Responsible Authority
for Malta

Implementing financial management and control systems

20th November 2015

Asylum, Migration and Integration Fund
**Internal Security Fund**
2014-2020
Co-financing rate: 75% EU Funds 25% Beneficiary's Funds
Sustainable Management of Internal Security

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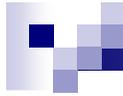
Introduction

- Members shall apply the principles of sound financial management in order to effectively implement projects.

- A system of sound financial management should be characterised by the existence of transparency, good governance and equal treatment between financial players.

- Every Member State shall *"....ensuring sound and effective management, control and protection of the Union's financial interests and increasing transparency, that are to be respected in all legal acts and by all institutions*" (Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council 25th October)

Commission Implementing Regulation (EU) 2015/840

- Responsible Authorities are responsible for the management and control of expenditure under Regulation (EU) No 514/2014. For that purpose they are to carry out administrative and on-the-spot controls.

- **Administrative controls**: The Responsible Authority shall carry out administrative controls on all financial declarations sent by the beneficiaries with the aim of receiving Union funding, in accordance with the grant agreements. These controls shall, as a minimum, include the following elements:

    (a) checks designed to confirm the formal **correctness** and the **arithmetic accuracy** of the financial declarations;

    (b) checks to confirm that the project has achieved the **objectives set out in the grant agreement** or that progress is being made towards achieving those objective;

    (c) an analytical review to assess the **relevance of the declared expenditure** in the financial declarations and its **compliance with the requirements set out in the grant agreement and the applicable Union and national rules**.

Commission Implementing Regulation (EU) 2015/840

- **Financial on-the-spot controls**: The Responsible Authority shall verify that:

  (a) the expenditure in relation to the financial declarations corresponds to the **accounting records and supporting documents held by the project beneficiaries**;

  (b) the expenditure in relation to the financial declarations satisfies the **eligibility requirements set out in the grant agreement and the applicable Union and national rules**

Commission Implementing Regulation (EU) 2015/840

Operational on-the-spot controls: When carrying out operational on-the-spot controls, the Responsible Authority shall verify that the project in question is being implemented in accordance with the grant agreement. In particular, it shall check that the indicators reported by the beneficiaries are reliable and the project is proceeding without undue delays.
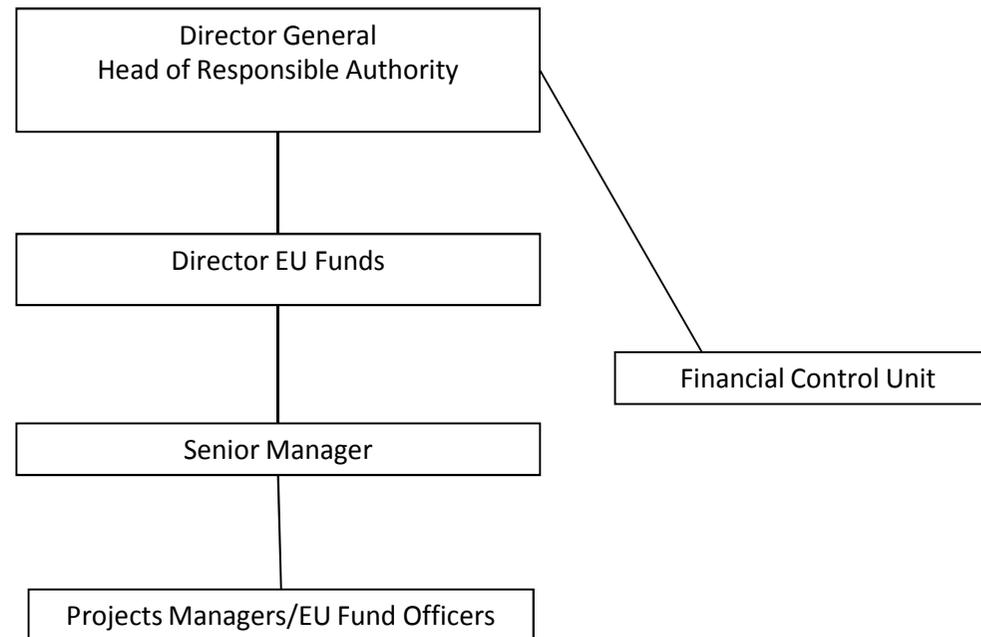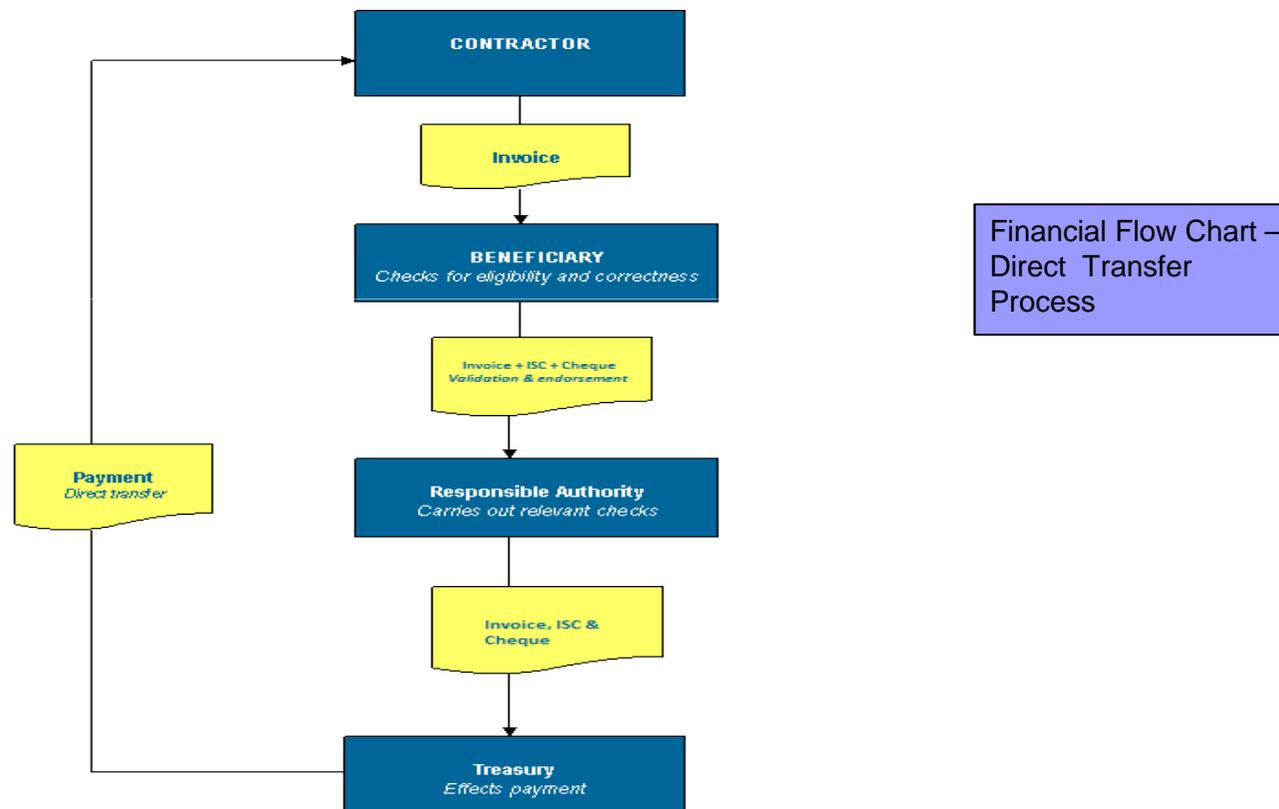
Financial Control Structures – Malta experience

- The Funds and Programmes Division was set up in June 2011 and the Financial Control Unit (FCU) was established shortly afterwards

- This unit was set up to provide an added level of assurance to the Head of the Responsible Authority

- An important aspect of the management and control structure of the Responsible Authority

- FCU is independent of the verifications undertaken by the project desk officers

- Directly reporting to the Head of the Responsible Authority

- In 2011 the assurance level of the verification process was still at its initial phase and therefore the control function exercised by the FCU was required to be as wide as possible
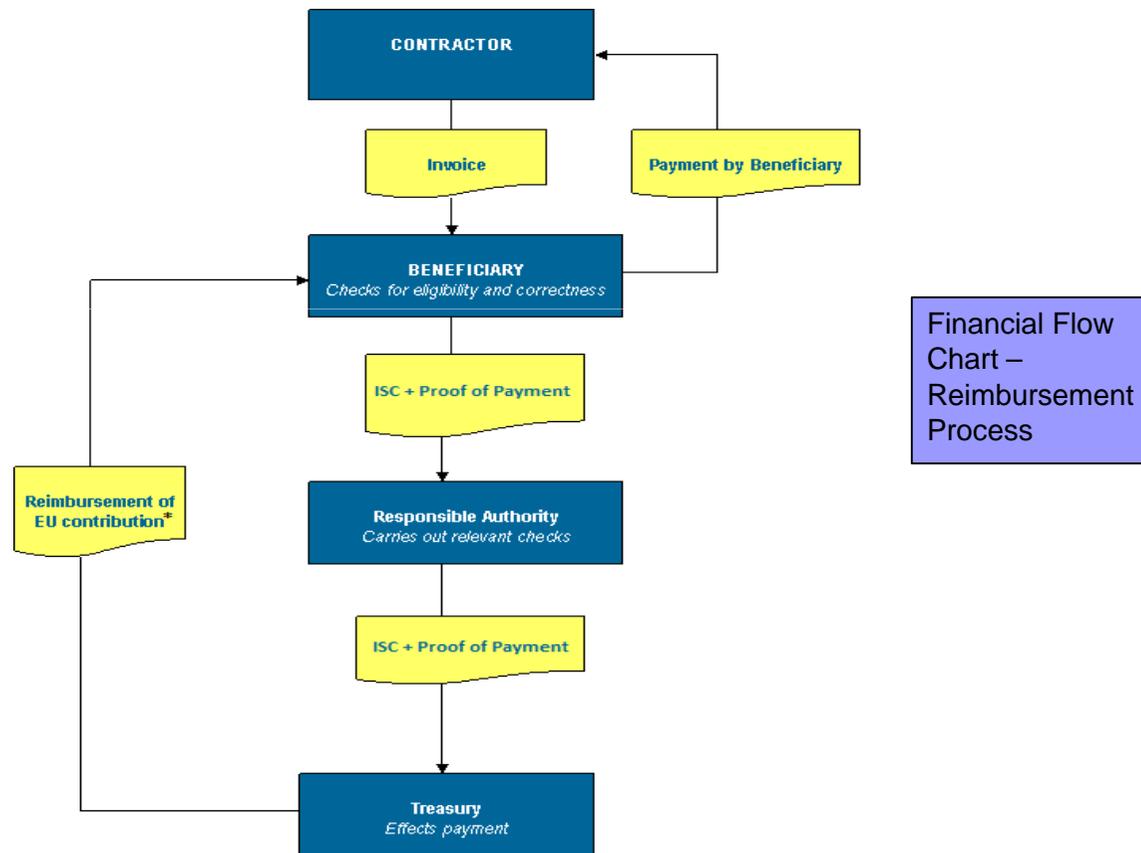
Responsible Authority – Organisational Chart

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        ┌─────────────────────────────────┐
        │        Director General         │
        │  Head of Responsible Authority  │──────────┐
        └─────────────────────────────────┘          │
                        │                             │
        ┌─────────────────────────────────┐          │
        │         Director EU Funds        │          │
        └─────────────────────────────────┘   ┌──────────────────────┐
                        │                      │ Financial Control Unit│
        ┌─────────────────────────────────┐   └──────────────────────┘
        │         Senior Manager           │
        └─────────────────────────────────┘
                        │
        ┌─────────────────────────────────┐
        │ Projects Managers/EU Fund Officers│
        └─────────────────────────────────┘
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Payment and Verification Process

CONTRACTOR

Invoice

BENEFICIARY
Checks for eligibility and correctness

Invoice + ISC + Cheque
Validation & endorsement

Payment
Direct transfer

Responsible Authority
Carries out relevant checks

Invoice, ISC & Cheque

Treasury
Effects payment

Financial Flow Chart –
Direct Transfer
Process

Payment and Verification Process

CONTRACTOR

Invoice

Payment by Beneficiary

BENEFICIARY
Checks for eligibility and correctness

ISC + Proof of Payment

Reimbursement of EU contribution*

Responsible Authority
Carries out relevant checks

ISC + Proof of Payment

Treasury
Effects payment

Financial Flow Chart – Reimbursement Process

Manual of Procedures

- Key Target of the Responsible Authority: Prior to making any payments/recoveries, verifications will be carried out in particular in order to monitor:

– the accuracy and the regularity of the payment request, with regard to the eligibility rules for the Fund(s)

Action taken by the Responsible Authority: The Responsible Authority verifies each payment request by beneficiaries during the request for payment verification stage.

– that products and/or services co-financed by the project have actually been delivered

Action taken by the Responsible Authority: The beneficiaries provide a declaration of delivery of products or services which will be supplemented through the monitoring by the Responsible Authority in the form of spot checks to ensure compliance with eligibility rules.
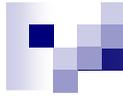
Manual of Procedures

– that the results of any audit activity have been taken into account

Action taken by the Responsible Authority: The Audit Authority shall keep the Responsible Authority updated about the results of the project audits it carries out so that this information can be taken into account when making payments.

- Key Target of the Responsible Authority: Verifications will be carried out in order to have a reasonable assurance   of the legality and regularity of the underlying transactions

Action taken by the Responsible Authority: The Responsible Authority undertakes desk-based and on the spot checks to verify that all actions carried out by the Final Beneficiary are in line with the Grant Agreement and that the expenditure is legal and regular. These checks are documented.

Manual of Procedures

- Key Target of the Responsible Authority: Supervisory controls will be carried out throughout the programming period to ensure that the established financial procedures are respected.

  Action taken by the Responsible Authority: The Responsible Authority undertakes the relevant supervision through its desk-based and on the spot checks. These shall be complemented by the relevant checks carried out by the Delegated Paying Authority to ensure national financial rules are respected and by the audits that shall be undertaken throughout the programming period.

Financial Control Structures – Malta experience

- 3 years down the line the assurance level being provided at project desk officer has increased exponentially

- The number of projects being implemented has increased considerably

- The processing of payment claims is being carried out through the Migration and Security Information System, which is an information system developed by the Government of Malta for the management of EU funds.

- Both systems and operational audits have shown that the processes are working satisfactory with no major findings or corrections.

Financial Control Structures – Malta experience

- The principles of risk management and internal control function of the FCU needs to be focused on the higher risk areas, rather than covering all aspects of the management and control system.

- The following layers of checks which also provide a high level of assurance have been considered:

  - The AMIF/ISF financial management and control system will be supported by *ex-ante* controls at each level, particularly at the claim for payment stage. The second *ex-ante* control is carried out at the payment stage by the Delegated Paying Authority. Third *ex-ante* controls exists through bilateral meetings and interim reporting.

  - *Ex post* controls are also carried out by the Responsible Authority, mainly through on the spot checks and evaluation of final reports.

Verification of claims– Malta experience

- Following these *ex-ante* and *ex-post* checks the FCU started carrying its checks and controls on the basis of a formal risk management process. This entails clear objectives, prioritization, and internal control principles. The characteristics of the Funds and the projects should also be considered.

- The following risk/sampling methodology is adapted:

  - The FCU will carry out checks on 20% of the claims for payment received. As per parameters being proposed, this will result in a high percentage of amounts being claimed since the focus will be on high value and therefore high risk claims;

Verification of claims– Malta experience

- The risk assessment methodology will be based on three parameters:

1. Any general areas of concerns will be communicated to the desk officers so that any claim for payment which falls under the definition of that parameter will be referred to the FCU on receipt/uploading on the Migration and Security Information System. Such areas of concern could be for example a particular beneficiary, a particular type of expenditure, etc. Such decision will be based on information which the FCU would have received and which provides sufficient basis for such categorization;

2. Based on the experience gained in the last 3 years, the FCU has Identified certain categories as representing a relatively higher risk, and therefore desk officers will be requested to refer such claims for payment after submission by the Beneficiaries for FCU checks.

Categories of Expenditure considered as presenting a relatively high risk:

- **Staff Costs :** The first claim for each person claimed by NGOs and International Organisations. The First claim for each person recruited for the post.

- **Travel :** Low risk therefore will not be selected at this stage (this does not take into consideration the procurement aspect)

- **Equipment :** Any item of equipment costing more than €20,000 excl VAT

- **Real Estates :** All real estate

- **Consumables, Subcontracting, Costs EU Requirements, Experts Fees, Specific Expenses in relation to Target Group, Indirect Costs:** Low risk and therefore will not be selected at this stage (this does not take into consideration the procurement aspect)

Categories of Expenditure considered as presenting a relatively high risk:

- **Procurement: Direct Orders:** All direct orders over €2,500 excluding VAT for Public Bodies and €5,000 excl VAT for NGOs and International Organisation

- **Procurement: Quotations:** All quotations over €20,000 excl VAT for NGOs and International Organisation

- **Procurement: Public Call for Quotations :** All public call for quotations over €20,000 excl VAT

- **Procurement: Departmental Tender :** All Departmental tenders over €20,000 excl VAT

- **Procurement: Department of Contracts Tender (contracts exceeding €120,000 threshold):** All tenders over €120,000 excl VAT

- **Procurement: Negotiated Procedure :** All Negotiated Procedures

- **Procurement: Security Related :** All Security related tenders

- **Procurement: Real Estate :** All Real Estate related tenders

- **Procurement: Not one of the above (eg. Framework Agreement):** All procurement which is not covered by the above procurement procedures

Verification of claims – Malta experience

3. The mentioned parameters will be supplemented by other checks at Statement of Expenditure at Fund level, to ensure that the 20% level of claims to be checked has been achieved. If the claims checked included at the Statement of Expenditure at Fund level are lower than 20%, then a random sampling method would be applied to those claims which have been checked to total up the checks carried out on that claim to the required 20%. If claims checked are higher than 20% no further checks will be carried out.

- It is envisaged that this methodology will provide the necessary assurance for the FCU in addition to that provided through the other *ex-ante* and *ex-post* controls to the Responsible Authority at the Statement of Expenditure at Fund level.

Process of Verification of Claims

1. Beneficiary upload claim documents on Migration and Security Information System

2. Desk Officers checks 100% of all the claims: Check if claims are administratively, technically and financially compliant

3. Desk Officers checks if claim falls under parameters which were previously mentioned

4. If claim falls under parameters: FCU carries out desk based checks on claims. An on the spot check (OTS) takes place if a Department of Contracts (procurement which exceeds the €120,000 threshold) tender is part of procurement.

5. If claims do not fall under parameters: Desk Officers send them to treasury

6. Treasury makes independent check on payments

Process of Verification of Claims

7. OTS done by FCU following payment - (at least 1 OTS per project)

8. Statement of Expenditure by Project following payment generated by Desk Officers

9. Before Issuing the Statement of Expenditure at Fund level; FCU carries out checks on 20% of claims if this is not reached as per parameters

10. Statement of Expenditure at Fund level done by FCU

On the Spot (OTS) Checks – Malta experience

Desk-based administrative verifications <u>are not sufficient</u> on their own to give assurance on all elements concerning the legality and regularity of expenditure. On-the-spot verifications are carried out to check in particular the:

■ reality of the operation (financial and operational elements),

■ delivery of the product/service in full compliance with the terms and conditions of the grant agreement,

■ physical progress,

■ adherence to EU and national rules on publicity,

■ compliance with public procurement procedures,

■ the accuracy of information regarding the physical and financial implementation of the operation provided by the beneficiary

On the Spot (OTS) Checks – Malta experience

■The RA normally notifies the beneficiary about the on-the-spot-check in order for it to prepare all documentation for the visit <u>but an on-the-spot-check can also be unannounced</u>.

■   On-the-spot verifications should usually be undertaken when the operation is well underway - not recommended when the operation has been completed since it is too late for corrective action.

■   Where operations are intangible or no physical evidence remains after their completion (e.g. training programmes, medical support, language courses), on-the-spot verifications should be carried out during the implementation (i.e. before completion).

■   Grant agreements may impose ongoing conditions (e.g. use of asset for X years EBF) after completion of the operation or acquisition of the asset.

On the Spot (OTS) Checks – Malta experience

- Once the claims for payment have been verified and checked at submission of the claim by desk officer, only a documentary check of the claims would become necessary to ensure that the beneficiary has all the required documentation. Therefore during the physical check the RA checks that the beneficiary retained all the documentation related to the project.

- On-the-spot checks will need to continue to provide for the physical verifications and checks, whilst also focusing on the achievement of outputs.

- Checks on the result of the project is particularly important not only for the projects being implemented under the current programming period, but will become more important for the next programming period 2014-2020 where such checks have become obligatory.
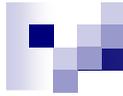
Conclusion

In our opinion such a methodology will focus the FCU's attention on the high risks areas, which could then be verified in a more detailed manner. This will represent a very high proportion of the monetary value of the claims for payments presented, which is estimated to at least cover 60 to 70 percent of the Funds certified at the financial control stage, in addition to the 100% ex-ante controls carried out by the project desk officers and the Delegated Paying Authority.
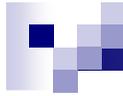
Introduction to the workshop

- Discussion on the management and control systems adopted by the Responsible Authorities

Thanks for your Attention

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