First Level Control Systems Study

Analysis of FLC systems used in ETC programmes across Europe

INTERact Sharing Expertise

co-financed by the European Regional Development Fund (ERDF)

ISBN 978-80-971481-5-7

INTERACT Point Vienna is funded by INTERACT, which is part of Objective 3 European Territorial Cooperation. INTERACT is co-financed by the European Regional Development Fund (ERDF). INTERACT Point Vienna is hosted by the City of Vienna Municipal Department 27.

INTERACT is designed to capitalise on the vast pool of experience and expertise accumulated through INTERREG in the areas of regional development, cross-border cooperation, transnational cooperation and interregional cooperation.

This publication was drafted based on extensive input received from European Territorial Cooperation programmes. The process of drafting the document was led by Bogusława Łukomska of INTERACT Point Vienna.

We acknowledge the efforts made by all contributors.

Introduction

There are many different solutions for ensuring management verifications (First Level Control) in Europe. Programme and national authorities are often not aware which other solutions are available and whether they are efficient and effective or not. This is why INTERACT was asked to prepare an overview of different systems used for management verifications of ETC projects. The new programming period is approaching and FLC solutions for the 2014-2020 generation of programmes must be decided soon. Some Member States and programmes are happy with their current FLC arrangements and are not considering different options. There are, however, many who are looking for more efficient or effective solutions and are interested in the experiences of others.

This analysis provides an overview of different FLC systems used in ETC. It is also an attempt to classify the systems based on several criteria. While a differentiation of centralised and decentralised systems is often made, it is not a very precise or informative distinction, as there are many levels of centralisation and other relevant criteria which define an FLC system. Each FLC system is a combination of a set of criteria such as level of centralisation (national, regional, local), source of financing (public funds, programme Technical Assistance (TA), project budget) or whether or not beneficiaries have a choice in selecting their controllers.

FLC systems often cannot be associated with only one country or programme. Some systems are established at the national level, others at the regional or programme level. In some Members States, all programmes are verified in the same way; in others different solutions exist for single programmes or groups of programmes (eg CBC or transnational programmes) or groups of beneficiaries.

The main advantages and disadvantages of different FLC solutions are also highlighted in this study. This is based on information received from different programme and national authorities as well as controllers themselves. We do not aim to conclude which system is better or more efficient than others. The decision to use a certain management verifications system is a combination of different factors, and what works in one Member State or programme might not be the most efficient solution for others.

We collected data for this analysis through a Europe-wide survey asking national and programme bodies to provide information about the FLC system(s) they are using. A significant amount of data was received, which allowed us to identify different FLC solutions and evaluate their effectiveness and efficiency.

The analysis is based on the description of 32 FLC systems (national, regional or programme-specific): 21 in which the controls are done by public institutions, eight by private and in three either public or private.

Most of the systems are set on national, regional or strand (CBC, transnational, interregional and networking programmes) levels. Most of the data come from ETC programmes, but we also received some data concerning IPA-CBC programmes and

countries (4 FLC systems). The FLC systems in IPA CBC programmes do not differ from those of ETC programmes, therefore, there is no reason to treat them separately in this study.

Limitations of the study

Our conclusions are based on a sample of FLC systems (32) which is too small to draw statistically sound conclusions or to describe all national FLC systems, as initially planned. This is not a scientific study and results need to be seen as indications only.

Information and data for this study come from persons involved directly or indirectly in the management verifications of ETC projects. This is valuable first-hand experience and should be understood as such. In some cases only one person described a system and the information could not be double checked.

There is also a certain geographic bias in our study as most of the answers received concern Central and South Eastern Europe. There are some answers from Northern countries and very few from the South of Europe.

Categorisation criteria

The categorisation of FLC systems was based on several criteria:

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. It can be noted, however, that the bodies ultimately responsible for FLC are always public institutions.

Among the analysed systems, public bodies controlled in 21 cases and private bodies controlled in 8 cases. In 3 cases both private and public FLC bodies were involved.

What is the level of centralisation of the FLC system?

For a given ETC programme, FLC systems can be centralised at different levels:

- at the programme level (one FLC body verifying expenditure of all beneficiaries of one ETC 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 partner-

ship, 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 be part of very different control systems.

As depicted in Chart 1 below, most of the 32 analysed systems are centralised at programme (4 cases), Member State (11 cases) or regional (6 cases) levels. Complete decentralisation, where each project partner can have a different controller, is used by nine systems, and in one case the FLC is selected at the project level (the same controller for all project partners). In addition, there is one particular case which does not comply with any of the pre-defined categories. In this case the controllers are decentralised at the payment claim level, meaning that every payment claim might be checked by a different controller.

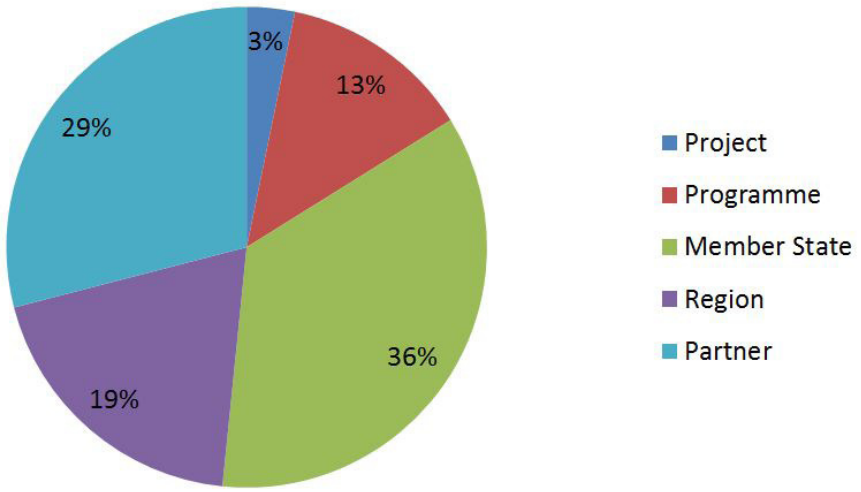


Chart 1: Level of centralisation of FLC systems

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 (23 cases);
- 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 (9 cases).

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. However, this option was not used by any of the FLC systems which responded to our questionnaire.

How is FLC financed?

FLC can be financed through the following sources:

- national/regional budget of the Member State or region participating in the ETC programme;
- programme's TA budget;
- project budget (as eligible project cost).

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

Most of the analysed FLC systems (12 cases) are financed by project partners themselves (see Chart 2 below) as an eligible cost of the project. Many FLC systems are also financed by national/regional funds (9 cases) or a combination of the national/regional funds with the TA budget of ETC programmes (5 cases). Six FLC systems are financed entirely using the TA budget.

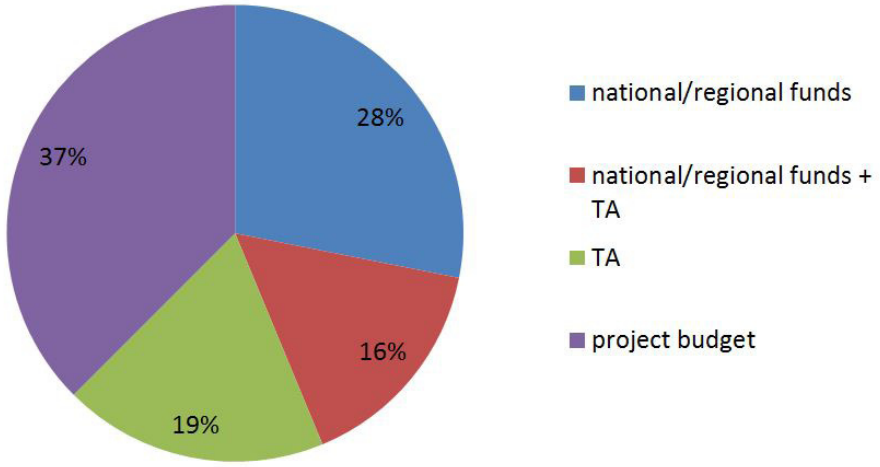


Chart 2: Source of financing of all FLC bodies

Categorisation of FLC systems

An FLC system is defined by the combination of the various aforementioned categorisation criteria. We were able to distinguish three main categories of FLC systems, which covered the majority of systems analysed. There are also some systems, which could partly be identified with one of the main categories and a few, which could not as they are quite particular and unique.

75% of all the analysed systems (24) can be placed under one of the three main categories identified:

Category 1 (Public, centralised at MS or regional levels) (15 systems, 47% of all analysed systems)

- Public FLC body
- Centralised at MS or regional level
- Beneficiary cannot choose the controller
- FLC is financed by national/regional funds or programme's TA (or a combination of those).

Category 2 (Private, de-centralised, funded by projects) (5 systems, 16% of all analysed systems)

- Private FLC body
- Decentralised at project partner level (project partners can have different controllers)
- Beneficiary chooses the FLC freely but needs approval from the programme or national authorities
- FLC is financed using the project budget as eligible project cost.

Category 3 (Centralised at programme-level) (4 systems, 13% of all analysed systems)

- Either public (3 cases) or private (1 case) FLC body
- Centralised at programme level (one institution is controlling all projects, all partners)
- Beneficiary cannot choose the controller
- FLC system is financed using the programme TA budget (3 cases) or in one case the project budget.

In the latter case the common denominator is the fact that the FLC body is centralised at programme level and that beneficiaries cannot choose the FLC body. This solution requires controllers who are aware of national rules of at least two Member States in order to be able to control the entire partnership.

Other solutions

- Two of the analysed systems partly fulfil the criteria of the category 1 systems (public, centralised), with an exception of the financing source. In those two cases, the public FLC body (centralised at regional level) is financed using the project budget as eligible cost.
- The other two systems fulfil most of the criteria of category 2 (private, decentralised) except for the fact that the FLC can be done by either a public or private institution. It is decentralised at the project partner level and beneficiaries are free to select a private or public controller. FLC is considered an eligible project cost.
- In one case FLC can be done by public controllers only, but project partners are free to choose the public body. It is financed using the programme TA budget.
- Another solution involves a private organisation which undertakes FLC for all beneficiaries of the MS (ie centralised at MS level); therefore, the beneficiary cannot choose the control body freely. FLC in this case is financed as an eligible project cost.
- One rather unusual case concerns a system, where FLC is assigned at the project level (one FLC body for the entire partnership). Projects select the FLC body freely (either a public or private body) and need approval from programme authorities. Similarly to the category 3 systems (centralised at programme level), the challenge is that the controllers must be aware of the national rules of at least two Member States. This is even more challenging considering that there are many different FLC bodies involved, and programme authorities have limited possibility to train the controllers and oversee their work.
- Another particular FLC system was created by one of the Member States participating in the survey. The Managing Authority selected a number of individual private controllers via a public procurement procedure. Each time a project partner submits a payment claim, the Managing Authority allocates a random controller from this shortlist to the claim. We could say in this situation that FLC is decentralised at the project payment claim level, since different controllers verify different payment claims. In this case the FLC is financed using the TA budget of the cooperation programmes.

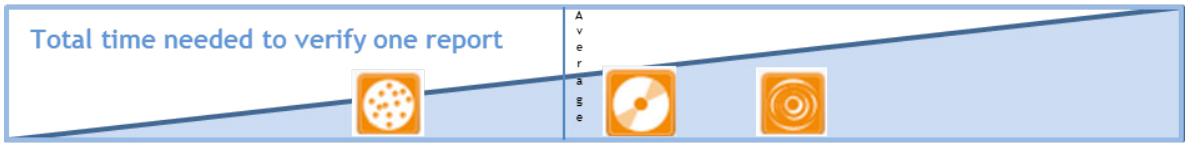
Analysis of the FLC systems - Main Categories 1-3

Which system is faster?

If we consider the total time needed to verify one report (from submission to issuing of the FLC certificate) we can see that the 32 systems analysed need on average 2,5 months (responses ranging from 1 to 6 months). Most of the systems comply with the regulatory time limit of three months. Only in three cases is the average time needed to verify one report estimated at more than three months.

The data show that the category 2 systems (private, de-centralised) are considerably faster than those of categories 1 (public, centralised at national or regional levels) and 3 (centralised at programme level). The private/decentralised systems analysed needed on average only 1,3 months to verify one report, while public/centralised systems needed 2,6 months and FLCs centralised at the programme level needed even more time (about 3 months).

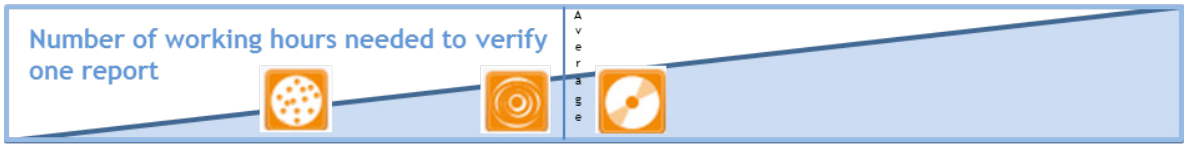
The decisive factor here is centralisation: centralisation on the national, regional or programme levels tends to slow down FLC.



Which systems require more work?

If we now consider the number of working hours needed to verify one report, we see that category 2 systems (private, de-centralised) invest less working time in verifying a report. In total, the 32 systems needed an average of 30 working hours to finalise a single report (ranging from 10 to 80 working hours). The systems classified under category 2 needed on average only 16 working hours, while category 1 (public, centralised) and 3 (centralised at programme-level) needed 33,5 and 27,5 working hours respectively. Some of the non-classified systems needed even more working hours for the verification of one report (up to 80).

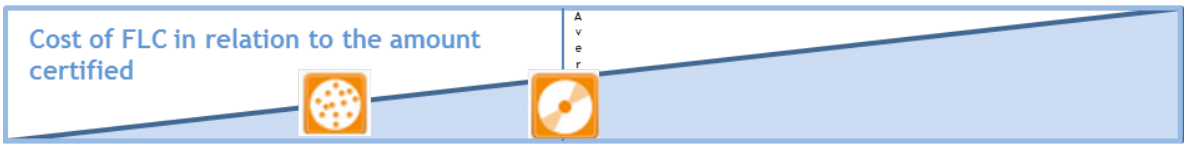
Centralised/public systems tend to invest more working time per report than de-centralised/private systems.



Which systems are more expensive?

It is difficult to reply to this question as there is not much data available, especially as regards the costs of centralised systems (categories 1 and 3). The average cost of all 18 systems for which data are available is 3,2% of the certified amount (ranging from 1% to 7,5%). Category 2 systems (private, decentralised) are on average cheaper (2,3% of certified amounts) than category 1 systems (3,2% of the certified amount). It is not possible to give any average cost for the category 3 systems due to limited data received. It must be underlined, however, that this information might not be representative. We only received information from 6 out of 15 systems from category 1, and only 1 out of 4 from category 3. Only for category 2 did we receive full information (5 out of 5). It is understandable that less information is available on the costs of public and centralised systems as they are often financed through national or regional budgets and programme authorities are not aware of their costs.

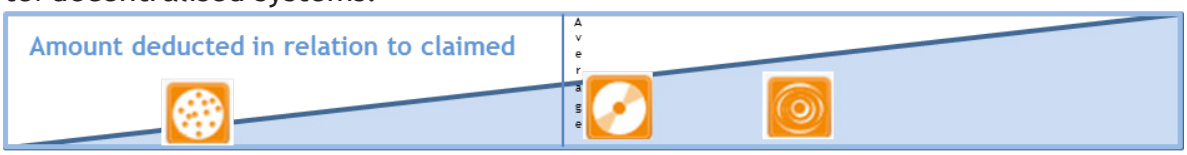
Centralised systems tend to be more expensive compared to private/decentralised systems.



Which systems discover more errors?

Respondents to the survey also estimated the average deductions from the amounts initially claimed. Although high deduction rates do not necessarily indicate good FLC systems , they could be an indication for strict and less strict FLC systems, especially in the context of wide variety of project partners and qualities of financial reports. In general, the average deduction rate for the 32 systems is 4% (ranging from 1% to 10%). Our data show that private/decentralised systems (category 2) tend to deduct less (1,3% of the claimed amount) compared to category 1 systems (public, centralised) (4,1%). In our survey, FLC systems centralised at the programme level had the highest average deduction rate with 6,7% of the amounts claimed by project partners. It must be emphasised, however, that in the case of category 2, information is based on a limited sample and should be treated only as a rough indication. Information regarding category 2 systems is limited because private/decentralised systems consist of many different controllers and it is more difficult to collect information.

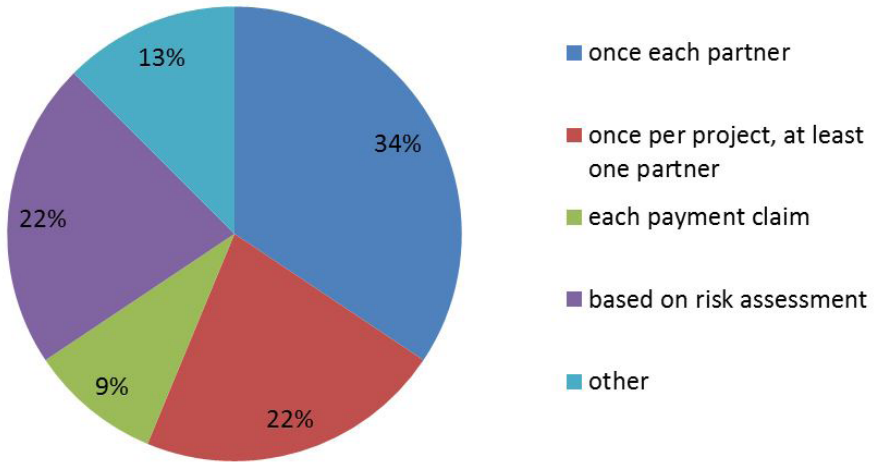
Centralised systems tend to deduct more from payment claims compared to private/decentralised systems.



Which systems perform on the spot verifications more often?

As presented on Chart 3 below, most of the FLC systems visit each project partner at least once during the project implementation (11 cases), seven FLCs visit every project at least once, but not necessarily each partner. The other eight systems perform on the spot verifications based on a risk assessment. In three cases FLC visits partners on the occasion of every payment claim. Three other systems have various approaches to on- spot verifications (eg twice every project).

Chart 3: Frequency of the on the spot checks for all FLC bodies



There does not seem to be any obvious correlation between the type of FLC system and the frequency of on the spot verifications.

Advantages and disadvantages of different solutions

Programme authorities and FLC bodies also provided us with information regarding advantages and disadvantages of the systems with which they work. Many of the characteristics were repeated throughout the survey and could be clearly matched to one of the main FLC systems categories defined in this study. Perceived advantages and disadvantages (qualitative information) also largely confirm the quantitative analysis presented above. One notable exception is the cost of control by private organisations, which is perceived as high compared to public organisations, but our data did not confirm this.

Below you will find a summary of common advantages and disadvantages of different FLC systems based on qualitative answers received.

Advantages and disadvantages of different FLC systems

Category 1 (public, centralised at national/regional levels)

Advantages

- The same/similar control approach for all partners
- The same interpretation of eligibility rules for all partners
- Often experienced staff
- Independant controllers
- Usually good and easy cooperation with programme authorities
- Usually no costs for beneficiaries
- Transparency
- Easier to check double funding (cross-check with other reports/ projects/programmes)
- Easier to control the quality of the FLC verifications

Disadvantages

- Often understaffed
- High workload, especially in certain peak periods
- Controllers need to know rules of several programmes
- Long lasting controls, especially in peak periods
- Often high costs for MS or programmes' TA budgets
- Often complicated procedures and bureaucracy
- Often inflexible
- Danger of systemic errors

Category 2 (private, decentralised)

Advantages

- Quick and efficient verifications
- Often experienced controllers (usually certified auditors)
- Proximity to beneficiaries
- Less danger of systemic error

Disadvantages

- Variable quality of controls of different controllers
- Often expensive
- Potential conflict of interest – beneficiary is financing FLC
- Difficult coordination with programme/national authorities
- Difficult to verify the quality of controls
- Training of controllers is difficult
- Some audit companies perform standard company audit and not management verification according to programme rules

Category 3 (centralised at programme level)

Advantages

- The same/similar control approach for all partners
- The same interpretation of eligibility rules for all partners
- Standardised procedures

Disadvantages

- Requires many resources
- Time consuming
- Limited possibility to perform on the spot verifications due to considerable distance to some beneficiaries
- Controllers often have limited knowledge of the rules on the other side of the border

Conclusions

Each FLC system has its advantages and disadvantages. One general conclusion that can be drawn from both the data analysis and the advantages and disadvantages identified by respondents is that the more centralised a system is, the slower the verifications are. However, it seems that centralised public systems (Categories 1 and 3) have higher deduction rates compared to category 2 systems (private/decentralised). The quality of private/decentralised systems also tends to vary more compared to public/centralised systems. Many people also noticed a potential conflict of interest for the systems in which beneficiaries finance their own FLC from the project budget. There is, however, less danger of systemic errors. It is also clear from the survey that from the point of view of programme authorities and national coordination bodies, it is much easier to train controllers and verify the quality of their work in case of centralised systems. There is no single perfect system and none of the systems described can be considered inherently bad. It is clear that a system that works well in one Member States does not necessarily work well in another.


9 788097 148157 >