

# Risk-based management verifications in Interreg

Iuliia Kauk/ Interreg NPA 2021-2027 Controllers training

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**Interact**



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# Outline

- Risk-based approach to management verifications
- HIT methodology
- Q&A





**Nathalie VERSCHELDE**

**Deputy Head of D1 Unit,  
DG REGIO**

Dear colleagues,  
[...]

... to share with you the message that the **new risk-based approach to management verifications should not be seen as one option among several options. It should be seen as THE way to perform those verifications.**

All of us have a duty to make simplification a reality, mostly for beneficiaries. We still hear now comments from some beneficiaries who no longer want to apply for Interreg funding, mainly because of the **heavy administrative burden that is put on them.**

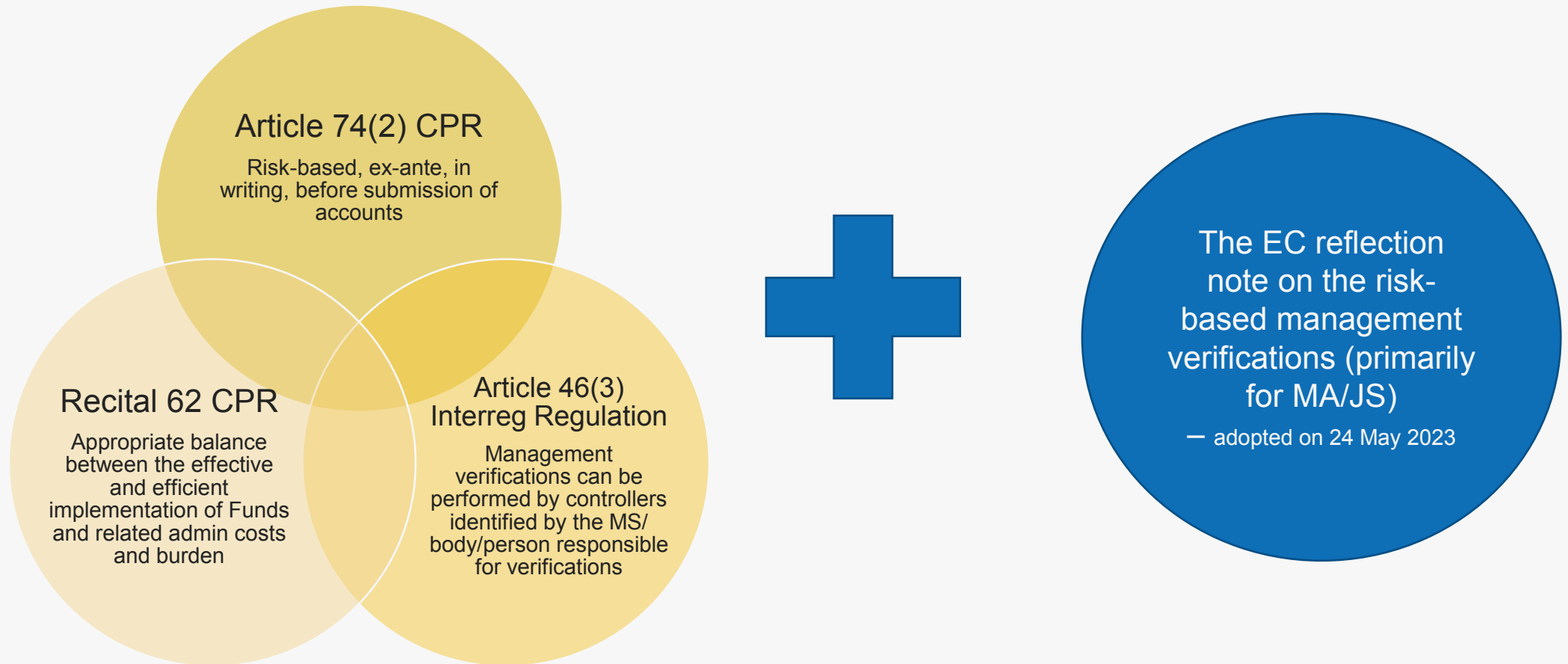
This is of course not something we can accept – we should do our utmost to lighten the burden and to be proportionate in our requirements.

**In concrete terms, it means that the 100% verification rate should disappear unless there is a very strong reason to maintain it, which is highly unlikely to exist.**

Units D1 and D2, as well as our colleagues in the audit department, stand ready to support you in this transition process. **Risk-based** and **proportionate** must become part of your daily vocabulary and must translate into real change for future beneficiaries.

We look forward to seeing the positive results of this in the near future.  
Nathalie,  
On behalf of the D1 unit

# Legal framework



# Management verifications

## WHAT

**Administrative** and **on-the-spot verifications** are **risk-based** and **proportionate** to the risks identified.

## WHEN

- Risk assessment should be **prepared ex-ante and in writing** and address how proportionality will be put into practice (criteria for having verifications that are proportionate to the types and levels of risks);
- management verifications included in the ex-ante risk assessment for the accounting year are carried out **before the submission of accounts**.

## HOW

- The ex-ante risk assessment defines risk factors/ criteria for the selection of projects/ beneficiaries/ payment claims for verifications;
- the MA defines a certain coverage of the management verifications, conditions and factors for a regular revision of the methodology.

# Management verifications - Roles

MA

Designs risk assessment and develops methodology for risk-based management verifications.

**Where the risk assessment is performed by controllers**, the MA reviews the risk assessment (to ensure equal treatment). Any differences should be justified!

AA

- Informal consultation of the MA's methodology;
- Carries out system audit (essential criteria - KR4 – management verifications);
- Gives recommendations for the update of the methodology where needed;
- Performs audit of operations (via common sample)

Controllers/ SPF  
beneficiary

Applies the MA's/ own risk assessment & carries out management verifications based on the risk-based methodology.

# Key highlights from the reflection paper

## (1/2)

- **2 steps of risk assessment (starting point):** establishing (updating) the risk assessment (MA/ IB) to identify, establish and analyse the risk factors (regularly reviewed risk factors); application of the control of the risks identified (controllers during management verifications).
  - If risk assessment is done by controllers, the MA needs to review it (recommendation, to ensure equal treatment; justified differences)
- **Timing for the risk assessment:** at the beginning of the programme (experience from 2014-2020) OR at the selection and appraisal stage (recorded in checklists/ project evaluation forms); BUT before the management verifications are carried out (deadline).
- **Different levels of risks:** operations (significant budget, complexity, multiple partners, phased operations), beneficiaries (type of beneficiary, experience, change of beneficiary), and payment claims.



# Key highlights from the reflection paper

## (2/2)

- Administrative and on-the-spot management **verifications plans** (recommended) – estimation of submission of payment claims, timing in the lifetime of the operation (for OTS), risks identified in the selection stage, no of days necessary for the programme to finalise admin verifications.
- **When to perform MV:**
  - when the payment claim is submitted (management verifications – 3 months – for controllers),
  - payments to beneficiaries (80 days), before expenditures are included in the payment claim to the EC (OTS can be after);
  - deadline – before submission of accounts.
- **Audit trail:** recommended to be kept for all expenditures (not only selected for verifications); 5 years from 31 Dec of the year in which the last payment by the MA/ programme to the beneficiary was made.





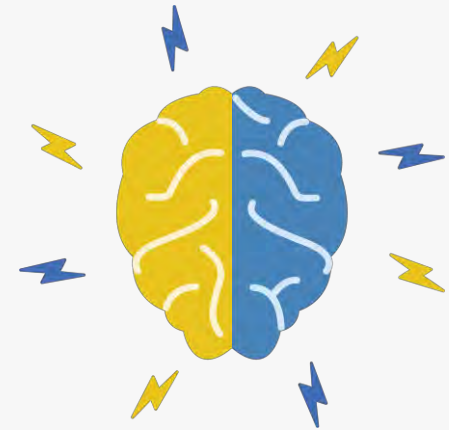
# Risk-based management verifications – rationale and key points

- Interreg is generally considered a low-risk environment – 100% verifications are suspicious and should not be the starting point (= there is a very high risk in the programme)!
- Start with the assesement of programme needs and consider areas where simplification/ improvements are possible
- Importance of risk assessment – risks identified serve as a basis for the verification work = risks are justification for the proportionate control
- Dynamic approach – it is possible that risks change during the implementation of the programme/ project – considered re-assessment, updates of the methodology/ risks
- Every risk factor in the methodology should be justified – don't use assumptions and common prejudices
- Methodology for risk-based management verifications is part of the description of the programme's management and control system



# Risk-based management verifications – rationale and key points

- Timeline for verifications – 3 months for controllers to perform verifications (Article 46(6) of the Interreg Regulation)
- Timeline for payment to the LP – 80 days (Article 74(1)(b) CPR)



# Risk-based management verifications – essential criterion in system audit of the MCS

Methodological note on the assessment of the management and control system (EC, 24.05.2023)

## KR4 Appropriate management verifications

Article 74(1)(a) CPR Article 46 Interreg Regulation	4.1	<p><b>Appropriate procedures</b> are in place and are adequately used ensuring that the frequency and scope of management verifications (both administrative and on-the-spot) carried out by the MA<sup>20</sup> or its IB(s) are risk based and proportionate to the risks identified ex-ante and in writing<sup>21</sup>, taking into account factors such as the number, type, size and content of operations implemented, type of beneficiary, value of items as well as the results of previous management verifications and audits.</p> <p>Appropriate procedures to ensure regular update of risks based, for example, on results from audits and previous management verifications, are in place.</p>
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*\*In the case of Interreg programmes, management verifications may be carried out by identified controllers. However, the ex-ante analysis is reviewed by MA also in the case of Interreg programmes considering the specificity and goal of cooperation for these programmes.*

- Does the AA agree with the risk factors identified by the MA? Does the methodology reflect the risk factors identified?
- Do control and audit results confirm the methodology (or does it need to be revised)?
- Are there any changes in external factors that would require changes in the methodology?

# Risk-based management verifications – essential criterion in system audit of the MCS

Articles 74(2) and 81(1)-(2) CPR Article 46 Interreg Regulation	4.2	<p>The MA or its IB(s) carries out <b>risk-based management verifications</b>, before submission of the accounts to the Commission, which include:</p> <ul style="list-style-type: none"> <li>a. <b>Administrative verifications</b> in respect of payment claims made by beneficiaries, which cover an examination of the claim itself and of the relevant supporting documentation considering the risks identified. The range and type of supporting documentation to be requested from beneficiaries for verification, is based on a risk assessment; and</li> <li>b. <b>On-the-spot verifications of operations</b><sup>22</sup>, considering the risks identified by the MA.</li> </ul> <p>The on-the-spot verifications are undertaken when the project is well under way, both in terms of physical and financial progress (e.g. for training measures).</p>
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# Risk-based management verifications – essential criterion in system audit of the MCS

Legal ref.	No	Assessment criteria
Articles 74(1)(a), 94(3) and 95(3) CPR Article 46 Interreg Regulation	4.3	<p><b>Written procedures and checklists</b> are used for the management verifications and conclusions are documented. Such checklists include, as a minimum, verifications that:</p> <ol style="list-style-type: none"> <li>1) co-financed products and services have been delivered (the reality of the project, including effective delivery of product or service);</li> <li>2) the operation complies with applicable law, the programme and the conditions for support of the operation, notably concerning: <ol style="list-style-type: none"> <li>a. the accuracy and completeness of the payment claim from beneficiaries;</li> <li>b. eligible period;</li> <li>c. compliance with the approved financing rate (where applicable);</li> <li>d. compliance with the relevant eligibility rules and EU and national rules on public procurement, State aid, publicity, equal opportunity requirements and non-discrimination, transparency and access to persons with disabilities, gender equality, the Charter of Fundamental Rights of the European Union, the principle of sustainable development and of the Union policy on the environment in accordance with Article 11 and Article 191(1) of the TFEU;</li> <li>e. the compliance with the terms and the conditions of the document setting out the conditions for support;</li> <li>f. the expenditure declared and the existence of the audit trail;</li> <li>g. absence of double financing;</li> </ol> </li> <li>3) For costs to be reimbursed by the MA pursuant to Article 53(1)(a) of the CPR<sup>24</sup>: <ol style="list-style-type: none"> <li>h. the costs claimed by the beneficiaries have been incurred and paid;</li> <li>i. a separate accounting system or an appropriate accounting code for all transactions relating to an operation is established, allowing in particular for verification of (1) the correct allocation of expenditure only partly relating to the co-financed operation and (2) certain types of expenditure which are only considered eligible within certain limits or in proportion to other costs;</li> </ol> </li> </ol>

No	Assessment criteria
	<ol style="list-style-type: none"> <li>4) For costs reimbursed by the MA pursuant to Article 53(1)(b), (c) and (d) of the CPR<sup>24</sup>: <ol style="list-style-type: none"> <li>j. the conditions for reimbursement of costs through simplified cost options (i.e. unit costs, lump sums, or flat-rate financing) have been met;</li> </ol> </li> <li>5) For costs reimbursed by the MA pursuant to Article 53(1)(f) of the CPR<sup>25</sup>: <ol style="list-style-type: none"> <li>k. the conditions for reimbursement of costs have been met; and</li> <li>l. the results have been achieved.</li> </ol> </li> <li>6) For expenditure reimbursed by the Commission pursuant to Article 94(3)<sup>26</sup> of the CPR<sup>27</sup>: <ol style="list-style-type: none"> <li>m. the conditions for reimbursement of expenditure have been met;</li> </ol> </li> <li>7) For expenditure reimbursed by the Commission pursuant to Article 95(3)<sup>28</sup> of the CPR<sup>29</sup>: <ol style="list-style-type: none"> <li>n. the conditions for reimbursement of expenditure have been met; or</li> <li>o. the results have been achieved.</li> </ol> </li> </ol>

<sup>24</sup> Grants provided by the MS to beneficiaries based on reimbursement of SCOs (unit costs, lump sums and flat-rate financing).

<sup>25</sup> Grants provided by the MS to beneficiaries based on reimbursement of FNLC (financing not linked to costs).

<sup>26</sup> Union contribution based on SCOs (unit costs, lump sums and flat-rate financing).

<sup>27</sup> The MA (IBs) shall exclusively aim at verifying that condition, in line with Article 94 CPR.

<sup>28</sup> Union contribution based on FNLC (financing not linked to costs), provided such grants are covered by a reimbursement of the Union contribution pursuant to Article 95 CPR.

<sup>29</sup> The MA (IBs) shall exclusively aim at verifying those conditions, in line with Article 95 CPR.

# Risk-based management verifications – essential criterion in system audit of the MCS

Article 83 CPR	4.4	<p>Only for programmes applying enhanced proportionate arrangements:</p> <p>a) If the managing authority is applying national procedures to carry out management verifications, these procedures are complied with.</p> <p>b) If the managing authority relies on verifications carried out by external bodies, it has sufficient evidence of the competence of these bodies.</p>
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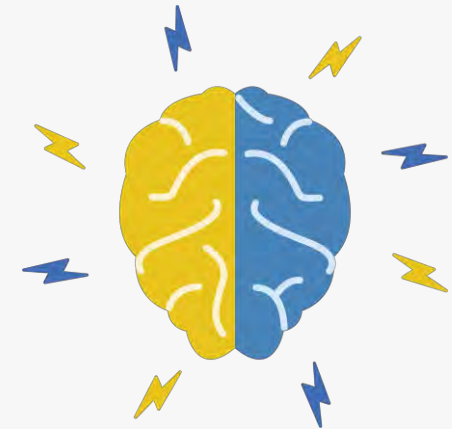
*\*4.4 – Article 83 CPR (Enhanced proportionate arrangements) is not applicable to Interreg programmes (Article 1(5) CPR).*

Legal ref.	No	Assessment criteria
Article 69(6), Annex XIII CPR	4.5	Evidence is kept relating to the management verifications, evidencing the administrative and on-the-spot checks carried out by the MA/IBs and the follow-up of the findings detected <sup>30</sup> .

+ KR5: All documents required for the audit trail as set out in Annex XIII CPR need to be available for all costs (not only sampled costs) (Annex XIII – Elements for the audit trail – Article 69(6))

# Risk-based management verifications – rationale and key points

- Management verification plans (administrative and on-the-spot) – recommended, not mandatory
- Risk-based, non-statistical sampling (no projection of errors)
- Informal consultation with the AA, feedback from controllers



# Risk-based management verifications (MA) vs audit work (AA)

Management verifications	Audit	Comments
Responsibility of the MA (in Interreg performed by controllers)	Responsibility of the AA	Different authorities
Internal control function within the MCS	Ex-post control	Different levels of control
Purpose: identify errors in payment claims of beneficiaries and correct them	Purpose: to test whether the control system as defined in the MCS functions properly and to provide independent assurance on the system	Different purpose
MV are done vis risk-based verifications through administrative and on-the-spot checks	1. System audits (design and operating effectiveness of controls) – primarily look into the expenditure selected for RBMV, but not limited; 2. Audit of operations (common sample) – expenditures that haven't been checked	Different samples used by MA for management verifications and AA for audit of operations (sample is done by the EC).
Risk-based – according to the risk assessment and risk-based methodology developed by the MA in advance and in writing	Common sample at EU level – sample selected by the EC according to their methodology; sub-sampling if large number of invoices	



# Risk-based management verifications (MA) vs audit work (AA)

Management verifications	Audit	Comments
The errors/ irregularities found during MV are not extrapolated (non-statistical sample)	Extrapolation for all programmes covered by the common sample (TER/RTER below 2% for Interreg in 2014-2020) Targeted financial corrections for programmes with errors (if above 2%)	It is possible that an operation/payment claim/expenditure is not verified by MA but it is audited by AA
Controllers should correct ind. errors and assess if they had any systemic impact at the level(s) of operations/ beneficiaries (e.g., by extending the level of verifications in those specific areas/ expenditure/ beneficiaries and also by revising the risk assessment).	Errors are extrapolated.	The AA's sample may contain both (1) the expenditure subject to previous MV, and (2) expenditure that has not (yet) been verified by the MA/IB.
MA to <b>regularly revise the methodology</b> – based on results of MV, system audit, audit of operations, and recommendations of the AA (examination if an irregularity is one-off or systematic) + suspicion of fraud		



# HIT methodology for risk-based management verifications



# HIT Methodology

## Scope of work

The objective of the methodology

Scope (population)

Application of the methodology

Areas of focus (risk/not risk elements)

Definitions of risk elements

Sampling principles

*Minimum sample size for random sample*

*When sample size is extended*

# Approach and general principles

Management verifications are done by controllers at the level of **each project partner** and its **partner progress report**.

## Partner Progress Report



Risky items (key-item verification")

Professional judgement

*Random check of the remaining items*



*Random check is **OPTIONAL**  
A programme can decide to apply a random check to the remaining items!*

# Full verification

**NOT justified, unless**

analysis of the programme data suggests that some specific progress reports are riskier if the controller needs to obtain a necessary quality assurance level of the reported expenditure (if there were errors found in verified items)



# Key item verification

In the context of HIT methodology, following items should be checked fully:

Public procurement for contracting amounts above EUR 10.000 (excl. VAT - unless the threshold set by the applicable programme/national rules is stricter).

Staff costs of the first two progress reports where staff costs occur. Furthermore, staff costs of a new staff member included for the first time in the progress partner report, and if significant changes in the staff costs occur (e.g., > 20%) in the time allocation of staff members (if the fixed percentage method is used), or if there are changes in the staff costs methodology (e.g., a change from fixed percentage method to an hourly rate).

VAT (for projects with total costs above EUR 5m, including VAT + projects under GBER where recoverable VAT is not eligible!).

# Professional judgement

On top of the full verification of key items, the controller, based on his/her professional judgment, can select additional items from the list.

E.g.,

- Unusual
- Give rise to suspicion of fraud
- Based on the quality of the originally reported expenditure and the quality of the key-items verification
  - ✔ items similar to those where errors or ineligible expenditures were identified in the current/previous reports;
  - ✔ where repeated mistakes/errors, such as re-inclusion of ineligible expenditure (projects/reports), were noted in the previous reports.

# Random sampling

Key-items verification and professional judgement can be supplemented with random sampling of the remaining (non-risky) items, based on the following sampling principles:

- sampling is done **per cost category** based on the total remaining population of items under that cost category;
- **a minimum of 2 items** per cost category is selected, **a minimum of 10%** of the remaining items.



## When random sampling can be exercised?

When errors/irregularities are found in key-item verification or verification of items based on professional judgement.

When a programme does not use many simplified cost items.



# Extension of sample

If the initial sample shows that the quality of the information provided is not sufficient, the sample size should be extended.

**The purpose** of extending the sample is:  
to determine whether errors **have a common feature** or whether they are simply random errors.

If no common features are determined, **the sample can be extended to a 100% verification** of the payment claim.

# On-the-spot verifications

MA is responsible for establishing the approach to the on-the-spot verifications.

On-the-spot verifications should be carried out:

- when the project is well under implementation;
- it is suggested to have at least one on-the-spot check at the project partner level that implements [productive investments](#) or [infrastructure](#).

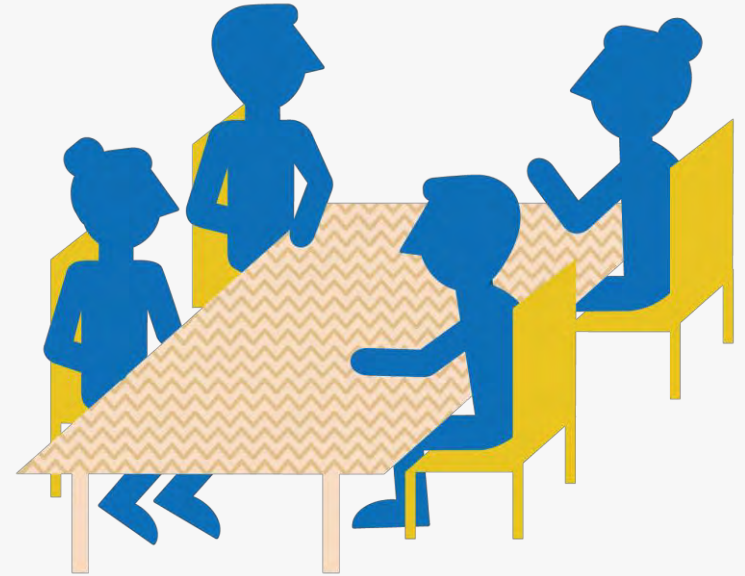
# Review of the methodology

The MA should **periodically review** the risk elements and sampling methodology for management verifications.

The MA might **amend the methodology** based on:

- the findings from the system audits;
- results of the audit of operations carried out by the audit authorities;
- results of previous administrative and on-the-spot checks;
- external factors that could have an impact on the implementation of projects

# Questions & Answers



# Cooperation **works**

All materials will be available on:

**Interact website/ Library**