

MEMO 3/2018

To Raphael Scerri, Head of National Focal Point

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Subject EEA and Norway Financial Mechanisms 2014 – 2021: Definition of Sampling Methodology to be conducted by the Financial Control Unit

Background

The aim of the Memo is to define the sampling methodology to be applied by the Financial Control Unit (FCU) for approval by the Head - NFP. The verifications to be undertaken should be based on a combination of risk management and sampling basis and this Memo shall underlie the methodology to be followed in order to provide the level of assurance that is necessary.

Objectives of the National Focal Point and the Financial Control Unit

Article 5.6 of the Regulation on the implementation of the EEA and Norwegian Financial Mechanism 2014-2021 obliges the Programme Operator (PO) to conduct on the spot checks (OTS) and administrative checks on a sample basis. It is the intention of the PO that 100% checks will be conducted before certification of expenditure. On the other hand, the Financial Control Unit shall perform checks on a sample basis.

Through its direct reporting to the Head - NFP and also given that the Unit is independent of the verifications undertaken by the NFP project desk officers, the nature of its function and its governance structure make it a very important aspect of the management and control structures of the National Focal Point (NFP). Given that the assurance level being provided at project desk officer level (NFP) has immensely increased notwithstanding the fact that the number of projects being implemented has also increased, thenceforth the principles of risk management and internal control indicate that the financial control function of the Financial Control Unit needs to be focused on the higher risk areas rather than covering all aspects of the management and control system. In this way, it is assured that projects are managed effectively and expenditure is effected properly.

Manual of Procedures

The Manual of Procedures sets that OTS checks by the PO cover the administrative, financial, technical and physical aspects of the project (where applicable), although they will mainly focus on physical deliverables. In the case of projects involving training, OTS visits may be organised while the project is still being implemented (e.g. during a training session) to verify the reality of expenditure.

Physical verification may be carried out throughout the project's lifetime. The OTS Check Report to be used during the visit will be sent to the PP with the OTS check notification in order to help the PP prepare for the visit. The OTS check will be carried out in the presence of the PP. The PO will record and report all discussions and findings in the OTS Check Report.

For the programming period 2014 – 2021 FCU officers may accompany NFP to the above checks. Yet, a separate OTS Check report shall be drawn up by the FCU based on its own verifications.

Risk Analysis

As per previous section, a rethink of the control function is a prerequisite for the 2014-2021 programming period. It is being proposed that a formal risk management process is followed when carrying out checks and controls with clear objectives, prioritization, internal control principles and knowledge of where the European Commission is placing emphasis. It is being proposed that the following risk/sampling methodology is adapted:

1. The FCU will carry out checks on 20% of the claims for payment received. As per parameters below, this will result in a high percentage of amounts being claimed since the focus will be on high value, and thus high risk, claims;
2. The risk assessment methodology will be based on three parameters:
 - 2.1 Any general areas of concern will be communicated to the desk officers – or identified by the latter themselves - so that any claim for payment which falls under the definition of that parameter will be referred to the FCU. Such areas of concern could be based on a particular type of expenditure depending on the level of risk therein.
 - 2.2 Certain categories represent a higher level of risk and for these categories desk officers will be requested to refer such claims for payment after submission by the Beneficiaries for FCU checks. **Annex 1** presents these categories of expenditure; these are subject to change based on current market developments and so may have to be revisited from time to time.
 - 2.3 Another area of concern is the risk inherent with the type of beneficiary and whether this beneficiary was subject to previous audits. Any irregularities detected in previous claims are also important to be assessed.

The above selections will be complemented by other checks to ensure 20% level of claims has been checked. If the claims checked are lower than 20%, then a random sampling method would be applied to those claims which have been checked to total up to the required 20%. If the claims checked are higher than 20% no further checks are to be carried out.

The above methodology provides the necessary assurance for the FCU in order to ensure that:

- every expenditure was actually effected within the eligible period;
- every expenditure was incurred in operations that were selected for funding and are in line with the Grant Agreement;
- a proof of payment has been issued for every expenditure therein;
- every expenditure related to measures for which all State Aid has been formally approved, where relevant;
- there is compliance with all relevant National and Community rules.

Additionally, as already referred to, the FCU staff may accompany NFP desk officers in the carrying out of on-the-spot-checks at least once during the lifetime of a project with the aim of providing for physical verifications and checks whilst also focusing on the achievement of outputs. Determining which OTS to undertake is based on feedback received by the NFP desk officers and on desk-based checks undertaken by the FCU itself. Additionally, durability checks shall be undertaken after programme closure too.

It is envisaged that this methodology focuses the FCU's attention to the high risk areas which could then be verified in a more detailed manner. In addition to the 100% ex-ante controls carried out by the NFP project desk officers and the Treasury, the FCU is estimated to be covering 60% to 70% of the claims for payments received. Hence, the control sample is deemed to be a representative sample of all projects for which payments are declared in the annual accounts, there is an appropriate mix of types and sizes of projects, transactions, beneficiaries and implementing modes and furthermore risk factors and all cost-benefit aspects of the control are being taken into account.

Conclusion

The sampling methodology recommended in this Memo is thought to be a strong defence against potential errors as it provides the PO / NFP with sufficient coverage. In the framework of the fight against irregularities, the Financial Control Unit remains open to review and update its risk assessment procedures and sampling parameters in line with market developments in a way which takes into account the risk factors as well as cost-benefit aspects of the control.

Annex 1 Categories of Expenditure considered as presenting a relatively high risk

Type of Expenditure

Staff Costs	The first claim for each person claimed
Travel	Considered low risk and hence will not be selected at this stage (this does not take into account the procurement aspect)
Equipment	Any item in excess of €20,000 cost excl VAT
Consumables	Considered low risk and hence will not be selected at this stage (this does not take into account the procurement aspect)
Real Estate	All real estate
Subcontracting	Considered low risk and hence will not be selected at this stage (this does not take into account the procurement aspect)
Expert Fees	Considered low risk and hence will not be selected at this stage (this does not take into account the procurement aspect)
Indirect Costs	Considered low risk and hence will not be selected at this stage (this does not take into account the procurement aspect)

Procurement

Direct Orders	All direct orders in excess of €5,000 excl VAT
Quotations	All quotations between Eur5000 and Eur10,000 excl VAT
Public Call for Quotations	All public calls and quotations in excess of €20,000 excl VAT
Departmental Tender	All tenders in excess of €100,000 excl VAT
Negotiated Procedure	All Negotiated Procedures
Procurement of Real Estate	All

