

# Programme Manual

# Regular projects

Part 2 – implementation

Version 1  
3.05.2024



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## 1. Project implementation – basic rules

The following sections present information on duties of partners, cooperation with other institutions, and milestones in project implementation. Each section presents also information on proceedings in case of disagreement with the decision made by Joint Secretariat/Managing Authority.

### 1.1. Language

The official language of the Programme is English. Therefore, official communication between beneficiaries – the Lead Partner and all the partners – and the Joint Secretariat or the Managing Authority is carried out in English. For the convenience of the Partners, basic Programme documents have been translated into Polish and Ukrainian.

### 1.2. Grant Contract preparation and signature

The basis for signing a Grant Contract is a decision of the Monitoring Committee on awarding co-financing to a project. The Joint Secretariat informs the Lead Partner about the Monitoring Committee decision by e-mail (sent to the address indicated in the application form). The email includes an electronically signed letter, which presents:

- the information on the decision of the Monitoring Committee regarding the approval of the project for financing,
- the value of the co-financing granted by the Monitoring Committee,
- the deadline for sending the documents necessary to conclude the Grant Contract,
- conditions to be fulfilled by the project partners to obtain programme co-financing (e.g. update of information, supplementing project documentation, presenting calculations of indicators etc.), together with the information on way of corrections,
- contact information of the Joint Secretariat project manager to be contacted by the Lead Partner on behalf of all project partners,
- adjustment of the project to the requirements of the Monitoring Committee via CST2021 Projects.

After receiving the letter from the Joint Secretariat, the Lead Partner, informs the project partners about the decision of the Monitoring Committee.

The Lead Partner shall send to the Joint Secretariat via CST2021 Projects in the correspondence module the following documents:

- **declarations of all partners on the co-financing of the project** (the template can be found on the Programme website) – make sure that the amounts indicated in the declarations are in line with the amounts indicated in the sources of financing the partners' expenses in the application submitted in CST2021 Projects,
- **documents confirming the right to represent each project partner** (e.g. power of attorney),
- **Lead Partner's Financial Identification Form** (the template can be found on the Programme website),
- **Lead Partner's Legal Entities Form** (the template can be found on the Programme website) filled in by the Lead Partner's representative eligible for Grant Contract signature,
- **applications for adding a project manager in CST2021 Projects**, separately for each project partner (the template can be found on the Programme website),
- **final building permit or other valid decisions and administrative permits required by law** enabling the implementation of infrastructure - applies to projects containing infrastructural components.

The date of submission is the day when the documents were upload to the CST2021 Projects module.

The submitted documents will be verified by the Joint Secretariat and may be returned for correction. Careful preparation of the necessary documents will streamline the process of their verification and enable the conclusion of the Grant Contract.

The Grant Contract shall be then drafted by the Joint Secretariat and submitted to the Managing Authority for signature. After that, it is sent by the Joint Secretariat to the Lead Partner. The Lead Partner has then 30 days (from the date of sending) to sign the Grant Contract and send it back to the Joint Secretariat either electronically signed or three originals of the Grant Contract that are dated, signed and stamped by the authorized representative of the Lead Partner (in case of the traditional signature).

### 1.3. Project state registration in Ukraine

In accordance with the regulation of the Cabinet of Ministers of Ukraine No. 153 of 15.02.2002 and legislation of Ukraine, projects carried out in the framework of the Interreg NEXT Poland – Ukraine Programme must be registered by the Secretariat of the Cabinet of Ministers of Ukraine. The projects are registered after Grant Contract signature.

State registration is the basis for the right to receive benefits provided by Ukrainian legislation and international treaties signed by Ukraine.

In order to register a project at the Secretariat of the Cabinet of Ministers of Ukraine, the following documents should be submitted:

- **letter-request (лист-клопотання) on the registration of the project from each of the Ukrainian Project Partners** (the Ukrainian Lead Partner and all Ukrainian Partners) in Ukrainian language,
- **letter-request (лист-клопотання) on the registration of the project from the Joint Secretariat** (if authorised) - an original in English as well as the translation of the original into the Ukrainian language,
- **letter-request (лист-клопотання) on the registration of the project from the Regional State Administration** from the territory of the project realisation in Ukrainian language,
- **a copy of the project Grant Contract** (together with Annexes 1, 2 and 3) certified “true to the original” by the Lead Partner as well as the translation into Ukrainian language,
- **a copy of the Partnership Agreement** as well as the translation into Ukrainian language certified by the translator or the Project Partner,
- **a procurement plan** (Annex 5 to the regulation of the Cabinet of Ministers of Ukraine No. 153 of 15.02.2002) – one original signed by the Lead Partner/Project Partner written in Ukrainian language or language suitable for the Donor with obligatory translation to Ukrainian.

A detailed step-by-step guide on the State Registration in Ukraine is available in Ukrainian on the Programme website (“Instructions for Ukrainian beneficiaries on the Registration of International Technical Assistance projects in the Secretariat of the Cabinet of Ministers of Ukraine”).

Project Partner/Lead Partner is obliged to inform Joint Secretariat on the ongoing process of project registration and on its completion.

## 2. Financial management of the project

### 2.1. Accounting system of the project

Expenditures incurred and paid out by each Project Partner are verified by a number of different institutions. The verifications regard its compliance with the management and control requirements set in the Programme. Therefore, it is important to settle an accurate and transparent accounting system of the project.

The Lead Partner and all Project Partners shall keep accurate and regular accounts of the expenditure within the project, using an appropriate accounting and double-entry book-keeping system. These systems may either be an integrated part of the Project Partner's regular system or an adjunct to that system. This system shall be run in accordance with the accounting and bookkeeping policies and rules that apply in the country concerned.

Accounts and expenditure relating to the project must be easily identifiable and verifiable. This can be done by using separate accounts for the project or by ensuring that expenditure for the project can be easily identified and traced to and within the Project Partner's accounting and bookkeeping systems.

The Lead Partner and all Project Partners shall ensure that all progress reports (which include both financial and narrative information on progress within the project) as required under the Grant Contract are properly and easily reconciled to the Partner's accounting and bookkeeping system and to the underlying accounting and other relevant records. We expect accounting records to be kept in accordance with general accounting principles.

Accounting records from the Lead Partner's and Project Partners' accounting system such as general ledger, sub ledgers and payroll accounts, fixed assets registers and other relevant accounting information may include:

- proof of procurement procedures such as tendering documents, bids from tenderers and evaluation reports,
- proof of commitments such as contracts and order forms,
- proof of delivery of services such as approved reports, time sheets, transport tickets,
- proof of receipt of goods such as delivery slips from suppliers,
- proof of completion of works, such as acceptance certificates,
- proof of purchase such as invoices and receipts,
- proof of payment such as bank statements, debit notices, proof of settlement by the contractor.

*Important: each partner will be requested to send (via CST2021 Projects) the supporting documents to their controller. Therefore, the afore-mentioned documents must be stored at Project Partner's institution and be sent upon request to the controller.*

#### Project bank account

All payments from the programme bank account to the Lead Partner are made in euro. Each of partners needs to have bank account in Euro for the project purposes exclusively.

Any interest on payments made by the Managing Authority to the Lead Partner shall not be due to the Managing Authority and may be used by the Lead Partner or by Project Partners.

Transfer of funds to project partners.

With each progress report, the Lead Partner is obliged to attach in CST2021 Projects proof of payment of the grant to the partners. Project partners attach proof of receipt of payment from the Lead Partner. Detailed information please find in the chapter 4 Reporting.

Transfer of funds by the Lead partner to project partners' accounts should take place without delay, in accordance with the provisions of the Partnership Agreement, the project schedule and accepted progress report. When transferring funds to Project Partners, the Lead Partner will take into account justified reductions or financial corrections imposed on the Project Partner's payment application by the Managing Authority. The Lead Partner informs the Project Partners about the imposed corrections. Corrections imposed regarding the Lead Partner cannot affect the value of funds due and paid to the Project Partners.

**Partners have the right to receive the full EU contribution from Lead Partner.** Therefore, the Lead Partner have the obligation not only to perform the payments, but also to keep the proof that they are made in full in line with provisions of the Partnership agreement and partial progress reports.

## 2.2. Invoice description

The description of invoice/other documents with equivalent value of proof is crucial in proper preparation of the financial documents for the settlement. Appropriate description of the invoice should clearly demonstrate that the document is settled within the project and Program. At the same time, it should be also a guarantee that the same invoice was not financed within other EU programmes.

The correct description of the invoice should contain the following elements: On each invoice should be indicated "Financed by the European Union within the Interreg NEXT Poland – Ukraine".

In addition, the following information shall be included:

1. Project title,
2. Grant Contract number,
3. Invoice number,
4. Budget line (the exact budget item), under which the invoice was paid,
5. Registration number in the Lead Partner's (or Project Partner's) accounting system,
6. Description of expenditure,
7. Tender procedure – in case of Polish Partners respective article number in accordance with the public procurement law shall be indicated, in case of Partners from Ukraine the title of used tender procedure shall be indicated,
8. Amount of total eligible expenditure in national currency,
9. Approval of expenditure by authorized person.

The description shall be prepared in English and be placed on the other side of the original invoice/other documents with equivalent value of proof. If there is no possibility to place the full description on the invoice the description shall be prepared on the separate sheet of paper and permanently attached to the invoice in a way which ensures that both documents (invoice and

description) are joint and cannot act individually. To that aim it is recommended to stamp the place of connection of the both documents with the Lead Partner's or Project Partners' seal.

### 2.3. Exchange rates

Expenditure paid in another currency shall be converted into euro by each partner using the monthly accounting exchange rate of the Commission in the month during which that expenditure was submitted for verification.

The exchange rate risk resulting from the conversion of national currencies into euro and of euro to national currencies is borne by the Lead Partner and all Project Partners.

### 2.4. Flat rate settlement

Within the Programme, the flat rate financing is applicable to the staff costs, travel and accommodation, office and administration categories of costs. They cannot be settled as actual costs incurred. Fixed percentage set at the Programme level (flat rate). The partner shall use a fixed rate specified in the call for proposals, the fixed rate cannot be changed. To settle costs as flat rates, Partners do not need to present invoices or other financial documents in the reports to confirm the values of the costs incurred and paid. The documents are needed to confirm the existence of the management team and necessity of staff costs, travel and accommodation and office and administration costs. Nevertheless, the necessity of possessing appropriate documents is required by law and may be verified by relevant national institutions.

If a project partner settles **travel and accommodation costs (flat rate)** and submitted the required declaration at the stage of applying for funding (detailed information please find in chapter 9.3 of the Part I Programme Manual), it is obliged to prove that at least one business trip during the project implementation period took place. Proving is done by including information in the partial progress report in the table regarding project progress. In case of doubts as to whether a business trip has taken place, the controller may request other documents, such as an attendance list or an agenda with information about the person's participation in the event to which the business trip relates. The documents are only used to confirm the trip, they will not be subject to financial verification.

Each progress report of each Project Partner must present the costs actually incurred and paid, so that the costs settled as "flat rate" can be calculated on their basis. The settlement of the flat rate is done in every progress report submitted by the partner.

#### *Important!*

#### *Flat rate costs may be settled if:*

- *they are in the project budget,*
- *they are incurred in accordance with the requirements for individual categories,*
- *they are incurred in accordance with the declaration submitted in the Application form.*

### 2.5. Financial guarantees

Any pre-financing payment to the Lead Partner, which is a non-governmental organisation and which, under the terms of the Grant Contract, amounts to more than EUR 1,000,000 shall be fully covered by a financial guarantee. By financial guarantee a bank guarantee or bill of exchange with an appropriate financial guarantee statement is meant. The Lead Partner shall draw up the financial guarantee in accordance with the following provisions:

- the Lead Partner shall submit a financial guarantee to the Managing Authority before submitting the payment claim (pre-financing payment will not be done before financial guarantee submission),
- the financial guarantee must be denominated in EUR and, except when otherwise agreed by the Managing Authority, must be guaranteed by an approved bank or financial institution established in one of the European Union Member States,
- the guarantee shall remain in force until it is released by the Managing Authority after the total pre-financing payment provided for in the Grant Contract has been cleared or the final balance payment has been made in the project.

### 3. Project modification

As a rule, each project should be implemented in line with the approved application and the Grant Contract. Any modifications to the scope of the project, the planned work packages and to the partnership should be avoided. The planned budget should be as precise as possible. If necessary, modifications of the project after Grant Contract signature are possible. However, they cannot result in substantial changes to the project objectives.

If project modification is requested by the Lead Partner, they must submit that request to the Joint Secretariat at least 30 days before the date on which the proposed modification is to enter into force<sup>1</sup>.

All the request for changes to the projects are submitted by the CST2021 Projects. To introduce modifications in CST2021 please proceed in line with information presented in CST2021 Project change management manual.

#### 3.1. Modifications of the Grant Contract provisions

Modifications to the Grant Contract provisions regarding implementation period, payments schedule must be made in the form of an addendum. The addendum must be signed by both the Managing Authority and the Lead Partner under pain of nullity.

*Important! An addendum introducing the changes needs to be signed by both parties before the expiry of the execution period of the contract.*

To introduce modifications in CST2021 please proceed in line with information presented in CST2021 Project change management manual.

#### 3.2. Modification of the annexes to the Grant Contract

Modifications of the annexes to the Grant Contract do not require signing an addendum to the Grant Contract, as long as they do not directly affect the content of the Grant Contract's provisions.

Changes to the Lead Partner's registered office address, changes to the Lead Partner's bank account and SWIFT or IBAN code, and changes to the name and address of the bank where the account is established do not require concluding and signing an addendum to the Grant Contract. They shall be notified by the Lead Partner to the Joint Secretariat. Updated relevant documents (e.g. Legal Entities Form, Financial Identification Form) shall be submitted to the JTS by CST2021. If the Lead Partner does not notify the Joint Secretariat about the change of their account, the Lead Partner shall be liable for all costs incurred as a consequence of the lack of such notification.

To introduce changes in the project a request for changes shall be prepared in CST2021. In the document, the necessity of the change shall be described together with information why, at the stage of application for co-financing, the situation was unable to be foreseen.

If the proposed changes planned to be introduced modify the project substantially, approval of the Monitoring Committee may be required to approve the change.

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<sup>1</sup> In special and duly justified cases the Managing Authority may agree to proceed within a shorter period.

*Important: Changes to the project may be introduced only by following the rules set out in the Programme Manual. Any change introduced contrary to the provisions of the manual, causes the expenses related to the change ineligible.*

### 3.2.1. Modifications of the project to be decided by the Lead Partner

When there are no transfers between project partners' budgets the Lead Partner decides on the changes. A change in the budget of one partner is considered to be a transfer of funds between budget lines of direct costs planned in the project.

The project partner can reallocate funds **within** three categories of costs:

- equipment,
- external expertise and services,
- infrastructure and works.

If expenditure does not exceed the amount planned in the budget, there is no need to submit a request for changes. The information may be presented it in the partial progress report.

A partner intending to introduce a modification to their part of the project, shall fill in relevant documents (stipulated in the chapter 3.2.2. of the Manual) in the CST2021 system and send the request to be approved by the Lead Partner.

The Lead Partner shall verify the correctness of the request for changes and the possibility of changes introduction, and then decides on the change approval or rejection. After modifications approval, the Lead Partner informs all project partners about it, prepares a request for changes to the project in CST2021 Projects and sends it to Joint Secretariat.

The Joint Secretariat checks the compliance of the changes approved by the Lead Partner with the Programme rules (provisions of the Grant Contract and Programme Manuals). When necessary, the Joint Secretariat shall request a correction of the documents. The request for changes may be corrected only if it contains formal errors in relation to the change approved by the Lead Partner. If the modification complies with the rules of the Programme and has been properly introduced into CST2021 Projects, the Joint Secretariat accepts it.

If the change is to be applied in a given reporting period, it has to be accepted in CST2021 Projects by the end of this reporting period at the latest. In case it is approved later – the Project Partner includes the expenditure related to the approved project modification in the next reporting period.

### 3.2.2. Modifications of the project to be decided by Joint Secretariat

When Partners wish to introduce changes exceeding competences of the Lead Beneficiary and Project Partner fills in the request for changes in the CST2021 Projects and prepares documents confirming the legitimacy of the change.

In the form the following information shall be presented:

- description of the changes planned to be introduced,
- justification of the necessity of the changes,
- financial tables,
- additional documents confirming the legitimacy of the change shall be attached to the request for changes, if applicable,
- the necessity of changes approval by the Joint Secretariat.

The request for changes is sent to the Lead Partner via CST2021 Projects.

The Lead Partner verifies the correctness of the request for changes and the possibility of changes introduction. If more partners, including the Lead Partner, apply for project modifications at the same time, the Lead Partner updates the project in CST2021 Projects and sends it to Joint Secretariat.

The Joint Secretariat verifies the request for changes. During the verification, the Joint Secretariat may ask for corrections (e.g. additional documents, clarifications). The Lead Partner sends clarifications and a corrected application to the Joint Secretariat.

When the verification of the request for changes is successfully completed, the Joint Secretariat accepts the changes in CST2021 Projects and informs the Lead Partner on the decision. The Lead Partner then informs the project partners on the decision.

If the project modification is to be applied in a given reporting period, it has to be accepted in CST2021 Projects by the end of this reporting period at the latest. In case it is approved later - the project partner includes the expenditure related to the approved project modification in the next reporting period.

*Important:*

- *Approval of changes to the implementation period each time requires the signing of an addendum to the Grant Contract.*
- *Budget reallocations may not concern cost categories settled as flat rates,*
- *Examples of modifications possible to introduce in line with the procedure: budget reallocations between work packages and budget categories, changes to work packages, changes in partnership, prolongation of the period of project implementation not exceeding 24 months.*

*If changes planned to be introduced to the project are other than those described in this chapter, please contact the Joint Secretariat to agree the method of their potential introduction.*

### 3.3. Project savings

The savings identified in the project's budget during its implementation can be used to broaden the scope of planned work packages and/or undertake additional complementary work packages.

*Important! In principle, the use of the extra funds should cause an increase of values the planned project's indicators.*

All the additional work packages, financed from the savings, should have a complementary character to the implemented project, ensure a stronger contribution to the project's results and objectives and guarantee greater benefits to the identified target groups across the borders.

In order to use the savings the Project Partner shall follow the regular procedures for project's modification which are described in this Manual.

### 3.4. Changes of the partnership agreement

When changes introduced in the project needs update of the partnership agreement, it should be updated in line with procedures described in the partnership agreement. The updated version of the partnership agreement needs to be submitted to the JS with the next progress report submission at the latest.

## 4. Reporting

### Important:

- Regulations regarding settlement and financial flows in the project are specified in the project Grant Contract.
- Only authorized persons can send a ready progress report to the appropriate institution. Therefore, it is recommended to keep the list of persons authorized to work in CST2021 Projects up to date.
- The Lead Partner and Project Partners are obliged to use the English version of CST2021 Projects.

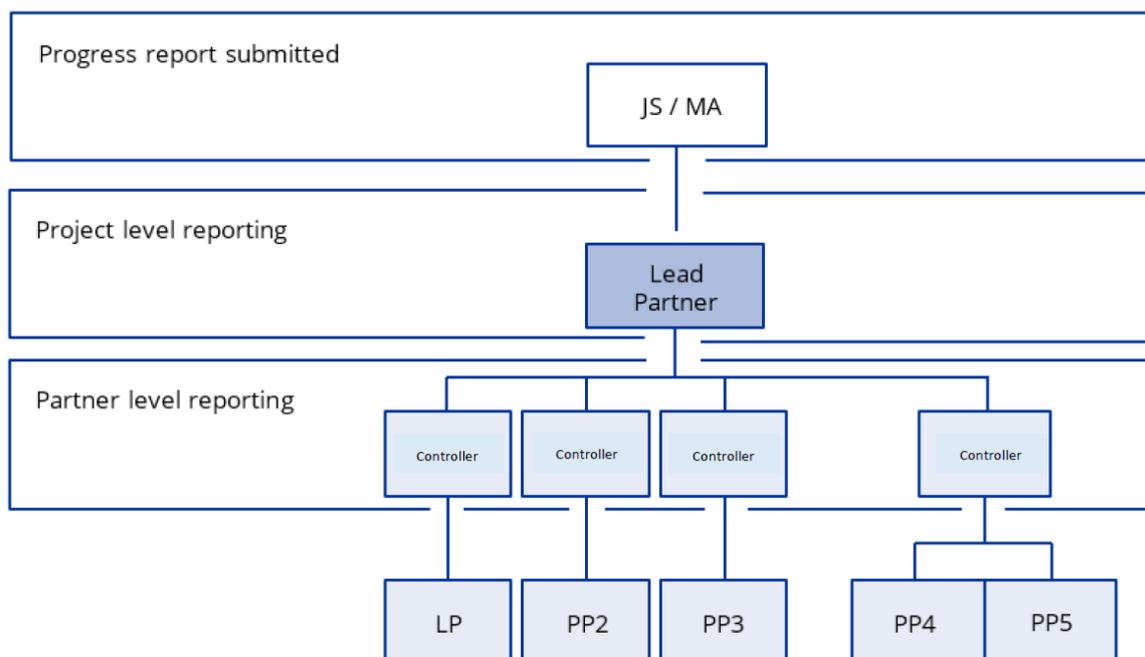
### 4.1. General reporting procedure

The progress reports in the project present information on the physical and financial state of implementation of the project. The information is submitted via CST2021 Projects and present the following data:

- the progress of work packages (e.g. public procurement, the stage of construction works, project promotion, implementation of horizontal principles),
- indicators achieved,
- encountered problems in the implementation of work packages,
- incurred expenditures,
- planned work packages to be implemented in the next reporting period.

All reports are prepared by project partners in CST2021 Projects. Instructions for preparing a progress report can be found in the Applicant's Instructions - general part.

The reporting scheme on the project and partner level is presented below:



## 4.2. Partial progress reports

Each Lead Partner and Project Partner submits a progress report on its own behalf. The documents shall be submitted to the relevant controller within 15 days from the end of the relevant reporting period. The documents are verified by the relevant controller. The reporting periods are flexible, which means that only the maximum length of the reporting period for the project has been defined and the project partners may submit progress report more frequently (in coordination with partners and lead partner and in compliance with the procedures for reporting in the IT system). The flexible reporting period result from the Grant Contract and the partnership agreement, they cannot exceed the maximum period recommended 8 months.

In order for the project to be implemented efficiently and without unnecessary delays, it is recommended to report immediately after spending the funds. Partner indicates the period covered by the progress report. It is highly recommended for partners to submit reports in time to ensure that they have enough funds to implement the project, i.e. that they end the reporting period after spending 70% of the pre-financing payment, so that they have funds for implementation until they receive the next pre-financing payment. Therefore, the Partners have to agree on reporting periods schedule bearing in mind that the maximum reporting period is 8 months and the maximum project duration is 24 months.

During the verification, the controller checks among others whether:

- the partner progress report was submitted within the project implementation schedule set in § 10 of the Grant Contract (at least one report per every 8 months),
- the partner progress report has been properly completed and covers the adequate reporting period,
- the partner progress report has been calculated with the use of appropriate EUR exchange rate,
- there are no discrepancies in terms of rounding in calculating the co-financing rate (%),
- the partner progress report is correct regarding the accounting part and was submitted by a person authorised by the partner,
- the partner progress report illustrates the progress of the project, including the implementation of indicators (if the partner is responsible for the implementation of a specific indicator),
- the progress report is submitted under the proper version of the project (if changes to the Grant Contract were introduced),
- the expenditure is declared within the proper budget item (work package, cost category, cost description),
- whether the summary for the budget item/work package/project does not exceed the amounts in the current version of the project budget (and if exceeds – check whether it is correct according to the programme rules).

The controller uses the CST2021 Projects communication channel with project partner in the process of explanations and gathering additional documents while carrying out administrative verifications. The controller will request to provide Partners the supporting documents for concrete items from the list of expenditure. During the verification of the progress report, the controller may ask the project partner for clarification or additional information and documents. The controller may return the progress report for correction. The controller has the possibility to correct obvious mistakes in the application.

The procedure of complaints against the decision of the national controller is described in chapter 5.3 of the Programme manual.

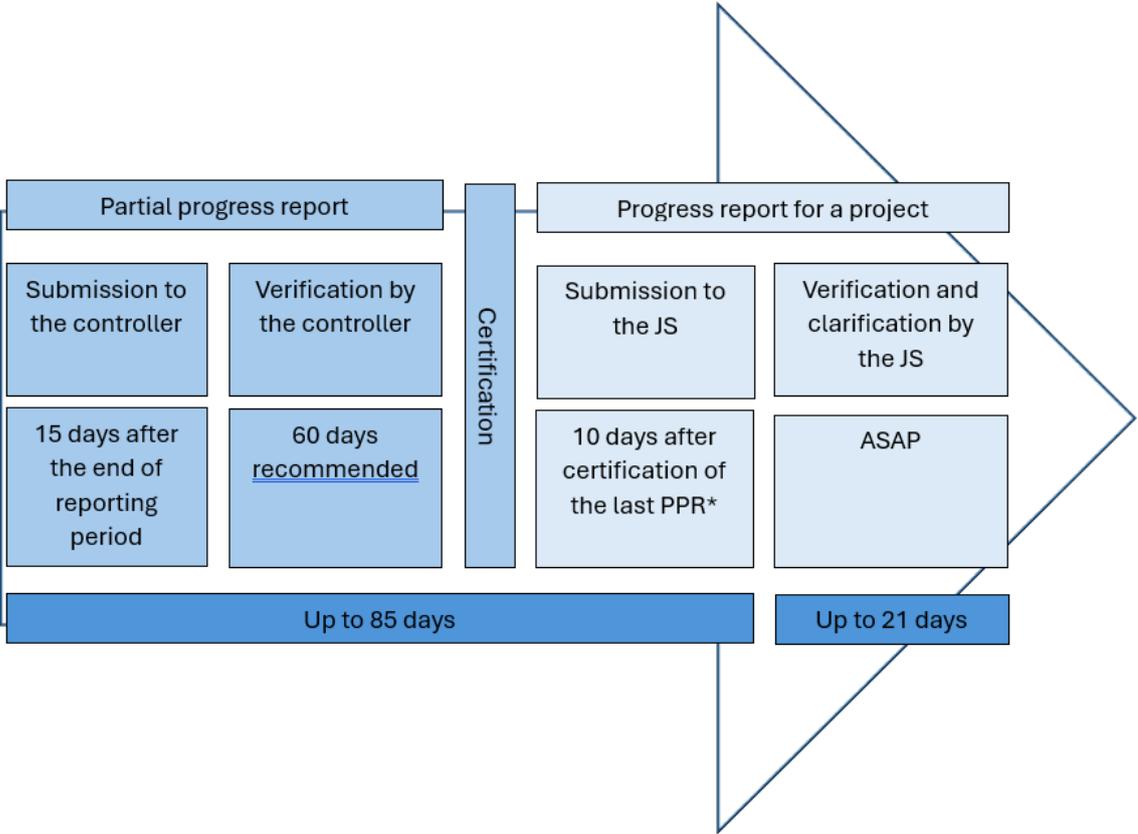
*Important! The Managing Authority does not examine objections regarding the results of the National controller verification.*

4.3. Progress report for a project

Based on the approved partial progress reports, the Lead Partner prepares one progress report for the project. It covers information presented in all partial progress reports. The Lead Partner needs to adjust the data entered to the system by each Project Partner, so the information is clear and accurate and presents information on the whole project progress within the reporting period.

Each progress report shall be submitted together with relevant documentation. When the pre-financing option chosen, submission of the proofs of transfer/receipt of the pre-financing payment by each partner at the reporting stage is required. This documentation needs to be enclosed with CST2021 Projects by each partner. Additionally Lead Partner shall submit proof of transfer of the funds to relevant Project Partners.

The time schedule and document flow are presented below:



\*PPR – partial progress report

The Managing Authority shall pay the funds within 80 calendar days from the date of submission of the progress report for a project to the Joint Secretariat. The deadline may be extended, as described in § 10 section 14-15 of Grant Contract.

#### 4.4. Final report and project closure

The end date for the implementation of the project is indicated in the § 5 pkt. 2 of the Grant Contract. The end date means the deadline for realization of the following activities:

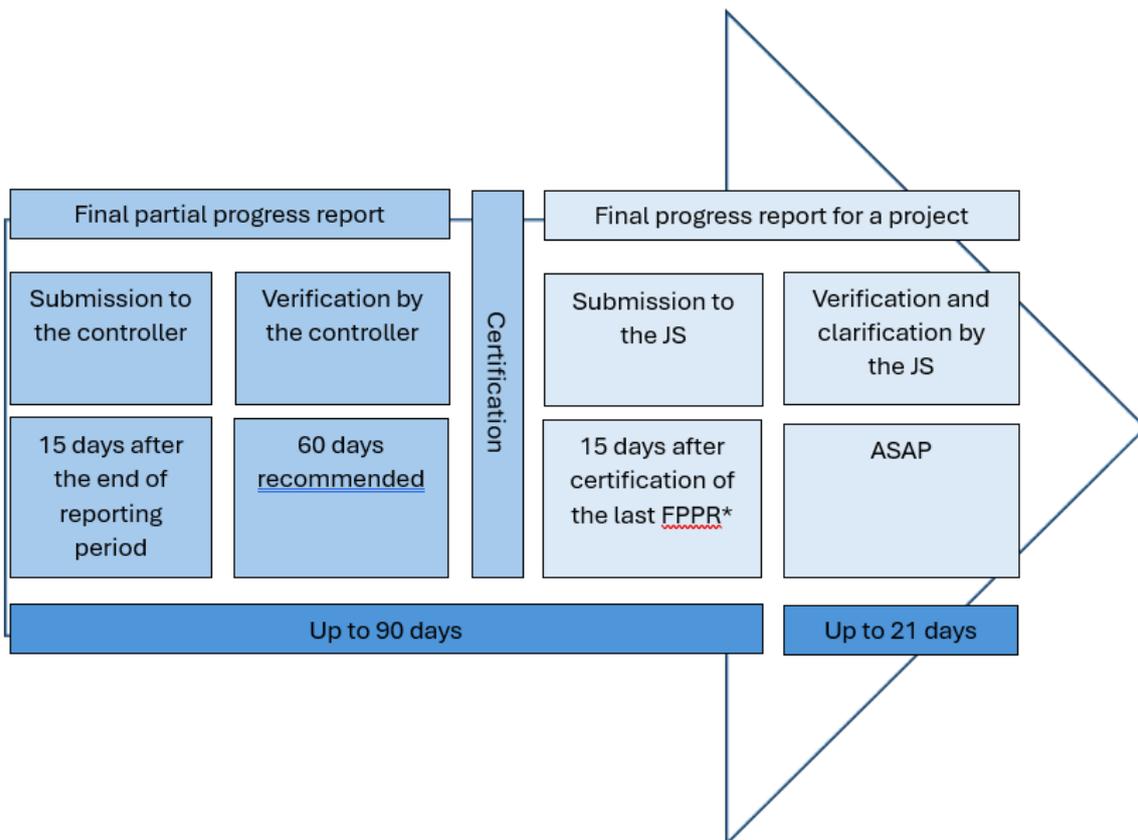
- implementation of all work packages within the scope of project,
- reception of all works, deliveries, and services,
- payment for all project activities.

**All the costs reported in the final progress report must be paid. As a principle, all expenditures must be paid during the project implementation period. In case of costs relating to final project reports, i.e., final evaluation of the project, which may be incurred after the implementation period of the project to the date of the final progress report submission. These costs shall be paid not later than before the final progress report submission.**

No costs can be reported after the submission of the final project progress report.

If actual costs are presented in the final report, costs for staff, office and administration as well as travel and accommodation may also be settled.

Closure costs relating to the last phase of the project must focus on the administrative actions needed for successful project finalization only.



\*FPPR – final partial progress report

## 5. Management verifications, audit trail, audit

From the Partner perspective, in order to properly identify each financial operation and correspond it to the physical progress and Programme requirements the Partners group Project documents and data elements into the Audit trail that should be provided to Controllers, Audit Authority/Group of Auditors, and/or other Programme institutions in the course of the Project monitoring.

**An audit trail** is a chronological set of accounting records that provide evidence of the sequence of steps undertaken by the project partners and programme bodies for implementing project.

The proper keeping of accounting records and supporting documents held by the project partner and its controller ensures an adequate audit trail. In turn, setting up and maintaining an adequate project audit trail is a **basic requirement for the eligibility of the expenditure claimed**.

At the project partner level, the audit trail includes among others:

- Application Form,
- Grant Contract,
- Partnership Agreement,
- progress report for the project,
- partial progress report from the implementation of their own part of the project with annexes,
- information on the conclusion of the procurement contract or any amendment to it,
- procurement documents on the awarded public procurement contract,
- clarifications to provided documents requested by controller or Joint Secretariat,
- accounting documents (bank statements) confirming expenditure on each budget line of the work package (detailed in the p. 2.1. pf this Manual),
- documents confirming each payment obligation resulted to the expenditures: invoices, contracts, acts of work accomplishment, time sheets, etc. (detailed in the p. 2.1. pf this Manual),
- additional procurement documents such as: internal procurement procedures regulations with amendments, selection protocols, public notifications, etc. (detailed in the p. 2.1. pf this Manual),
- conclusions of all audits and controls performed,
- other necessary documents upon request of the Controller, Audit Authority.

For the Programme perspective the Audit trail will reflect to the Controllers and Audit Authority the sequence of measures of both financial and physical progress of the Project and will allow to carry out the management verifications and therefore confirm the eligibility of declared expenditures, compliance with EU and National Legislation requirements, Programme rules on Communication and Promotion.

Please remember that all communication with the controller is arranged in the CST2021 Projects.

It is recommended to proactively contact to the controller and clarify in advance the time schedule, scope of control and procedural requirements of the verifications.

## 5.1. Management verifications and audits

As the key instruments for the Project monitoring the control and management systems of the Programme provides such two main lines of controls for the consideration of the Project Partners as Management verifications and Audits.

### 5.1.1. Management verifications

Management verification is the process of confirming the eligibility of expenditures and the correctness of the project implemented by the project partner. Management verifications include:

- administrative verifications in respect of each partial progress report made by partner, and
- on-the spot verifications.

#### 5.1.1.1. Administrative verifications

Administrative verifications are carried out by the controller with respect to each partial progress report submitted by the project partner.

Scope of administrative verifications:

#### **The controller verifies whether:**

- the partial progress report has been correctly filled in according to formal obligations,
- the partial progress report is correct in terms of calculations,
- the partial progress report fairly presents the progress of the project and indicators,
- if expenditures declared are correct and eligible,
- if the project partner 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 programme documents/ the Grant Contract is correctly implemented in the part relating to the project partner, taking into account the achievement of indicators, if the partner is responsible for the implementation of part or all of a specific indicator,
- if participants of activities carried out in the project meet the participation requirements specified in the project,
- if the communication activities planned by the partner in the communication plan are implemented by them correctly 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 Interreg Regulation,
- if eligibility rules have been respected (in particular with public procurement and fair competition, environment protection, State aid, VAT, equal opportunity as well as publicity and information requirements described in the respective PM),
- if the amounts of the expenditure seem to follow sound financial management and are in line with principles of economy, efficiency, and effectiveness,
- if conditions for payments have been fulfilled for **SCOs**.

Additional scope of the administrative verifications with regards to the Reporting procedure is presented further in section 5. Reporting.

Once the partial progress report is submitted to the controller by the project partner, the controller will ask for delivering documents proving the eligibility of expenditures. The exchange will be done with the use of CST2021 Projects.

The verification will be finalized when the controller approves the partial progress report and sends this information to the project partner.

Please note, that the partner has the right to appeal against the decision of the controller and their findings included in the information on the verification of the partial progress report. For the details see chapter 5.3.

*Important! Verification of public procurement and the competition rule may take place independently from the verification of partial progress report or on-the-spot verification. The partner may be asked by the controller to provide documents related to public procurement "outside" the reporting periods.*

*The controller will ask partners to provide list of public procurements and changes to them on regular basis. The partner is obliged to timely provide the information to the controller.*

#### 5.2.1.2 On-the-spot verifications

On-the-spot verifications encompass of:

- on-the-spot verifications,
- ad-hoc on-the-spot verifications,
- monitoring visits.

On-the-spot verifications are carried out by controllers. The aim of the on-the-spot verifications is to provide a reasonable level of assurance that the project is implemented effectively and the objectives are achieved, as well as to prevent errors and irregularities within the project.

#### **On-the-spot verifications**

On-the-spot verifications are carried out by controllers.

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

- if the products and services co-financed have been delivered,
- if expenditures declared by the partner are in line with the approved Application Form, the Grant Contract and the Partnership Agreement,
- if expenditures declared by the partner in connection with the implemented project were actually incurred (if applicable) and are consistent with the law, the requirements of Programme documents and with EU and national rules,
- /if applicable/ if the partner partial progress report illustrates the progress of the project, including the implementation of indicators (if the partner is responsible for the implementation of a specific indicator),
- if the partner maintains 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 activities 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 Lead Partner fulfils the obligation regarding the transfer of funds to the partners as specified in Art. 26 (2) of the Interreg Regulation (applicable for the controller of Lead Partner only),
- if conditions for storing documentation have been met.

The controller decides on the timing (moment) of the control individually for each project.

On-the-spot verifications done by controllers are performed either at the premises of the partner or/and in any other place where the project is being implemented. The partner is obliged to allow access to the premises and/or project implementation place to the controller. In well justified cases and if in line with national regulations, on the spot verification might be performed with the use of advanced IT tools (virtual control). Usually, it may be done in such cases as the partner did not allow the controller the access to the premises, it is not possible to go on site due to war activities, suspicion of crime must be confirmed as quickly as possible.

Please note that the partner must be notified on on-the-spot verification in advance. There are however exceptions from this rule, when the controller may perform their activities without notifying the partner and to carry out the control with the use of e.g. drones, etc. It is allowed however only in well justified cases: suspicion of crime/fraud, etc.

When performing the on-the-spot verification the controller uses CST2021 Projects communication module for receiving additional documents or explanations from the controlled partner.

The procedure for this type of control is the following:

- the controller sends the notification on on-the-spot verification minimum 7 calendar days before the envisaged date of the control,
- the controller draws up and send to a partner a Control Report with findings and recommendations for improvement. The controller shall set a deadline for implementing recommendations if such were issued during the control. The deadline is set by the controller taking into consideration the character of findings, i.e. giving partner enough time to implement recommendations and or undertake corrective actions,
- the Partner is allowed to object the findings and present their own opinion/statement. The controller will inform the partner about it in the Control report or in the letter. The so called contradictory procedure shall last 14 calendar days from the date of receiving the Control Report by the Partner,
- if the Partner does not raise objections, the Control Report is deemed final,
- the controller informs about his/her decision not later than in 10 calendar days and informs the partner that the decision is final and may not be further appealed against. The controller sets the deadline for the partner to implement recommendations,
- the controller may undertake additional activities and/or ask for additional documents should he/she find it necessary to present its opinion once the Partner raised objections to the findings. The deadlines are being prolonged in such a case,
- the controller checks if the recommendations were implemented during the follow-up verification. This can be performed either on-the-spot or based on documents (depending on the character of finding),
- if the follow-up verification is carried out as an on-the-spot verification the controller informs the partner about it beforehand, as defined in the first bullet,
- having finalized the follow-up verification, the controller sends a note for information of the partner. The note cannot be appealed against.

#### **Ad-hoc verifications**

An ad-hoc verification may be performed by controller to check the actual implementation of the project in the following cases:

- the controller has information on irregularities/failures/deficiencies or fraud in the project or suspicions thereof,
- the Partner does not submit progress reports and/or supporting documents,
- if, basing on their own professional judgement, controller decided that the control will smooth the settlement of the project and/or will minimize risk of irregularities,
- upon request from the Managing Authority for the ad-hoc verification to be performed.

When performing the ad-hoc verification the controller follows mostly the rules and procedure of earlier mentioned on-the-spot verification.

### **Monitoring visits**

Monitoring visits are carried out by the controller to monitor the implementation stage of the project and its effectiveness but also in case of any difficulties or problems arising during the implementation of the project.

The scope of the monitoring visit is more limited. The controllers performing the monitoring visit, verify only selected elements of project's implementation (e.g. promotional event, conferences, workshops, seminars, action workgroup meetings, location of investment, tender documentation etc.).

The focus of the monitoring visits is basically the following:

- verification of the progress in project activities (stage of works) and if products have been delivered, services provided, works accomplished,
- verification of the obligations related to communication and visibility,
- verification of the course of the event and confirming the actual number of participants in the project's events.

The procedure of the monitoring visits is the same as for the on-the-spot verifications.

Controllers prepare the post-control information and send it to the Project Partner. The Project Partner has the right to appeal against it. The Partner sends its objections (preferably by the CST2021 Projects) to the controller within 14 calendar days from the day he/she received the outcomes.

### **5.2.2. Audits**

Project Audits are conducted by Audit Authority and the Group of Auditors, Donor (European Commission) and its representatives (European Anti-Fraud Office, the European Court of Auditors) during the entire lifecycle of the Project and cover the scope of the Audit trail and any other documents related to the Project.

Audits may be carried out in the premises of the Project Partner and/or in any other place where the Project is/was implemented.

The audit has a wider purpose and functional coverage and might include both management verifications (administrative verifications and on-the-spot verifications).

The Project Partner provides auditors with an access to sites and locations at which the activity is implemented, including its information systems, as well as all documents and databases concerning the technical and financial management of the activity.

The Project Partner is obliged to take all steps to facilitate the work of the Auditors.

This access shall be given on the basis of confidentiality with respect to third parties, without prejudice to the obligations of public law to which they are subject. Documents (also e-files) must be easily accessible and filed to facilitate their examination and the Partner must inform the Audit Authority of their precise location.

The Project Partner shall take corrective action within the time limits set out in the audit recommendations issued during inspections and audits.

### **Audit of operations**

The Audit Authority and the Group of Auditors carry out audit of operations. How the audit is organized depends on the national provisions of each country:

- in Poland<sup>2</sup>: the audit will be carried out at the controller's premises,
- in Ukraine: the audit will be carried out either at the controller's premises or the respective partner (can be both).

How the audit is organized has some implications to the project partner. The project partner should get acquainted with the procedure:

**Audit of operations carried out on the controller**<sup>3</sup> – it will be the controller that will inform the project partner that the audit has been launched. The project partner – if willing to present their explanations or standpoint to findings – will send it to its controller. The controller will send it to the auditors.

**Audit of operations carried out on the project partner** - it will be the project partner that will be directly informed by the auditors that the audit has been launched. The project partner – if willing to present their explanations or standpoint to findings – will send it directly to the auditor. It is however strongly recommended that the project partner informs its controller about the audit being launched and cooperate with the controller while preparing and presenting explanations/standpoint to auditors.

In both cases it is important to timely provide the information/explanations/standpoint, to controller or auditor. Especially during the so-called **contradictory procedure**.

#### **Contradictory procedure**

In case of detected irregularities, audit findings are raised. For each finding the legal bases is provided and requirements for clearance of the finding are provided. All findings are presented to the audited body upon completion of the audit, and this is when **the contradictory procedure** starts. Within the contradictory procedure the project partners and/or controllers have the possibility to comment on each finding. At the end of this procedure, the Audit Authority/Group of Auditors have to confirm or lift the findings. Following this, the audit report becomes final.

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<sup>2</sup> The audit is organized in line with the provisions of the Act of 16 November 2026 on the National Tax Administration (Dz.U. 2022 poz. 813).

<sup>3</sup> Refers to all Polish project partners, and may refer to some Ukrainian Partners.

**Once the contradictory procedure is finalized, the standpoint of the Audit Authority/Group of Auditors is final and cannot be appealed against.**

When preparing the explanations/standpoint to the audit findings, project partners should also consult the Joint Secretariat for the findings/questions related to the programme rules.

*Important: The cooperation between the project partner and the controller during the audit is crucial. Both, project partner and the controller, shall strive to inform each other about their statements/opinions and provide requested information to each other in timely manner.*

### 5.3. Complaint procedure related to the verification/audit findings

***Important: The project partner has the right to appeal against the results of each verification and audit results***

From the Partner perspective there are possible disputable or appealing reaction to the reviews of the Programme institutions that may arise along the Project Lifecycle that may lead to such measures as Reservations/objections.

Objections regarding the results of the verification/audit results are filed and examined in accordance with the following procedure:

- **For Poland:** The Polish project partner may file objections regarding the results of verifications/audit 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 objections shall be filed within 14 calendar days after the results of the verification/audit were received from the controller/auditor (any complaint submitted after the deadline will be rejected);
- **For Ukraine:** Objections of the Partners from Ukraine shall be based among other national provisions on conclusions of the National Authority on the Project/Programme monitoring and registration measures as set out in the Regulation Nr 153 of the Cabinet of Ministers of Ukraine. The objections shall be filed within 14 calendar days after the results of the verification/audit were received from the controller/auditor (any complaint submitted after the deadline will be rejected).

Please see chapter 6.3.1 for more details.

*Important: The Managing Authority does not examine objections regarding the results of the verification/audit.*

## 6. Other implementation aspects

### 6.1. How to deal with project revenues?

As a general rule project results (e.g. studies, policy recommendations, good practice guides) are expected to be freely available to the public. Following this principle and due to the nature of the activities carried out projects are not expected to generate revenues.

Revenues will not be reported within the Programme.

### 6.2. VAT (applicable only for Polish Lead Partners and Project Partners)

Partners will be obliged to declare their VAT status during the preparation of the project by confirming it in the Application form the possibility of VAT recovery.

VAT for a project with a total cost of less than EUR 5,000,000 (including VAT) is eligible.

VAT in a project with a total cost of EUR 5,000,000 and more (including VAT) is not eligible - with the exception that it may be eligible when there is no legal possibility to recover VAT in accordance with national law.

*Important: The eligibility of VAT in projects involving state aid is determined by the provisions of the GBER and depends on the possibility of its recovery in the light of national regulations.*

VAT is actually incurred when it is paid in full (in the price of acquired goods or services). The Partners should be aware of their VAT status in relation to the planned project's work packages.

If the VAT status of the Partners changes during the course of the project implementation, the Partners are obliged to inform the Joint Secretariat and relevant controller about the mentioned change. The partner shall provide updated VAT statement in line with procedures described in the chapter 3 "Project modification".

### 6.3. Irregular expenditures in the project, recoveries and imposition of financial corrections

Irregularities are detected during:

- control of project documentation (e.g. control of procurement procedures),
- verification of progress reports submitted by the Lead Partner of the project,
- inspections at the project implementation site.

Irregularities may be detected in particular by the Controller, the Audit Authority, the Managing Authority, the European Commission, the Court of Auditors (ECA), the European Anti-Fraud Office (OLAF), and other entities authorized under separate regulations or on behalf of these institutions.

Irregular expenditures may appear at various stages of project implementation. Detection of irregularities requires reduction of eligible expenditures in the Project Partner's progress reports or recovery of funds. It may also result in the imposition of a financial correction. To determine the effects of irregularities, the moment of identifying irregular expenditures is crucial.

*Important: If the identified irregularity constitutes the basis for the flat rate calculation, then expenditures settled as the flat rate will be proportionally reduced.*

### 6.3.1 Detection of an incorrect expenditure before it is approved by the Managing Authority in the progress report

If institutions identify an irregular expenditure before approving the progress report in which the expenditure is indicated, the Partner will be informed about it by the controller.

If the Partner does not raise any objections to the controller's verification results, the verification result is considered final. If the Partner does not agree with the controller's findings, in accordance with the procedure specified in § 20 section 2-8 of the Grant Contract may raise objections to its decision via CST2021 Projects within the time limit and on the terms specified in the Grant Contract.

The controller will respond to the raised reservations and provide the project partner with the verification result. If the controller considers the objections positively, they will issue an updated control result. In the process of providing explanations and collecting additional documents, the controller and the Project Partner communicate via CST2021 Projects. The decision of the controller is final and cannot be appealed against.

The controller then returns the partial progress report to the Partner for correction. The project partner removes the incorrect expenditure from the progress report and may present another eligible expenditure in its place. If the Partner does not correct the partial progress report within the deadline set by the controller, the controller independently corrects and approves the application in the CST2021 Projects.

### 6.3.2 Detection of an incorrect expenditure after its approval by the Managing Authority in the progress report

If the controlling or auditing institution finds irregularities in the project, the Managing Authority will take action to recover the funds in the project.

Details on the types of controls and audits that the project may be subject to, including details of the procedures applicable to specific types of controls and audits, can be found in Chapter 5.1 Management verifications and Audits of the Manual. The available options for the Project Partner to appeal against the results of individual checks and audits can be found in chapter 5.3 Complaint procedure related to the verification/audit findings of the Manual.

*If an incorrect expenditure is identified in the progress report approved by the Managing Authority before being reported to the European Commission, no financial correction is imposed. Then it will be possible to re-use the funds in the project. The Joint Secretariat will notify the Project Partner and the relevant controller about this possibility and provide instructions on how to correct the cumulative values in the project financial summary. Information in this regard can also be found in the CST2021 User Manual - chapter Progress reports, version for Lead Partners, SPF Beneficiaries and Project Partners, chapter 3.2.8 Data block Refunds/corrections.*

### 6.3.2.1 Recovery of funds

In the case of projects that have chosen the pre-financing payment, the Managing Authority initiates the recovery procedure if it has previously approved the progress report in which the expenditure was shown to be correct.

In a situation where the project has chosen a reimbursement, the Managing Authority launches the recovery procedure after payment of the due co-financing as part of the progress report in which the expenditure was shown as correct.

First of all, the amount to be recovered will reduce the payment of the next pre-financing payment or reimbursement or payment of the final balance within the project. The Joint Secretariat will inform the Lead Partner about the reduction in payments.

In a situation where it is not possible to reduce the next payment for the project, the Managing Authority will issue a recovery order to the Lead Partner, in accordance with § 12 of the Grant Contract. The recovery order will contain the necessary legal and technical information regarding the recovery of funds. The Managing Authority will issue a recovery order in electronic form with the option to confirm receipt of the recovery order by the Lead Partner.

The Managing Authority will also start the recovery procedure in a situation where, in the final progress report, the value of pre-financing payments paid for the project exceeds the value of eligible expenditures approved in the project.

Recovery of funds from the Project Partner is carried out through the Lead Partner.

#### **Detailed rules regarding the recovery of funds for the Lead Partner**

- The Lead Partner will specify in the Partnership Agreement the procedure for recovering unduly paid amounts from the Project Partner. The Lead Partner, in accordance with the Partnership Agreement, issues a recovery order to the Project Partner. The Project Partner returns the amount resulting from the recovery order to the Lead Partner, who then transfers it to the Managing Authority.
- If the Lead Partner does not obtain a refund from the Project Partner, he will inform the Managing Authority.
- If the recovery order issued by the Managing Authority concerns an irregularity detected in the Lead Partner expenditures, the responsibility for the return of funds remains solely with the Lead Partner. The Lead Partner may not deduct amounts or withhold pre-financing payments due to the Project Partner.
- The Lead Partner will not be held liable for failure to recover funds from the Project Partner, but it is responsible for proving that it has completed its due diligence in recovering the funds. This means at least that the Lead Partner issued a recovery order to the Project Partner, and after the deadline for return expired, it immediately issued another recovery order.
- If the Project Partner does not return the funds to the Lead Partner, the Lead Partner informs the Managing Authority, which then issues a recovery order to the National Authority appropriate for the registered office of the Project Partner.

#### **Detailed rules regarding the recovery of funds for the Project Partner**

- The Lead Partner undertakes that the project partner will receive the due co-financing according to the Grant Contract. The exception is the situation when the Managing Authority deducts from the pre-financing payment/reimbursement resulting from irregular expenditures identified by the Project Partner. The Lead Partner will then transfer appropriately reduced pre-financing payment/reimbursement to the Project Partner.
- In exceptional cases when the Lead Partner is unable to transfer the pre-financing payment/reimbursement to the Project Partner and this is confirmed by the National Authority, the Programme provides the possibility of making the direct payments to the Project Partner. Please contact the Joint Secretariat in this matter, which will initiate the appropriate procedure.

#### *6.3.2.2 Non-recovery of funds below EUR 250*

The Managing Authority refrains from recovering irregularities if the amount does not exceed EUR 250 of co-financing from the Programme funds. The Joint Secretariat will inform the Lead Partner about the lack of recovery after receiving information from the Managing Authority.

The threshold of EUR 250 is calculated simultaneously for the project and the financial year. The EUR 250 threshold applies only to the EU contribution. The phrase "up to EUR 250" means an amount equal to or less than EUR 250.

If subsequent project irregularities in a given financial year exceed the total threshold of EUR 250, the Managing Authority will recover all project irregularities in a given financial year from all partners who generated them (including those previously assigned to the EUR 250 procedure in a given financial year).

The Joint Secretariat will inform the Lead Partner about the need to initiate recovery after receiving information from the Managing Authority. The rules from section 6.4.2.1 regarding recovery of funds will continue to apply.

#### *6.3.2.3 Imposing financial corrections*

If an incorrect expenditure is found in the progress report after the Managing Authority reports the expenditure to the European Commission, the Managing Authority, in accordance with Art. 103 of Regulation 2021/1060 imposes a financial correction in the project. A financial correction consists in cancelling all or part of the co-financing of the Project Partner in the part corresponding to incorrect expenditures or simplified costs calculated on the basis of the Partner's incorrect real costs. The value of the financial correction will be equal to the amount of expenditures incurred incorrectly in proportion to the amount of co-financing.

In such a situation, the Project Partner who has been found to have an irregularity cannot declare other expenses instead of the incorrect expenditures.

The decision taken by the Managing Authority regarding the financial correction is forwarded to the Lead Partner of the project by the Joint Secretariat. The Lead Partner is obliged to inform about the decision the Project Partner affected by the financial correction. It is not possible to raise an objection against the decision regarding financial correction, in accordance with the procedure specified in § 20 section 2-8 of the co-financing agreement.

## 6.4. Contractual penalties

Any payment received by any of the Project Partners or the Lead Partner arising from contractual penalties as a result of a breach of the contract between the respective Partner and a third party(-ies) or which has occurred as a result of the withdrawal of an offer by a third party chosen under public procurement rules (the 'deposit') will not be deducted from the eligible expenditure in the project.

Expenditures relating to contracts, to which contractual penalties were applied, shall be settled in the project progress report in line with one of the following methods:

1. invoices or documents of equivalent probative value issued by the third party includes the value already decreased by the value of a penalty fee.

Expenditure shall be settled in the report in line with the invoice i.e. the real amount of the payment shall be indicated as a total eligible expenditure.

2. invoices or documents of equivalent probative value issued by the third party has the value of initial cost of the contract (without penalty fee).

The expenditure shall be settled in the report in line with the invoice (100% of the invoice). The following terms of payment are available:

- invoice was paid in full amount (100% of expenditure). Penalty fees were paid back separately by the third party.
- invoice was paid in the amount already decreased by the penalty fee. No actual transfer of money was done by the third party.