



CYPRUS MANAGEMENT & FIRST LEVEL CONTROL SYSTEM

27 - 28 September 2018

Mary Ioannou – Accounting Officer

Directorate General for European Programs,
Coordination and Development

UNIT OF EUROPEAN TERRITORIAL COOPERATION PROGRAMMES

29, Vyronos Avenue, 1096 Nicosia

[http://www.structuralfunds.org.cy/edafikisinergasia/
mioannou@treasury.gov.cy](http://www.structuralfunds.org.cy/edafikisinergasia/mioannou@treasury.gov.cy)

Tel: +357 22602906

Fax: +357 22666810

OVERVIEW

- ❑ Regulatory Framework
- ❑ Approbation Body of First Level Controllers
- ❑ Verifications – Administrative and on-the-spot
- ❑ FLC Check Requirements
- ❑ Documentation of Verifications
- ❑ Public Procurement and VAT treatment
- ❑ EU Horizontal Policies
- ❑ Irregularities and Fraud Signs
- ❑ Quality Review of FLCs

REGULATORY FRAMEWORK (1)

(EU)1303/2013 Art.125(4,5,6) & ETC

(EU)1299/2013 Art.23 (4)

- ❑ MA has the responsibility of management verifications. Verifications should cover the expenditures of each beneficiary participating in European territorial cooperation project.
- ❑ Members States have the responsibility to carry out management verifications in relation to beneficiaries on their territory. Each Member State **shall set up a control system** making it possible to verify the delivery of the products and services co-financed, the **soundness of the expenditure** declared for operations or parts of operations implemented on its territory, and **the compliance** with Union and national rules.
- ❑ For this purpose, each Member State **shall designate the controllers** responsible for verifying the legality and regularity of the expenditure declared by each beneficiary participating in the operation.

REGULATORY FRAMEWORK (2)

(EU)1303/2013 Art.125(4,5,6) & ETC

(EU)1299/2013 Art.23 (4)

- ❑ Each Member State shall ensure that the **expenditure can be validated by the controllers within a period of three months.**
- ❑ Member States who designate the controllers should put in place quality control procedures to verify the quality of the work of the controllers.
- ❑ Controllers carrying out management verifications must verify that the co-financed products and services have been delivered and that the expenditure declared by beneficiaries has actually been incurred and complies with Union and national rules.
- ❑ For this purpose, they have to perform administrative verifications and on-the-spot verifications of individual operations, which be carried out on a sample basis.

FIRST LEVEL CONTROL SYSTEM

CENTRALISED SYSTEM

- One controller for the whole programme

DECENTRALISED SYSTEM

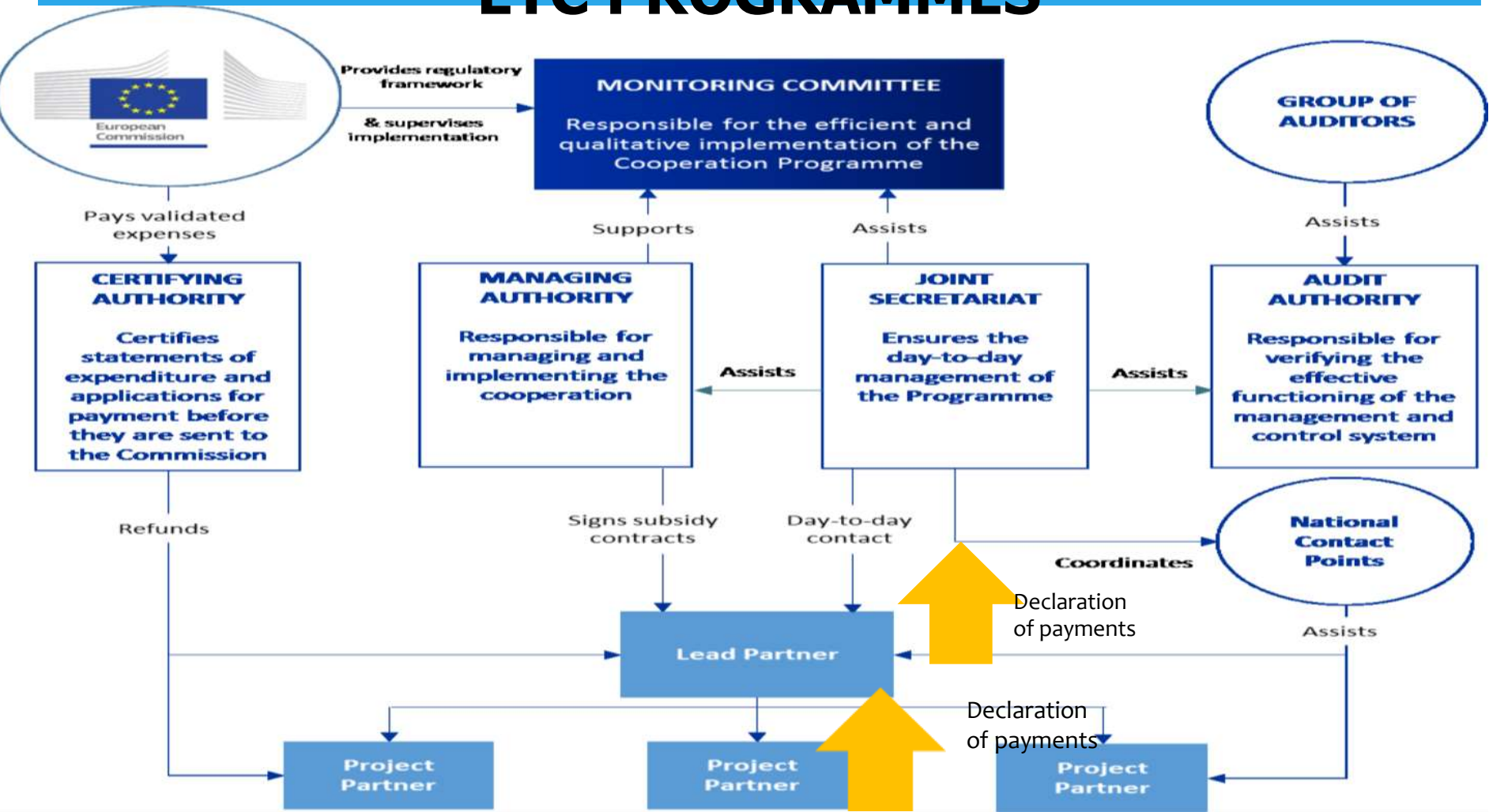
- Independent controller for each project/partner
 - internal
 - external



MIXED SYSTEM

- Combination of the Centralised and Decentralised Control System

MANAGEMENT AND CONTROL SYSTEM IN ETC PROGRAMMES



APPROBATION BODY OF FIRST LEVEL CONTROLLERS

- ❑ DG EPCD – Directorate General for European Programs Coordination and Development



- ❑ Approbation Body of FLC for Cypriot Project Partners

- ❑ Authorization of FLCs
- ❑ Communication with controllers and partners
- ❑ Organization of events/ training seminars for FLCs
- ❑ Sample checks to verify the effectiveness of the control system and the quality of the verifications

VERIFICATIONS

- Ensure that the expenditure declared is **real**, that the products or services have been **delivered** in accordance with the approval decision, that the applications for reimbursement by the beneficiary are **correct** and that the operations and expenditure **comply** with Union and national rules. They shall include procedures to **avoid double-financing** of expenditure with other Union or national schemes and with other programming periods.

FLCs VERIFICATIONS

Administrative Verifications

- 100% of declared expenditures

On-the-spot verifications

- On-the-spot checks at least once during the project lifetime

FLC CHECK REQUIREMENTS

The FLC should also check:

- ❑ The compliance with EU rules and regulations and the National Rules
- ❑ Sufficient Audit Trail
- ❑ Eligibility of Expenditure (Type, Time period)
- ❑ Real payment of expenditure
- ❑ Correctness and regularity
- ❑ Proper Accounting Documents
- ❑ Avoidance of Double funding

FLC CHECK REQUIREMENTS (2)

- ❑ Separate accounting system/separate accounting code
- ❑ For simplified cost options: that conditions for payments have been fulfilled
- ❑ Availability of Documents
- ❑ Information and Publicity
- ❑ Wholeness of payments to beneficiaries
- ❑ Delivery of co-financed products and services
- ❑ Durability of operations comprising investment in infrastructure or productive investments
 - ❑ within five years of the final payment to the beneficiary

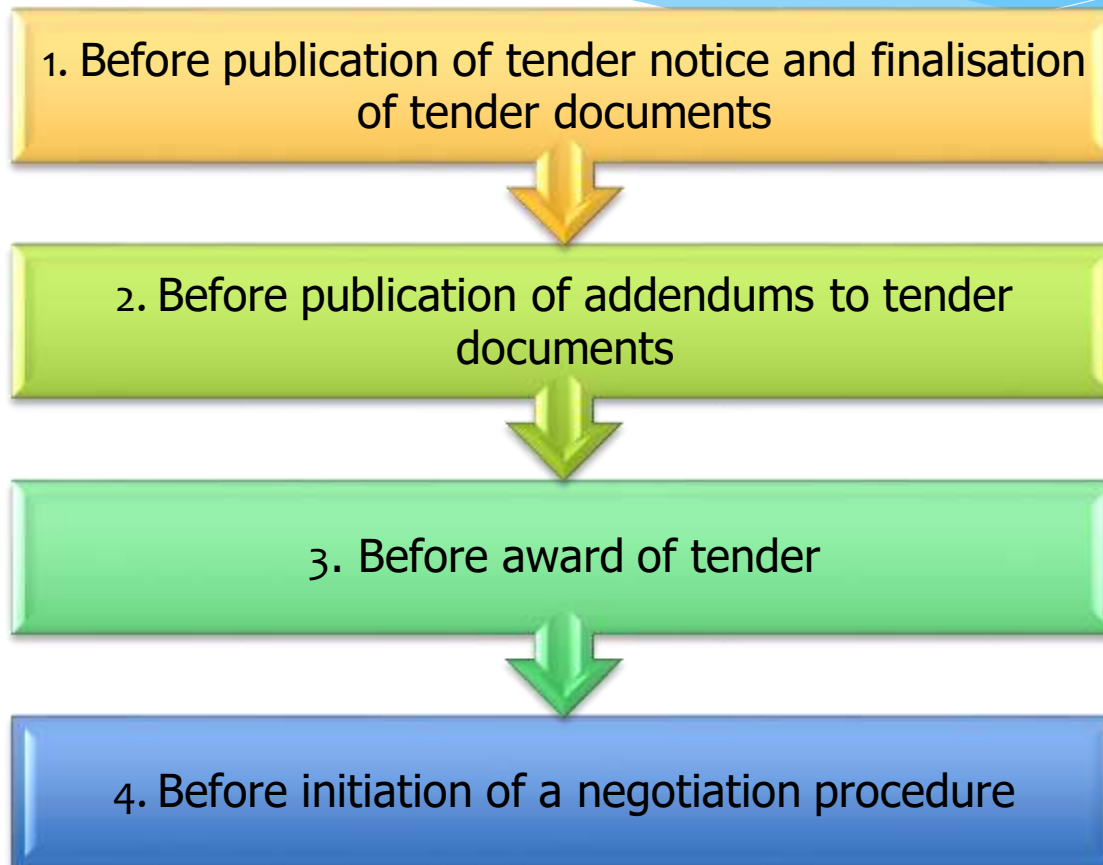
DOCUMENTATION OF VERIFICATIONS

- ❑ Clear and precise explanation for each point of the standardised checklist checked.
- ❑ Keep in the audit file any recalculations done (staff costs, depreciation etc), reconciliations done and any other relevant details may consider important.
- ❑ Physical inspection of deliverables – photos, screenshots
- ❑ Evidence gathered for various publicity events – photos, brochures, project related leaflets
- ❑ Sufficient documentation in case of walkthroughs, inquiries and interviews

Verification of Contracts

Public Procurement Procedure

* **Stages of Compliance (legality):**



VERIFICATION OF PUBLIC PROCUREMENT PROCEDURES

Contract values:

Services and Products >€125.000 and Works >€500.000 – all levels of certification by PPD

Services and Products <€125.000 and Works <€500.000 – self-assessment checklist by beneficiary

VERIFICATION OF PUBLIC PROCUREMENT PROCEDURES

Procedures where certificates are not required:

- ❑ Beneficiary prepares self-assessment checklist
- ❑ FLC should assure that the self-assessment checklist comply to the Public Procurement Law and Procedures – on-the-spot verification
- ❑ (for a sample of contracts using specific compliance verification checklist that covers compliance of procedure followed, documents used and contract assignment procedure)

VERIFICATION OF PUBLIC PROCUREMENT PROCEDURES

Procedures for private organizations:

- ❑ For private sector the Public Procurement Procedures are not obligatory for the two Programs
- ❑ However, they should follow the key principles of the Procurement such as Transparency and Equality
- ❑ The NCP and AB issued a recommendation guidance on how they conduct the procurement procedures

CONTROLS FOR DOUBLE FUNDING

- ❑ Checks whether Beneficiary has stamped all original supporting documents (e.g. invoices) with special stamp stating that the item has been co-financed from the two programs
- ❑ Checks that no invoice reference number per Contractor is submitted more than once within the project payments supporting documents (ledger of beneficiary payments and supplier invoices created by MIS)

TREATMENT OF VAT

- ❑ In accordance with Regulation (EU) No 1303/2013 Article 69 (3), VAT is not eligible except in the case where VAT is non-recoverable under national VAT legislation. In practice, if a partner can recover VAT (regardless whether he actually does or not), all expenditure reported to the programme has to be reported without VAT.
- ❑ Each partner should contact the Tax Department in order to get a VAT certificate, stating VAT eligibility. The controller of each partner should check that specific certificate.

EU HORIZONTAL POLICIES

The FLC should also check:

- ❑ The Certificate of Compliance on Public Procurement, where applicable
- ❑ The Certificate of Compliance on Environmental and Sustainable Development
- ❑ The Certificate of Compliance on Equal Opportunities and Non-Discrimination Issues
- ❑ The Certificate of Compliance on Equality between men and women

Irregularities & Fraud Suspicion...



- ❑ Irregularities – Inform the Approbation Body immediately
 - ❑ Contact Person: Mary Ioannou – mioannou@treasury.gov.cy
- ❑ Fraud Suspicion – Official communication to the Permanent Secretary of the DG EPCD
 - ❑ Contact Person: Mary Ioannou – mioannou@treasury.gov.cy
 - ❑ Fraud Tip line in EU :
 - ❑ https://ec.europa.eu/anti-fraud/olaf-and-you/report-fraud_en





RED FLAGS – WARNING SIGNS ON PP

❑ Conflict of Interest issues

- ❑ Contracting employee does not complete the conflict of interest declaration
- ❑ Undocumented or frequent changes to contracts increasing the value of the contract
- ❑ Unexplained or unusual favouritism of a particular contractor

❑ Collusive bidding

- ❑ Bid rotation – submit bids bigger to allow each bidder to be low bidder on a rotating basis



RED FLAGS – WARNING SIGNS ON PP

- ❑ Tailored made specifications – bid technical specifications to fit on a specific contractor
 - ❑ Only one or a few bidders respond to request for bids
 - ❑ High number of competitive awards to a specific supplier
 - ❑ Complaints from other bidders
- ❑ Leaking bid data
 - ❑ Poor controls on bidding procedures i.e. not follow the deadlines
 - ❑ Acceptance of late bids, some bids opened early
 - ❑ All bids are rejected and contract is re-bid.



RED FLAGS – WARNING SIGNS ON PP

- ❑ Split Purchases – Split purchases into two or more orders/contracts
 - ❑ Two or more related procurements procedures for the same contractor
 - ❑ Unjustified separation of purchases – separation of labour costs and materials
 - ❑ Sequential similar purchases just under the thresholds



RED FLAGS – WARNING SIGNS ON INVOICES

- ❑ Invoices with no logo of the company
- ❑ Erased or crossed out figures, write offs without signatures of authorised persons
- ❑ Handwritten amounts without signatures of authorised persons
- ❑ Unusual dates and amounts
- ❑ Unusual colour on official stamps
- ❑ Miscalculation in an invoice or in a Payslip produced by computer



RED FLAGS – WARNING SIGNS ON INVOICES

- ❑ Missing obligatory element of an invoice such as date, Tax Identification Number...
- ❑ Inconsistency between the dates of invoices produced by the same entity and their number

Example: Inv#152 issued 25/03/2012

Inv#103 issued 30/06/2012

- ❑ Invoices not matching the quotations in terms of price, quantity and/or description

LESSONS LEARNT...

- ❑ Weaknesses in public procurement procedures
- ❑ Weakness in the internal control system of the partners
- ❑ Insufficient weak audit trail both of partners and controllers
- ❑ Wrong and incorrect calculations of staff costs
- ❑ Ineligible expenditure not in the eligibility period (preparation costs)
- ❑ Incomplete and incorrect verifications checklists
- ❑ Double funding

QUALITY REVIEW OF FLC

- ❑ The Approbation body may perform verifications on both partners and controllers on a sample basis.

❑ **SCOPE**

- ❑ To ensure the effectiveness of the management control system
- ❑ To ensure the compliance with EU Regulations, Program and National Rules
- ❑ To ensure that the controllers followed all the necessary procedures when they declared expenditures and correctly filled in the standardised Program FLC Questionnaire.

QUALITY REVIEW OF FLC

- ❑ The quality and on-the spot verifications are conducted annually by the AB.
- ❑ Risk Factors:
 - ❑ The previous controllers' experience in other Cooperation Programs
 - ❑ Findings/conclusions of previous audit verifications of other independent bodies such as Internal Audit Service and any other Audit control body
 - ❑ The general level of controller's organization in terms of size, audit team, its office administration etc

AUDITS OF FLC



- ❑ The FLC should also expect audits from other bodies such as:
 - ❑ National Audit Authority – Internal Audit Service
 - ❑ Joint Secretariat / Managing Authority
 - ❑ Group of Auditors

Thank you for your attention!!!

Questions?

