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First Level Control System for European Territorial Cooperation Programmes

Competent Authority for Controllers Designation
Verifications and Certification Directorate
Treasury of the Republic
4 November 2021

Contents

- First Level Control System for European Territorial Cooperation Programmes
- FLC Selection and Designation Procedure
- FLC Responsibilities
- Designation Body Responsibilities



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Responsibilities of MSs under the Principle of Shared Management

CPR 1303/2013 Articles 72, 73, 74 & 122



Set up a sound management and control system



Prevent, detect and correct **irregularities** including fraud



Recover amounts unduly paid including interest on late payment

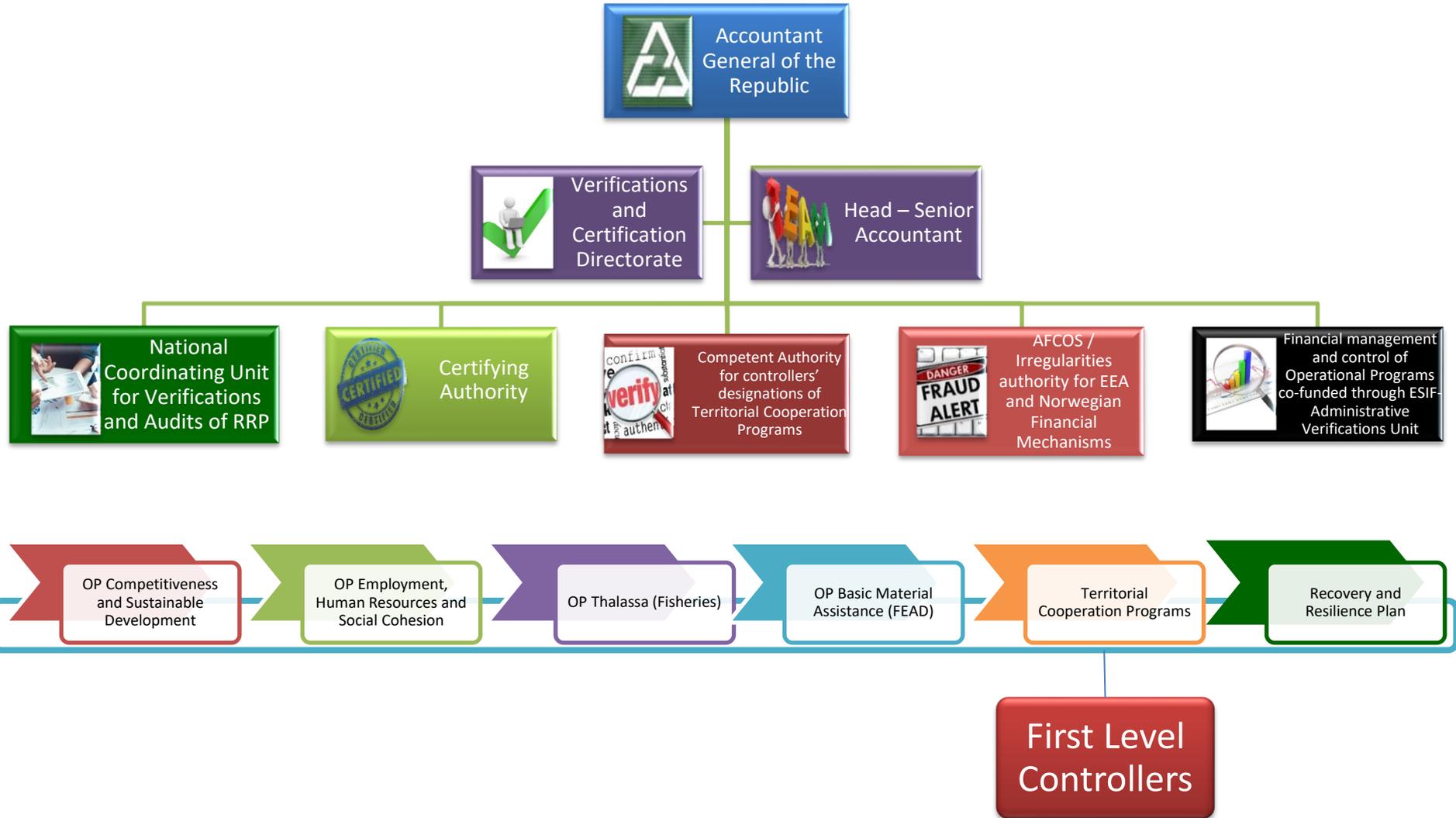


When amounts unduly paid to a beneficiary cannot be recovered (as a result of **fault or negligence on the part of member state**), the member state reimburses amounts concerned to the budget of the Union



Notify the Commission of irregularities that exceed EUR 10.000 in contribution from the Funds and keep it informed of significant progress in related administrative and legal proceedings

FUNCTIONS OF VERIFICATIONS AND CERTIFICATIONS DIRECTORATE



FLC Designation Procedure

Submission to the Designation Body:

- **First Level Controller Designation Checklist**
(Designation Checklist)
- **First Level Controller Designation Declaration**
(Designation Declaration)

after the approval of the project and before the expiration of the first reporting period



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1. Designation Checklist - the minimum criteria that an FLC should meet:

| | | |
|---|--|--|
|  |  |  |
| <p>his/her professional skills and capabilities</p> | <p>his/her independence</p> | <p>the trainings that he/she and the Control Team have participated, in respect of the required management verification procedures</p> |

2. Designation Declaration – Incorporates the **commitment** of the FLC and the Control team for:



his/her independence from the unit that is responsible for the activities and the financial management of the project,



participation in relevant trainings / workshops,



completion of the verification work within deadlines set by the Programme Authorities and the regulations and



all possible penalties in case weaknesses, errors or non-compliance are identified.

FLC approval procedure



CERTIFIED

Issuance of
**First Level
Controller
Designation
Certificate**
(Designation
Certificate)



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Verification of professional skills and abilities



statutory audit
firm registered on
the registrar of
statutory auditors

Professional skills and abilities of the FLC

- Control Team Conditions:

Controller –Audit Partner:

- Holds a professional title from a Professional Accounting-Audit Body and
- Is registered in the relevant Registrar that is maintained by the Cyprus Public Audit Oversight Board (CyPAOB).

Control Team Manager (Manager/ Supervisor) (where applicable):

- Holds a professional title from a Professional Accounting-Audit Association.



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Professional skills and abilities of the FLC - Training

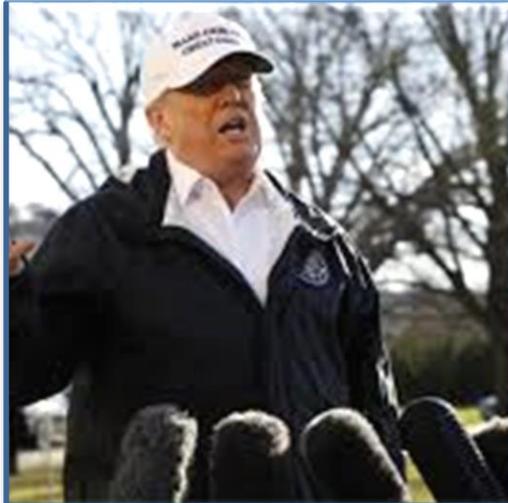
Required to participate in at least one (1) training / workshop

up to 3 years before the designation of the Controller as a first level controller

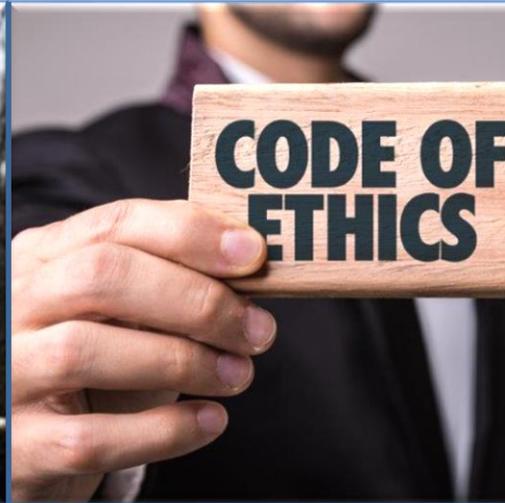
for the specific Programme

The Controller and/or the Control team (where applicable) is trained

FLC Independence is ensured with:



with the signed assurance of the project partner and the Controller of their independence from the former, from the implementation of project activities and the financial management of the project,



the Designation Body checks that the Controller is a member of a national or internationally recognized Professional Association of Accountants / Auditors, which obligates its members to follow a code of ethics,



the Designation Body performs on-the-spot verifications where it deems necessary.



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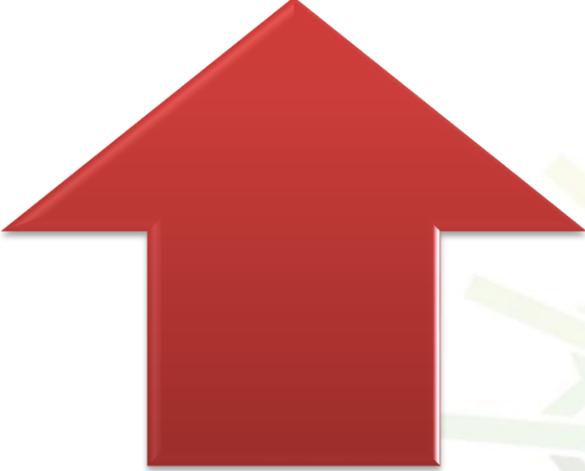


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Controller Responsibilities



administrative verifications **in relation to 100% of the expenditure** included in each payment claim of the project



on-the-spot verifications **during the implementation and/or at the completion** of the project, in order to obtain reasonable assurance regarding the implementation / delivery of the co-financed products and services.



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Administrative verifications

Based on examination of the payment claim submitted and the accompanying supporting documents, i.e.:

invoices

delivery notes

bank statements

progress reports

Administrative verifications – what is checked in respect of expenditure

is eligible in accordance with Programme, National and Community Rules

has been paid

has been correctly entered in the accounting system

has been correctly documented in the payment claim and are duly justified by relevant supporting documents

Corresponds to the eligibility period and the approved project

Is legal and regular in accordance to programme, national and community rules (e.g. public procurement, state aid)

On-the-spot Verifications - Checked at the premises of the project promoter / location of outputs / deliverables:



the **execution and delivery** of the co-financed products and services



the physical progress achieved



the compliance with Union information and publicity measures



Original Documents / maintenance of documents

On-the-spot verifications – frequency and scope

At least 1 on the spot verification per project

- during the course of its implementation
- and / or upon its completion.

Sample coverage

- of the work / project activities and/or of original documents that have been verified administratively

Controller should keep records that:

- describe and document the sampling method,
- specify the operations or transactions selected for verification.

How many on-the-spot verifications to perform per project?

Take into account inter alia:

the level of risk identified for the type of beneficiary and type of project concerned

the level of expenditure included in the work to be verified,

the frequency of previous verifications,

the results of previous verifications and audits of other competent bodies and

the inherent risk of the activities to be verified

On-the-spot verification checkpoints – complement administrative verifications

The accuracy and compliance with the conditions for treating net revenue (net revenue generated either during the course of the project implementation or after the project completion) set in the Funding Agreement,

the existence and accuracy of the original documents supporting the expenditure declared in the payment declarations, selected on a sample basis based on methodology,

the existence of procedures for maintaining supporting documents for a period of two years from the 31st December following the submission of the accounts in which the expenditure of the operation is included or longer period if foreseen by the Programme.

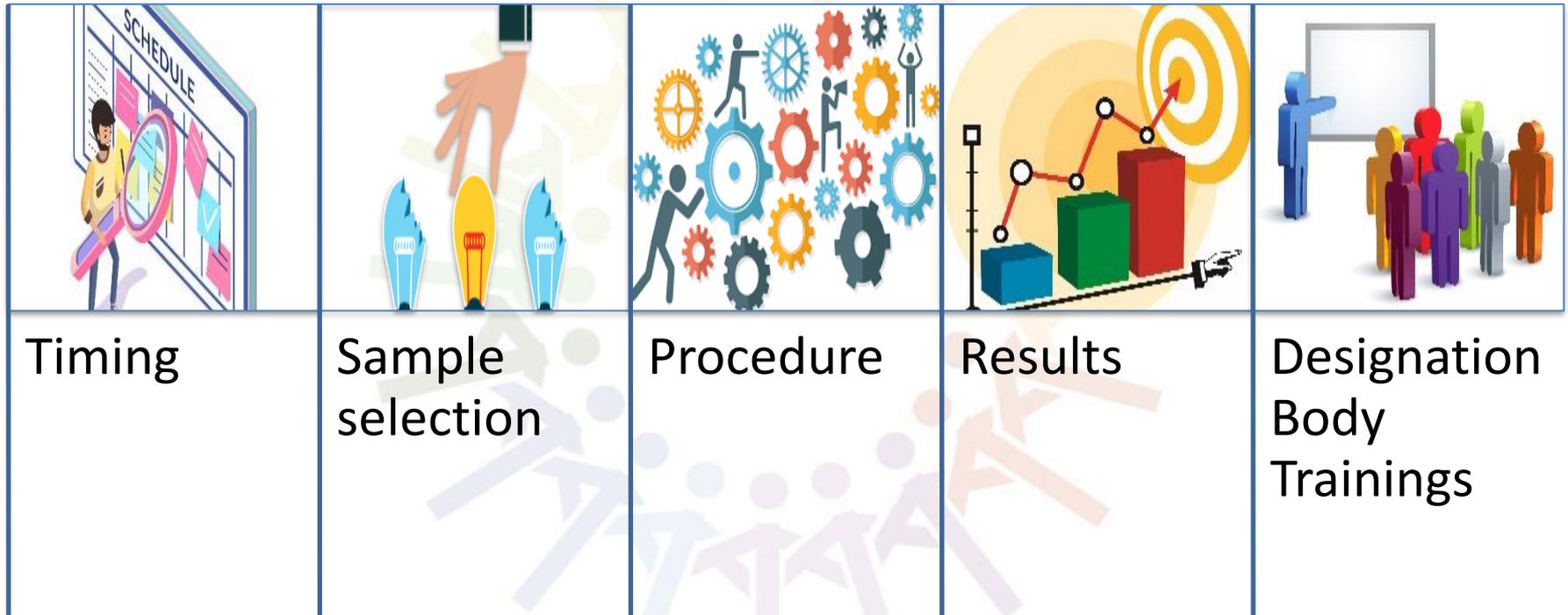
the operation does not, within five years from the final payment to the beneficiary, undergo substantial modification

Publicity actions undertaken

ensure no double funding

Quality checks

Designation Body



Timeline for the submission, examination and acceptance of Annual Accounts

Accounting year

Compulsory interim payment application

Examination and acceptance of accounts

1 Jul
N -1

Dec N-1

30 Jun
N

Dec 15 Feb (1
N Mar) N+1

31 May
N+1

30 Jun
N+1

1 Jan 2014 for first
accounting year

Preparation of the accounts covering the accounting year, management declaration + accompanying report incl. annual summary, audit opinion+ annual control report

Additional actions if needed

Timing of Quality checks

prior to the final application of the interim payment submitted to the Commission in July year N.

In case it is not possible to complete the quality checks within the schedule, they are completed no later than the date of preparation of the preliminary draft Accounts for the accounting period under verification (**December**).

Sample selection for Quality Check

The number of quality checks undertaken by the Designation Body will be based on a risk based sample.

The sample size (% of expenditure and controllers) varies for each Programme and is based on an assessment of the Management and Control System applied within each Programme.

- As a minimum 5% of the expenditure declared within each accounting year and 5% of the total number of FLCs involved in verifications of expenditure declared within the programme during the specific accounting year.

The risk factors to determine the sample size of the population of projects / partners / controllers:

- project budget / declared expenditure,
- inherent risk based on the type of beneficiary,
- findings - experience from previous checks on a partner level and on an FLC level

Quality Check Procedure - What is checked?



the administrative work performed by the Controller for verifying and certifying the expenditure declared in each payment application submitted



the sampling methodology applied (where applicable) for on-the-spot verifications



the correct completion and documentation of the verification checklist and verification reports,



the conclusions on the eligibility, legality and regularity of expenditure



the submission and correct documentation of the verification performed in the Monitoring Information System of the Program

Quality Check Procedure - when are on-the-spot checks performed?

The Designation Body carries out **on-the-spot-quality checks on a sample basis** at the Beneficiary / Partner level, at the premises where the project is being implemented, where this is deemed necessary:

- following the identification of major or systemic weaknesses during
 - administrative quality checks performed,
 - other audits, or
 - on the basis of a specific sampling methodology

Quality Check Procedure - Communication of findings

The Designation Body informs the Beneficiary / Partner and the Controller of its findings and of the remedial actions necessary to ensure compliance with the National and European Regulations, through the preparation of **standardised Quality Check Reports**:

- A **draft** quality check report is sent and 5 working days are given to the Controller and/or partner for replying before the report is finalised.
- The Managing Authority and the Joint Secretariat of each Programme are copied on **final** reports issued.
- Either the Designation Body or the FLCs **monitor any remaining open findings**, until their resolution.



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Financial Corrections by the MS CPR, Article 143

The **member states** shall be responsible for **investigating irregularities** and for making the **financial corrections** required and pursuing **recoveries**.

In the case of a **systemic irregularity**, the MS shall extend its investigation to cover all operations potentially affected.

The MS shall take into account the **nature and gravity** of the irregularities and the financial loss and shall **apply a proportionate correction**.

Financial corrections shall be **recorded in the accounts** for the accounting year in which the cancellation is decided.

- If the Irregularity is found and corrected pre declaration to the Commission then it does not have to be reported to the annual accounts

Financial corrections shall consist of **cancelling all or part of the public contribution to an operation** or operational programme.

The contribution cancelled may be **reused** by the MS within the operational programme concerned, BUT:

- The contribution cancelled may not be reused for any operation that was the subject of the correction or, where a financial correction is made for a systemic irregularity, for any operation affected by the systemic irregularity



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Who can detect an irregularity?



Quality Check Results – Handling of irregularities and financial corrections

Irregularities detected

- the Managing Authority, the Certifying Authority of the Programme and the European Commission where applicable, are immediately notified.

Financial corrections result from irregularities

- deducted from the final application of interim payment to be submitted to the European Commission, following conciliation with the Managing Authority and the Joint Secretariat of the Programme.

Financial corrections determined **following the submission of the final interim payment application** for the accounting year

- (as a result of the resolution of open findings),
- the Certifying Authority of the Programme is informed of the requirement to apply financial corrections on the Accounts for the accounting year under verification, or to deduct from the next interim payment claim to be submitted to the European Commission.



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Quality Check Results – Identification of Weaknesses or non-compliance of FLCs

Weaknesses identified in respect of the compliance of the Controller with the Designation Body and the Programme Guidelines and procedures

- the designation of the Controller is suspended, until the Controller and/or the Control team participate in workshops / trainings / seminars organized by the Designation Body.

the Controller and/ or the Control team systematically lack compliance with the instructions and guidelines issued by the Designation Body and the Programme Authorities, resulting in the loss of Community resources

- the Designation Body may disqualify the Controller for the entire programming period.

Quality Check Results – Weaknesses identified or non-compliance of FLCs

significant / systemic weaknesses in the work performed by the Controller

- the designation of the Controller is suspended and the Controller will be reported to the Cyprus Public Audit Oversight Board (CyPAOB) for auditors for further penalties / suspension.

suspicion for fraud either at the level of the project partner or at the level of the Controller

- the case will be reported to the Attorney General's Office for further investigation / penal action.

Designation Body Training Activities for Controllers

- In order to ensure the quality of the first level controls undertaken and their timely completion
 - the Controllers and / or the Control team (where applicable) should participate in seminars or workshops organised by the Designation Body.
- The trainings will be organised in cooperation with other responsible Programme Authorities (MA/JS)
- Support to First Level Controllers can also be provided by the Designation Body through:
 - Personal meetings to provide clarify specific areas of concern.
 - Exchange of emails covering issues such as legality, regularity and verification procedures for which controllers request clarifications.
 - Issuance of National Guidelines, in case it is deemed necessary.



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Designation Body Training Activities for Controllers

The participation is mandatory and a **prerequisite** for the granting of the First Level Controller Designation.

Controllers confirm their (or their team's) attendance to relevant seminars organised:

either before their assignment as an FLC for a project, or

at the latest by the **time of verification of the first payment application** submitted by the partner



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Non participation in Designation Body Training Activities for Controllers



The controller's designation certificate will be temporarily **suspended** (or not issued) until their participation in a training event for the Programme can be certified

Violation of the above condition will imply non-eligibility of the expenditure declared by the Partner



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THANK YOU FOR YOUR ATTENTION

<http://www.treasury.gov.cy/>

vcd@treasury.gov.cy

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