

The European Union's IPA 2011 Programme for MONTENEGRO

Project: EuropeAid/131532/C/SER/ME

Capacity Building and Support to Local Self-Government for Implementation of Municipal Development Grants

# Fabio Drago

## FINANCIAL MANAGEMENT AND MONITORING OF EU GRANT PROJECTS



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# INTRODUCTION

Most of the EU grant projects are implemented by Organisations with relatively little experience in the rules of the European Union and therefore the administrative part of the project implementation is often perceived as an obstacle in between the project proposal and the achievement of the project objectives.

This manual aims at helping the grant beneficiaries to implement their projects. Two main issues are addressed inter alia in the manual:

The systematic collection of accounting documents (Financial Monitoring);

The Conversion of the collected accounting documents into interim and final reports;

In general, accounting is not perceived like an important managerial function and this is also true for commercial companies. Accounting is usually delegated by the grant beneficiaries to an accountant with experience in double bookkeeping who has not necessarily the experience to collect the accounting documents of the grant projects according to the budget lines and budget headings of each grant project. As a result, part of the costs supported by the organisations along the project implementation is not eligible and part of the budget of the project is not spent. In order to avoid this type of problems, it is necessary to collect the accounting information strategically, i.e. according to the EU rules on the implementation of the budget of the grant project. In this manual, the most relevant rules for the implementation of the budget of the grant projects are presented. Additionally, in chapters 2 and 3 of the manual a tool for the collection of the accounting documents and monitoring of the expenditures is presented. It is a user friendly programme on excel that can be used for each and every

grant projects. The peculiarity of this monitoring tool is that whatever is the budget of the grant project, the programme will provide timely information about the progress in the project implementation, eventual overspending and the possibility to correct it and a large number of data that are necessary for the preparation of the interim and final reports.

In the manual there are also instructions for the preparation of the interim and final financial reports. In the most recent versions of the Practical guide there has been an improvement in the way the above mentioned reports must be prepared, however there are still difficult issues to be addressed. In the manual, the combined collection of the relevant financial data and the instructions for their summary in the reports is carefully presented and therefore the work of the grant beneficiaries is considerably reduced.

A peculiarity of the manual is that it is prepared with very prudent assumptions. In this way the grant beneficiary will never be in the condition to justify an over estimation of one cost and therefore the risk of financial corrections or even worse the risk of irregularities is reduced to the minimum. In other words: the risk to spoil the reputation of the organisation because of an accounting mistake is close to zero. Data are properly and prudently collected and reports are based on data that would never over-estimate any cost.

This manual has been built on the basis of concrete examples and the templates included in the annexes have already been successfully used by several grant beneficiaries.

Finally a video-presentation of the entire manual is available under <https://www.youtube.com/channel/UCz8IG1KhsPhmGzxCysvkqTw> .

The author of the manual takes full responsibility for the contents of this manual. However, at the same time, he is very grateful to people in Montenegro that in the years 2010 – 2014 have made possible its elaboration and particularly to the grant beneficiaries of the Programmes on Municipal Development, for them and with them this manual has been elaborated.

**Fabio Drago**

Team Leader of the Technical Assistance Project supporting grant beneficiaries to implement municipal and inter municipal development projects in Montenegro

Podgorica, August 2015

# 1

# BUDGET IMPLEMENTATION

For the sound implementation of the budget of the grant contract, it is necessary to follow few basic rules. In the next paragraphs these rules are presented taking into account possible ways the budget of the grant beneficiary is prepared. It is worth to remind that very accurate grant budgets gives to the grant beneficiaries the possibility to score a better mark during the evaluation of the grant application, but accurate budgets reduce the freedom of the grant beneficiaries for the project implementation.

## 1.1 Budget Heading 1

First of all, it is necessary to officially appoint the members of the team in charge of the grant project implementation. The head of the organisation (or a delegated person) receiving the grant has to officially appoint the team members with an appointment letter establishing the role that each person is going to have in the project implementation. In case the Project Manager needs to be appointed with a special procedure (e.g. approval of the appointment by the municipal assembly), it is necessary to include the evidence of such a procedure to the appointment letter.

The personnel in charge of the implementation of the project is normally temporarily or indefinitely an employee of the organisations receiving the grant (grant beneficiary, partner, co-beneficiary), but in some cases the personnel in charge of the implementation of the project can be hired

with a service contract. In case one or more members of the project team are hired with a service contract, it is necessary that the procurement procedures included in the Annex IV of the grant contract are respected.

The level of the gross salary that can be paid to a member of the team in charge of the project implementation should not be higher of the salary that is normally paid (it can be a bit higher to take into account additional responsibility given to the employee, but in any case it must be in line with the level of salaries normally paid by the grant beneficiary for similar level of responsibilities).

Each member of the team in charge of the project implementation must fill in his/her timesheets (Annex 2) regularly, i.e. by the latest at the end of each calendar month. The timesheets should be filled with sufficient care to give other people the possibility to properly assess whether the time has been spent in an appropriate way.

The working days spent by each member of the team for the implementation of the grant project are the basis for the calculation of the salary that can be inputted as a cost for the grant project implementation. The calculation of the cost that can be inputted into the project is not very simple, grant beneficiaries are encouraged to use the file "Salary calculator and monitoring tool" available under Annex 1 to properly calculate the salary to be inputted. In the chapter 2, the use of the monitoring tool is explained. It is worth to anticipate that it is not sufficient that the days are spent in order to be claimed as a cost, it is necessary that the grant beneficiary pays the employee as well as all the institutions in charge of the social security, income taxation and so on.

In case of travels out of the basis of operation, the members of the implementation team are entitled to receive per diem (if these are budgeted). In this case, it is necessary that in the timesheet there is a specific reference to the place where the working activity took place (Please note: in some cases, depending on the type of activity, it can be necessary to have a report of the implemented activity too).

## 1.2 Budget Heading 2 and partially 4 (for the travel part)

In the case of Budget Heading 2 and of the part of Budget Heading 4 dealing with travel costs there are two main possible entries:

Either the grant beneficiary books travel costs using a public transport system;

Or the grant beneficiary uses a private car.

In case of travel done with a public transport system, the reimbursement of the cost is possible on the basis of the receipt for the payment of the ticket (train ticket, air plane ticket and boarding passes, bus ticket and so on).

In case of travels done with a car, there are three possibilities:

- The car has been rented;
- The car is of a team member;
- The car is of the grant beneficiary.

In case the car is rented, the calculation of the reimbursement can be easily done on the basis of the bills received from the renting company plus the bills for the purchase of the fuel. (without the part of the price related to excise and VAT if these costs are not eligible).

In case the car is of a team member, the reimbursement can be done on the basis of the number of kilometres multiplied for the current reimbursement price per kilometre. Of course, in this case it is necessary receiving a bill from the employee that has used the car specifying the number of kilometres done, the localities visited, the travel days, the car used).

In case the car is of the grant beneficiary, there are two alternatives:

- The car has been purchased within the grant implementation;
- The car belongs to the grant beneficiary.

In the first case, the grant beneficiary is entitled to the reimbursement of the cost of the fuel and therefore the reimbursement will be done against the bills received when the grant beneficiary buys the petrol (Please refer to the next paragraph in order to properly take into account the booking into the project of the VAT on the petrol). In the second case, the grant beneficiary is entitled to receive a reimbursement on the basis of the number of kilometres multiplied for the current reimbursement price per kilometre. In both cases, however, the grant beneficiary should have a log book of the car providing information about the travels, the number of kilometres, the day and so on (Annex 3). It is worth to point out a very important aspect of these alternatives. In all the cases, the reimbursement is calculated on the basis of cash expenditure except in the last case. In the last case the cost is inputted, but there is not a real cash expenditure associated to it (only cost estimation).

## 1.3 Budget headings with procurement (Budget headings 3, 5, 6 and in part 4)

In the manual “EU Procurement for Grant Beneficiaries”, the implementation of tasks requiring procurement is fully presented and therefore the readers are encouraged to refer to this manual for the implementation of any activity requiring procurement. In this chapter it is worth to remind the management of the VAT in the booking of these operations in the accounting of the project.

In each invoice there are always two parts: one part is the cost of the procured item and one part is the VAT. The cost of the procured item is always part of the direct cost while the VAT can follow three different paths:

- The VAT can be an eligible cost (in countries where the VAT is an eligible cost) and therefore to be included among the direct costs (it is usually not the case of the IPA countries);
- The VAT can be an accepted cost and therefore it can be reimbursed under budget line 12 of the Budget of the grant project;
- The applicant can be able to recover the VAT and in this case, the paid VAT is a credit with the national Tax Authority to be recovered as soon as possible by the grant beneficiary.

If the VAT is to be paid, the calculation of the VAT to be paid can be particularly complex. There are countries where the payment of the VAT can be entirely exempted, in these countries it is necessary to receive from the competent Tax Authority an exemption certificate. There are other countries (e.g. Montenegro) where only the VAT on the EU quota of financing is exempted. In these countries it is necessary to ask for a VAT exemption on the quota of cost financed by the EU. For instance, if the EU quota of the eligible costs is equal to 75% of the total cost, the VAT to be paid must be calculated on the remaining 25% of the cost of the procured item (for the 75% of the cost financed by the EU, it is necessary to obtain an exemption

certificate). In the everyday implementation of the grant projects, the reality is much more complicated. In particular it is not always possible to determine ex ante the final cost of a project. For instance, in the case of grant projects financing the realisation of infrastructure, the final cost of the infrastructure could be for instance 110 Euro (out of which additional 10 is fully financed by the grantee) and therefore the VAT to be paid would be equal to 25% for 100 Euro and 100% for 10 Euro ( $100 \text{ Euro} * 25% * 17\%$ <sup>1</sup> +  $10 \text{ Euro} * 17\% = 5,95 \text{ Euro}$ ). Moreover, payment of construction works is not happening in a single step, but per instalments and VAT exemption is calculated per each instalment. It results that on a monthly basis the VAT exemption is requested, but the percentage of the VAT exemption changes along the project implementation, it is for instance 75 % in the beginning, it is 0% in the end and in between there could be one invoice with a percentage of VAT exemption that is between 75% and 0%.

**Example<sup>2</sup> (Budgeted cost 100 Euro):**

First instalment: 20 Euro, Vat: 17% of 25% of 20 Euro, i.e. 0.85 Euro

Second instalment: 40 Euro, Vat: 17% of 25% of 40 Euro, i.e. 1.70Euro

Third instalment: 45 Euro, Vat: 17% of 25% of 40 Euro + 17% of 5 Euro, i.e. 2,55 Euro

Last instalment: 5 Euro, Vat: 17% of 5 Euro, i.e. 0.85 Euro

Total VAT 5.95 Euro

<sup>1</sup> VAT rate in this example

<sup>2</sup> Please note: in the example there is not a reference to the retention money that can make even more complicated the entire calculation, especially in case the VAT rate changes in the middle of the project implementation.

## 1.4 Budget heading 4 (except items with procurement and travels)

The only item in Budget Heading 4 that has not yet been addressed is the renting of premises. In case the grant beneficiary needs to rent office premises it is necessary a bit of attention for the determination of the renting cost and for the eventual VAT. The renting cost must be in line with the market of the place where the premises are rented and the grant beneficiary should always be able to demonstrate that he/she did a careful market research before renting the premises. Additionally, in case the premises are rented by a company that rents premises as its main economic activity, it may be necessary to calculate the VAT on the renting of the premises. The VAT exemption in this case should be addressed as it was explained in the previous paragraph.

## 1.5 Budget Heading 10 – Indirect costs

The use of the resources that are available under Budget Heading 10 – Indirect costs (also called Administrative costs) requires a special attention. First of all the amount that is indicated in the budget is not in the availability of the grant beneficiary since the beginning of the project implementation. Its use in fact is associated to the implementation of the Budget headings related to the direct costs. If 100% of the direct costs are spent, the grant beneficiary gain the right to use 100% of the resources allocated under Budget Heading 10. In case there is a partial use of the resources allocated to finance the direct costs, the use of the resources under Budget Heading 10 will have to be reduced proportionally. The use of the Administrative costs does not require invoices to be justified, however that does not mean that these resources can be used for activities that are not related to the project implementation. The Contracting Authority can in fact ask to the grant beneficiary to justify the use of these resources.

## 1.6 Budget Heading 8 – Provisions for Contingency Reserve

This is a budget line that under a contractual point of view presents some difficulties and peculiarities. First of all, in the budget of the grant contract it has a similar description of Budget Heading 10, in both cases these are percentages (in the case of Budget heading 10 it is a percentage of the Total Direct Eligible Costs and in the case of the Budget Heading 8 it is a percentage of the Direct Eligible Costs), however in the case of the Contingency reserve the resources allocated in the budget are a fix amount that is independent from the direct costs that have been spent. The use of the Contingency requires a written approval from the Contracting Authority. This expression is a bit ambiguous, in fact it does not clarify whether the written approval can be given by "Operations" or it needs the involvement of "Finance, Contract and Auditing" Section. In other words, it does not specify whether there is the need to make an addendum to use these resources or a generic written approval is sufficient. In a recent (September 2013) interpretation of the General Costs published by DEVCO, it is stated that any use of the Contingency Reserve above the threshold of 25% needs an addendum (Taking into account the structure of article 9 of the General Conditions, it is clear that the reference to a 25% threshold refers to budget lines within budget headings 1 to 6). This is an important clarification that may lead to interpret the written approval as a kind of Administrative order any time that the use of the contingencies is below the threshold established by article 9.2 (old Practical Guide) or 9.4 (new Practical Guide) and as an Addendum in all the other cases. In general, we discourage the grant beneficiaries to include any contingency reserve in their budget and to use the under-utilised direct costs according to article 9 of the GC.

## 1.7 Additional hints for financial management

1. First of all it is necessary to fill in the timesheets regularly, i.e. by the latest at the end of each month.
2. As soon as the number of working days in each month is determined (by filling in the timesheets), it is necessary to include the number of worked days in the “Salary calculator tool – Annex 1 sheets 1 to 25”
3. As soon as the salary is paid, the data about the gross, net and social security should be inserted in the “Salary calculator tool”.
4. In some cases, the social security is paid with few months of delay. As soon as the social security is paid, it is necessary to insert it in the “Salary calculator tool” (you have to switch the unpaid part of the gross salary – column JK - into the paid part of the gross salary – column HI) and up-date the financial monitoring tool.
5. If the payment of the social security is taking place after that you have submitted to the DEU your interim report, you are kindly requested to re-calculate the paid salaries taking into account the payment of the social security and to inform the Contracting Authority as soon as you submit your next report.
6. Any time that you buy something that is financed by the project (a service, a computer, a commemorative plaque, and so on), you are kindly requested to record in the monitoring tool the payment that you have done with the paid VAT. **The recording of the payments MUST be done immediately after that the bank transfer has been requested.** You are also requested to start the VAT exemption procedure, unless you decide to pay 100% of the value of the VAT. In the case of the grant beneficiaries that have received the grant in 2011 or later, the paid VAT

MUST be recorded in column N of the sheet “Main ledger” in the monitoring tool presented under Annex 1 “Salary calculator and monitoring tool”.

7. If you follow the above mentioned instruction, you will be able to properly deal with the preparation of the Interim reports as well as with the notifications according to article 9.2. (Till PRAG 2012) and article 9.4 (from PRAG 2013 on).



# 2

## FINANCIAL MONITORING TOOL

**In this paragraph the Financial Monitoring tool is presented. In order to properly use this instructions, it is necessary to have in the monitor of the computer the excel file included in the Annex 1 “Salary calculator and monitoring tool” plus the electronic version of the budget of the grant contract to be implemented.**

In Annex 1 “Salary calculator and monitoring tool”, the Monitoring tool is available. It can be split in three parts:

1. The salary calculator (Sheets 1 to 25);
2. The monitoring tool including the sheets “original budget and revision” and “Main ledger”;
3. The monitoring tool including the sheets “Procurement plan” and “Procurement Monitoring”.

The third part of the Monitoring tool will be described in a separate chapter, while this paragraph will concentrate its attention on the first two parts that are related to the financial aspects of the project implementation, i.e. the “Financial Monitoring tool”.

The Financial Monitoring tool is structured as follows:

In the sheet “Original budget and revisions” there are seven columns as follows:

- Budget lines (column B);
- Original Budget + Addenda + Contingencies reallocation (column C);
- Original Budget + Addenda + Contingencies reallocation + amendments according to art. 9.2 or 9.4 (column D);
- Spent Budget (column E);
- Approved EU Budget (column F);
- Spent EU Budget (column G);
- Overruns in EURO and Budget headings’ Deviations in % (column H).

The grant beneficiary in order to start the financial monitoring of the project should execute the following operations:

He/she should copy and paste in column B of the sheet “Original budget and revisions” the titles of the budget lines as per approved budget of the grant project (Column A of the budget included in the grant contract). Please note: this operations cannot be done in a single “copy and paste”. It is preferable to copy and paste few cells each time in order not to jeopardise the structure of the monitoring tool;

He/she should copy in column C and D of the sheet “Original budget and revisions” the contents of the column E of the approved budget of the grant project. Please note: this operations cannot be done in a single “copy and paste”. It is preferable to copy and paste few cells each time in order not to jeopardise the structure of the monitoring tool;

He/she should insert in cell G5 of the sheet “Original Budget and revisions” the **percentage of the eligible costs** as per approved budget by the EU (please refer to the special conditions of the grant contract);

He/she should pay a special attention when inserting the value of the Administrative costs (Budget heading 10). In this case, he/she should not insert a value but the following operation: percentage of the Administrative costs approved by the Contracting Authority (please refer to the special conditions of the grant contracts) multiplied by the Budget heading 9 "Total direct eligible costs of the Action";

Finally, it is necessary to insert column C and D, under budget line 12, the value of the taxes (VAT).

Once that the above mentioned operations have been executed, the general structure of the Financial Monitoring tool is ready to be used.

In order to input expenditures in the monitoring tool, it is necessary to use the sheet "Main ledger" or the sheets 1 to 25 for the calculation of the salaries to be booked. Please note: all the expenditures except those related to the salaries are inputted by using the sheet "Main ledger".

Please note: the structure of the "Main ledger" and of the "Salary calculator" are practically the same, except for the fact that in the case of the "salary calculator" there is a tool for the calculation of the salaries to be booked in the project accounting that is embedded in the sheet (Columns B to Q) and summary data to be used for the preparation of the Interim and final report (Columns Z to AC).

## 2.1 Use of the sheets 1 to 25 "Salary calculator"

The salary calculator is articulated in 25 sheets. Each sheet is dedicated to a member of the team (it is expected that only few of these sheets are used, normally there are no more than 10 members in a project team). Please note: Cells B14, B15 till B39 of the sheet "Original budget and revisions" are linked to the sheets of the "Salary calculator" and therefore in automatic the position included in the cell B14 is copied in the sheet 1 "Position in the project", the cell B15 is copied in the sheet 2 "Position in the project" and so on. Considering that each sheet is dedicated to a staff member, it is necessary to fill in per each member of the project team the information required under rows 3 (name and surname of the team member), 4 (budgeted monthly salary of the team member), 5 (budget line as per budget of the grant contract) and 6 (duration of the engagement in months).

In order to feed the monitoring tool, the first operation to be implemented by each team member is the timely preparation of his/her timesheet. The timesheet should be filled in daily, and at the end of each month the team member should sign it and having it countersigned by his/her supervisor too. The signed timesheet should be then delivered to the financial manager of the grant project. The financial manager of the grant project, as soon as executes the payment of the salaries of the team members, should fill in the following information in the salary calculator and monitoring tool:

Month and year for which the team member has filled in the timesheet;

Gross salary as per salary slip;

Net salary paid to the team member;

In columns HI and JK the financial manager should provide information about the difference between the gross and the net salary. The quota that has been paid to the competent organisations should be included

in column HI and the quota that has not been paid to the competent organisations should be included in column JK. Please note: usually the difference between gross and net is paid to the competent organisations, as it is prescribed by the General Conditions of the grant contract. However, in some cases, this is a particularity for Montenegro; there is a delay or even a long delay in the fulfilment of these obligations.

In the column LM, the financial manager can give narrative short explanations about the salary payment.

In column NO, the financial manager should include the number of worked days as per timesheet.

In column P there is the salary to be booked. The calculation of this salary is done automatically by the programme and it is also automatically transferred to the sheet "Original Budget and revisions".

Column Q is used to verify the correctness of the executed operations. If the operations are correct, the control number is equal to "0". If the control number is different from "0" it means that part of the gross salary has not been properly allocated and it is necessary to check for mistakes in the inserted numbers.

Once that this part of the calculation is completed, the financial manager should input the most important administrative information, i.e.:

Number of the payment slip (Column R);

Issuance date of the payment slip (Column S);

Number of the bank payment order (Column T) Please note: it is possible that more than one payment is necessary to be inserted per each salary. This is due to the fact that payments are done to different subjects (the team member, the Tax Authority);

Date of the bank payment order (Column U) Please note: it is possible that more than one date is necessary to be inserted per each salary. This is due to the fact that payments are done to different subjects (the team member, the Tax Authority);

Column V is filled in automatically;

The InforEuro exchange rate of the month in which the payment has taken place (Column W). In the case of Montenegro this is always equal to 1, but in other countries it depends on the fluctuations of the exchange rates. Please note: In case of payments executed in different months (e.g. the net salary in one month and the social security in another month) it is necessary to calculate the InforEuro exchange rate through a weighted average.

All the other columns (X, Y, Z, AA, AB, AC) are filled in automatically and are important for the preparation of the interim and final report.

## 2.2 Use of the sheet Main ledger

In the sheet Main ledger all the implemented expenditures (except those related to the salaries) must be recorded. In column B there are all the budget lines included in the budget of the grant project (the budget lines are copied automatically from column B of the sheet Original Budget and revisions). Each time that an expenditure is carried out, it is necessary to record this expenditure in the main ledger in the correspondent budget line. It is assumed that the expenditure is always authorised at least by the Project Manager and eventually countersigned by his/her supervisor and that the payment is done by the financial manager on request of the Project Manager and eventually of his/her supervisor. One way or the other, the expenditure is authorised by one team member and the payment is carried out by another team member. In any case, the financial manager of the project should fill in the following fields of the main ledger per each payment.

Description of the operation (column C), for instance: payment of the per diem to the employee X, payment of the supply to the contractor Y and so on.

Number of the invoice or of the bill (column D);

Date of the invoice or of the bill (column E);

Name of the supplier (column F);

Number of the bank payment order (Column G);

Date of the bank payment order (Column U);

The value of the payment in the used currency (In Montenegro it is usually in Euro, unless a payment is done to a foreign organisation using a different currency) (column I). Please note: you have to insert the value

of the payment including the paid VAT if any. For instance, if the invoice is 100 Dinari plus 3 Dinari for the VAT to be paid, the payment will be equal to 103 Dinari and therefore you will insert in column I a payment of 103 Dinari.

The Infoeuro exchange rate of the month in which the payment has taken place (Column J). In the case of Montenegro this is always equal to 1, but in other countries it depends on the fluctuations of the exchange rates (Please refer to the InforEuro).

Columns K, L and M are filled in automatically and automatically will transfer the relevant information to the sheet Original budget and revisions.

The paid VAT if any must be included in column N. In the example used for column I, the VAT to be inserted is equal to 3 Dinari.

Column O is filled in automatically and is the VAT in Euro.

## 2.3 Use of the Financial Monitoring tool

The financial monitoring tool aims at providing useful information to the grant beneficiaries for the correct implementation of their grant projects. In this paragraph the main useful features of this tool are presented.

**Overruns** - In the sheet Original budget and revision, in column H, the overruns and the budget headings' deviations are highlighted. In case the grant beneficiary spends more than budgeted, in column H, in correspondence of the concerned budget line, the value will become negative and therefore the grant beneficiary is informed that he/she has not to book anymore any cost on that specific budget line as well as that at the earliest occasion he/she has to increase the resources in that specific budget line using the savings of other budget lines. Another important information that is available in Column H can be read in the intersection with the subtotals. As soon as the value of this intersection is negative there is an overrun in the use of the resources of the budget heading. The overrun must be within 15% (call for proposals launched till the end of 2012) or within 25% (call for proposals launched after 01.01.2013) in order to be corrected with a notification according to article 9.2 (call for proposals launched till the end of 2012) or article 9.4 (call for proposals launched in 2013).

**Budget amendments** – In case it is necessary to amend the budget, the amendment must be included in the sheet "Original Budget and revisions". Any time that an amendment is done with an addendum (addendum according to article 9.1 or reallocation of contingencies), the new budget must be inserted in columns C and D of the Monitoring tool. In case the budget is amended according to article 9.2 (call for proposals launched till the end of 2012) or article 9.4 (call for proposals launched in 2013), the new budget must be inserted only in column D. This special approach is necessary in order to have correct information in column H. In case the budget is amended with a notification according to article 9.2

or 9.4 there will be a difference between the values included in Column C and in Column D. It is evident that implementation of each budget line will have to be done according to the value included in Column D, however Column C (mainly the total of each sub heading) is very important because it is linked to the calculation of the percent of overruns that can be corrected with a simple notification.

### **Preparation of the interim and final financial reports**

The preparation of the interim and final financial report is presented in another paragraph. However, it is worth to remind that the Financial Monitoring tool provide all the data that are necessary for the preparation of these reports. Please note: in the sheets for the calculation of the salaries, in the columns X, Y, Z, AA, AB, AC there is the set of information that is necessary to prepare the interim and the final report that in the case of the salary calculation has always been particularly lengthy.

# 3

# PROCUREMENT MONITORING TOOL

## 3.1 Introduction

**In this paragraph the Procurement Monitoring tool is presented. In order to properly use these instructions, it is necessary to have in the monitor of the computer the Annex 1 plus the electronic version of the budget of the grant contract to be implemented. The use of this tool is relevant only in case the budget of the grant contract includes major items to be procured. In case most of the budget is concentrated in Budget Headings 1 and 2, the monitoring of the procurement activities is not relevant.**

In the Annex 1 “Salary calculator and monitoring tool” there are the sheets “Procurement plan” and “Procurement Monitoring”. These two sheets are the relevant ones for the implementation of the monitoring of the procurement activities.

The monitoring of the procurement activities is particularly important in case the budget of the grant project includes one or more major procurement activity. In this type of projects there is a discrepancy between progress of the activities and progress of the expenditures. Let’s say that under a financial point of view implementation of the project is quite late if compared with the activity implementation. Such a delay is due to the fact that activities requiring procurement (mainly in the case of open or negotiated procedures) must be implemented much earlier than the related payments.

## 3.2 Procurement Plan

The procurement Plan is an important document to be prepared at the beginning of the project implementation. It is not a standard document requested by the Contracting Authority, but in case the special conditions of the grant contract request its preparation, this document (together with the audit trail) is very important in order to avoid that part of the spent resources along the project implementation may be considered as not eligible ones. The grant beneficiary before starting the project implementation presents to the Contracting authority the list of all the procurement activities to be implemented, the list of the budget lines that need to be aggregated in one tender dossier and the budget lines that needs to be split before being implemented. The grant beneficiary in implementing this activity reduces the risk that part of the supported costs may be considered as not eligible because the selection of the procurement procedure is wrong (this aspect is particularly important after the publication of PRAG 2015). The preparation of the Procurement plan presents additional positive features that will be presented together with its analytical description.

In the sheet Procurement Plan there are the following columns to be included:

Name of the tender to be launched (column A)

Budget lines to be included in each tender (column B). One or more budget line may be included in each tender. For instance in the case of supply (budget heading 3 of the grant contract) there are often items that can be bought from the same supplier and therefore it is necessary to aggregate all these items in one tender (the expected final value of the contract will determine the type of procedure to be used);

The type of contract to be used (column C). There are three types of contract and therefore it can be either Services, of Supplies or Works.

The procurement procedure (column D) that depends mainly from the expected value of contract and that is clearly prescribed in the Annex

IV to the grant contract. Please note: the procurement procedures are clearly described in the manual “EU Procurement for Grant Beneficiaries”. Please note: in some cases for the implementation of a budget line it is necessary to use two or more procurement procedures (e.g. if there is a budget line for the procurement of advertisement services from local media and there are several tenders to be announced in different periods of the project implementation, it is clear that only one procedure is not sufficient. In these cases, it is necessary to split the budget lines in 2 or more tender dossiers as well as to explain it in the Procurement Plan.

The total value (column F) is equal to the budgeted one. In case the tender is the result of an aggregation of budget lines, their sum is the total value.

The time schedule (column G) aims at helping the Project Manager to programme the project implementation. It is split in two entries, one entry for the launch of the tender and one entry for the expected date for the signing of the contract.

The structure of budget line implementation (column H) aims at providing information about the activities included in the grant applications that will be implemented through each tender.

Any special comment justifying the selection of a procurement procedure or other features of the planned procurement must be included in column I. For grant projects financed by call for proposals launched after the 15 of July 2015, the column I can be used to include the market analysis (if ready at the beginning of the project) elaborated for the selection of the tenderers to be invited in tender that are not implemented with open procedure.

Once that the Procurement Plan is ready, it must be delivered to the Contracting Authority for its own considerations.

### 3.3 Procurement Monitoring

The execution of the procurement monitoring is a very simple activity. The procurement monitoring sheet is one of the sheets of the file Salary calculator and Monitoring tool. The content of most of the column (A to F) is automatically copied from the Procurement Plan. The data to be inserted are as follows:

The date (month and year) when the tender has been launched (column G);

The date (month and year) when the contract has been signed (column H);

Columns I to N include six periods. A period may last 3 months as well as 4 or six months. The length of the period may be decided by the grant beneficiary (in case of self-assessment) or can be decided with the TA team or with the Contracting Authority if the procurement of the monitoring activities is under the supervision of the TA team or of the Contracting Authority (or both). However, any time that a tender is launched within one implementation period, the Project Manager will insert in the corresponding column (columns I to N) 0,5. Any time that a contract is signed within one implementation period, the Project Manager will insert in the corresponding column (columns I to N) 0,5. Any time that launch of a tender and signing of a contract are implemented within one implementation period, the Project Manager will insert in the corresponding column (columns I to N) 1. In case of tenders implemented continuously, like for instance translations or publication of advertisement and so on, the Project Manager will insert in the corresponding column (columns I to N) a number that is proportional to the value of the tender in relation to the total value to be tendered. For instance: in case the total value to be tendered is 10,000 Euro to be implemented in three tenders of similar value, the grant beneficiary will insert 0,017 (0,5/3) each time that one tender is launched and 0,17 (0,5/3) each time that a contract is signed.

At the bottom of the Procurement monitoring, it is possible reading the outcome of the monitoring activity, as follows:

Planned procurement since the beginning of the project (column BC);

Procurement implemented since the beginning of the project as a percentage of the procurement that had to be implemented (columns DE);

Procurement implemented since the beginning of the project in Euro;

Value of the procurement activities that have been delayed (column HIJK);

Procurement implemented since the beginning of the project as a percentage of the total procurement to be implemented with the project (columns LMN).

Finally, at the very bottom of the table there is the possibility to write comments and explanation on the delayed activities.

All these lines at the bottom of the Procurement Monitoring Sheet are populated automatically except the Column BC "Planned Procurement Value (In EUR)". This column will have to be filled in by the grant beneficiary as follows: in each cell from B42 to B47 it is necessary to insert the amount of procurement activity that is expected to take place in the period indicated in the Column A and in the previous period(s). This operation is carried out by taking into account the information included in Column E and in Column F. Each time that one tender is expected to be **launched** in a certain period, it will be necessary to insert in the corresponding cell the expected value of the tender multiplied by 0.5. Each time that one tender is expected to be **contracted** in a certain period, it will be necessary to insert in the corresponding cell the expected value of the tender multiplied by 0.5. The value obtained in this way must be added to the value of the cell below. The value resulting in the bottom of Column BC, row 47 must be equal to the value resulting on the bottom of column E, row 39.



# 4

## NOTIFICATIONS ACCORDING TO ARTICLE 9.2<sup>1</sup>, ADDENDA<sup>2</sup> ACCORDING TO ARTICLE 9.1<sup>3</sup> AND USE OF CONTINGENCIES ACCORDING TO ARTICLE 14.3 OF THE GENERAL CONDITIONS

Article 9 of the General Conditions deals with the amendment of the grant projects. Minor amendments can be done with simple notification, while in the case of the major changes it is necessary to make an addendum. Expected overruns in budget lines included under the direct cost may be addressed through the use of the contingencies.

It is very important to point out an aspect that is of fundamental importance in order to avoid problems with the eligibility of the expenditure: the timing. In this paragraph the timing will be presented according to the contents of the General Conditions, however the Practical Guide gives a bit more of freedom to the Contracting Authority to apply a more elastic approach, however the use of a more elastic approach is discretionary and therefore the grant beneficiaries should not rely on it. Moreover, the expenditure verification is done on the basis of the contract and not on the basis of the Practical Guide and therefore for the grant projects with a value above 100,000 Euro it can be problematic to convince the auditor to disregard the contents on the grant contract.

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**1** In this paragraph we refer to article 9.2 of the old General Conditions, however we intend to refer to article 9.4 of the new General Conditions too.

**2** Only cases requiring budget amendments. Addenda aiming at obtaining a no cost extension are not presented in this paragraph.

**3** In this paragraph we refer to article 9.1 of the old General Conditions, however we intend to refer to article 9.1, 9.2 and 9.3 of the new General Conditions too

In case there is a minor overrun, the grant beneficiary needs to notify it to the contracting authority. According to the article 9.2 the notification should be done “without delay”, however we always encourage the grant beneficiaries to avoid too many notifications of minor importance and also we encourage the grant beneficiaries to wait till they are able to identify the budget lines with savings that can be used to compensate the overruns . The addenda, on the contrary of the notifications according to article 9.2, cannot address activities that have already taken place, the addenda require to be first approved by the Contracting Authority and then they “enter into force” (article 9.1 of the General Conditions<sup>4</sup>).

In general, in case there are overruns or there is the need to modify the description of a budget line, grant beneficiaries are encouraged to put forward the notification according to article 9.2 before sending their interim reports (in case the overruns are not covered before the presentation of the interim reports, it is complicated to correctly represent the forecast budget for the next period). However, in case the grant beneficiary is informed that its project is going to be audited, in order to facilitate the relationships with the auditor, the grant beneficiary is encouraged to amend its budget with a notification according to article 9.2 in order to make it as close as possible to the reality. It is just a smart approach; whoever is going to be controlled has all the interest to present its situation in the clearest possible way.

A special attention is required in case of addenda modifying the budget of the project. Please remind that amendments of the budget according to article 9.1 enter into force after the approval of the addendum by the Contracting Authority (the approval can be given in one day as well as in one month). In some cases, before putting forward an addendum, it is necessary to first amend the budget according to article 9.2 (notification) and then put forward the addendum. Such an approach is necessary any time that there are overruns. In the Annex 4 there is an example showing this situation that is more frequent than expected. Please look at the budget lines 6, 19, 20, 22 and 23 of Budget Heading 3, Equipment and

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<sup>4</sup> Please note: the Practical Guide establishes that an ex post approval of an addendum is possible too, however such an approach is not reflected nor in article 9 of the General Conditions of the grant contract and neither in article 14 on the eligibility of costs (costs to be eligible must incur after the signature of the contract and considering that the addendum has the same legal value of the contract this principle could be extended to the signing of the addenda too. In other words, considering that the expenditure verification is carried out by the auditor on the basis of the contract and not on the basis of the Practical Guide, it is safer implementing the grant project on the basis of the contractual clauses.

supplies". In the original budget approved at the moment the grant was awarded these budget lines were underestimated (first set of columns). The final budget the grant beneficiary would like to have through an addendum is represented in the third set of columns. However, before the addendum, it is necessary to amend the budget according to article 9.2. If the grant beneficiary does not put forward the notification presented in the second set of columns, the overruns for the budget lines 6, 19, 20, 22 and 23 will not be covered by the addendum. This happens because the auditor in its revision of the budget implementation would check the dates of the contracts and of each invoice against the budget that was valid at that time and therefore would find out that at the time the expenditure occurred the budget was not yet approved and therefore the overruns would not be eligible (The budget proposed in the first set of columns is valid but underestimated for the above mentioned budget lines and the budget proposed in the third set of columns is adequate but not valid at the time the activities were implemented). On the contrary, in case the budget amendment according to article 9.2 had been put forward before the addendum, the overruns are going to be covered by this notification (that according to article 9.2 can be done after the cost has been supported) and therefore the auditor should consider them as valid ones. Target achieved!

Finally, in the case of the Contingency reserve, the grant beneficiaries are encouraged to consider its use with almost the same modality used for the addenda (a written approval is requested). However, the article 14.3 of the General Conditions gives to the grant beneficiaries a bit more of freedom about the timing. For additional explanations, please refer to chapter 1.



# 5

## HINTS FOR THE PREPARATION OF ADDENDA, USE OF CONTINGENCIES AND NOTIFICATIONS AS PER ARTICLE 9.2<sup>1</sup>

### 5.1 Presentation of Annex 5 – Excel file to be used for budget amendments

For the preparation of the budget amendments, it is sufficient to follow few recommendations.

Columns A, B, C, D and E must be copied and paste either from the budget approved by the Contracting Authority or from the last approved addendum or approved use of contingencies (only in case the approval of the use of the contingencies has been carried out as an addendum and not as a simple written approval).

The columns G, H, I and J should be used to draft the new budget of the project. Of course, most of the existing budget lines will be the same like in the old budget, but on a certain number of budget lines there will be differences (this is the reason why we amend the budget!). It can also

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<sup>1</sup> In this paragraph we refer to article 9.2 of the old General Conditions, however we intend to refer to article 9.4 of the new General Conditions too.

happen that we will have new budget lines or that we will erase budget lines (i.e. we amend Column A).

In case of reallocations according to article 9.2, we can amend only the direct eligible costs and therefore the "Subtotal direct eligible costs of the Action" in the original budget and in the amended budget are the same" and the budget lines 8, 10 and 12 cannot be amended. In column K there are control cells to verify that the variation of each budget heading is within  $\pm 15\%$  (for the calls launched no later than 31.12.2012) or within  $\pm 25\%$  (for the calls launched after the 01.01.2013).

In case of amendments in the form of addenda, the changes can be more profound; however the budget lines 12 and 13 cannot be amended.

In case of use of contingencies, the changes will address exclusively budget line 8 and the budget lines/budget headings receiving the contingencies (Budget lines within budget headings 1 to 6). However, in case of amendment of the budget addressing at the same time the use of the contingencies as well as major changes requiring an addendum, all the budget lines may potentially be amended with the exclusion of the budget lines 12 and 13.

As soon as the new budget is ready, it is possible to fill in the column F. In this column it is necessary to insert the variation of each budget line. This column is populated by subtracting column E from column J (each increase of a budget line will be recorded with a positive sign and each reduction will be recorded with a negative sign). There will be in this column positive and negative values, their sum at the bottom line level will be equal to zero.

Any amended budget line and any new budget line should be in a different colour from the rest of the budget, the red colour is proposed.

## 5.2 Hints for the preparation of the narrative explanation

Amendments require a narrative explanation. Grant beneficiaries should always try to prepare explanations proportional to the importance of the amendment.

In the case of the addenda and contingencies, the grant beneficiaries should prepare a request, while in the case of amendments according to article 9.2 (or 9.4 in the new editions of the PRAG), it is sufficient a simple notification<sup>2</sup>. In any case, grant beneficiaries should include in the narrative explanations the following information:

1. A summary of all the amendments already submitted to the Contracting Authority. Per each amendment, it is necessary to include the date(s) and the budget lines that were amended (eventually by including a summary table of the amended budget lines);
2. A description of the reasons in favour of a budget amendment;
3. A summary table showing all the budget lines that should be amended.
4. In case of addenda, it is necessary to include in the request a summary table including all the tenders that have already been carried out, including: Tender no, Tender title, Procedure (e.g. single tender, local open and so on), Tender closing date and Status (e.g. contract signed, cancel, on-going and so on).
5. In case of addenda, it is necessary to include as annexes the most important parts of the contract that are amended. Very often, it is necessary the old and the new Action Plans and a new Log-frame.

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<sup>2</sup> Please note: when preparing the final report the variations of expenditure will have to be justified and therefore the explanations included in the notifications will be used twice. In other words: if you prepare clear notifications, the preparation of the final report will require less work.



# 6

## INSTRUCTIONS FOR THE PREPARATION OF THE INTERIM FINANCIAL REPORT

(PLEASE REFER TO THE FINANCIAL REPORT ATTACHED TO YOUR GRANT CONTRACT UNDER ANNEX VI)

### 6.1 Sheet: Forecast budget & follow up

Columns A, B, C, D and E: Please copy from the original budget approved by the Contracting Authority the data related to the year 1 (in the budget approved by the Contracting Authority, the columns A, F, G, H, I). Please be aware that this budget by the time the interim report is prepared could be senseless, however it was your forecast included in the proposal.

Column F is relatively easy to be prepared, if you have filled in the monitoring tool (see Annex 1 “Salary calculator and monitoring tool”). Per each budget line, you should be able to read the amount of money that has been already spent (Column E of the sheet “Original Budget and Revisions” in the Annex 1 “Salary calculator and monitoring tool”).

Columns G, H, I and J should include your forecast for the following period, i.e. till the end of the project in most of the cases (most grant projects do not last more than two years). **The calculation can be done in different ways.** A possible procedure is as follows:

1. Column J is obtained by subtracting from column E + F of the sheet Interim report the value of Column F of the sheet Forecast budget & follow up ( Please note: Columns B to E of the sheet Interim report

are clustered under the title “Budget as per contract/rider or addendum”. Grant beneficiaries are encouraged to interpret this title as “Budget as per contract/rider/used contingencies. This reading is in line with the Practical Guide published in 2013).

2. Column I is mainly copied from column D of the sheet Interim report, however there are few aspects to be taken into account:

A) For the expenditures that have not yet been done, there is no reason not to use the estimated unit price;

B) For the expenditures that have been completely carried out, there is not a residual budget to be spent in the following period and therefore they will not play any role;

**C) For the expenditure that are on-going (in part implemented and in part to be implemented), there are mainly six possible scenarios:**

- The unit price of the already implemented cost is equal to the unit price originally included in the budget. In this case there is no reason to modify it.
- The unit price of the implemented cost is lower than the unit price originally included in the budget. In this case either the number of units for the following period needs to be increased (if it makes sense) or before sending the interim report it is necessary to make a reallocation with notification;
- The unit price of the implemented cost is higher than the unit price originally included in the budget. In this case it is recommended to carefully consider whether it is necessary to make a reallocation with notification. Most probably it is the preferable solution;
- The real unit price of the item to be procured is different from the one indicated in the column D of the interim report. This happens any time that a reallocation occurred. In this case, the unit price should be recalculated by dividing the total cost indi-

cated in the modified budget according to article 9.2 (old Practical Guide) or article 9.4 (new Practical Guide) by the number of units to be procured.

- In the case of supply and works contract the payments are taking part in instalments and therefore it is necessary to consider the unit price taking into account the above considerations and modifying accordingly the unit price, if necessary.
- In the case of the salaries, taking into account that the income tax and the social security can be paid few months later the salary and therefore the paid salary could be in a reporting period but the accrued income tax and social security could be paid out in another period, it is necessary to calculate the residual salary to be paid by assessing the expected total cost. If necessary, the monthly salary for the following period may be increased (providing justification in the narrative report, but without a notification according to article 9.2 that would increase the average unit price) considering that in the budget of the grant project there are by definition average prices.

If the above remarks are taken into account, the entire structure of the budget should result again balanced.

3. Column H is obtained by dividing column J by column I.

In case such procedures generates “strange” numbers<sup>1</sup>, it is necessary to look with a bit of care to the budget and to make, before sending the interim report, at least a reallocation according to article 9.2. Such a reallocation will modify the value of column J and consequently of column H<sup>2</sup>.

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**1** Please consider the case of a project where the use of the human resources has been much lower than expected. As a consequence the input for the following period could include more monthly salaries than months missing to the end of the project. In cases like this one, it is necessary to correct the structure of the budget of the project (reducing the budget of the human resources with a notification as per article 9 of the General Conditions) before finalising the interim report.

**2** Please note: most of the unit prices inserted in Columns D and I of the sheet “Forecast budget & follow up” and the unit prices included in Columns D and I of the sheet “Interim report” are the same, however it is not obligatory that they are the same. In case of reallocations, in case of accrued costs that will be paid in another reporting period and in case of payment done per instalments (supplies and works) there could be the need to have different unit prices for the same item.

## 6.2 Sheet: Interim report

The preparation of the Interim report requires the following operations:

In the columns A, B, C, D, and E you should insert your total budget. There are two possibilities:

1. If your budget is still the same one that was approved by the Contracting Authority at the time your project was approved. In this case you will copy columns A, B, C, D and E of the original budget into columns A, B, C, D, and E of the interim report;
2. If your budget has been changed with an addendum or by using the contingencies. In this case, the budget to be inserted is the one included in the addendum, i.e. the one that you should find under the sheet “addenda or use of contingencies”<sup>3</sup>, columns A, G, H, I, J.

Column F includes the reallocation as per article 9.2 (or 9.4 in the case of the new Practical Guide). The values to be included in this column may be copied from Annex 5 either from Column F or, in case of several notifications, by subtracting from Column J Column E from the latest notification. Please note that the timing of the reallocations is very important and in this respect there are two possibilities:

1. The reallocations were done before the approval of the addendum/ use of contingencies; in this case it is not necessary to include them in column F. If you include them in columns F, it is a mistake because you would include in the report information that is not up dated;
2. The reallocations were done after the approval of the addendum/ use of contingencies (or no addendum/use of contingencies was approved – still original budget); in this case it is necessary to include them in the column F. It is recommended to include the increase of the budget line with positive sign and the decrease of the

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**3** Or in Annex 5 if you used this annex as a basis for you budget amendments (please note: the Annex 5 is the same as the sheet „Addenda or use of contingencies), however it gives you the possibility to use it also in case of Notification as per article 9.2.

budget line with negative sign. The sum of the reallocations should be inserted in the subtotal direct eligible costs of the Action and should be equal to zero.

The new Annex for the interim report preparation is simpler than the one that was used in the past (however grant beneficiaries using the monitoring tool presented under Annex 1 "Salary calculator and monitoring tool" have in their availability all the payment in the local currency as well as converted in Euro). It asks the grant beneficiaries to report expenditures already converted in Euro and this makes its reading more compact. In this paragraph, this new structure will be presented.

Column I "Total cost (in Euro)" is identical to column F of the sheet "Forecast budget & follow-up" and therefore it can be copied and past. The column G "# Units" should be filled in by using the information included in the file "Salary calculator and monitoring tool" and more precisely: number of units related to the salaries is available in the sheets used to calculate the salary of each team member and the rest of the information is available in the sheet "Main ledger", in column C "Description".

Column H "Unit value (in EUR)" is obtained by dividing the values included in Column I by the values included in Column G.

Column J "Cumulated costs (before current report) (in EUR)" is normally equal to zero (most of the grant projects do not last more than two years). In case of projects lasting more than two years, the value to be inserted is obtained by including the values recorded in the Column K of the latest interim report.

Finally Column K is obtained by summing the values included in Columns I and J.

On the bottom of the interim report template, information about the accrued interest is requested (in older version of the PRAG – till end of 2012), however according to the new EU Financial Regulation there is no longer such an obligation. Grant beneficiaries that have received a grant awarded following a call for proposals launched by 31.12.2012 are encouraged to include this information about the accrued interest at least at the bottom of Columns O and P.



# 7

## INSTRUCTIONS FOR THE PREPARATION OF THE FINAL FINANCIAL REPORT

(PLEASE REFER TO THE FINANCIAL REPORT ATTACHED TO YOUR GRANT CONTRACT UNDER ANNEX VI)

### 7.1 Sheet: Final report

Please note: the preparation of the final report requires more attention than the preparation of the Interim report. Herewith some indications are provided, but the preparation of the final report is not an arithmetic exercise. Please use the following page to simplify the work you have to do, but be aware that it is impossible to anticipate the difficulties and peculiarities associated to each project. So said, the preparation of the Final report requires the following operations:

In the columns A, B, C, D and E you should insert your total budget. There are two possibilities:

1. If your budget is still the same one that was approved by the Contracting Authority at the time your project was approved. In this case you will copy columns A, B, C, D and E of the original budget into columns A, B, C, D and E of the interim report;
2. If your budget has been changed with an addendum or by using the contingencies. In this case, the budget to be inserted is the one

included in the addendum, i.e. the one that you should find under the sheet “addenda or use of contingencies”<sup>1</sup>, columns A, G, H, I, J.

Column F includes the reallocation as per article 9.2 (or 9.4 in the case of the new Practical Guide). The values to be included in this column may be copied from Annex 5 either from Column F or, in case of several notifications, by subtracting from Column J Column E from the latest notification. Please note that the timing of the reallocations is very important and in this respect there are two possibilities:

1. The reallocations were done before the approval of the addendum/ use of contingencies; in this case it is not necessary to include them in column F. If you include them in columns F, it is a mistake because you would include in the report information that is not up dated
2. The reallocations were done after the approval of the addendum/ use of contingencies (or no addendum/use of contingencies was approved – still original budget); in this case it is necessary to include them in the column F. It is recommended to include the increase of the budget line with positive sign and the decrease of the budget line with negative sign. The sum of the reallocations should be inserted in the subtotal direct eligible costs of the Action and should be equal to zero.

The new Annex for the final report preparation is simpler than the one that was used in the past (however grant beneficiaries using the monitoring tool presented under Annex 1 have in their availability all the payment in the local currency as well as converted in Euro). It asks the grant beneficiaries to report expenditures already converted in Euro and this makes its reading more compact. In this paragraph, this new structure will be presented.

Column K “Cumulated costs (in Euro)” is relatively easy to be prepared, if you have filled in the monitoring tool (see annex 1 “Salary calculator and monitoring tool”). Per each budget line, you should be able to read the

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<sup>1</sup> Or in Annex 5 if you used this annex as a basis for you budget amendments (please note: the Annex 5 is the same as the sheet „Addenda or use of contingencies), however it gives you the possibility to use it also in case of Notification as per article 9.2.

amount of money that has been spent (Column E of the sheet “Salary calculator and monitoring tool” in the Annex 1).

Column J “Cumulated costs (before current report) (in EUR)” is normally including the values recorded under Column I of the interim report (most of the grant projects do not last more than two years and therefore there is only one interim report). In case of projects lasting more than two years, the value to be inserted is obtained by including the values recorded in the Column K of the latest interim report.

Column I “Total cost” is the difference between Column K and Column J, i.e. the resources used in the last reporting period.

The column G “# Units” should be filled in by using the information included in the file “Salary calculator and monitoring tool” and more precisely: number of units related to the salaries is available in the sheets used to calculate the salary of each team member and the rest of the information is available in the sheet “Main ledger”, in column C “Description”. Other information about the number of units is available in the monitoring tool under the main ledger sheet or even in the original invoices, if necessary. It is relevant to remind that from the data included in the file “Salary calculator and monitoring tool” it is necessary to subtract the number of units already reported in previous interim report(s).

Column H “Unit value (in EUR)” is obtained by dividing the values included in Column I by the values included in Column G.

Column L is obtained by subtracting from Column K Column E.

Column M is obtained by dividing Column L by Column E and multiplying by 100.

In Column N an explanation for all the variations should be included. It is important to take into account that in most of the cases there are very limited variations that can be justified as follows: MDBFMP (Minor difference between forecast and market price). In case of major differences, it

is necessary to provide an adequate explanation (most of these explanations are available in the narrative notifications as per article 9.2/9.4 of the General Conditions).

On the bottom of the final report template, information about the accrued interest is requested, however according to the new EU Financial Regulation there is no longer such an obligation. Grant beneficiaries that have received a grant awarded following a call for proposals launched by 31.12.2012 are encouraged to include this information about the accrued interest at least at the bottom of Columns O. In case the pre-financing was higher than 250,000 Euro, the accrued interests might (depending on the country) be included in the source of funding and detracted from the EU final contribution. In case the pre-financing was lower than 250,000 Euro, the accrued interest may be used to cover costs that were carried out by the beneficiary but that were not covered by the budget of the project. In this second case, in the narrative part of the Final report justifications must be included.

Finally in order to determine the EU contribution, it is necessary to read carefully the file "New approach in co-financing grants" available under [http://ec.europa.eu/europeaid/work/procedures/faq/grants\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/faq/grants_en.htm). In practice: in case the total cost of the project is above the estimated total cost, the full co-financing originally included in the budget may be requested to the EU. In case the total cost of the project is lower than the estimated total cost, the EU co-financing originally included in the contract will have to be reduced. This reduction will have to take into account that the EU co-financing can be determined either on the basis of the eligible costs or on the basis of the accepted costs. It is therefore necessary to calculate the EU co-financing taking into account both the accepted and the eligible costs and by selecting the lowest amount.

# 8

## SELF ASSESSMENT ON THE REGULARITY OF THE OPERATIONS

### 8.1 Checklist for self assessment

<b>Segregation and internal audit</b>
Verify whether all the relevant payment orders are in written
Verify whether the payments are ordered in written by the Project Manager and executed by the financial department after controlling the budget of the project and the documents supporting the request for a payment.
Verify whether a senior officer of the grant beneficiary is making a separate control of the on-going activities
Verify whether there are adopted books of rules for the management of the project and whether these book of rules are regularly used and up-dated

## Budget Heading 1

Verification of the existence of an official document prepared by the grant beneficiary appointing the members of the team.

In case the Project Manager needs to be appointed with a special procedure, verification of the procedure.

Control of the working contracts and in case of service contracts verification that:

- a. Either the contract is with the Project Manager approved by the competent body;
- b. Either the contract is for a value lower than 10,000 Euro
- c. Either the person was hired following a tender procedure (at least competitive negotiated)

Comparison of the salaries of the last three months before the beginning of the project with the salaries along the project implementation

Presence of the timesheets from the beginning of the project or from last control visit

Verification of the correspondence between the days included in the timesheets and the days included in the salary calculator tool

Control of the effective payment of the different components of the salary (net salary, social security, income tax)

Verification of the correspondence between per diem paid and missions/travels out of the base of operation as indicated in the timesheets

Verification of the correspondence between the salaries to be booked according to the salary calculator tool and the salaries included in the financial monitoring tool

## **Budget Heading 2**

Travels done with public transport system: Presence of the tickets supporting the travels

Travels done by car: Presence of one or more log book witnessing the travels carried out.

### **Budget headings with procurement (Budget headings 3, 5, 6 and in part 4)**

#### Verification of the tender procedure

- a. Verification of the publication of the advertisements in case of open procedures or of the invitations to tender in case of negotiated procedures
- b. Verification of the evaluation report
- c. Nationality rule and rule of origin (unless not necessary according to PRAG 2014 and later versions)
- d. Selection of the procedure according to the expected value of the contract
- e. Presence of an Evaluation Committee including at least three members
- f. Presence of the tender guarantee if requested

## **Budget headings with procurement (Budget headings 3, 5, 6 and in part 4)**

### Verification of the contracts

- a. Verification of the BoQ
- b. Presence of the requested guarantees
- c. Presence of a proper Performance guarantee (if requested)
- d. Presence of a proper Pre-financing guarantee (if requested)
- e. Presence of a proper Insolvency guarantee (if requested)
- f. Verify whether the contract is implemented by the selected company as per evaluation report
- g. Check physically whether the delivered supply has the proper origin
- h. Check physically whether the construction is there
- i. Check whether the outputs indicated in the ToR of the project are there
- j. Check whether the delivered material and supply has the proper origin
- k. Presence of the certificate of origin for items with a value above 5,000 Euro or as per Annex IV (According to PRAG 2014 the certificate of origin is always necessary in case of contracts with a value above 100,000 Euro and is independent from the value of each item included in the contract)
- l. Presence of other origin proves in case of items with a value below 5,000 euro
- m. Presence of a certificate of provisional acceptance
- n. Presence of a warranty certificate in line with article 32 (GC + SC)
- o. Presence of a retention money certificate
- p. Presence of a final payment guarantee in case of on-site supervision service contract
- q. Presence of a final acceptance certificate

**Budget headings with procurement (Budget headings 3, 5, 6 and in part 4)**

Verification of the invoices, their payment and the payment of the VAT on the local co-financing

- a. Correspondence between the unit prices in the winning proposal and prices in the invoice(s)
- b. Correspondence between payments and invoices
- c. Presence of a VAT exemption request and approval (in case the VAT is paid only on the local co-financing)

**Budget heading 4 (except items with procurement and travels)**

Verification of the cost for the renting of the office

Verification of the payment of the rent

Payment of utilities

## Financial indicators

Compare the total spent money (without VAT) with the total programmed to be spent in the period (use as a reference either the year 1 in the budget of the Action or the forecast in the interim report)

Total cost per each budget line included in the interim and final reports report must correspond to the total amount paid without the VAT

Total VAT (only for budgets including the budget line 12) included in the interim and final reports must correspond to the total VAT paid but not trespass the available budget

Calculation of the on-going co-financing rate:  $(\text{Total value spent without VAT} - \text{total payment done out of the EU Bank account}) / \text{Total value spent without VAT} \geq \text{local co-financing rate}$

Calculation of the correctness of the use of the resources available under the Administrative expenditures:  $\text{Expenditures paid out of the EU bank account that are not direct costs} / (\text{Total value spent without VAT} - \text{Expenditures paid out of the EU bank account that are not direct costs}) \leq \% \text{ of the eligible administrative costs.}$

## **Bank account**

Verify whether the bank account indicated in the FIF and the one with the EU financial resources are the same (in case they are not the same, verify whether the Contracting Authority has been informed)

Compare the value of the pre-financing with the value available on the bank account at the beginning of the project

Verify that each transfer executed from the EU bank account is corroborated by an invoice (or other accounting document) for an activity directly or indirectly related to the project implementation

Interest accrued on the EU Bank account must be included in the interim and final reports (unless the call for proposal financing the project has been launched after 31.01.2013).



# 9

## ANNEXES IN ELECTRONIC FORM

Annexes are available in electronic format on the enclosed CD.

List of the Annexes

List of the Annexes

Annex 1 – Salary calculator and monitoring tool

Annex 2 – Timesheet

Annex 3 – Log Book

Annex 4 – Budget amendments (special case)

Annex 5 – Excel file to be used for budget amendments

Annex 6 – Examples and templates for visibility













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