



*Investing in the future by working together
for a sustainable and competitive region.*

The North
Sea Region
Programme
2007–2013



 **dsn**
ANALYSES & STRATEGIES
COOPERATION MANAGEMENT

INTERIM REPORT

Institutional Capacity and Performance



Sub-theme 1: Financial management
and control setup

North Sea Region Programme Papers No. 3
Institutional Capacity and Performance (1) – Sub-theme: Financial Management and Control Set-up (Interim Report)
ISSN 1904-4704

This report was commissioned by the Interreg IVB North Sea Region Programme as part of its ongoing evaluation process.

The report was prepared by:

dsn
Analysen & Strategien | Kooperationsmanagement
Holstenstraße 13 - 15
24103 Kiel, Germany
Authors: Frank Jürgensen & Daniel Klose

The preparation of the report was overseen by the Programme's Evaluation Steering Group, comprising representatives from countries and regions participating in the Interreg IVB North Sea Region Programme and co-ordinated by the Joint Technical Secretariat.

This report is part of a series about the ongoing evaluation process of the Programme. In accordance with the ongoing approach these reports will be available one by one in the near future:

Institutional Capacity and Performance

- 1) Financial management and control setup
- 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
- 2) Programme visibility
- 3) Communications measures on project level

Disclaimer:

The content of this paper has been prepared by dsn Analysen & Strategien | Kooperationsmanagement and does not necessarily reflect the opinion of the North Sea Region Programme or its Evaluation Steering Group.

North Sea Region Programme 2007-2013
Joint Technical Secretariat
Jernbanegade 22
8800 Viborg, Denmark
info@northsearegion.eu | www.northsearegion.eu

September 2012



Table of contents

0. Introduction	3
1. Recommendations at a glance	4
2. Financial Management and Control Setup at the programme level	5
General findings	5
Recommendations	6
Opinions from the online surveys	7
3. Financial Management and Control Setup at the project level	8
General findings	8
Recommendations	9
Opinions from the online surveys	9
4. The First Level Control process	11
General findings	11
Recommendations	11
Opinions from the online surveys	13
Appendix A - Evaluation Model	14
Appendix B - Members of the Evaluation Steering Group	15



0. Introduction

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

This interim report deals with the following evaluation questions as formulated by the programme bodies:

- How does the programme level of the financial control set-up and its control mechanisms operate?
- How does the project's financial control set-up perform?
- How do control mechanisms and procedures perform on the basis of audit reports?

The report is structured into the following chapters:

- Financial management and control setup at the programme level
- Financial management and control setup at the project level
- The first level control process

The report focuses on the main findings (!) and recommendations (✓) of the evaluation process which are highlighted with symbols in the margin. In addition, opinions taken from online surveys and interviews give an impression of the different perspectives stakeholders and projects have. The report summarizes the findings and recommendations of the On-going Evaluation in an easy to read way.

This interim report is based on the main results from desk research and online surveys in which answers were given by 21 out of 25 projects' lead beneficiaries as well as on 7 additional telephone interviews with projects' lead beneficiaries of the NSR Programme. The report concentrates on the general findings and recommendations with strategic relevance to both the improvement of the running programme period as well as to the next programme period 2014-2020.

More information on methodology and the evaluation model of the “On-going Evaluation” is provided in appendix A.



1. Recommendations at a glance

Please find below an overview of the recommendations regarding the “financial management and control set up at the programme and project level” which are explained in detail in the following chapters.

- ✓ 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 **reporting of indicators** should focus more on those indicators which allow for the measurement of projects’ performance with regard to their specific objectives and activities. This would enhance their relevance to project steering.
- ✓ 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 steer 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.



2. Financial Management and Control Setup at the programme level

This chapter deals with the financial management and control setup at the programme and project level from the point of view of programme bodies. It focuses on the performance of the project reporting process to the JTS and how this affects the management of the NSR Programme.

General findings



The Joint Technical Secretariat (JTS) notes that the quality of the progress reports varies significantly from project to project. This leads to an increased workload for both the JTS and the projects to improve the quality of progress reports which function as a basis for reliable monitoring of the projects' performance.

According to the online surveys and telephone interviews the following reasons rendered the submission of proper progress reports difficult:

- Some lead beneficiaries experience difficulties receiving adequate reports from project partners as input for the progress report at the project level. Sometimes project partners do not meet deadlines, do not use the reporting templates or do not fill in the templates correctly and completely.
- Some project partners indicate difficulties reporting within the given time period due to tedious processes within their internal accounting systems. Equally time consuming are also formal procedures such as the signing of reporting documents.
- Some project partners find it difficult to fill in the reporting templates properly due to their insufficient clarity which can lead to missing or wrong information provided by the partners.
- In some cases inconsistent information on guidelines, info sheets and fact sheets is provided on the programme's website after updating relevant information for reporting.
- Inefficiencies in the reporting process also derive from the wide range of reporting forms and digital formats i.e. the internal accounting system, reporting templates, the printed documents for signing and the online reporting system, which is currently only available for lead beneficiaries. Data often has to be transferred manually between templates which increases the likelihood of incorrect data transfer.
- Due to the general complexity of procedures and regulations, the reporting of overhead and staff costs as well as the reporting of indicators and public procurement is considered most difficult from the projects' point of view. These problems lead to an increased risk of irregularities regarding reported costs. This feedback from projects is very much in line with the findings of the third level control carried out by the European Commission which addresses the shortcomings regarding the verification of costs related to public procurement, staff and overhead costs by first level controllers.

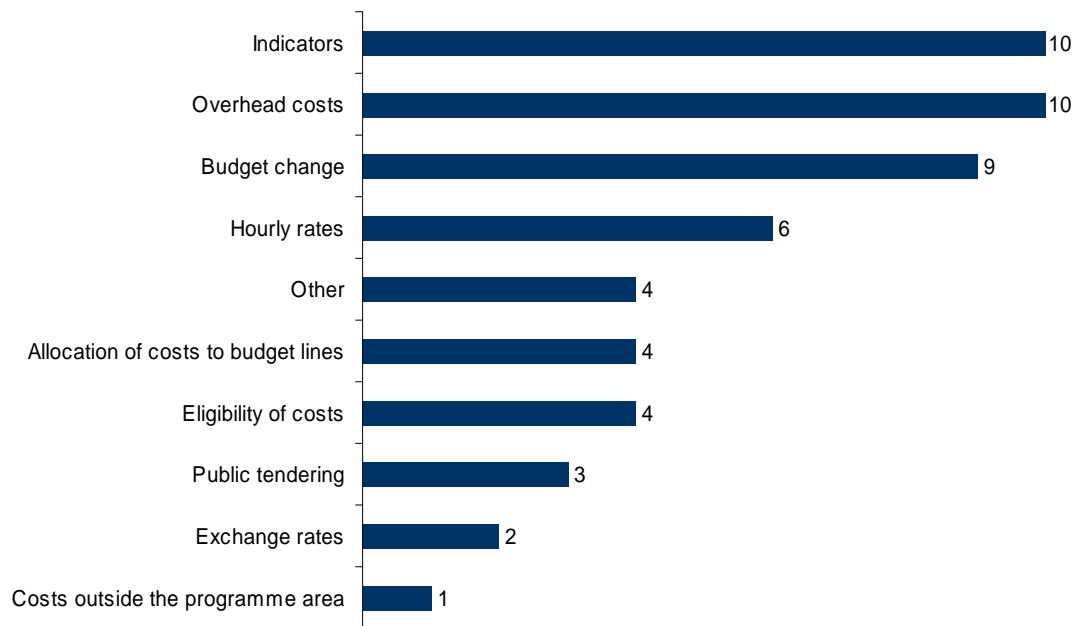


Figure 1: What issues often causes problems for you as a lead beneficiary and your project partners during the report process?

Source: Online survey, number of responses

- Some beneficiaries gave the feedback that they have administrative problems calculating their overhead costs on a real cost basis. Subsequently not all overhead costs can be included in the financial reports and funded within the NSR Programme. Moreover the reporting of overhead costs on the real cost basis is considered as very time consuming. This leads to a reduced attractiveness of the NSR Programme for those (potential) beneficiaries from a financial and administrative perspective.

Recommendations

The following recommendations take up the findings above. They intend to solve the addressed issues based on the feedback from projects, stakeholders as well as the desk research carried out by the evaluators.



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.

There is great potential to improve and streamline the reporting process by making the online reporting system available for both lead beneficiaries and project beneficiaries. The project partners should provide their reports to the lead beneficiary via the online reporting system. The information in the online system could be reviewed with regard to thoroughness and plausibility. This would support the lead beneficiary in submitting progress reports based on input from the project partners.



Moreover, the reporting process could be managed more easily by the lead beneficiary, providing an overview of delivered partner reports and pending information. For the project partners, more transparency could be provided by enabling access to the online reporting system. Making the online reporting system the main reporting tool for lead beneficiaries and beneficiaries will also help to reduce inefficiency within the reporting process which is often caused by the discontinuity of digital formats. Furthermore, the completion of the reporting process and templates could be guided interactively.

All in all such a comprehensive implementation of the online reporting system could lead to progress reports of better quality with more consistent and complete information.

Nevertheless, it is important to consider that the online reporting system must be improved in terms of speed and usability, as this was a key aspect mentioned by the participants in the surveys and interviews.



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 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. This leads to irregularities in reported costs as was also addressed by the third level control carried out by the European Commission. Most notably, the calculation and reporting of overhead costs based on real costs leads to considerable time consumption within the projects.

Thus, the NSR Programme should reduce the complexity of reporting overhead costs considerably. This would not only lead to fewer irregularities and less workload, but also to wider acceptance of the reporting process on the part of beneficiaries.

Accordingly, many project beneficiaries prefer the implementation of flat rates for overhead costs in the next programme period 2014-2020. As the results of the online survey and the telephone interviews illustrate, most of the projects prefer overhead costs to be reported via flat rates such as the “Seventh Framework Programme” or the programme “Intelligent Energy Europe.”

Opinions from the online surveys

“The rules and general guidance provided by the JTS require interpretation and translation to daily practice. The best way to ensure proper reporting still is a check with the JTS; a quick call delivers more quality information on the process or requirements than additional documents.”

“The major problem is the online monitoring system itself. You can not add additional changes requests before the previous one has been approved. Sometimes this leads to extreme delays.”



3. Financial Management and Control Setup at the project level

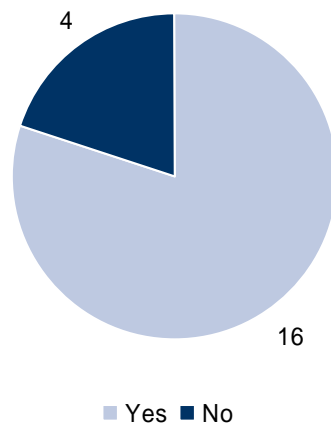
This chapter deals with the financial management and control setup at the programme and project level from the point of view of project beneficiaries. It focuses on the efficiency of reporting procedures, the added value of official reporting for project steering and on how the programme can facilitate project management on the part of beneficiaries.

General findings



- The findings from the online surveys and telephone interviews indicate that the official financial reports often do not provide sufficient information for proactive financial steering of the projects. Thus, projects set up individual management tools in addition to the mechanisms for official financial reporting.
- With regard to official activity reporting most projects also set up additional and individual management tools to steer their project tasks and activities. This could eventually lead to parallel reporting structures for both official reporting and internal management purposes (see Figure 2).

A: Do you have any financial control mechanisms in addition to the official financial reports within your project?



B: Do you have any activity control mechanisms in addition to the official activity report within your project?

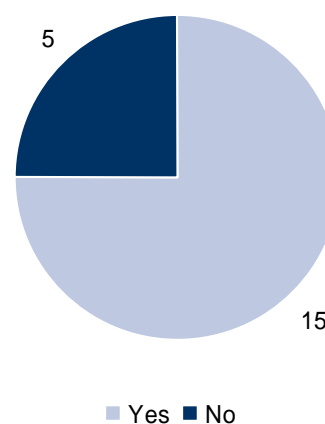


Figure 2: Additional financial and activity control mechanisms

Source: Online survey, number of responses

- The projects also developed own tools to interlink the financial and activity reports for an integrated project steering. Currently, the official financial and the activity reports are separate and not interlinked with one another. The projects have developed tools to create a direct linkage between the reported budget and the reported activity which corresponds to the respective budget.
- In general, the existence of the online reporting system was welcomed. Nevertheless, the system's performance and some of its features should be improved in terms of both speed and usability.



- The results from the online surveys show that the reporting of indicators is considered problematic by the projects. The reporting of indicators focuses mainly on information required by the NSR Programme and the European Commission. Nevertheless, the indicator system is not regarded as being very suitable to providing measures which facilitate project steering. Accordingly, the awareness among projects regarding the relevance of the indicator system for steering of the whole NSR Programme is rather low.

Recommendations



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

The evaluation revealed that many projects develop their individual mechanisms and tools for project steering in addition to the official reporting. Thus, (optional) standardised project management tools for strategic and day-to-day management could be provided in order to ensure the consistency of information with official reporting requirements. This could lead to a more universal quality of project management and official reporting.

The online reporting system could also be the central tool for project steering. It 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. For the further development of the online reporting system the JTS should actively involve project beneficiaries in order to make use of their experiences both with the existing system as well as with the day-to-day management of their projects.

Such project management standards of the NSR Programme should ideally be established at the beginning of the projects' lifecycle. For this reason, projects should consider project management standards which are already in the application phase.

Opinions from the online surveys

Projects have made use of the following additional instruments to steer their project activities:

- *Planning tables and controlling software which show project activities and financial information*
- *Databases to keep track of project progress*
- *Spreadsheets which provide a detailed overview of expenditure per WP per partner*
- *Internal mechanisms which focus on activities/deliverables*
- *Intensive personal contacts*
- *Project Managers which monitor activities*
- *Activity Progress Reviews as standard agendas for 6-month project meetings*



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 evaluation revealed that projects have developed different approaches and techniques to manage their activities. Moreover, they have also made individual experiences and employ different solutions for common problems needing to be overcome by many other projects. Thus, the establishment of a community of practice for all projects should be facilitated by the JTS. In this way, the beneficiaries can help each other on a peer to peer basis and hereby support the development of a joint identity as members of the NSR Programme.

The programme's website is a central technical platform which provides information for the projects. In order to build a community of practice for project partners in which knowledge and experience related to project management and administration can be exchanged social media tools (e.g. discussion boards or web blogs) could be integrated into the programmes website. The knowledge exchanged via social media tools should be followed up on and eventually accompanied by the JTS.



The reporting of indicators should focus more on those indicators which allow for the measurement of projects' performance with regard to their specific objectives and activities. This would enhance their relevance to project steering.

The evaluation revealed that many projects consider the reporting of indicators difficult. Moreover, the awareness of the relevance of these indicators to steering the NSR Programme and projects is often quite low. Thus, the indicator system should be revised by focussing more on indicators which allow for a better steering of the projects themselves.

Accordingly, the indicators should be derived from the individual objectives of the projects in order to make them measurable. In this way, the indicators make a valuable contribution to the steering of the projects. Moreover, the integration of indicators and objectives allows for a systematic assessment of whether the objectives are formulated in a measurable way. Thus, these indicators need to be specified as from the point of application and must be monitored throughout the whole project lifecycle.

In addition, the awareness of beneficiaries for the relevance of these indicators to steering the NSR Programme could be further enhanced by providing short reports on achieved indicators at the project and programme level. This would allow the projects to benchmark their own achievements with those of other projects.

Opinions from the online surveys

"Indicators need a better reporting format."

"A simplification of the indicator list would be helpful as it is much too complex (overwhelming and difficult to operate with in practice)."

"The indicator tends to be unclear and indistinct. It is sometimes difficult for partners to know which indicator to report results under."



4. The First Level Control process

In the evaluation of the first level control process the projects, first level controllers, the audit authority and other bodies of the programme have been integrated.

General findings

- The online surveys and the telephone interviews reveal that most of the projects are only moderately satisfied with the First Level Control (FLC) process and the work of the first level controllers.
- The FLC process is considered as administratively heavy and time consuming from the projects' point of view. Not all beneficiaries are aware of the relevance of an accurately carried out FLC which is in their very own interest due to their liability for any ineligible expenditure which has been reported to the Commission.
- The JTS notes that the quality of the FLC varies significantly between projects and first level controllers.
- Findings from the Third Level Control of the effectiveness and reliability of first level control processes and management verifications within the UK are described in the document "Third Level Control of the North Sea Region Interreg Programme - Findings and Lessons from the Third Level Control in May 2011". A general result is that the management verifications carried out by the first level controllers are not adequate.
- Central issues of the Third Level Control include insufficient verification by first level controllers regarding the compliance with rules on public procurement, overhead costs, publicity, state aid, eligibility of project expenditure, staff costs as well as incomplete audit trails.
- The findings of the Third Level Control are in line with the observations of the JTS of varying quality of FLC between projects. A significant number of FLC do not meet the basic regulatory requirements in terms of completeness and accuracy. Moreover, there is a need to strengthen the role of the JTS in terms of ensuring the quality of FLC in taking more responsibility for the accuracy of FLC.

Recommendations



In the next programme period the JTS should carry out a sample quality check, in particular for the first progress reports of all projects. This would improve the awareness for and quality of FLC at an early stage.

As described in the lessons learned from the Third Level Control mentioned above the JTS will carry out systematic quality checks of the management verification done by the FLC until the quality of the FLC has improved.

Beyond this recommendable approach, the JTS should carry out such systematic sample quality checks, in particular of the first progress reports of all projects, during the next programme period 2014-2020. 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 FLC can be addressed as early as possible, hereby avoiding any subsequent errors throughout the projects' lifecycle.



Moreover, these quality checks raise the awareness among beneficiaries for the relevance of FLC and the service quality of their first level controllers. These systematic quality checks lead to additional workload and costs for the JTS which needs to be discussed during the development of the next programme period, also with regard to the possible (financial) impact of FLC of insufficient quality.



The JTS should apply statistical methods such as risk analysis to select projects for on the spot verifications and should define the content of these verifications

The process of “on the spot verification” is laid down in article 13 of the EC regulations 1828/2006 and article 60 of EC regulations 1083/2006 and is currently implemented by the FLC. Due to limited resources it seems adequate that the JTS delegate the implementation of on-the-spot verifications to the first level controllers.

Nevertheless, the JTS carries the overall responsibility for ensuring that on the spot verifications are realised accurately. Therefore, the JTS should apply statistical methods like risk analysis to select projects for on-the-spot verifications and to define the content of these verifications. In line with the EC regulation no.1828/2006 in article 13 the JTS should regulate the tasks for verification and request them from the projects. In this way, the JTS manages these verifications proactively whilst they are still carried out by first level controllers at the beneficiary level.



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

National Contact Points have carried out regular FLC Seminars for beneficiaries' finance managers and their first level controllers to inform about relevant issues and experiences regarding the FLC process. In the future programme period regional FLC seminars should be implemented regularly in each member state of the North Sea Region Programme with a decentralised 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. In this way, the relevance and awareness for the FLC process among both project beneficiaries and first level controllers can be increased.

These seminars should also take advantage of the possibility to initiate continuous dialogue with lead beneficiaries and first level controllers in order to improve the efficiency of the FLC process and of the usability of reporting templates.



Opinions from the online surveys

“The FLC process is administratively very heavy. 4 documents have to be signed and sent for every partner which seems excessive. Other programmes only require 1 certificate that is issued, so I don't see the point in sending all those documents to LB. The FLC is a national responsibility, so one certification should be enough. Some LB's make the partners send all other documents to them as well including every single timesheet, invoice and other verification which is not acceptable.”

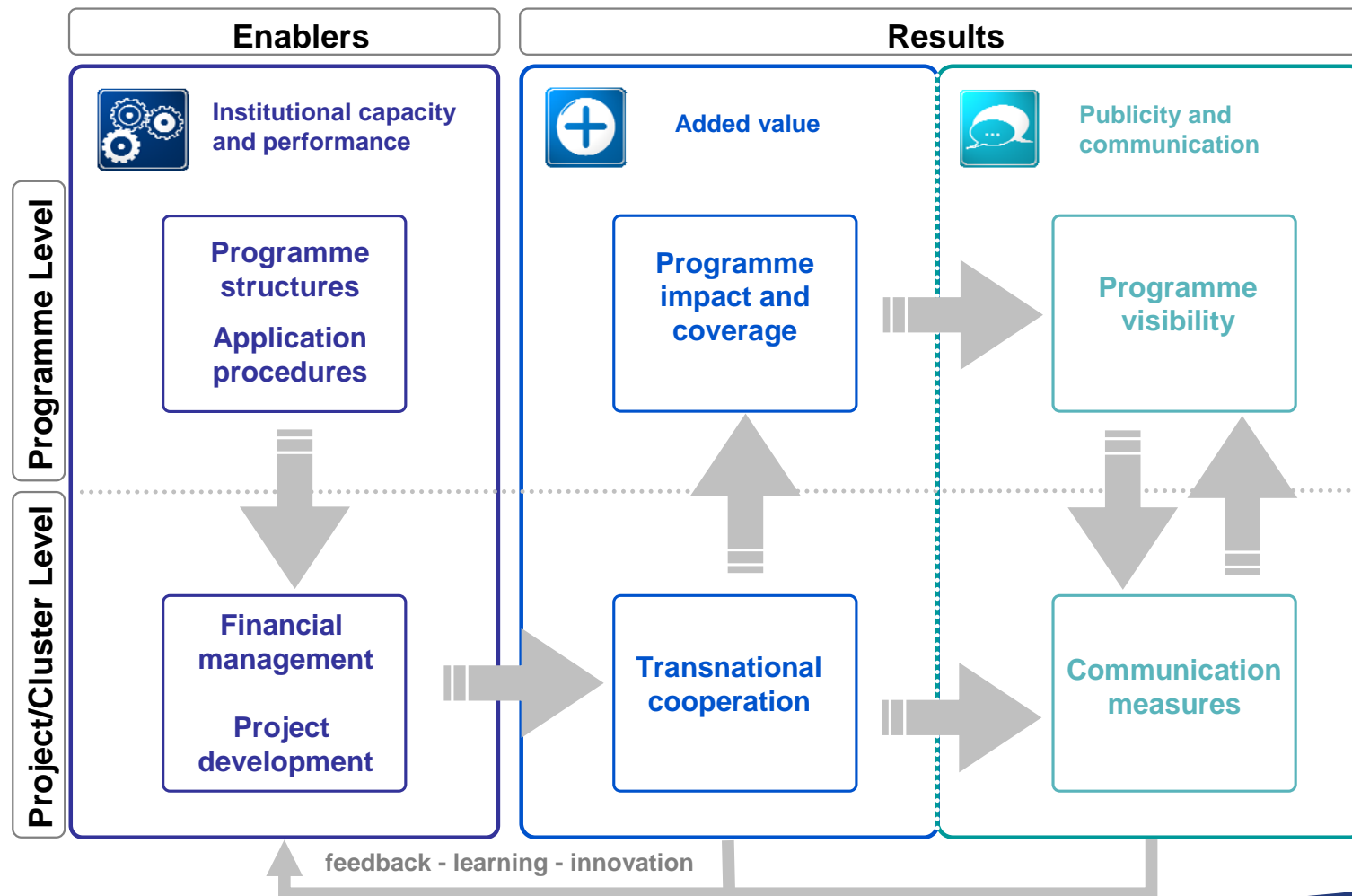
“Appendix 7 is not a very user friendly document. The amount stated on it is only the accumulated amount. No amount for the current reporting period is stated anywhere. This creates a lot of confusion and is the cause of many mistakes and problems, especially if some expenditure has been considered as in-eligible in a previous claim.”

“A problem with Appendix 7 is that the same document has to be filled in by both the project partner and the FLC. This creates problems if you do not meet every single project in connection to the audit. I can not fill in section 10 as a FLC on the computer if section 9 has already been signed by the partner which means that getting both signatures on the same paper is impossible. Instead, FLC have to fill in a separate document for section 10, print it out and attach it to the signed document for the partner.”



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

Appendix B - Members of the Evaluation Steering Group:

Christian Byrith – Interreg IVB North Sea Region Programme (Head of Secretariat)
christian.byrith@northsearegion.eu

Carsten Westerholt - Interreg IVB North Sea Region Programme (Project Development and Communications Unit Manager)
carsten.westerholt@northsearegion.eu

Jesper Jönsson - Interreg IVB North Sea Region Programme (Project Development Officer and Evaluations co-ordinator)
jesper.joensson@northsearegion.eu

Henrik Josephson - Interreg IVB North Sea Region Programme (Senior Publicity and Communications Officer)
henrik.josephson@northsearegion.eu

Stefaan Pennewaert - Agentschap Ondernemen (Belgium)
stefaan.pennewaert@agentschapondernemen.be

Anette Prilow, Danish Regions (Denmark)
APR@regioner.dk

Wilfried Görmar - Federal Institute for Research on Building, Urban Affairs and Spatial Development (Germany)
Wilfried.Goermar@BBR.Bund.de

Lidwien Slothouwer-van Schipstal – Contact Point Interreg IVB North Sea Region Programme (Netherlands)
lidwien.slothouwer@agentschapnl.nl

Axel Rød - Ministry of Local Government and Regional Development (Norway)
axel.roed@krd.dep.no

Cecilia Lagerdahl - Ministry of Enterprise, Energy and Communications (Sweden)
cecilia.lagerdahl@enterprise.ministry.se

Jim Millard - European Structural Funds Division, Scottish Government (United Kingdom)
Jim.Millard@scotland.gsi.gov.uk

The North Sea Region Programme Secretariat

Address: Jernbanegade 22, DK-8800 Viborg, DENMARK

Phone: +45 7841 1770 | Fax: +45 8660 1680

www.northsearegion.eu