Guide for risk-based management verifications
Interreg Northern Periphery and Arctic Programme

Summary:

This guide is targeted at controllers in the programme partner countries. It describes the methodology for risk-based management verifications in the Interreg NPA 2021-2027 programme and contains the essential information needed for the implementation of risk based administrative and on-the-spot verifications. The information is based on the Harmonised Implementation Tools (HIT) methodology for risk-based management verifications.

Version 1:
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Content

Overview of Changes

Version	Summary of Changes
1 – July 2023	No changes were made so far.
2 – February 2024	Chapter 2.3 updated with specifications in case the 1st report does not include significant expenditure to establish a risk level.

1. Management verifications in 2021-2027

1.1 Background

The verification of projects in each Interreg Northern Periphery and Arctic (NPA) partner country will include both administrative verifications, i.e. desk checks on payment claims, and on-the-spot verifications of projects.

The controls shall as a minimum include administrative, financial, technical, and physical aspects of the projects. This means that the control, among other things, will verify whether the project partner has set up proper administrative routines and procedures, that there is a reliable accounting system in use and that the declared expenditure and the activities implemented complies with the project decision. The verifications will also ensure the deliverance of outputs as described in the project application and Grant Letter.

All verifications performed by controllers will be documented. A template checklist for verifications is provided by the MA in the electronic monitoring system Jems. The documentation from verifications shall include information on how the expenditure item or project (in case of on-the-spot checks) was sampled, what verifications have been made, when the verifications were performed, what conclusions were drawn and what measures have been taken in case of irregularities detected.

The management verifications shall be based on a risk assessment and be proportionate to the risks identified.

Both administrative and on-the-spot management verifications shall focus on elements identified in the risk assessment. In practice, this means that not all projects, beneficiaries, payment claims and items within the payment claims should be checked 100%.

The methodology for risk assessment in the NPA programme, along with procedures for the risk-based management verifications, is described in this guide and is part of the Interreg Northern Periphery and Arctic (NPA) 2021-2027 programme's management and control system.

The method is based on experiences from the previous programme period (Interreg NPA 2014-2020) and commonly identified findings.

1.2 Responsibilities of programme partner countries

Management verifications under Article 74 of Regulation (EU) No 1060/2021 will be carried out by identified controller(s) in each programme partner country responsible for carrying out the verifications in relation to all beneficiaries on its territory.[1]

The formal role of the MA is to satisfy itself that the expenditure of each beneficiary, participating in a project, has been validated by the identified controller.

All member states as well as third countries participating in the NPA Programme, must set

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[1] "Draft Management and Control System description NPA 2021-2027", chapter 2.2.2.5

up control systems in order for the MA to secure the correct implementation of project activities throughout the programme area.

The national control systems set up in the different NPA countries, are either centralised or decentralised.

In a centralised system, a central body (federal, national, or federal/national) is appointed to carry out the controls. The controllers are civil servants working in the appointed body/-ies. Centralised systems operate in Finland, Iceland, Ireland, and Sweden.

In a decentralised system, the beneficiary is free to suggest an internal or external controller to the national body responsible for setting up the control system. Before approval, the suggested controller is assessed for quality and independence by the responsible national authority. Decentralised systems operate in the Faroe Islands, Greenland, and Norway.

The Managing Authority has provided partner countries with a template for the description of the national systems for management verifications. These are annexed to the Management- and control system.

The programme partner countries are responsible for the implementation of a risk-based approach to management verifications. In order to ensure equal treatment of beneficiaries in all countries the Managing Authority has developed minimum requirements for risk-based management verifications, to be used for the controllers in each programme partner country. These requirements are outlined in this guide.

2. NPA methodology for risk-based management verifications

2.1 General principles

The HIT methodology for risk-based management verifications has been used as a basis for establishing the NPA methodology.

Management verifications in the NPA programme are done at the project partner level, for each payment claim during project implementation. The verification of each payment claim is based on the notion that all project partners are expected to use the staff cost category in all claims and this is by far the largest category of expenditure in the programme. The analysis of programme data from the 2014-2020 period shows that most FLC findings as well as audit findings were in this cost category, a logical consequence of staff costs making up the largest share of total reported costs in NPA projects. Thus, staff costs are to be considered a risky item.

A common way of developing a methodology for risk assessment is to base it on the analysis of historical programme data. For the NPA 2021-2027 programme the Managing Authority has concluded that this would not necessarily give a correct picture, as historical data from the 2014-2020 refers to a different programme geography given the fact that the 2021-2027 programme period includes 7 programme partner countries as compared to 9 in the 2014-2020 period. Being a relatively small programme also implies that a general risk

profile for the programme based on historical data could be misleading as large corrections in one project could have a major impact on the overall data.

When analysing the reasons for FLC corrections in the 2014-2020 period, it can be concluded that these are quite general (such as "lack of documentation", "missing audit trail", "miscalculation", "no or insufficient link to project" and "other") and are rather related to control risks identified rather than inherent risks related to the programme area or type of project or partners involved.

The conclusion of all these factors is that an analysis of historical data does not give sufficient input to risk assessments, and these will instead be carried out by the Joint Secretariat and Controllers on project/partner level.

First, as part of the pre-contracting phase for approved projects, the JS will assign a certain level of risk (inherent risk) to the project. The level of risk assigned at the pre-contracting stage to a project or certain project partner (e.g., low-, to be monitored- or high risk) should help determine the "heaviness" of the controls and checks during the project implementation. The risk assessment is based on HIT guidance and risk assessment methodology used by the County Administrative Board of Västerbotten (host organization for the Managing Authority). Input from Regional Advisory Groups with the task to provide a regional perspective on partners involved is also incorporated in the risk assessment. Besides this, input from the Managing Authority's pre-MC check is considered.

The second part of the risk assessment is established and documented by controllers in the verification of the first report. The risk assessment from the application will be made available to controllers.
The overall risk level is thereby composed of inherent risk related to the type of project and partner (established at the application assessment stage) and control risks (established by the controllers).

2.2   Mitigation measures and simplification

The NPA programme has implemented a number of mitigation measures in the 2021-2027 period to make the programme procedures simpler and reduce the risk of errors as much as possible. One example of such a measure is reducing the number of options to reimburse staff costs, as this is the cost category where most findings occurred in the previous programme period.

The programme has also introduced a number of simplified cost options to minimize the administrative burden on the beneficiaries. Some cost categories are typically composed of a high amount of items of low value, e.g., office and administration, travel, and accommodation. This gives plenty of space for errors. Using simplified cost options to reimburse such cost categories instead of real costs can reduce the risk of irregularities and errors, since flat rates do not require providing justification and documentation of the underlying expenditure covered by the flat rates.

The below Simplified Cost Options (SCOs) provided for in the EU regulations are made available to projects in the 2021-2027 NPA programme:

1. It is mandatory to use a 15% flat rate for office and administration on staff costs.
2. It is optional to use a 15% flat rate for travel on staff costs.
3. There is also an option to report costs as staff costs + a 40% flat rate for all other costs than staff. Only the staff cost will be verified by Controllers. This SCO will be available on a case-by-case basis, but not mandatory. Project applicants apply based on a draft budget detailing all cost categories. If relevant, this will be changed by the programme administration after project submission.
4. For staff cost related to individuals who work on part-time assignments, the costs should be calculated as a fixed percentage of the gross employment cost, in line with a fixed percentage of time worked on the project per month, with no obligation to establish a separate working time registration system.
5. Lump sums for small-scale projects will be mandatory for projects where the total cost of the operation is less than EUR 200 000 (the EU part), except for operations for which the support constitutes State Aid.

Furthermore, NPA will use the electronic monitoring system Jems where all invoices and supporting documentation for the audit trail can be stored. The system is easily accessed by the different bodies involved in the programme implementation, on the one hand, and beneficiaries, on the other hand. This is foreseen to be an effective way of eliminating errors.

2.3   Administrative verifications

Beneficiaries shall submit the partner reports along with required supporting documents to the controller in the monitoring system (Jems). The controller shall carry out the management verifications within a period of two months and fill in the standard control certificate using the standard control check-list provided by the programme. Certificates are issued in Jems and are accessible for the project partner and lead partner who is responsible for the compilation of all certificates into one Project report.

Administrative verifications shall be based on the principle of a verification of each partner report but a more extensive verification of items which are considered risky and random sampling for other non-risky items. The extent of random sampling is based on the risk assessment of the project/partner.

The controller shall perform 100% verification of the first report in order to be able to establish the control risk. The risk assessment shall be documented with the certification of the first report. In case the first submitted report does not include a substantial and representative amount, the controller shall perform 100% verification and establish the control risk level based on the following submitted report.

The following items are identified as risky key items and should be fully (100%) verified[2] in all progress reports following the first:

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

2. Suspicious items – picked up by the controller due to his/her professional judgement.

Furthermore, staff costs of the first two progress reports where staff costs occur should be fully verified, unless the controller feels that he/she has reasonable assurance from the 100% verification of the first partner report. Staff costs of a staff member included for the first time in the partner report should always be verified, as well as if changes in the staff costs occur in the time allocation of staff members.

2.3.1 Verification of Simplified Cost Options

Management verifications of SCOs shall aim at verifying that the conditions for reimbursement of expenditure to the beneficiary have been met and that established rates and amounts for SCOs have been correctly applied. Management verifications will not cover the individual invoices and specific public procurement procedures underlying the expenditure reimbursed on the basis of SCOs. As a consequence, these underlying financial or procurement documents shall not be requested with a view to check the amounts (expenditure) incurred and paid by the beneficiary.

In case of flat rate financing, only the basis cost will we checked by controllers (i.e. staff costs).

Management verification of lump sums will cover achievement of outputs/deliverables as outlined in the Grant Letter. This is checked by the JS before a payment of the lump sum is made by the MA.

2.4 On-the-spot verifications

On-the-spot checks shall be carried out for all lead partners, unless the controller considers that it is not necessary seen from a risk perspective and he/she has the needed information even without carrying out the on-the-spot check. Any on-the-spot checks beyond those of LPs shall be based on a risk assessment from the result of the first 100% administrative verification or on the basis of other verifications/audits.

On-the-spot checks of projects should preferably be undertaken when the project is well underway. The level of risk identified during the administrative verifications shall influence

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[2] In line with "Guidance on the risk-based management verifications for 2021-2027 and HIT methodology". The listed items are considered risky, based on the analysis of the most common irregularities and errors data in 2014-2020, as provided by several Interreg programmes.

the extent and detail of on-the-spot verifications. It should be noted that due to the nature of projects in the NPA programme, the likelihood that on-the-spot checks would detect more errors than administrative checks is not very high.

2.5 Scope of management verifications

As outlined, management verifications should be carried out based on risk assessment. In the below sections it is described how the assessments are carried out during different stages of project implementation and how sampling should be applied based on the assessments.

2.5.1 Risk assessment by the JS

Following the approval of project proposals, the JS makes a risk assessment which is made available to controllers. The evaluation of risk is assessed at partner and project level.

At partner level the following aspects are considered:
- type, legal status, and ownership structure
- partner location (i.e. outside the programme area)

- number of projects implemented by the same beneficiary
- beneficiaries capacity and remit to implement project
- past experience with beneficiary

At the level of project the risks considered are:
- significant budget (value-for-money, unusual profile)
- nature and complexity of the project

- types of expenditure (eligibility issues)
- legal requirements applicable (state aid, public procurement etc)

For each sub section, the likelihood and the consequences of the risk are assessed. Based on this an overall risk score is established. A risk score of 1-5 is low risk, risk score between 6-11 is to be monitored and a risk score between 12-16 is high.

In the JS risk assessment risk management measures are proposed (accept, limit, eliminate or share) and if the risk score is "to be monitored" or "high" follow-up actions are proposed. If the score is "low", no follow-up actions are expected.

For example, if at the project assessment stage, the projects overall risk level is determined as "low", then verifications of that project would be less extensive than a project with a "medium" or "high" risk level.

In the implementation of the project, the JS will - as part of the project report assessment - look at the risk level. If anything changes from the risk assessment at the pre-contracting

stage, a follow-up risk assessment should be carried out. The same goes for any major changes: the JS will follow-up and document if the major change is considered to affect the risk level.

2.5.2   Risk assessment by controllers

The risk assessment at the after project approval shall be supplemented with the control risk, i.e. the risk determined by the controller based on the nature of the expenditure items in the list of expenditure and the quality of reported expenditure from previous reports and experience with the beneficiary.

The control risks are risks associated with the quality of internal controls of the beneficiary, such as:

- Previously identified issues and follow-up recommendations
- A high number of clarification rounds, repetitive issues
- Quality of the originally reported expenditure versus verified

The controller will perform verifications according to the total risk level - more extensive verifications for partners with higher risk levels, and less extensive verifications for partners with lower risk levels.

The rationale for 100% verification of the first report is to establish a certain level of assurance to see if the project partner understands the programme's eligibility rules, audit trail requirements, etc. It is a way of catching any potential sources for irregularities at an early stage and to be able to train the partner. The first 100% verification will be the basis for determining the control risk.

2.5.3   Sampling based on risk assessment

The criteria for selection of items within the payment claims for verifications are outlined below:

For items not considered to be risky key elements, random sampling should be conducted in line with the risk level established for the partner.

The controllers are free to use different methods of own choice e.g.:

- check on x% of total costs
- a certain percentage of costs under a specific cost category
- control of the x largest invoices based on amount and cost type or
- control of all invoices above a certain amount

Should the risk level be higher, this should be guiding for the sample size.

2.5.4   Extension of sample for verification

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 (e.g., type of transaction, location, period, product/output, etc.) 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.

If errors are found to have common features, the total error can be determined by verifying all relevant items (i.e., those likely to be affected by the same/similar error). Alternatively, if for the random sampling a certain number of items was checked (e.g., 10 items), an extension of sample to verifying another 10 items can be done.

3.   Annexes

1. NPA Risk Assessment Checklist (JS)