

MEMO

To Raphael Scerri, Head of Responsible Authority

From Yanica Grima, Programme Manager (EU Funds), Financial Control Unit

Date 18th April 2019

Subject Asylum, Migration & Integration Fund and Internal Security Fund 2014-2020:
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 conducted by the Financial Control Unit (FCU) for approval by the Director General (Funds and Programmes) in order to issue a statement of expenditure at Fund Level after the receipt of a statement of expenditure at Specific Objective level. The verifications to be undertaken should be based on risk analysis combined with sampling and this Memo shall underline the methodology to be followed in order to provide the level of assurance that is necessary.

Objectives of the Financial Control Unit

The Financial Control Unit alongside the SOLID Funds Unit was set up to provide an added level of assurance to the Head of the Responsible Authority. Through its direct reporting to the Head and also given that the Unit is independent of the verifications undertaken by the project desk officers (within the SOLID Funds Unit), the nature of its function and its governance structure make it a very important aspect of the management and control structures of the Responsible Authority.

Having been set up in 2011 after the takeover of its function from other Ministries, the assurance level being provided at project desk officer level has immensely increased notwithstanding the fact that the number of projects being implemented has increased considerably. Hence, 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 properly reported.

Regulatory Procedures

Given Responsible Authorities are responsible for the management and control of expenditure under Regulation 514/2014, they are required to monitor the projects and check that the expenditure declared for projects has actually been incurred and complies with Union and national rules. In this regard, they are required to carry out administrative and on-the-spot controls. In fact, Article 27(5) of the Horizontal Regulation gives implementing powers to set the rules on:

- a. Administrative and on-the-spot controls including unannounced on-the-spot controls to be conducted by the Responsible Authority with regard to compliance with obligations, commitments and eligibility rules, including the period of time for which supporting documents should be kept;
- b. The minimum level of on-the-spot controls necessary for an effective management of the risks, as well as the conditions under which Member States have to increase such controls, or may reduce them where the management and control systems function properly and the error rates are at an acceptable level;
- c. The reporting of the controls and verification carried out and their results.

Aspects of the Management and Control Systems

The Management and Control System for the period 2014 to 2020 is based on the system adopted for the SOLID Funds. This decision was taken on the fact, that the current system has been tried and tested, and the audit authority did not find any major findings which cannot be tackled. It has benefitted from a steep learning curve which takes into account best practices gathered, not only during the implementation of the SOLID funds, but also from other funds which fall under the same responsibility of the Funds and Programmes Division. The system for the new programming period made up of the Funds and Programmes Division as the Responsible Authority, the Treasury Department as the delegated authority for payments and the Internal Audit and Investigations Department as the Audit Authority (AA). Each authority is a separate entity and thus ensuring separation of duties as each authority has in place its own monitoring and/or control tools.

Commission Delegated Regulation 1042/2014 lays down the rules defining the management and control responsibilities of the Responsible Authority (RA). In particular, *Article 4* states that the RA shall manage and implement the national programme in accordance with the principles of sound financial management amongst which monitoring the projects and checking that the expenditure declared for projects has actually been incurred and complies with Union and national rules;

In view of this:

- The Migration and Security Funds management and control system is supported by ex-ante controls at each level, particularly at the claim for payment stage. This is carried out by the project desk officer within the RA on all documentary aspects of the claim, including detailed checks on procurement and is supported by detailed checklists developed particularly for the characteristics of the Migration and Security Funds projects. A second ex-ante control is carried out at payment stage by the delegated authority namely the Treasury Department which is independent from the claim assessment stage. Moreover, other ex-ante controls exist, including bilateral meetings with beneficiaries on an ongoing basis and interim reporting;
- Ex post controls are also carried out by the Responsible Authority, mainly through on the spot checks – both physical and documentary and evaluation of final reports. A checklist documents the findings which feed into the monitoring process. The OTSs provide assurance on the physical implementation of the project and the frequency and timing of these checks are determined by the RA.

Hence, all projects are monitored directly by the RA and the RA shall also ensure that final beneficiaries make use of an appropriate accounting system in computerized form.

Manual Of Procedures

The Manual of Procedures sets out the procedures to be followed at the verification process at Project level, Specific Objective and Fund Level.

Only payments that have been processed correctly and against which there are no pending follow-up issues (including suspicion of irregularity) by any of the stakeholders in the system that will be verified at project level by the RA desk officers. On a quarterly basis (or at other intervals as deemed necessary), the RA shall forward a statement of expenditure (SOE) by project to the Senior Manager or Director for their assessment and follow up at Specific Objective level. Hence, the SOE at project level will be completed by the RA desk officers.

Following this, the Senior Manager or Director completes the SOE by Specific Objective level on the Migration Security Information System after the attainment of the necessary assurances from the desk assessments and OTS reports prepared by the RA officials and the checks carried out by Treasury.

The SOE will then be transferred to the FCU to generate an SOE at Fund Level and carry out a clearance of accounts prior to the submission of a request for payment of the annual balance from the European Commission.

The FCU shall extract a sample from the SOE by specific objective based on risk assessment and supplemented where necessary by a random sample (applied after the exercise of cluster sampling, where applicable) as explained in the following section. The FCU shall draw up a sample report incorporating the invoices captured in the sample and hence all documentation of the invoices captured in the sample should be subject to expenditure testing by the FCU. The FCU shall review all relevant documentation, including Grant Agreement, AMIF/ ISF National Programme, preliminary and/or final On-the-Spot Checks carried out by the RA, as soon as they are made available, together with the invoices themselves and procurement-related documents attributable to the invoices computed in the sample. Related irregularities reports compiled by the RA and any audit reports submitted by the AA are also examined by the FCU.

Risk Analysis

As per previous section, on the premise that the Manual of Procedures states that *'the FCU shall extract a sample from the SOE by specific objective based on risk assessment and supplemented where necessary by a random sample'*, a rethink of the control function is a prerequisite for the 2014-2020 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 a minimum of 10% of the value of the Statement of Expenditure. As per parameters below, this will result in a high percentage of the amounts

being claimed since the focus will be on high value, and thus high risk, claims. Some particular situation necessitate that a minimum of 10% checks are not feasible, in such circumstances a minute file will be drawn up explaining the departure from the normal procedure as spelled out in this memo and the methodology used.

2. The risk assessment methodology will be based on three parameters:
 - 2.1 Any general areas of concern will be communicated by the desk officers (or identified by them i.e. by the desk officers) so that any claim for payment which falls under the definition of this parameter will be referred to the FCU on receipt/uploading on MSIS. Such areas of concern could be based on the type of beneficiary or a particular type of expenditure.
 - 2.2 Certain categories of expenditure represent a higher level of risk; desk officers will be requested to refer the claims for payment (incorporating these categories) for FCU checks after submission by the Beneficiaries. Annex 4 presents these categories of expenditure; these are subject to change based on current market developments.
 - 2.3 Another area of concern is the risk inherent within the type of beneficiary and whether this beneficiary was subject to previous audits. If material findings have ensued from previous audits and/or irregularities were detected in previous claims, these factors will be considered as entailing high risk.

The above selections will be complemented by other checks by the FCU, to ensure 10% coverage of the expenditure in the SOE. If the claims checked included in the SOE are lower than 10%, then a random sampling method would be applied to those claims which have been checked to total up to the required 10%. The random sample would be generated either by the basic version of ACL Acerno or by the Microsoft Excel programme. Sometimes cluster sampling would have to be applied prior to random sampling. If the expenditure claims checked are higher than 10% of the total value, no further checks are carried out.

Additionally FCU is to perform checks on the relationship between companies when at least one of the following criteria is present:

1. A trend whereby two bidders have the prices very similar to each other
2. Similarity in the quotations, including the format and layout
3. Different bidders have same registered office

The above methodology provides the necessary assurance for the FCU in addition to that provided through other ex-ante and ex-post controls made by the Responsible Authority.

Hence, it is ensured that:

- every expenditure listed in the report
- any relevant declarations provided by the RA;
- a proof of payment has been issued for every expenditure therein;

- 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;
- 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, the FCU staff accompany RA 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 RA desk officers and on desk-based checks undertaken by the FCU itself.

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 project desk officers and the Treasury, the FCU is envisaged to carry out checks to increase the confidence level of the correctness of the claims. 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 Responsible Authority 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 order to generate an SOE at Fund level in a timely and efficient manner and in a way which takes into account the risk factors as well as cost-benefit aspects of the control.

Annex 4 Categories of Expenditure considered as presenting a relatively high risk

Type of Expenditure

Staff Costs	The First month for each new person claimed including the recruitment process. If the project lasts longer than two years, FCU is to perform additional checks made on a random sampling basis on the rest of the salary claims. In such instances i.e. where the project last longer than two years, FCU is to check an additional 5% of the salaries amount which is being certified.
Travel	One travel claim for each Project. FCU is to choose the claim with the largest value in the SOE. ¹
Equipment	Refer to "Procurement" Section
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	Refer to "Procurement" Section
Costs EU Requirements	Refer to "Procurement" Section
Expert Fees	Refer to "Procurement" Section
Service Costs	10% of each SOE

(If not procurement related)

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 €10,000 excl. VAT and € 5000 excl. VAT for NGOs and International Organisations
Quotations	All quotations in excess of € 8,000 excl VAT for NGOs and International Organizations
Public Call for Quotations	All public calls and quotations in excess of €8,000 excl VAT
Departmental Tender	All tenders in excess of €100,000 excl VAT
Negotiated Procedure	All Negotiated Procedures
Art 17 Security Related	All Art 17 Security Related

¹ Subject that the 10% of the value of the SOE is checked, otherwise a random sample is to be generated to increase the travel component checked up till when the 10% is reached.

Art 17 Real Estate All Article 17 Real Estate

Not one of the above Selection of procurement which is risky and which is not covered by the above procurement categories or any other procurement referred by the Responsible Authority.

In cases where the FCU, cannot perform checks based on the above criteria, a memo shall be made and inserted in the project file to provide the necessary justification which shall be endorsed by the Head of FCU.