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**The North
Sea Region
Programme**
2007–2013



FINAL REPORT

Institutional Capacity and Performance



Sub-theme 2: Financial management
and control setup

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This report is part of a series about the on-going evaluation process of the Programme. In accordance with the on-going evaluation approach these reports are:

Institutional Capacity and Performance:

- (1) Financial management and control set-up
- (2) Programme structures
- (3) Application procedures and project development

Added Value:

- (1) Programme impact and coverage
- (2) Transnational cooperation
- (3) Legacy

Publicity and Communications:

- (1) Programme and project cooperation in communications & programme visibility

Disclaimer:

The content of this paper has been prepared by DSN – Connecting Knowledge and does not necessarily reflect the opinion of the North Sea Region Programme or its Evaluation Steering Group (ESG).

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Table of contents

0. Introduction.....	4
1. Recommendations of the interim report regarding Financial Management and Control Setup at a glance	6
2. Background: Annual Control Report 2013 prepared by the Audit Authority - Abstract.....	7
3. Realisation of the recommendations of the On-going Evaluation	8
Online-reporting system.....	8
Standardised tools for strategic and day-to-day project management.....	9
Knowledge exchange	9
Sample quality checks.....	10
On the spot verification.....	10
Regional FLC seminars	11
Overhead costs	11
Overview of the realisation of the recommendations.....	13
Appendix A - Evaluation Model.....	14
Appendix B - Members of the Evaluation Steering Group	15



0. Introduction

This final report addresses programme bodies, project partners and stakeholders of the Interreg IVB North Sea Region Programme (NSRP). The report is part of the “On-going Evaluation” of the North Sea Region Programme 2007-2013, which presents the main findings and recommendations regarding “financial management and control setup at the programme and project level”.

This final report is based on the interim report on “financial management and control setup at the programme and project level” which was published in September 2012. The recommendations given in this interim report are reflected in the context of the arrangements as defined in the new Cooperation Programme Interreg North Sea Region 2014-2020 as well as in the light of the findings of the Annual Control Report¹ (ACR) 2013 carried out by the Audit Authority of the North Sea Region Programme. The Annual Control Report is analysed as to whether the recommendations of the On-going Evaluation prove to be effective in the field of financial management and control setup.

The ACR 2013 of the Audit Authority reflects control activities carried out between 1st July 2012 and 30th June 2013. With regard to content, the ACR concentrates on the following themes of relevance for financial management and control setup: changes in the management and control system, system audits, audits of samples of operations and coordination between audit bodies and supervisory work of the audit authority.

On the basis of the ACR, adaptations made by the programme during the programme implementation in the period 2007-2013 can be identified in the field of financial management and control setup. Within this report, the correspondence of these adaptations with the recommendations of the On-going Evaluation is verified. Additionally, it is assessed how recommendations of the On-going Evaluation influenced the implementation of the new programme in this field. Therefore, relevant information regarding financial management and control setup from the new Cooperation Programme North Sea Region 2014-2020 as well as from the new programme’s website was analysed.

This report starts with a brief overview of the recommendations given in the interim report on “financial management and control setup at the programme and project level”. In chapter 2, the key findings of the Annual Control Report 2013 with relevance for financial management and control setup at the programme and project level are summarised as necessary background information.

¹ In line with Article 62(1)(d)(i) and (ii) of Regulation (EC) No 1083/2006, the Audit Authority of the North Sea Region Programme has to submit an Annual Control Report (ACR) to the European Commission by December 31st, every year. The ACR sets out the findings of the audits carried out during the previous 12 month-period ending June 30th of the year concerned, in accordance with the audit strategy of the operational programme and reporting any shortcomings found in the systems for the management and control of the programme. The audit strategy issues an opinion on the basis of the controls and audits that have been carried out under its responsibility. It assesses whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence give reasonable assurance that the underlying transactions are legal and regular.



In chapter 3, the recommendations of the On-going Evaluation are reflected in the light of the findings of the Annual Control Report as well as in the context of the new cooperation programme North Sea 2014-2020.

The report summarises the findings and recommendations of the On-going Evaluation in an easy-to-read way. The report concentrates on the general findings and recommendations with strategic relevance to the improvement of the North Sea programme. More information on methodology and the evaluation model of the “On-going Evaluation” is provided in Appendix A.



1. Recommendations of the interim report regarding Financial Management and Control Setup at a glance

The authors of the interim report on “financial management and control set up at the programme and project level” have given the following recommendations during the On-going Evaluation of the North Sea Region programme 2007-2013 regarding financial management and control setup (an overview about realised improvements can be found in chapter 3):²

- The **online reporting** system should be accessible to all project beneficiaries in order to facilitate the management of the reporting process within the project consortia. This would streamline the reporting at both the beneficiaries’ and the project level.
- The online reporting system should provide additional **standardised tools for strategic and day-to-day project management** in order to facilitate efficient project steering and reporting (e.g. graphic analysis of project budget, diagrams showing the relation between on-going activities and the attainment of milestones).
- **Knowledge exchange** between beneficiaries and projects should be supported by social media tools on the NSR Programme’s website to build a community of practice.
- The NSR Programme should aim to decrease the likelihood of incorrect reports on overhead costs by reducing its methodological complexity. Many beneficiaries strongly support the implementation of **flat rates for overhead costs** in the next programme period 2014-2020.
- The Joint Technical Secretariat (JTS) should carry out systematic **sample quality checks**, in particular for the first progress report of all projects. This would have a positive influence on both the quality of beneficiaries’ subsequent reports, as well as on first level controls throughout the projects’ lifetime.
- The JTS should proactively support the Member States to manage the scope of **on the spot verifications** which are to be carried out by first level controllers at project beneficiaries. For this purpose the JTS should carry out a risk assessment to identify relevant cost items which need to be controlled on the spot.
- Positive experience has been made with carrying out **regional seminars for First Level Controllers**. These regional seminars should be implemented regularly in all member states of the NSR Programme with a decentralised First Level Control (FLC) system and should be obligatory for all FLC in future.

² More details regarding the recommendations can be found in the interim report on “financial management and control set up at the programme and project level” under the following link: <http://archive.northsearegion.eu/ivb/content/show/&tid=178>



2. Background: Annual Control Report 2013 prepared by the Audit Authority - Abstract

This chapter gives a short overview of key findings of the Annual Control Report (ACR) as background information for further considerations. To begin with, it is important to know that the programme improved some structural notes on programme level in 2012:

- Enhanced First Level Control (FLC) checklist (implemented in the UK March 30th 2012 and approved by the Monitoring Committee (MC) of all member states except Sweden in November 2012). The document was revised in order to address the main areas identified during the EC audit 2011 (overhead, procurement, publicity and VAT).
- Revision of Fact Sheet No. 2, explicitly stating that overhead costs can only be reported on a real-cost basis. Approved by the MC in November 2012.
- Guidance Notes on calculation of: 1) overhead costs, 2) hourly rate, 3) supplementary information on salary costs. A Flemish edition of the guidance note for staff costs calculation was also issued in October 2012.

A sample of seven projects (out of 48), covering 15.47% of project expenditure, was audited. The audit concentrated on irregularities and ineligible expenditures among lead partners and project partners of the selected projects.

As a general result, the audit identified an annual error rate of 0.70% for the selected ordinary sample on the declared expenses for the reference period 2012. In accordance with the provisions of Annex IV of Regulation (EC) No 1828/2006, the maximum materiality level was fixed at 2% to the expenditure declared to the Commission. In respect thereof, the Audit Authority concluded the error rate to be acceptable. The majority of the ineligible expenditure in 2013 was split between staff costs and overhead costs.

A closer look at member state level reveals Belgium-Flanders to stand out with high errors in expenditure claimed in 2012. The irregularities identified concerned staff and indirect costs. It has to be pointed out that the irregularities derived from accounts drafted before the new controls were implemented and had taken effect.

In July 2013, an additional sample of four beneficiaries from Belgium-Flanders was checked in relation with the Annual Control Report 2012 error rate. In this case, however, the reports were issued in spring 2013, i.e. after the instruction notes could be taken into consideration by beneficiaries and FLC. The inspection showed no irregularities, indicating that beneficiaries now adhere to the new instruction notes.

In spring 2013, all FLCs in Flanders had to declare that the new calculations were drafted according to the new instruction notes, in addition to complementary on the spot checks. FLC seminars were held in the three Belgian provinces within the eligible area in October 2013. Since autumn 2012, the national authorities have voluntarily implemented a 100% check in order to stop any further ineligible expenses to be claimed against the European Commission. Before a beneficiary could claim costs in the reporting round of November 2013, the payment claims were checked by the Flemish national authority. These checks focused on the calculation of staff and overhead costs, being the main findings of the second level controls in 2012 and 2013.



In order to keep the irregularities within the programme at a minimum, the Joint Technical Secretariat (JTS) hosted a number of FLC seminars in conjunction with the MS. In addition to these seminars, a number of extraordinary regional hosted FLC seminars were held in Flanders. The aim for the local seminars was to assist the national authorities in their efforts to improve the adherence to the regulations and rules of the programme.

The ACR 2013 concludes that a massive control work performed by national authorities and the JTS proved no systemic errors to exist within the management and control system of the programme.

3. Realisation of the recommendations of the On-going Evaluation

During the On-going Evaluation, the feedback from projects which participated in surveys and interviews illustrate that the reporting of overhead and staff costs as well as the reporting of indicators and public procurement is considered most difficult, due to the general complexity of procedures and regulations. These problems lead to an increased risk of irregularities regarding reported costs. This feedback from projects is very much in line with the findings in the Annual Control Report carried out by the Audit Authority, which addresses the shortcomings regarding the verification of costs related to public procurement, staff and overhead costs by first level controllers.

In addition, the projects also specified potentials to improve the use of the online reporting system for their strategic and day-to-day project management as well as the use of tools to facilitate knowledge exchange related to project management and administration among projects.

The following sub-chapters reflect recommendations of the interim report on “financial management and control setup at the programme and project level” in the light of their realisation in the programme period 2014-2020. Each subsection of this chapter is related to a recommendation of the On-going Evaluation and its realisation as described in the new Cooperation Programme or the Annual Control Report.

Online-reporting system

The interim report on “financial management and control setup at the programme and project level” recommends the online reporting system should be accessible to all project beneficiaries in order to facilitate the management of the reporting process within the project consortia. This would streamline the reporting at both the beneficiaries’ and the project level.

According to the Cooperation Programme and the information available on the programme’s website, the online reporting system in the programme period of 2014-2020 is planned to compile all relevant information about every project in one system. The data in the online reporting system should be accessed by different users, especially project beneficiaries, lead beneficiaries, controllers, the Joint Secretariat and members of the committees. The information available will depend on the user rights of each user and the respective knowledge necessary.



The online monitoring system will contain the essential information for project handling, e.g. project application, reporting, changes, first level control designation or day-to-day communication. From this point of view, it can be expected that the recommendation of the On-going Evaluation will be realised in the programme period 2014-2020.

Standardised tools for strategic and day-to-day project management

The interim report on “financial management and control setup at the programme and project level” recommends the online reporting system to provide additional standardised tools for strategic and day-to-day project management in order to facilitate efficient project steering and reporting. Therefore, the online reporting system should encompass smart analyses of data, including graphic analyses of project budgets, diagrams showing the relation between on-going activities and the attainment of milestones as well as the integrated monitoring of activities and budgets.

Referring to the information available on the programme’s website in the online reporting system, lead beneficiaries will be able to create a personalised ‘dashboard’ within the system in the programme period 2014-2020, which will include an overview of the project consortium, submitted reports, project changes, the status of report and request processing at the Joint Secretariat and payments received. In addition, the system will also enable communication with partners, the Joint Secretariat and other key project stakeholders. The new online monitoring system was only recently launched, so extensive experiences with the new system cannot be presented, yet. Nevertheless, the system should make sure to visualise the project status and achievements on budget and activities by means of diagrams.

Knowledge exchange

As recommended in the interim report on “financial management and control setup at the programme and project level”, the knowledge exchange between beneficiaries and projects should be supported by social media tools on the Interreg North Sea Region Programme’s website (e.g. discussion boards or web blogs), so as to build a community of practice. The knowledge exchanged via social media tools should be followed up on and eventually accompanied by the JTS.

The communication strategy for the programme period of 2014-2020 indicates the programme to enhance the strategic use of its social media channels. To a much larger extent than in 2007 – 2013, the programme will moderate and share relevant news and debates, rather than focusing on producing own material and stories.

In the programme period of 2014-2020, the North Sea Region Programme will support existing communities of practice in the region as well as encouraging the establishment of new ones. Therefore, one of the main objectives for communication in 2014-2020 is to support the project community by ensuring that project partners and stakeholders are informed of and have access to relevant tools and assistance needed. By acting as moderator and facilitator with the projects as co-creators, the programme will support existing and new communities of practice by arranging transnational networking events with room for user-driven workshops, speed dating sessions, etc. The Programme will furthermore build and support project clusters, map existing communities of practice and publish them on the programme’s website, provide audio-visual “e-guidance” training material to be taken up in the communities and actively facilitate knowledge sharing on



social media, e.g. by liking and sharing project communication and fostering the use of thematically related lists on twitter. Also, a common video sharing portal will be used to spread information and project results, e.g. by featuring project results videos in playlists created for each priority.

From this point of view, it can be expected that the North Sea Region Programme's approach to communities of practice follows the recommendation given in the On-going Evaluation.

Sample quality checks

The interim report on "financial management and control setup at the programme and project level" recommends the Joint Technical Secretariat (JTS) to carry out systematic sample quality checks, in particular for the first progress report of all projects. This would have a positive influence on both the quality of beneficiaries' subsequent reports as well as on first level controls throughout the projects' lifetime. These sample checks should concentrate on the most complex issues which bear the highest risk of irregularity (e.g. overhead costs, public procurement, and eligibility of costs). Thus, mistakes in the First Level Control (FLC) can be addressed as early as possible, hereby avoiding any subsequent errors throughout the projects' lifecycle.

In the period of 2007-2013, sample quality checks were carried out during the audit. The Annual Control Report 2013 confirms that sample quality checks are a helpful instrument to identify irregularities and to improve the quality of progress reports and, thus also, the quality of the NSR programme.

The Joint Secretariat plans to carry out a desk-verification of the material submitted by the Lead Beneficiary in the North Sea Region Programme 2014-2020. This approach and content of the verification will be described in the Handbook of Standard Procedures, which is subject to be approved by the Monitoring Committee. If relevant during the verifications, the Joint Secretariat will contact the individual beneficiaries and/or their first level controller for verification of any outstanding issues.

During the programme implementation, the Joint Secretariat will ensure that there are adequate quality control procedures in place when reviewing First Level Control reports. These measures are in line with the recommendations given in the On-going Evaluation. Nevertheless, the Joint Secretariat should pay attention to carry out sample quality checks, especially at the beginning of the programme, to have a positive influence on both the quality of beneficiaries' subsequent reports as well as on first level controls throughout the projects' lifetime.

On the spot verification

The interim report on "financial management and control setup at the programme and project level" recommends that the Joint Technical Secretariat (JTS) should proactively support the Member States to manage the scope of on-the-spot-verifications, which can be carried out by first level controllers at the project beneficiaries. For this purpose, the JTS should carry out a risk assessment to identify relevant cost items, which need to be controlled on the spot. Thus the JTS supports the Member States, which are responsible for the first level control on their territory, in the monitoring of the quality of the first level controls.



To carry out this risk assessment, the Annual Control Report is a helpful tool to identify cost items with a higher level of irregularities. According to the Annual Control report, error rates will be closely monitored at all stages of implementation of the programme in the programme period 2014-2020 and corrective action will be taken if error rates suggest systemic problems. In addition, the First Level Control reports of the projects will be entered into the online monitoring system by the Lead Beneficiaries. The online monitoring system is a technical tool that can help to identify and monitor irregularities within the project's reports. It is to be expected that these measures help the Secretariat in supporting the Member States to manage the scope of on-the-spot-verifications as recommended in the On-going Evaluation.

Regional FLC seminars

The interim report on "financial management and control setup at the programme and project level" recommends the regional seminars to be implemented regularly in all member states of the NSR Programme with a decentralised First Level Control (FLC) system. These FLC seminars could be implemented by the National Contact Points, which are more familiar with national regulations and should be obligatory for all FLC participating in the programme.

As stated in the Annual Control Report, the JTS has hosted a number of FLC seminars in conjunction with the member states. These seminars were implemented in order to keep the irregularities within the programme at a minimum. In addition to these seminars, a number of extraordinary regionally hosted FLC seminars were held in Flanders. The aim of the local seminars was to assist the national authorities in their efforts to improve the adherence to the regulations and rules of the programme. An additional control of four beneficiaries from Belgium-Flanders examined in July 2013 indicated that beneficiaries now adhere to the new instructions (implemented in 2012, e.g. enhanced FLC checklist or Guidance Notes on calculation of overhead costs, hourly rate, supplementary information on salary costs (see also page 7)), as no irregularities were identified.

It can also be concluded that the seminars have had a positive effect in this respect. Since the programme has only just started, no FLC seminars have been carried out in the new programme period, so far. The North Sea Region Programme 2014-2020 will discuss whether the FLC seminars should be obligatory for those members states with a decentralised FLC systems.

Overhead costs

The interim report on "financial management and control setup at the programme and project level" recommends the North Sea Region Programme to aim at decreasing the likelihood of incorrect reports on overhead costs by reducing its methodological complexity. The projects consider the reporting of overhead and staff costs as well as public procurement to be very complex when it comes to procedures and regulations. Most notably, the calculation and reporting of overhead costs based on real costs leads to considerable time consumption within the projects. Many beneficiaries strongly support the implementation of flat rates for overhead costs in the next programme period 2014-2020.



The Annual Control Report 2013 illustrates that the majority of the ineligible expenditure in 2013 is split between staff costs and overhead costs. In the programme period 2014-2020, all office and administration costs (overhead costs) will be reimbursed as a 15% flat rate based on verified staff costs. Based on the findings of the On-going Evaluation, this would not only lead to less workload by avoiding any irregularities, but also to wider acceptance of the reporting process on the part of the beneficiaries.



Overview of the realisation of the recommendations

The following table sums up the remarks above and indicates the realisation of the recommendations as given in the interim report on “financial management and control setup at the programme and project level” for the programme period 2007-2013 and the programme period 2014-2020. If the recommendation has been realised by the programme from the evaluators point of view it is highlighted by a symbol ✓ in the relevant column.

Recommendation given in the interim report in 2012	Realisation 2007-2013	Realisation 2014-2020
The online reporting system should be accessible to all project beneficiaries in order to facilitate the management of the reporting process within the project consortia. This would streamline the reporting at both the beneficiaries' and the project level.	-	✓
The online reporting system should provide additional standardised tools for strategic and day-to-day project management in order to facilitate efficient project steering and reporting (e.g. graphic analysis of project budget, diagrams showing the relation between on-going activities and the attainment of milestones).	-	✓
Knowledge exchange between beneficiaries and projects should be supported by social media tools on the NSR Programme's website to build a community of practice.	-	✓
The NSR Programme should aim to decrease the likelihood of incorrect reports on overhead costs by reducing its methodological complexity. Many beneficiaries strongly support the implementation of flat rates for overhead costs in the next programme period 2014-2020.	-	✓
The Joint Technical Secretariat (JTS) should carry out systematic sample quality checks , in particular for the first progress report of the projects. This would have a positive influence on both the quality of beneficiaries' subsequent reports, as well as on first level controls throughout the projects' lifetime.	✓	✓
The JTS should proactively support the Member States to manage the scope of on the spot verifications which are to be carried out by first level controllers at project beneficiaries. For this purpose the JTS should carry out a risk assessment to identify relevant cost items which need to be controlled on the spot.	✓	✓
Positive experience has been made with carrying out regional seminars for First Level Controllers . These regional seminars should be implemented regularly in all member states of the NSR Programme with a decentralised FLC system and should be obligatory for all FLC in future.	(✓)*	(✓)*

✓ = recommendation realised (✓) = recommendation partly realised - = recommendation not realised

* This recommendation is partly realised in the period 2007-2013 as the seminars were not obligatory for FLC. If the FLC seminars will be obligatory for FLC in the period 2014-2020 will be part of upcoming discussions of the Monitoring Committee.

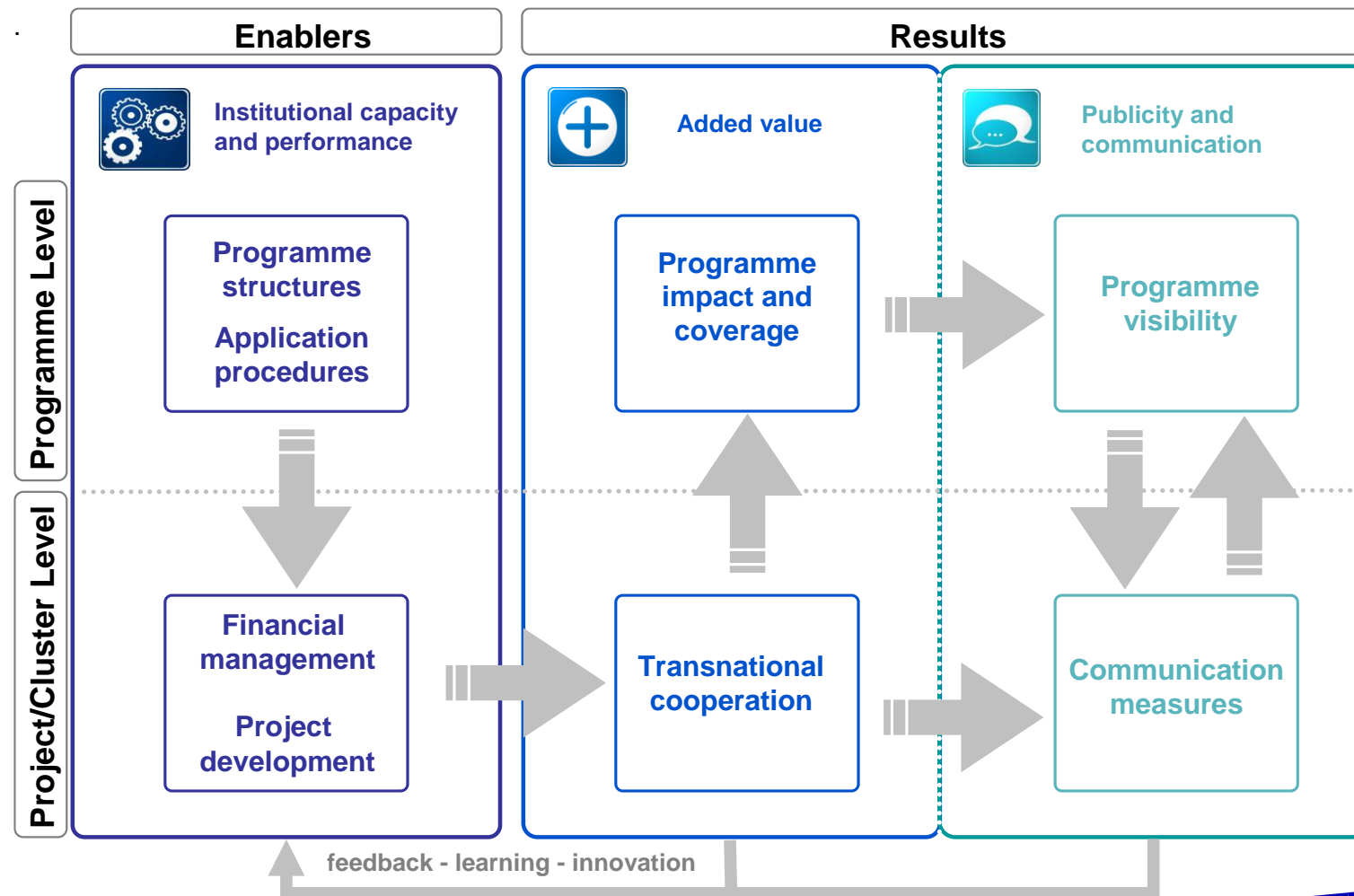
Table 1: Realisation of recommendations given in the interim report on “financial management and control setup at the programme and project level”

Source: Cooperation Programme North Sea Region 2014-2020, Annual Control Report 2013, North Sea Region website



Appendix A - Evaluation Model

The evaluation model adopts the EFQM (European Foundation for Quality Management) model approach as a starting point and applies it to the context of the programme evaluation. The key message of the evaluation approach is that any impact which occurs at the programme level is generated via the quality and effectiveness of the funded projects. This new paradigm focuses not only on stakeholders such as the Commission or regional administration, but also on the projects themselves as core customers of the programme management. Consequently, the programme should support the projects' work as strongly as possible, as so to enable them to manage their activities effectively



Source: DSN



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