

Interreg
Mediterranean



PROGRAMME MANUAL

CONTROLS, AUDITS AND VERIFICATIONS

Programme cofinancé par le Fonds Européen
de Développement Régional (FEDER)

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During the programming period 2014-2020, different categories of verifications are being implemented by the Interreg MED Programme Authorities and should be described individually.

The word “control” describes the verifications carried out by the First Level Controller according to article 23 (4) of the Regulation 1299/2013 for ERDF partners and article 108 of the EC Regulation 718/2007 for IPA partners. The task of First Level Controller designated by Member States is to validate the expenses declared by each beneficiary taking part in the operation.

The word “audit” describes the checks carried out by the Audit Authority, called second level auditors, according to articles 127 of Regulation (EU) No. 1303/2013 and Article 25 of (EU) Regulation No. 1299/2013. The task of second level auditors consists of carrying out audits of operations based on a sampling for verification of declared expenditure.

Furthermore, the word “verification” describes the checks carried out by the Managing Authority, the Joint Secretariat and the Participating States according to article 125 (4) and (5) of Regulation (EU) N° 1303/2013. The task of the Programme authorities is to perform administrative and on-the-spot verifications during project implementation.

The First Level Control

Different National First level Control Systems

In accordance with Article 23 (4) of Regulation (EU) No 1299/2013, **it is the responsibility of each Member State to set-up a first level control system and designate the controllers** responsible for verifying that the expenditure declared by beneficiaries from its territory complies with the applicable law and the Programme rules.

Those controllers also ensure that the co-funded products and services were delivered and paid. More information on national control systems can be found on www.interreg-med.eu and the websites of the national contact points.

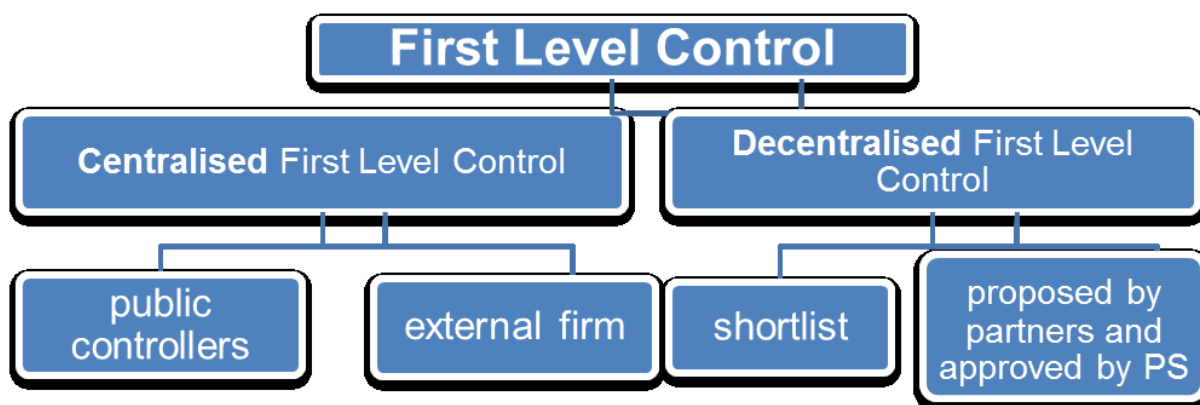
Participating State sets up a National Control System and designate the FLC responsible for verifying the legality and regularity of expenditures declared by each beneficiary established in its territory.

Therefore, in the Programme Interreg MED, the First Level Controller designation procedure is different from a Participating State to another. Each partner should refer to the National Control System of the country where its structure is located. (Contacts of National authorities and descriptions of national First Level Control system of each participating State are available on the Interreg MED Programme web site).

There are two types of national control systems in the Participating States of the Interreg MED Programme:

- **Centralised systems**, the control is carried out at national level through a public administration or an audit firm acting under the responsibility of the Participating State. In this case, beneficiaries must submit their expenditure for verification to this body.

- Decentralised systems**, the control is carried out by a controller proposed by the project partner and approved by a body designated at national/regional level for this purpose, according to instructions/procedures set in place at national level. Controllers appointed by the beneficiaries can be either internal (functionally independent department within the beneficiary organisation) or external (auditors belonging to independent institutions or selected on the market). In some cases, beneficiaries should select the controller from a short-list proposed at national/regional level. In any case, FLC selected by beneficiaries are subject to approval of the Participating State before the controls.



In the following table, you may find an overview of the different control systems depending on each Participating States of the Interreg MED Programme.

Centralized systems	Decentralized systems
Croatia	Cyprus
Gibraltar (UK)	France
Greece	Italy
Slovenia	Malta
Albania	Portugal
Bosnia & Herzegovina	Spain
Montenegro	

Controls performed on the expenditure can either be free of charge or charged to the beneficiary depending on the National Control System. More information on national control systems, including information on the cost of the control, can be found on www.interreg-med.eu and the websites of the national contact points.

Beneficiaries are requested to check carefully national provisions and procedures applicable in the concerned Participating States.

In a centralized FLC system: A national central public body controls expenditures of all partners from its territory.

In practice:

- Partners of approved projects established in a Participating State where control system is centralized should contact the national body in charge of FLC or their national contact point who will inform them about the First Level Control procedure to be followed for the certification of expenditures (name and contact of the controller(s), timeframe and deadlines, compulsory documents,...).
- Partners whose national system is centralized should send their declarations of expenditures to their national public body for certification before their inclusion in a project payment claim.
- Control costs may be borne by the State or by the beneficiaries and are, in this case, eligible as project expenditures (refer to your National Control System description for details).

In a decentralized FLC system: The controller is selected by the partner, each project partner has to provide an **approbation certificate delivered** upon request **by the approbation body designated by the Partner State**, for the chosen first level controller

In practice:

- Immediately after project approval partners located in a Participating State with a decentralized system should contact the national/regional body in charge of the FLC approval or their national contact point, which will inform them about the procedure to be followed in order to have their FLC approved (specific terms for selection of FLC, documents to be provided,...).
- The partner will then fill out a form - provided by the national / regional body - detailing the choice of controller and qualifications. Upon receipt, the central national / regional approbation body will assess the information provided and validate the choice of the controller.
- Once approved by the approval national/regional body, the partner must include the information of the approved FLC in Synergie CTE in order to grant him/her access to the on line monitoring tool of the Programme.
- Partners must send their declarations of expenditures to their approved FLC and obtain certifications before their inclusion in a project payment claim.
- In some Participating States, the expenditures certified by FLC must be validated at national level before their inclusion in a project payment claim. In these cases, timing for certification process should be adjusted and the national validation accompanying each certificate will be uploaded on SYNERGY CTE and provided by the PPs when submitting their certificates to their Lead Partner.
- Control costs borne by beneficiaries are eligible (refer to your National Control System description for details).
- If, during the project implementation, a new FLC is appointed, a new approval has to be provided.
- If an external controller is selected by the project partner, this controller has to be chosen in line with public procurement rules.

NB: Access to Synergie CTE is given to the controller; only once he is approved by the national/regional authority. The First Level Controller can begin the work of verification of expenditures entered by partners from the day he receives the access.
The national control system may provide further conditions concerning the choice of FLC.

The role of the First Level Control

Expenditure incurred and paid by beneficiaries can be claimed within the project only after it has been verified by a FLC.

First Level Control carry out formal **checks on partner expenditures declared during the project implementation each time before submitting a Payment claim.**

The aim of the FLC is to ensure to the Managing Authority, the Certifying Authority and, most importantly, to the project itself, that costs claimed for reimbursement by the ERDF / IPA Interreg MED Programme are justified and that their payment is requested by Lead Partners in accordance with the legal and financial provisions of the Subsidy Contract, the Interreg MED Programme rules and EU and national provisions.

First level control also gives to the "beneficiaries" (a term that refers to both the Lead Partner and the project partners), the guarantee that project accounts comply with the above-mentioned obligations and with legal and financial obligations of each structure contributing to the co-financing of the operation, in accordance with its legal situation and the valid legislation in the concerned State.

The FLC is responsible for verifying that all activities and expenditures have been incurred in compliance with Programme, national and EU rules on eligibility of expenditures (see the factheet Eligibility of expenditures of the Programme Manual, as well as fact sheets on State aid and Public procurement).

The FLC must verify that:

- a) Expenditure is in line with European, Interreg MED Programme and national eligibility rules and complies with conditions for support of the project and payment as outlined in the Subsidy Contract;
- b) Expenditure was actually paid with the exception of costs related to depreciations and « simplified cost options »;
- c) Expenditure was incurred and paid (with the exceptions above under point b) within the eligible time period of the project and was not previously reported;
- d) Payment of staff costs is proven on the basis of payslips or documents of equivalent probative value;
- e) Expenditure based on « simplified cost options » (if any) is correctly calculated and the calculation method used is appropriate;
- f) Expenditure reimbursed on the basis of eligible costs actually incurred is either properly recorded in a separate accounting system or has an adequate accounting code allocated.

- The expenditures reported under SCO are recorded in the programme monitoring tool. The necessary audit trail exists and is available for inspection;
- g) Expenditure in currency other than Euro was converted using the correct exchange rate;
 - h) Relevant EU/ national/ institutional and Interreg MED Programme public procurement rules were observed;
 - i) EU and Programme publicity rules were observed;
 - j) Co-financed products, services and works were actually delivered;
 - k) Expenditure is related to activities in line with the consolidated application form and the Subsidy Contract.
 - l) The beneficiary received external national public counterparts corresponding to validated expenditures

NB: The First Level Control covers 100% of the expenditure declared.

NATURE OF CONTROLS

NB: Given the nature of the activities financed by the Interreg MED Programme (meetings, studies, seminars, etc.), and in order to inform the FLC on the type of supporting documents that should be checked, you can find under factsheet "eligibility of expenditure" of this Manual a selection of possible controls, supporting documentation, and references aiming to help controllers on their tasks.

The control of expenditure carried out by the FLC is done through administrative verifications (i.e. desk-based verifications) as well as on-the-spot verifications. Besides the Programme rules, the FLC has to respect national requirements and procedures set up by each Participating State. On-the-spot verifications are performed by the controller at the premises of the beneficiary as well as in any other place where the project is being implemented.

The on-the-spot verification allows to check the existence and delivery of goods and services especially with regard to cost items referring to the budget line equipment as well as to check the accuracy of the management system put in place in each partner structure and the existence of accounting documents forming the audit trail.

Furthermore, on-the-spot verifications should check the existence and effective functioning of an accounting system on the level of the controlled beneficiary.

The Interreg MED Programme highly recommends to perform an on-the-spot verification **at least once during project's lifetime**, and without waiting until the project's closure unless the concerned Participating State rules indicate differently in the national control system.

Furthermore, an on-the-spot verifications are **compulsory on those beneficiaries realizing investments in thematic equipment with a value of more than EUR 2.000 per cost item and/or any investment in infrastructure/works**.

In any case, it is important to document in the first level control checklist the check on the existence and reality of goods, works and services procured, the type of evidence viewed and the method chosen. If a first level controller decides not to carry out an on-the-spot check for a partner at all, sound justifications have to be provided.

The national authority responsible for the designation of FLCs and the private controllers are responsible for the **methods** used in the control. The Programme formulate a series of recommendations, set out here-below, but the controllers are required to consult the description of First Level Control System of their State, and available on the Programme website, for more details.

In practice: The FLC should:

- Verify the compliance of project partner expenditures controlled under the rules set in the Programme Manual;
- Verify the date entered by the partner in Synergie CTE;
- Validate the partner expenditures and fill-in a checklist in Synergie CTE regarding the control performed;
- Validate in Synergie CTE a FLC certificate (containing an official commitment on validation of expenditures, the control checklist and a list of verified expenditure) indicating the amounts presented, validated and rejected, (a template of FLC certificate is available in the Programme website);
- Print, sign and stamp the FLC certificate in order to be included in the partner audit trail.
- By signing the FLC certificate including the declaration of validation of expenditures, the controller confirms all the items and declares the proper use of funds. This statement should be based on proper checks as well as on a checklist whose format is provided by the Programme.

COMPETENCES OF FLC

As a general principle, and independently from the centralised or decentralised system in place, the criteria for professional qualifications and independence of FLC from activities and finances of the operation must be respected and justified. Wherever possible, the controller should have prior experience of control of projects co-financed by the EU.

Whether internal or external, the controller is required to be independent from the controlled structure and qualified to carry out the control of project's expenditure.

In order **to be considered independent**, the controllers have to fulfil certain criteria. An internal controller, if authorized by the national authority, has to belong to a unit which is organisationally separated from the units dealing with project activities and finances. An external controller can only be considered Independent if there are no other contractual relationships with the project or partner organisation that could lead to a conflict of interest.

With regard to **the qualification of the first level controller**, the partners have to bear in mind that the task of controlling project expenditure co-financed under the Interreg MED Programme goes beyond classical checks on accounts: it also involves a judgment on the **compliance with ERDF, national and Programme rules**. The controllers are therefore expected to have a profound knowledge of controlling project expenditure under the Structural Funds regulations as well as a good knowledge of English or French (considering that all Programme documents and reports are in one of the two Programme languages).

In the case of decentralised systems, the criteria of independence and qualifications, as well as the ones established at national level, must be respected for the selection of the FLCs.

TIMEFRAME FOR THE FLC VERIFICATIONS

The FLC should be performed at the end of each reporting period before validation of the project payment claim by the Lead Partner. A calendar to be respected for the submission of the payment claims is included in the Subsidy Contract.

After the submission of the expenditures for control, the FLC has three months to perform this control.

In practice:

- Partners should enter their expenditures in Synergie-CTE as soon as possible.
- FLC should be available at the end of the reporting period in order to perform the control without delay.
- The exchanges between the controlled partner and the FLC should be fluid in order to speed up the control.
- Every six months the project beneficiaries should ask the controller to execute as soon as possible the control on project expenditures and foresee a time of exchanges and clarifications with the FLC.
- Once the FLC declaration is signed by the controller and the partner report filled-in by each beneficiary; the full documentation should be made available to the project lead partner, or, where applicable, sent to the national authorities in charge of issuing the national validations (case of Spain and Portugal Only).
- Before the end of the period of 3 months after the end of the reporting period, the lead partners should receive the full documentation from each partner (FLC certificate + eventual National validation) duly filled-in and signed, and all their annexes.
- The lead partner should gather all partners' documentation on time in order to prepare the project payment claims and related report of activities and to send it to the JS.

NB: Lead Partners should send their project payment claims and all certificates and reporting documentation to the JS no later than 3 months after the end of the reporting period. After that date, the payment claim could be rejected by the JS.

INFORMATION ON THE FLC OF EU PARTNERS LOCATED OUTSIDE THE MED AREA

For partners from the European Union but located outside the area eligible to the Programme, once the project is approved and a specific agreement is signed between the MA and the authority in charge of FLC systems on the EU partner territory, the EU external project partners should contact their national/regional authority in order to get information on the process for appointing the FLC.

In states where the cost of the first level control (centralized or not) are the responsibility of the partners, such costs are eligible for reimbursement and must be included in external expertise budget line of partner budgets.

On-the-spot verifications (JS or PS)

On-the-spot visits or verifications are implemented by the Participating States and the MA/JS in accordance with section 125.4 and 125.5 (b) of Regulation (EU) No. 1303/2013.

Annually the JS selects a sample of beneficiaries (Lead Partners and partners) to be controlled on-the spot, taking into account a list of criteria approved by the Interreg MED Programme Monitoring Committee. The Monitoring Committee is informed of the sample and the results of on-the-spot verifications.

This type of control is complementary to the project follow up and the payment claims verifications carried out by the MA/JS, and focuses on the respect of the elements constituting the audit trail, the management structures as well as the financial and accounting monitoring systems of the beneficiary and the qualitative monitoring of the project.

At the end of each on-the-spot verification, a report is drafted by the JS and submitted to the concerned beneficiary in order to undergo a contradictory procedure. Within the contradictory procedure, each beneficiary, assisted by their national authority, has the possibility to make comments on each finding. At the end of this procedure, the MA/JS has to confirm or renounce the findings; following this, the audit report becomes final, and the audit follow-up process starts. An on-the-spot verification may lead to the formulation of recommendations or identification of financial corrections.

For what concerns on-the-spot verifications carried out by the Participating States, they will be conducted in accordance with a specific methodology and work plan established by the Participating State itself. The results of those verifications will be communicated to the JS in order to follow the implementing of the recommendation or financial corrections.

Second Level Audits

The word "audit" means the checks carried out by the second level auditors in accordance with Article 127 of Regulation (EU) No. 1303/2013 (General Regulation) and Article 25 of EU Regulation 1299/ 2013 (ETC Regulations). The second level audits constitute an additional check of expenditure organized by the Programme that focuses on a sample of operations. These audits are coordinated by the AA of the Interreg MED Programme, in cooperation with the Group of National Auditors (GOA), and supported by the MA/JS.

The AA is the body that, in compliance with Article 127 of Regulation (EU) No. 1303/2013 is responsible for ensuring the effective functioning of the management and control system of the Programme, by performing:

- Audits on the MA/JS as well as on the national control systems, via the so called audits of systems;
- Audits on an appropriate sample of projects, according to internationally accepted audit standards, on the basis of the expenditure claimed by the beneficiaries and certified by the CA to the EC, via the so called audit of operations.

In the framework of the Interreg MED Programme, the AA is supported by the GoA, which, in compliance with Article 25 (2) Regulation (EU) No. 1299/2013, is composed of a representative from each Participating State of the Programme. The AA and GoA must be independent from

other Programme bodies (MC, MA, JS, FLCs) as well as from the projects co-financed by the Programme.

The audit work is performed by the AA and the GoA on the basis of an audit strategy setting out the audit methodology, the sampling method for audits on projects and the planning of the audits. In the framework of the Interreg MED Programme, the AA and the GoA entrust the implementation of audit work to an external audit firm. This firm carries out its work in accordance with the audit strategy set in place by the AA and GoA and under their supervision. Audits on operations are performed once a year during the entire Programme lifetime.

The same beneficiary might be audited several times if the same project is selected more than once or if the beneficiary is involved in more than one project.

The audit follow-up is different in relation to the type of findings detected:

- In case of findings having financial consequences (i.e. in case of detecting irregular amounts), the amounts considered as not eligible will be withdrawn from the next payment claim submitted to the MA/JS or be recovered from the concerned partner if the project is already closed or if the amount to be reimbursed is lower than the irregular amount;
- Should the findings have no financial consequences, the affected beneficiary (and/or its controller if applicable) will have to document that recommendations set by the auditors have been followed up.

As a precautionary measure, and in compliance with provisions in the subsidy contract, the MA is entitled to withhold any ERDF payment to projects undergoing an audit, until its conclusion. The MA/JS are not directly involved in the implementation of controls but support the communication flows between all parties involved in the audit process, i.e. the AA, GoA members, audit company, Lead Partners and Project Partners. The MA/JS will also provide further guidance to beneficiaries on audit preparation and follow-up.

Other controls and audits

In addition to the Programme bodies, the European Commission, the European Anti-Fraud Office (OLAF), the European Court of Auditors (ECA) and, within their responsibility, the auditing bodies of the Participating States or other national public auditing bodies are entitled to audit the proper use of funds by the beneficiaries. The concerned beneficiaries are notified in due time about any audit to be carried out by authorised persons of such bodies.

Beneficiaries undergoing an audit have to provide any project-related information to the above auditing bodies and give access to their business premises. Audits may occur at any time until the end date for the retention of documents.