring and management system PRESAGE-CTE

- high level of reliability and control on the expenditure declared to the Commission
- shall also be used for recording and storing accounting records in digital form to ensure collection of data on implementation necessary for financial management, monitoring, verification, audits and evaluation
- accounting and certification of expenditures shall be done by LP and PPs through PRESAGE-CTE
- each project partner, lead partner and certifying body shall have a personal access to the system
- personal logins and passwords for officially designated users ensure reliability of the information (provided soon by the URBACT Secretariate)

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Eligibility – how to deal with it?

Expenditure actually paid out (starting point of the project – end of the 3 months after the project closing date) that complies with all of the relevant rules:

EU:

- (EC)1080/2006, Art. 7+13+21
- (EC)1083/2006, Art. 56
- (EC)1828/2006, Art. 48 to 53

National: eligibility rules laid down by MS within 12 months of OP approval (national contacts in description of management and control systems)

Programme: Programme Manual (TWD), Section 4 of Fact Sheet 6b
In case of complicated or unclear eligibility criteria, the Secretariat can answer eligibility question (even via its contact to EC)

Eligibility of expenditures

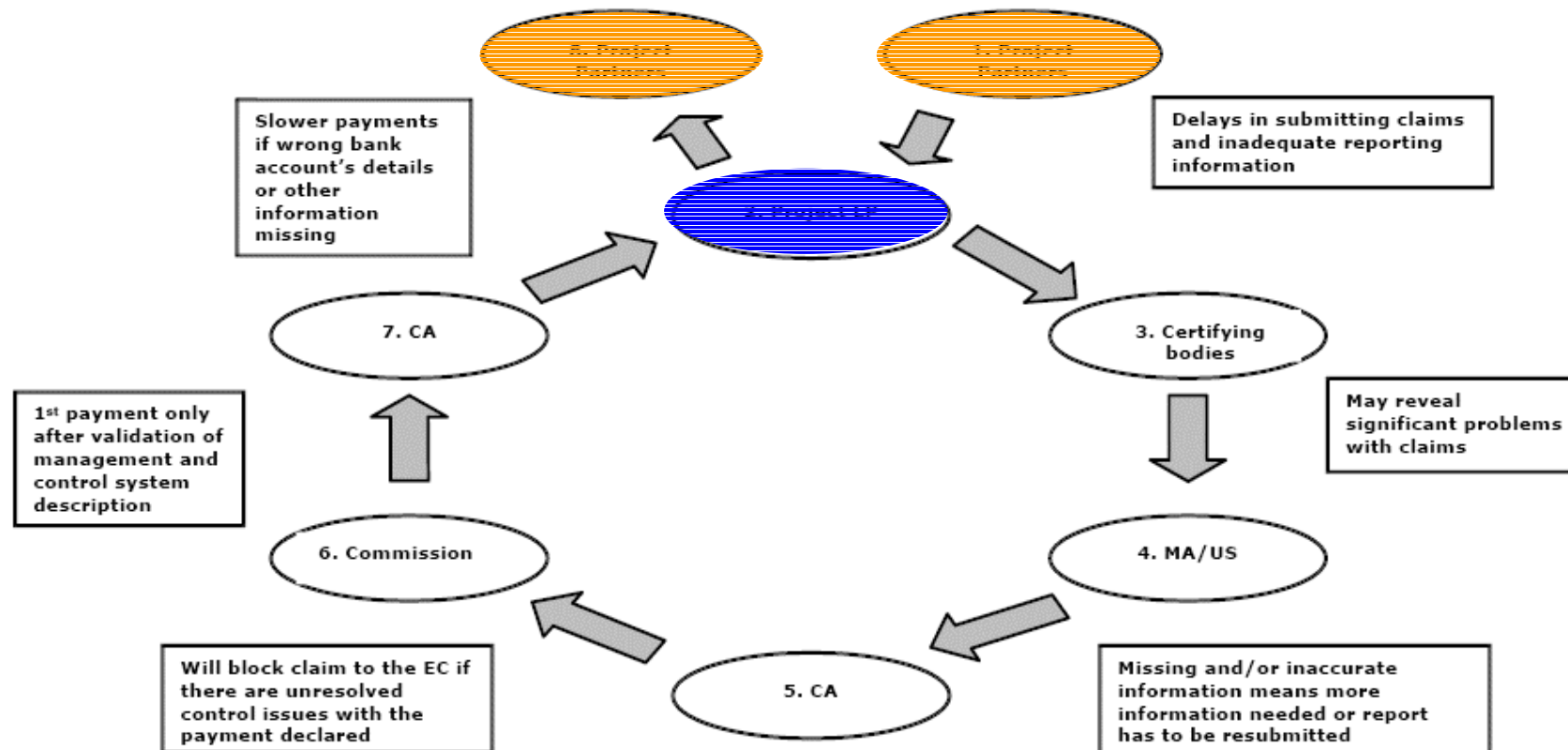
To be considered eligible, costs have to

- be paid and borne from the project's starting date to the closing date as indicated in the DOI/final application (21 October 2008)
- accord with the detailed budget plan in application for phase I (directly linked to the subject matter of the project and be necessary for carrying out the project covered)
- be reasonable and comply with the principles of sound financial management, in particular value for money and cost effectiveness
- be paid in advance by the Partner Cities or the Lead Partner
- be declared by the Partner Cities/Lead Partner and certified by the Lead Partner and the CB during the project eligibility period
- be incurred and recorded in the beneficiary's accounts or tax documents, and have to be identifiable and controllable.

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Common Problems in the Project Payment Cycle



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Financial Corrections and Recovery Issues

When funds are incorrectly (or unduly) paid to a project, the programme has to get them back from the project partner concerned

- **LP has to repay the irregularly paid amount of project to MA/Secretariat**
- **LP has to recover the amount from a PP responsible**

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Reporting responsibilities and tasks

1. The Partner Cities have to report to the Lead Partner about progress of the local project, with particular reference to outputs and results.

2. The Lead Partner has to report to the URBACT Secretariat about progress of the whole project, with particular reference to outputs and results.

Documents related to reporting:

- Progress Report - Activity and Financial Sections (PPs/LP)
- Certificates of Expenditure (PPs/LP)
- Payment Claim (LP)

Reporting periods

- **Development phase**: The project duration is subdivided into 4/6-month periods running from 21st April to 21st October 2008
- **Implementation phase**: The project duration is subdivided into 6-month periods running from
 - January to June
 - July to December

For each period, one Progress Report (activity and financial sections) has to be submitted by the LP to the Secretariat using the format available in the web-based monitoring and accounting system PRESAGE-CTE.

The Progress Report has to be signed and sent to the Secretariat by LP within 3 months after the end of the reporting period i.e.

During **development phase**: at latest within 21 January

During **implementation phase**: within the 30 September for the reporting period January to June within the 31 March for the reporting period July to December

Certificate and Statement of Expenditure (PPs/LP-level)

- it is the basis for the global project payment claim
- it is signed by the certifying body of PPs/LP
- it certifies the eligibility of the declared expenditure
- it is automatically produced in PRESAGE-CTE by the certifying body on a PDF basis

(Global) Payment Claim (LP-level)

It is a superordinated document that summarizes the certificates and statements of expenditure

- it is signed by the Lead Partner
- it claims globally the expenditure incurred by the project within the end of the reporting period
- it is produced in PRESAGE-CTE by the LP on a PDF basis

Claim deadlines for the LP

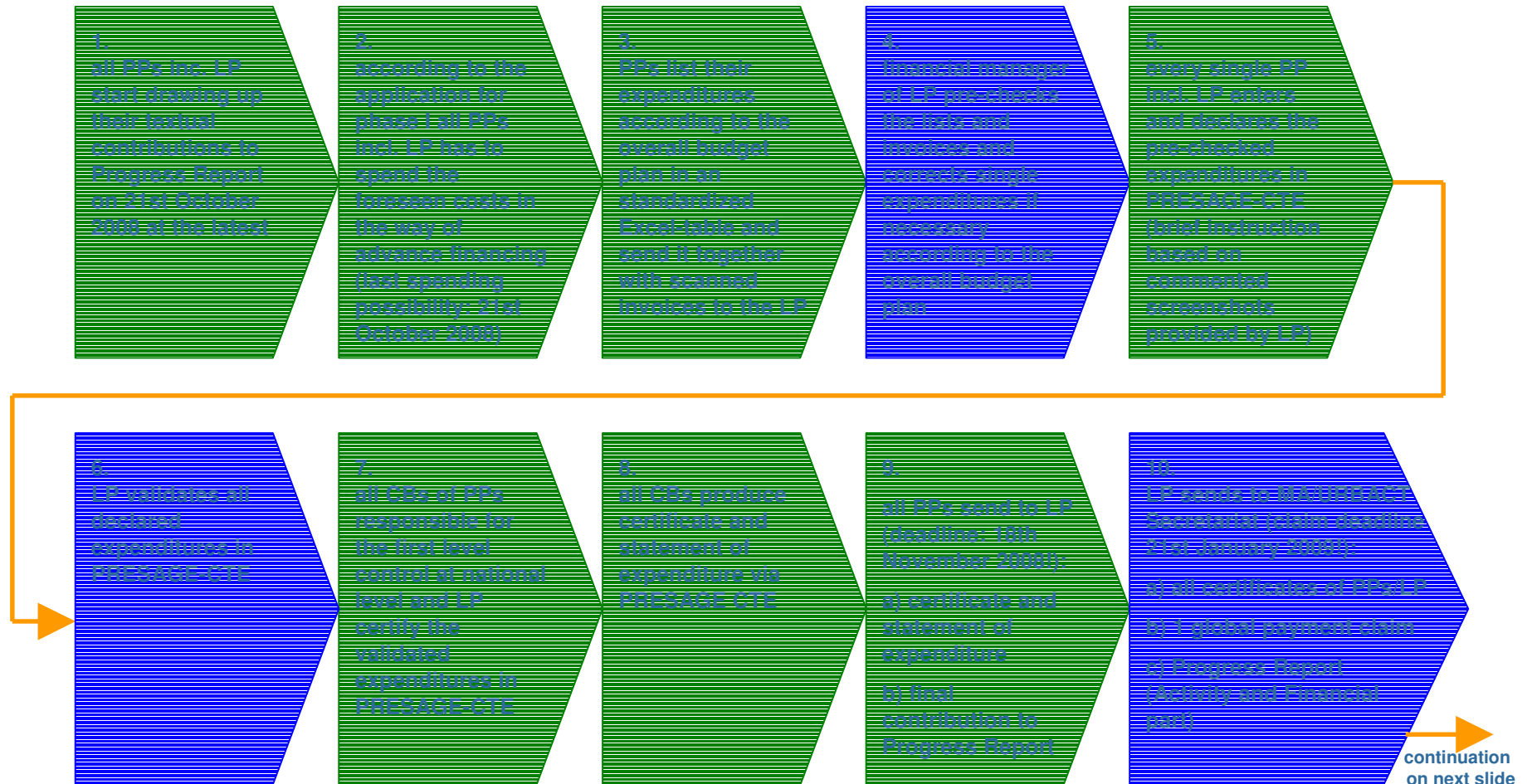
- **During development phase:**
only one claim deadline within 21 January 2009

- >>> that means PPs have to transmit**
 - a) certificates and statements of expenditure**
 - b) final contribution to Progress Report****at latest up to 18th November 2008 to LP!!!!**

- **During implementation phase:**
Two claim deadlines per year + an extra claim round:
 - within 30 September of year N for the expenditure paid before 30 June of year N
 - within 31 March of year N+1 for the expenditure paid before 31 December of year N
 - within the 31 November of year N for the expenditure paid before 31 October of year N

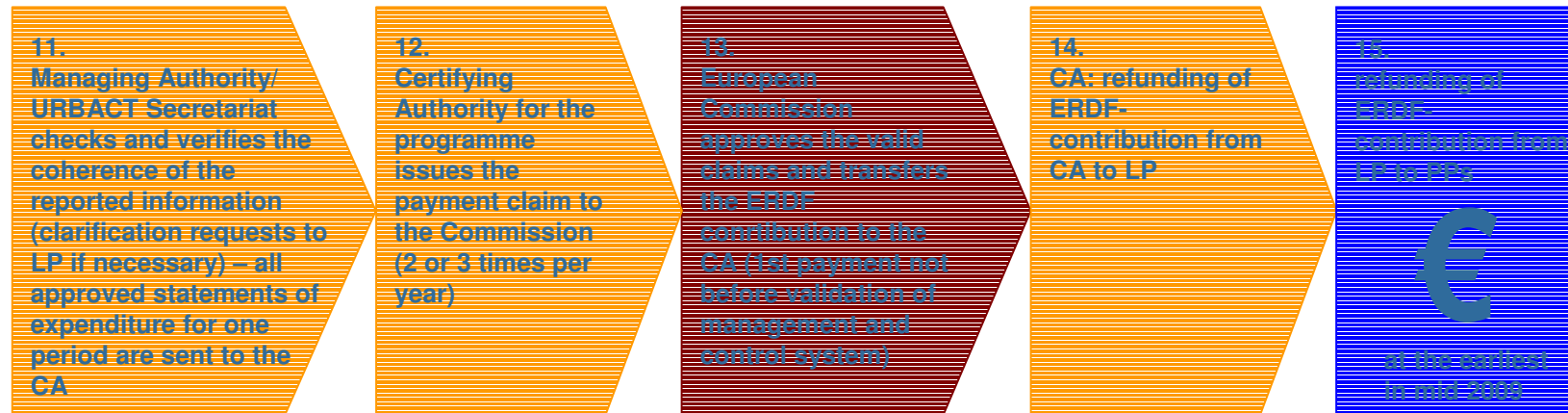
Financial Certification and Reporting Procedure / Phase I (1/2)

please be aware, that **time frame for step 1 to step 9 is only one month!**
(detailed schedule for these 4 weeks will be suggested by LP – please save human resources for this period of time)



Financial Certification and Reporting Procedure / Phase I (2/2)

superior programme levels / refunding system



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Audit trail requirements

- clear and complete record of the original documentation (invoices or documents of equivalent value) proofing how funds have been spent at partner level
- **obligation to keep all original documents (invoices, etc.) until at least 31.12.2020**
- availability of documents in case of audits (2nd level control, EC, etc.)

Project Audit Trail Document

- it is a mandatory document to be submitted with the final application
- it must be filled in and signed by each partner
- it contains basic information on:
 - financial management system
 - separation of functions at Partner level
 - archive and storing of supporting documents

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Summary (1/3)

- **According to the application each single Partner-City has a limited budget (i.e. costs to be spent in advance financing) for phase 1 (development phase).**
- **These costs will be covered by an ERDF-contribution of 80% maximum for convergence partners (Czestochowa, Oradea, Kielce) and of 70% maximum for competitiveness partners (Chalons-en-Champagne, Graz as Lead Partner).**
- **The public cofinancing has to be secured by each of the partner's own contribution as indicated in their respective Letters of Commitment.**
- **Please note that the costs for the development phase (21/04/08-21/10/08) must be claimed together with a final report after the end of phase 1. Viewed realistically we can expect EC-refunding at the earliest in mid of 2009.**

Summary (2/3)

- **Following the URBACT statutes each partner commits to keep separate accounts of transactions related to the project implementation**
- **including an agreed audit trail and**
- **retains at all times all files, documents and data about the part of the project for which it is responsible for audit purposes (record retention until 31/12/2020).**
- **An audit trail template and other documents concerning the financial management system will be provided in due time after the kick-off meeting.**

Summary (3/3)

- **By using a decentralized financial management system each partner is responsible for its calculated proportion of the budget in the project.**

- **This means that each partner**
 - 1. has to finance budgeted costs (100%) in advance**
 - 2. has to set up and implement a first level control body which certifies the budgeted expenditures,**
 - 3. has to input all expenditures into the online financial management system PRESAGE-CTE (detailed instructions are following by LP),**
 - 4. after validating the expenditure by the LP the respective Certifying Body has to certify it and**
 - 5. has to submit the signed certificate and statement of expenditure to the Lead Partner Graz at the end of phase 1 (at latest on 18th November 2008).**

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The first level control system

1. **Implementation of first level control according to Article 16 of Regulation (EC) No 1080/2006**
 - **URBACT II guidance on the setting up of the national system for first level control**
 - **National guidance for the implementation of first level control (if existing)**
 - **National guidance on applicable national rules in the fields of public procurement, states aids, equal opportunities and the environment**

2. **Quality checks on first level control system**

3. **Responsibilities of the Managing Authority to ensure an efficient first level control**

Who is the Certifying Body (CB)?



DONE

- **He/she is the external controller foreseen by Article 16 of Regulation No 1080/2006**
- **He/she must be a person (not an institution!)**
- **He/she must be proposed by the partner and approved by the Member State OR must work at national level for all partners of that Member State**
- **He/she must be external to the circuit of project financial management and implementation (separation of function)**
- **He/she must be qualified**

How to select my certifying body



DONE

- The name, function and contact details of the certifying body must be indicated in the DoI/AF
- Every change on contact details must be indicated to the Secretariat
- The Secretariat will provide projects with a model for approbation of certifying bodies (co-signed by partner and CB)
- The co-signed checklist must be sent to the competent national authority for approbation
- The competent national authority gives evidence of approbation to the Managing Authority
- Each Member State indicates a national contact person

Procedure of proposing the certifying body

**DONE**

- Before the expenditure can be claimed to the Commission, every partner has to fill in and sign a checklist indicating the proposed certifying body (a model of check-list shall be provided by the URBACT Secretariat).
- The filled in and signed checklist must be sent to the national authority concerned.
- Evidence of the approval has to be sent by the national authority to the URBACT Secretariat in order to provide the certifying body with a personal login and password to access PRESAGE-CTE.

Guidance to ensure an efficient first level control – guidelines for the certifying bodies

- model for approbation of certifying bodies
- checklist for controlling the progress report
- template of the certificate and statement of expenditure

Certifying Bodies

Partners		Certifying bodies
LP	City of Graz	Dr. Günter Riegler, Stadtrechnungshof (Court of Audition of the City of Graz), Director Tummelplatz 9, 8011 Graz, tel:+43 3168726001, fax:+43 3168726009, email: stadtrechnungshof@stadt.graz.at
PP1	City of Częstochowa	Sylwia Tyszko, First Level Control Body, Implementing Authority for European Programmes- IAEP, Chief Accountant Wspólna 2/4, 00-926 Warsaw, tel: 4822/4618804, fax: 4822/4618722, email: Sylwia.Tyszko@wwpe.gov.pl
PP2	City of Châlons-en- Champagne	Trésorerie municipale 11, rue du Four, 51000 Châlons-en-Champagne cedex Tel +33.3.26.65.81.51, Fax +33.3.26.21.22.42
PP3	City of Oradea	S.C. Grup Financiar Audit S.A., Oradea, str. D. Zamfirescu, nr. 4 A, jud. Bihor, No. VAT 17088148, Phone 0040/259434673 or 0040/359440556 represented by Mr. Rigou Gheorghe, acting as financial auditor, member of the Financial Auditors' Chamber from Romania
PP4	City of Kielce	Implementing Authority for European Programmes- IAEP (Władza Wdrażająca Programy Europejskie) Wspólna 2/4, 00-926 Warsaw, Mrs. Sylwia Tyszko, Chief Accountant Tel: 4822/4618804, fax: 4822/4618722 E-mail address: Sylwia.Tyszko@wwpe.gov.pl

**to be
confirmed**

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The Second Level Control System

According to Article 62 of Regulation (EC) No 1083/2006 the Audit Authority is responsible for ensuring that audits are carried out:

- to verify the effective functioning of the management and control system of the operational programme
- on operations on the basis of an appropriate sample to verify expenditure declared

Implementation of the second level audits

- In URBACT II the second level audits will be externalised
- The external auditors will be selected by the Managing Authority and will submit a methodology and an audit plan to the Audit Authority (assisted by the Member States represented in the Group of Auditors)
- The annual number of audits on projects and partners depends from the criteria for the selection of the sample
- The external auditors will be selected in 2008 and the audits will start in 2009

What is an audit?

- **Partners selected for an audit will be officially notified in advance**
- **The audits are implemented in loco**
- **The partner shall provide access to all documents required by the auditors. A list of required documents will be annexed to the notification letter**
- **The partner's Member State can assist to the audit**
- **Each audit will lead to a report to be approved by the Member States represented in the Group of Auditors**

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Budget line 4. Travel and accomodation:

a) Travel costs of Lead Expert for Baseline Study

(4 x € 750,- = € 3.000,-)

Transfer from Partner Cities budget to Lead partners budget because of organizational simplifications (booking of flights made by LP);

b) Travel costs for Lead Expert to Training session to Paris was in fact covered by URBACT Secretariat; forseen costs of € 750,- could therefore be useful allocated in budget line 6. External expertise (increase to € 3.750,-);

Please keep the mentioned financial aspects in mind when setting up your management structures. We will provide more detailed information on finance management topics after the kick off meeting in Kielce.

For any further informations at this stage please do not hesitate to contact us best via email:



**Financial Officer of Lead Partner:
Mr. Christian Nussmueller
Email: christian.nussmueller@stadt.graz.at**