

MEMO 01/2019

To Mr Raphael Scerri, Head of the European Territorial Programmes Unit

From: Financial Control Unit

Date: 17th July 2019

Subject: Definition of the sampling methodology to be applied by the Financial Control Unit with respect to quality control checks on First Level Controllers in the ambit of the European Territorial Programmes

Background

On 1st March 2018, the Financial Control Unit (FCU) had published (in a Memo format) its sampling methodology with respect to quality checks on First Level Controllers conducting verifications in the European Territorial Programmes field. Now, after the lapse of more than 1 year, it has been deemed apposite to update this Memo in relation to the sampling methodology (to be applied in conjunction with risk analysis) to be adopted by the Financial Control Unit (FCU) in its selection of First Level Controllers (FLCs) to be subject to quality control checks in the same area of the European Territorial Programmes, namely:

- (i) Interreg Italia-Malta Programme 2014-2020;
- (ii) Interreg MED Programme 2014-2020;
- (iii) INTERREG EUROPE Programme 2014-2020; and
- (iv) ENI CBC MED Programme 2014-2020.

Objectives of the Financial Control Unit

The Financial Control Unit (FCU) alongside the European Territorial Programmes Unit (ETPU) was set up to provide an added level of assurance to the Director General (European Territorial Programmes Unit). Through its direct reporting to the Director General and also given that the Unit is independent of the verifications undertaken by the Programme Managers/Officers (within ETPU), the nature of its function and its governance structure make it a very important aspect of the management and control structures of the ETPU.

First level controllers

For the 2014-2020 programming period, Malta has adopted a decentralized control system whereby each partner participating in a project co-financed from the European Territorial Programmes selects its own First Level Controller to certify its expenditure claims with respect to its (i.e. the partner's) project. (The Maltese National Coordination Authority (MNCA) is responsible for issuing the designation letter – endorsed also by the Financial Control Unit - to the

controllers proposed by the partners, following the apposite checks conducted satisfactorily in relation to these proposed controllers).

Risk analysis and sampling methodology

FLCs for Interreg MED and Interreg EUROPE Programmes are bound to submit verified claims to the Joint Secretariat (JS) every 6 months. In the case of Interreg Italia-Malta Programme the FLCs have to forward their claims to the JS every 3 months. Concerning the ENI CBC MED Programme, it vests on the Lead Beneficiary to request verifications of claims at project level on the part of the FLCs.

In this scenario, every six months (beginning of July and beginning of January), the officer (henceforth quality controller) within FCU responsible for the quality control checks takes stock of all the four Programmes claims which would have been subject to a first level control in the preceding six months and identifies and determines the number of First Level Controllers involved.

A maximum of 2% of the FLCs related to the claims of the preceding six months will be selected for checking on the basis of risk analysis. Thus, priority would be assigned to those FLCs entailing the most risk e.g. those who had the highest expenditure to check, those who had to verify risky categories of expenditure (e.g. complex transactions), those who had more than one claim to certify during the period under review, those FLCs with respect to whom material irregularities¹ had been detected in the past. The other FLCs to be subject to a quality control check in relation to the preceding six months will be selected through a random sample basis (generated by Microsoft Excel Programme or by the basic version of ACL Acerno). The ensuing sample for the period would amount to 20% of the remaining FLCs i.e. of those who were not already selected through risk analysis. These percentages should be in line/concur with the following parameters: for every six months a minimum of 6 FLCs and a maximum of 12 FLCs are to be checked. If the number of FLCs to be checked do not fit within these parameters, the percentage of the random sample would have to be adjusted accordingly.

One should note that where a FLC has verified more than one claim under a specific Programme, for the previous 6 months, in particular in the case of Interreg Italia Malta Programme where every FLC should have had submitted two claims during the preceding 6 months (because the claim period of this Programme is 3 months), he/she would have to be considered only once for sampling purposes.

It is to be noted that the 2% and 20% are applicable to all four Programmes together; in other words the total population per period would comprise the FLCs for all four programmes who would have verified at least one claim during the period under review. A minimum of 1 FLC per period has to derive from each of the four programmes, subject to whether the programmes had a verified claim. If the FLCs ensuing from the 20% random sample would not comprise at least 1 FLC from each programme (as per above), the random sampling would have to be extended till this parameter (of 1 FLC per programme) is satisfied. Naturally the FLCs between the 20% sample

¹ An irregularity is considered to be material if the irregular financial amount exceeds Euro 250.

mark and the first FLC satisfying the criteria that a minimum of 1 FLC per period per programme has been drawn up in the sample, would be disregarded for that period in question.

In the subsequent six months, those FLCs who were subject to quality control checks in previous periods and with respect to whom no irregularities were found, would be excluded in these six months and in subsequent periods until all the FLCs have been subject to a quality control check. In other words, under the updated sampling methodology, FLCs already considered – including those checked under the previous sampling methodology through verification of their claims - and with respect to which no irregularities were found, would be excluded from checks (at least until all other FLCs have been subject to quality control checks) in line with the proportionality of controls/single audit principle. They would be reconsidered **only in the case** a second round of quality control checks is deemed necessary.

Conclusion

The sampling methodology (combined with risk analysis) recommended in this Memo is thought to be a strong defence against potential errors as it provides the FCU with sufficient coverage and over a span of time all the FLCs would be subject to quality control checks. In the framework of the fight against irregularities, the FCU remains open to review and update its risk assessment and sampling methodology in line with internal/external developments.