



The 2014-2020 Interreg Programme Management Handbook is composed of fact sheets. Each theme is covered by one fact sheet so that the reader can easily and quickly choose the relevant fact sheet.

Fact Sheet; **First Level Control (FLC)**

1. What is it? What is the definition of the term / theme of this fact sheet?

There are many levels of control in Interreg, the most important being: 0) Internal control of the beneficiary (e.g., the person preparing the financial report for the project partner); 1) Lead Partner control; 2) Management verifications (by FLC and/or MA/JS); 3) Audit by the Audit Authority; 4) Audit by the European Commission. This fact sheet deals with level 2 (Management verifications by FLC).

According to Article 125(4)(a) of the CPR, management verifications ensure “*that the co-financed products and services have been delivered and that expenditure declared by the beneficiaries has been paid and that it complies with applicable law, the operational programme and the conditions for support of the operation.*”

2. Why we are discussing it?

FLC is often seen as a bottleneck in Interreg programmes. On the one hand, quality and reliability of FLC are often decisive factors in programme financial management, and any serious shortcomings can lead to financial errors at the programme level. On the other hand, high quality controls take time and resources, especially bearing in mind that controllers are often asked to control 100% of expenditures. There are also many areas of control, such as public procurements, that require the kind of specific expertise that might not always be available.

3. Reference to the regulations and what is new in the 2014-2020 programming period compared with the 2007-2013 programming period

- *Article 125(4)(a) of the CPR* defines management verifications
- *Article 125(5) and 125(6) of the CPR* clarify that administrative verification (i.e., on-desk) are required for every financial report. On-the-spot verifications (e.g., in the office of the beneficiary, at the site of a co-financed infrastructure) are also required, but can be sampled (i.e., a sub-set of beneficiaries can be selected for an on-site visit).
- *Article 23 of 1299/2013 (ETC)* clarifies that -in the case of Interreg- the Managing Authority can take over management verifications for the entire programme area. Where the managing authority is an EGTC, verifications must be carried out by or under the responsibility of the Managing Authority, at least for those Member States and third countries or territories from which there are members participating in the EGTC.
- The same article also clarifies that in all other cases (i.e., management verifications are not undertaken by the MA for the whole territory, or the MA is not an EGTC) each Member State or third country must designate the body or person responsible for carrying out the verifications in relation to beneficiaries in its territory (the *first level controllers*.)
- ETC eligibility rules are outlined in: *Commission Delegated Regulation No 481/2014 of 4 March 2014 supplementing Regulation (EU) No 1299/2013 of the European Parliament and of the Council with regard to specific rules on eligibility of expenditure for cooperation programmes.*



Legislative framework:

- EC Regulation 1303/2013 (CPR), Article 125(4-6)
- EC Regulation 1299/2013 (ETC), Article 23
- Commission Delegated Regulation 481/2014

4. Challenges and frequently-asked questions

- What is a good FLC system?
- Why is FLC so slow?
- What FLC documents/templates are available?

5. How they are addressed?

There are many different solutions for ensuring high quality in FLC. Some Member States and programmes are happy with their current FLC arrangements, while others are facing issues such as high error rates or slow processing of reports. There is not a single FLC system that would fit all the different settings in different countries. The following criteria can be distinguished:

- Who controls? Here we can distinguish public and private organisations. There are also some FLC systems where both public and private controllers are involved; for example, in cases where part of the FLC is sub-contracted to a private company.
- For a given Interreg programme, FLC systems can be centralised at different levels:
 - at the programme level (one FLC body/MA/EGTC verifying expenditure of all beneficiaries of one Interreg programme in all participating countries)
 - at the Member State level (one FLC body controlling all beneficiaries from one Member State)
 - at the regional level (one FLC body controlling all beneficiaries from one region)
 - at the project level (one FLC body controlling the whole project partnership, regardless of country)
 - at the project partner level (each project partner might have a different controller)

Except for systems centralised at programme or project levels, project partners from different countries or regions can face different control systems and procedures.

- How is the FLC body assigned to the beneficiary? Here we can distinguish two main ways of assigning the FLC to the beneficiary:
 - FLC is assigned by authorities, and beneficiaries have no choice;
 - Beneficiaries can choose the FLC body freely (the selection is usually made according to national public procurement law). Often in this case, the selected FLC body needs to be approved by either the programme or national authorities.

In some Member States a pre-defined list of available control bodies is created by the authorities, and beneficiaries can choose from a limited number of institutions on this list.

- FLC can be financed through the following sources:
 - national/regional budget of the Member State or region participating in the Interreg programme;
 - programme's TA budget;
 - project's budget (as eligible project cost).

There are also systems where national/regional and programme's TA funds are combined.

Each FLC system has its advantages and disadvantages. Some systems may work better in some Member States and worse in others. Centralised public systems are often slow compared to private/de-centralised systems. Centralised public systems also tend to have higher financial deduction rates compared to private/decentralized systems. The issue of whether or not high financial deduction rates are an



indicator for the quality of FLC (the more financial cuts the better the FLC) needs to be decided on a case-by-case basis: There are also overly risk-averse controllers who cut more than would be necessary. Perhaps the biggest advantage of centralized public systems is that there are a limited number of controllers, and that they can be informed and trained by the programme. It can also be easier for a programme to assess the quality of FLC in certain countries or regions.

Private/decentralised systems often work with a high number of controllers with various professional backgrounds and experience. For this reason, the quality of FLC can vary substantially from one controller to the next. Systems in which beneficiaries choose and finance their own FLC from the project budget can also face potential conflict of interest issues: controllers are paid by the same institution they are being asked to control. On the other hand, the risk of systemic errors due to under-performance of entire FLC bodies can be smaller in de-centralised systems where many controllers take over FLC.

6. How does it work in practise?

In the past, many FLC systems undertook 100% control of all expenditure items. This is often taken to mean that every single item is verified in relation to a set of control questions. In order not to forget verifications and to document the work actually done, controllers use control check lists. These vary in detail and approach among the different FLC systems and Interreg programmes. Controllers also often use FLC control reports in which they describe the control approach, the findings and follow-up measures. In addition, FLC certificates are signed by controllers for each project partner and progress report. Control checklists are sometimes merged with reports, and reports in turn are sometimes merged with certificates.

7. Good practice examples

In the past, auditors have often encountered insufficient documentation on the side of FLC. Controllers need to document their work. For audits it must be obvious what was verified by controllers and for what control purpose. FLC checklists are part of this documentation.

For experienced controllers, risk-based sampling of expenditure items can significantly improve the quality of FLC. Risk-based sampling has the advantage that it frees resources and allows controllers to focus on those areas that pose a high risk of financial misstatement. The guidance on management verifications (available as draft only at the time of writing) provides more detailed information.

8. Reference to other, more detailed papers

- *Guidance for Member States and Programme Authorities Management verifications to be carried out by Member States on operations co-financed by the Structural Funds, the Cohesion Fund and the EMFF for the 2014- 2020 programming period.* This document provides a good overview and gives some examples of controls. Available as draft only at the time of writing.
- *Compendium of First Level Control Procedures in Territorial Cooperation* (INTERACT, 2010) available at: http://admin.interact-eu.net/downloads/1994/Compendium_of_First_Level_Control_Procedures_in_Territorial_Cooperation.pdf
- *First Level Control Systems Study: Analysis of FLC systems used in ETC programmes across Europe* (INTERACT 2014) available at: http://admin.interact-eu.net/downloads/8290/INTERACT_Study_FLC_Systems_Study_September_2013_.pdf
- *HIT tools: FLC checklist, report and certificate. FLC risk assessment and sampling methodology* available at: http://www.interact-eu.net/tools_for_financial_control_and_audit/tools_for_financial_control_and_audit/592/17413