Interreg NEXT MED

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REGIONE AUTÒNOMA DE SARDIGNA
REGIONE AUTONOMA DELLA SARDEGNA

INTERREG NEXT MED PROGRAMME 2021- 21027
DESCRIPTION OF MANAGEMENT AND CONTROL SYSTEMS (DMCS)

ANNEX II

RISK - BASED MANAGEMENT VERIFICATIONS

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1. INTRODUCTION

The nature of management verifications has been significantly changed in the 2021-2027 programming period. This document contains the description of the methodology to be applied to risk-based management verifications for the INTERREG NEXT MED PROGRAMME 2021- 2027.

It is an annex to the Description of management and control systems (DMCS).

2. LEGAL BASIS

Recital 62 of Common Provisions Regulation (EU) 2021/1060 " *to ensure an appropriate balance between the effective and efficient implementation of the Funds and the related administrative costs and burdens,* ***the frequency, scope and coverage of management verifications should be based on a risk assessment that takes into account factors such as the number, type, size and content of operations implemented, the beneficiaries as well as the level of the risk identified by previous management verifications and audits. Management verifications should be proportionate to the risks resulting from that risk assessment*** *and audits should be proportionate to the level of risk to the budget of the Union".*

Article 74 (1.a) of Common Provisions Regulation (EU) 2021/1060

"..***the managing authority shall carry out management verifications*** *to verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the programme and the conditions for support of the operation..".*

Article 74 (2) of Common Provisions Regulation (EU) 2021/1060

"*Management verifications referred to in point (a) of the first subparagraph of paragraph* ***1 shall be risk-based and proportionate to the risks identified ex ante and in writing****. Management verifications shall include administrative verifications in respect of payment claims made by beneficiaries and on-the-spot verifications of operations. Those verifications shall be carried out before submission of the accounts in accordance with Article 98."*

Article 46 (3) of Interreg Regulation (EU) 2021/1059

"*By way of derogation to point (a) of Article 74(1) of Regulation (EU) 2021/1060 and without prejudice to Article 45(5) of this Regulation,* ***the Member States****, and where applicable, the third country, partner country or OCT, participating in the Interreg programme****, may decide that management verifications*** *referred to in point (a) of Article 74(1) of Regulation (EU) 2021/1060* ***are to be done through the identification by each Member State of a body or person responsible for this verification on its territory (the 'controller')".***

3. RELEVANT DOCUMENTS

European Commission Reflection Paper on Risk based management verifications. Article 74 (2) CPR 2021- 2027.

The Paper specifies that "*each MA is responsible for developing and implementing its methodology in line with the directions in this paper and considering the relevant aspects of the OPs and the specific context in which these are implemented*."

Guidance on the risk-based verifications in 2021 – 2027 and HIT Methodology (Version n.3).

The Harmonised Implementation Tools (HIT) methodology for risk-based management verifications was developed as part of the HIT Controllers package for the 2021- 2027 programming period.

The Hit methodology is in line with the regulatory requirements.

The Guidance specifies that by way of derogations (article 46.3 of Interreg Regulation (EU) 2021/1059), management verifications can be carried out by controllers appointed by each Member State. To ensure equal treatment of beneficiaries and in consideration of the cooperation goals of Interreg programmes, risk assessment and decisions made by controllers should follow the same principles, regardless of the project/partner in questions or the country or the controller. As a consequence, in this latter case **the Managing Authority has to develop *minimum requirements* for risk-based management verifications, to be used for the controllers in each Participating Country.**

4. MANAGEMENT VERIFICATIONS - WHO IS IN CHARGE

In accordance with Article 46(3) of the Interreg Regulation (EU) 2021/1059, Türkiye and the EU Member States participating in Interreg NEXT MED programme have taken over the responsibility for management verifications referred to in article 74(1)(a) of the Common Provisions Regulation (EU) 2021/1060.

In the Mediterranean Partners Countries, in accordance with Financing Agreements, the Managing Authority shall carry out managements verifications to verify that the operations comply with article 74 (1)(a) of Common Provisions Regulation (EU) 2021/1060.

5. RISK ASSESSMENT AND APPROACH FOR RISK BASED MANAGEMENT VERIFICATIONS

Article 74(2) of CPR stipulates that management verifications shall be risk-based and proportionate to the risks identified *ex ante* and in writing.

Management verifications include administrative verifications in respect of payment claims made by partners, as well as on-the spot verifications.

To ensure equal treatment of the project partners and adequate quality standards of the control work and a harmonized approach across the participating countries to the Programme, the Managing Authority decided to develop Programme minimum requirements for the risk-based management verifications.

Risk-based means that controllers should focus their verifications on areas where, following a risk assessment, the risk of material misstatement is high. In areas where the risk of material misstatement is low, control work should be reduced.

This means that not all payment claims from beneficiaries and not all operations have to be subject to management verifications. While a 100% payment verification of the expenditures remains theoretically possible, this can only be carried out in cases when the level of risk to the budget of the Union is so severe that it would impose such an approach.

6. DATA ANALYSIS. RESULTS OF DATA ANALYSIS OF ENI CBC MED PROGRAMME 2014/2020

The present methodology is based on the analysis of historical data retrieved from the Management Information System (MIS) related to the projects implemented during 2014-2020 programming period under ENI CBC MED, generated for two levels of controls, Managing Authority and Audit Authority.

Such analysis aimed to identify risk factors that had previously caused irregularities and errors in the Programme. These **risk factors** were considered at different levels: projects (standard project, strategic project, capitalization project), beneficiaries (legal status, number of partners in the project), payment claims (first intermediate or final payment claim of the beneficiary), items within the payment claim (risks identified for a specific cost category), Participating Countries.

The projects implemented in 2014-2020 programming period involved a minimum 3 and maximum 12 partners from at least 3 out of 13 Participating Countries, out of which at least one from a Member State and one from a Partner Country, falling under the following typologies: Ministries or other national public administration, Regional or local public administration, No profit organisations (associations, foundations), NGOs, Other public bodies, Bodies governed by public law, International organizations, companies or other private operators.

There were three types of projects: standard, strategic and capitalization ones. The ENI CBC Med programme has granted in total 80 projects: 41 standard projects with an average budget of 2.7 million euro; 23 strategic projects with an average budget of 3.4 million; 16 capitalisation projects with an average of 1 million.

An analysis of the number of cuts against the project partnership composition (number of partners in the project, partner's legal status) and the size of budget did not show any correlation between these elements and the risk of error.

Finally, the assessment concluded that **the risk of errors lies with certain cost categories.**

The following cost categories were analysed: Human Resources (HR), Infrastructure, Equipment and supplies, External services and Other. The cost category Other was used as a residual cost category for the subgrants that the projects had planned to implement.

The Other cost category no longer exists and subgrants are not eligible in the 2021-2027 programming period.

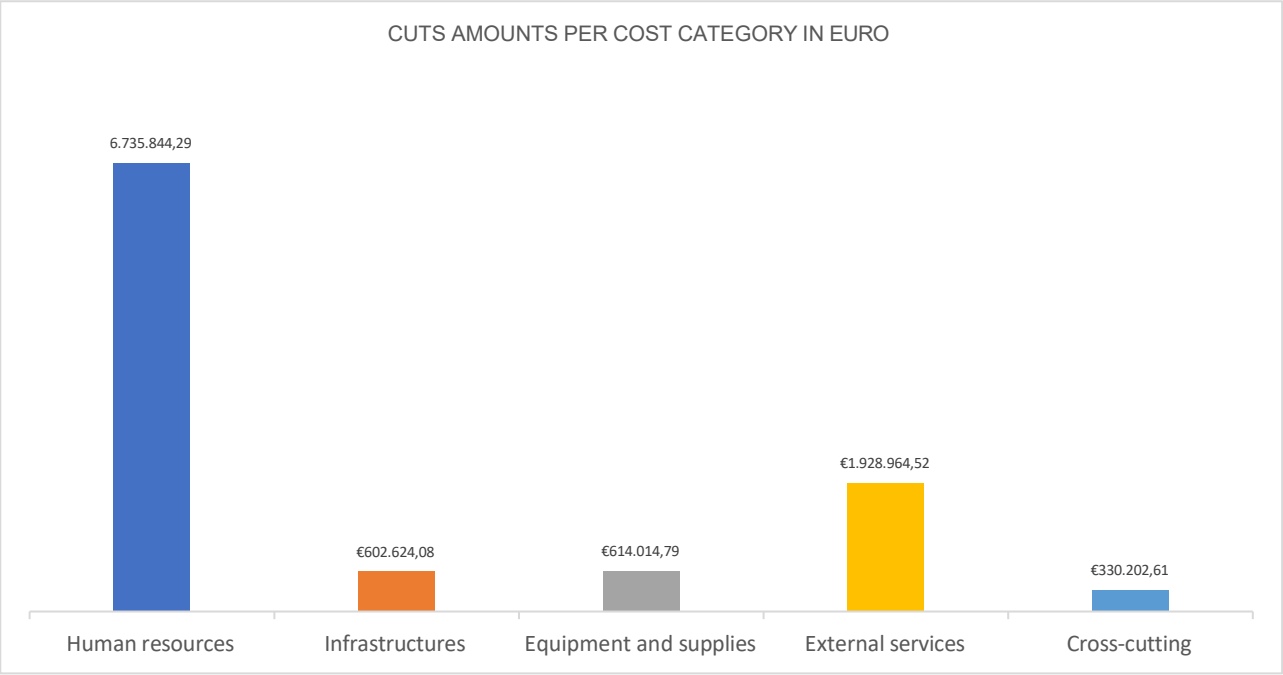
The Travel costs category has not been analysed as Travel costs are covered by a Simplified Cost Option (SCO) in the 2021-2027 programming period. This was already the case for Administrative costs. Now both these costs are counted at a percentage of the Staff costs.

Tab.1 Analysys of cuts per cost category ENI CBC MED 2014/2020

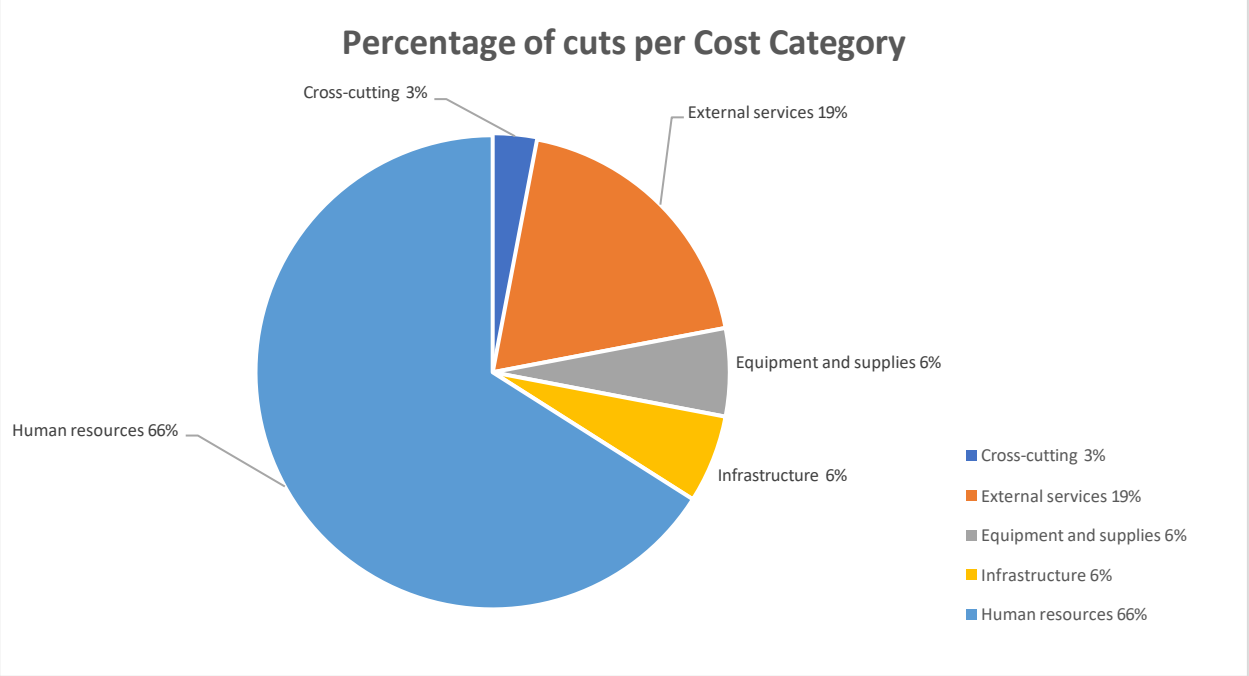
ANALYSYS OF CUTS PER COST CATEGORY ENI CBC MED 2014/2020*	
COST CATEGORY	CUT AMOUNT IN EURO
Human resources	6.735.844,29 €
Infrastructures	602.624,08 €
Equipment and supplies	614.014,79 €
External services	1.928.964,52 €
Cross-cutting	330.202,61 €
Total	10.211.650,29 €

* Cuts operated by auditors + cuts operated by the Managing Authority

Ch.1 Cuts amounts per cost category in euro



Ch.2 Percentage of cuts per Cost Category



The main areas where more frequent errors were identified by the previous management verifications and audits were Human Resources (66%) and External services (19%), followed by Equipment (6%) and Infrastructure (6%).

In the cost category Human Resources, more than 20% of reported costs were totally ineligible. The other three most frequent errors in Human Resources were related to errors in hourly rates (14.67%), lack of preliminary documents, such as list of staff, copies of contracts, copies of appointment acts and decisions of competent bodies (13.63%), errors in timesheets (13.35%).

In the cost category External services 8.90% of reported costs were totally ineligible. The remaining 1.59% cuts were due to errors in reporting periods.

In the cost category Equipment and supplies 2.63% of reported costs were totally ineligible. The remaining cuts were due to errors in reporting periods (0.59%).

In the cost category Infrastructure 0.49% of reported costs were totally ineligible.

The cross-cutting reasons for cuts include incoherent information uploaded on the 2014-2020 MIS system (4.32%), missing or incomplete expenditure certificate, lack of authorization of the signing controller.

There were also other errors, such as those related to VAT eligibility, repeated submission of costs in different reports. They should be overcome with the new 2021-2027 rules on VAT eligibility and the use of JEMS system.

In addition, different percentages of errors and cuts were detected in the thirteen Participating Countries as shown in the table below.

The present methodology does not distinguish between ineligible and irregular expenditures as they both generated cuts.

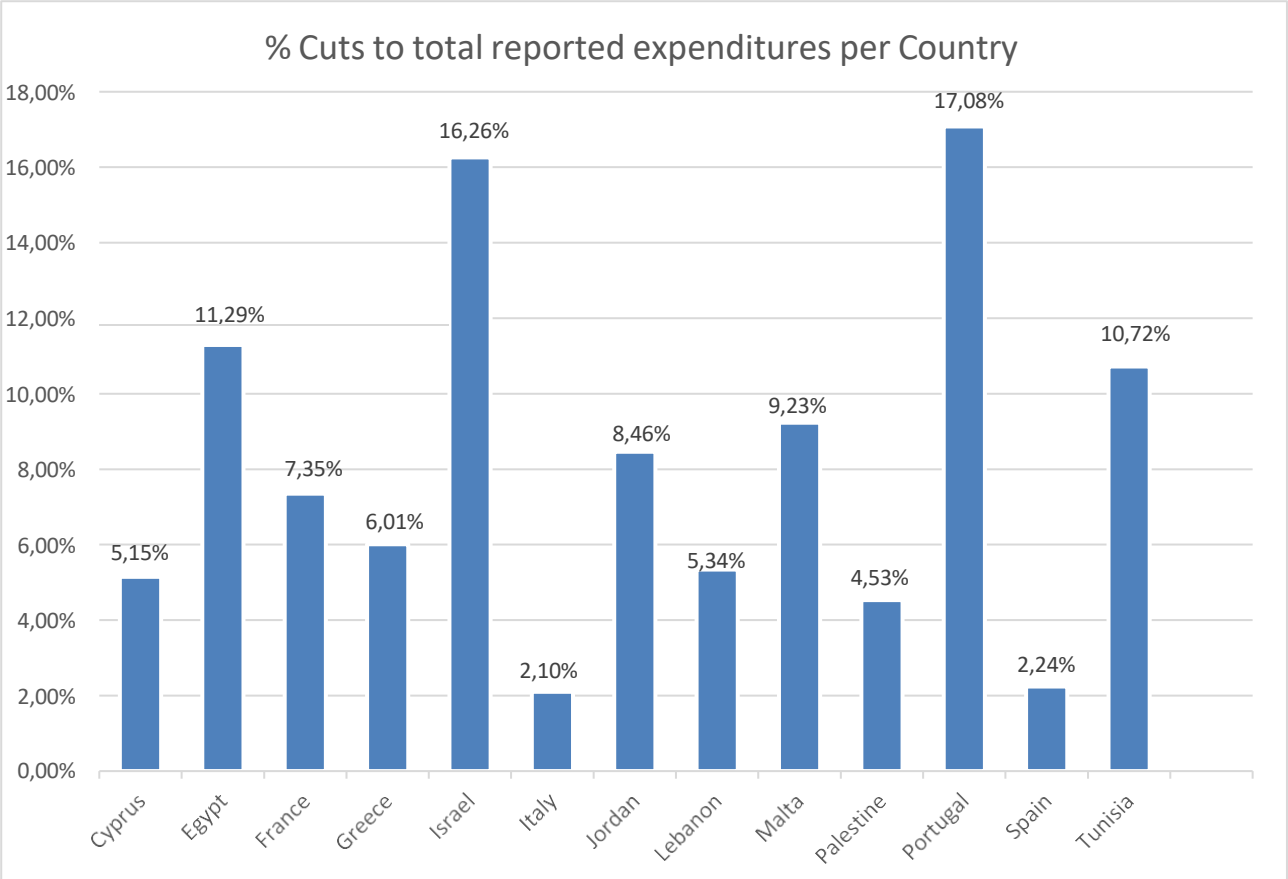
Tab.2 Cuts amount to total reported expenditures by country

CUTS AMOUNT TO TOTAL REPORTED EXPENDITURES BY COUNTRY			
COUNTRY	REPORTED EXPENDITURES	CUTS*	% CUTS TO TOTAL REPORTED EXPENDOTURES
Cyprus	2.724.033,60 €	140.341,84 €	5,15%
Egypt	7.435.492,05 €	839.232,54 €	11,29%
France	4.524.305,84 €	332.753,42€	7,35%
Greece	14.796.571,70 €	889.469,77 €	6,01%
Israel	4.281.501,12 €	696.233,19 €	16,26%
Italy	39.060.346,30 €	819.891,24 €	2,10%
Jordan	19.180.716,48 €	1.621.979,90 €	8,46%
Lebanon	20.904.030,52 €	1.117.002,53 €	5,34%
Malta	905.168,83 €	83.533,15 €	9,23%
Palestine	13.312.938,37 €	603.712,34 €	4,53%
Portugal	487.757,76 €	83.301,16 €	17,08%
Spain	25.307.489,39 €	567.369,57 €	2,24%
Tunisia	22.538.540,50 €	2.416.829,64 €	10,72%

* Cuts operated by auditors + cuts operated by the Managing Authority.

The figures reported above are shown in the following chart.

Ch.3 % Cuts to total reported expenditures per Country



7. MITIGATION MEASURES

In order to address the main risks faced by the Programme during the previous programming period, several mitigation measures have been set for the 2021-2027 period, such as:

1) use of simplified cost options (SCOs) and of the off-the-shelf flat rates available as per the CPR. In the ENI CBC Med Programme, a flat rate for office and administration costs was used as simplified cost option (up to 15% of eligible direct staff costs). For the 2021-2027, it was decided to keep this SCO (in accordance with art. 54(a) of CPR) and to also use a flat rate of (up to) 15% of eligible direct staff costs for Travel costs in accordance with art. 41(5) of Interreg Regulation. These flat rates will lead to a reduction of work for partners and controllers and should also reduce the risk of errors for the respective cost categories.
2) Using JEMS as an electronic monitoring system where all invoices and supporting documentation are stored, elimination of hard copies/ paper versions and using e-signature where possible; all the documents needed for the verification of costs will be uploaded in JEMS and this will further facilitate the work of controllers and auditors and reduce the risk of errors/findings linked to audit trail.
3) Specific focus on prevention and training. In order to have an efficient management and control system at Programme level, training needs to be foreseen for both Programme Bodies and project partners,

as well as controllers. In addition, there should be better guidance in the form of manuals, videos and other supporting documents available on the Programme website. A series of tutorials will be made available to facilitate the comprehension of Programme rules and procedures.

4) Quality control carried out closest to the beneficiaries involving National Authorities of Participating Countries.

8. INTERREG NEXT MED METHODOLOGY

The analysis of the historical series has shown two cost categories that are most at risk, Human Resources and External Services. The other cost categories, Equipment and Infrastructure, have a lower error rate.

In addition, each Country has a different error rate.

It has to be recalled that in the 2021-2027 programming period, two cost categories are covered by simplified cost options: Travel and Administrative costs.

Based on the results of the risk assessment, the following methodology was developed.

This methodology constitutes the minimum requirements that controllers must use in all Participating Countries. The minimum requirements can be increased by each Country according to national needs, without ever reaching 100% control of the expenditures which is contrary to the rationale of the new European regulatory framework.

The Participating Countries are divided into three categories, depending on whether their error rate is less than 5%, between 5% and 10%, or above 10%.

Algeria and Turkyie recently joined the Programme, there is no information on their error rates in the previous programming period. The MA proposal is to start from the average value of the error rates of all the other Participating Countries.

The first sampling concerns the two cost categories most at risk, **Human Resources and External Services,** and will consist of both a percentage of items and a percentage of total expenses for each category as shown in the table below.

Tab.3 Sampling methodology human resources and external services

COUNTRY	ERROR RATE	GROUPS BY ERROR LEVEL	SAMPLE SIZE **ITEMS** HUMAN RESOURCES	SAMPLE SIZE **TOTAL EXPENSES** HUMAN RESOURCES	SAMPLE SIZE **ITEMS** EXTERNAL SERVICES	SAMPLE SIZE **TOTAL EXPENSES** EXTERNAL SERVICES
Italy	2,10%	A (< = 5%)	10%	10%	10%	10%
Spain	2,24%					
Palestine	4,53%					
Cyprus	5,15%	B (5 – 10%)	20%	20%	20%	20%
Lebanon	5,34%					
Greece	6,01%					
France	7,35%					
Algeria (average value)	8,14%					
Türkiye (average value)	8,14%					
Jordan	8,46%					
Malta	9,23%					
Tunisia	10,72%	C (>10%)	25%	25%	25%	25%
Egypt	11,29%					
Israel	16,26%					
Portugal	17,08%					

The second sampling concerns the two residual cost categories, Equipment and Infrastructure. They will be **jointly** sampled in the same percentages as follows.

Tab.4 Sampling methodology infrastructure and equipment

	ERROR RATE	GROUPS BY ERROR LEVEL	SAMPLE SIZE ITEMS (INFRASTRUCTURE+EQUIPMENT)	SAMPLE SIZE TOTAL EXPENSES (INFRASTRUCTURE+EQUIPMENT)
Italy	2,10%	A	10%	10%
Spain	2,24%			
Palestine	4,53%			
Cyprus	5,15%	B (5 – 10%)	20%	20%
Lebanon	5,34%			
Greece	6,01%			
France	7,35%			
Algeria (average value)	8,14%			
Türkiye (average Value)	8,14%			
Jordan	8,46%			
Malta	9,23%			
Tunisia	10,72%	C (> 10%)	25%	25%
Egypt	11,29%			
Israel	16,26%%			
Portugal	17,08%			

The **entire sampling methodology** is reported in the table below.

Tab.5 Entire sampling methodology

COUNTRY	ABSOLUTE ERROR RATE	GROUPS BY ERROR LEVEL	SAMPLE SIZE **ITEMS** human resources	SAMPLE SIZE **TOTAL EXPENSES** human resources	SAMPLE SIZE **ITEMS** external services	SAMPLE SIZE **TOTAL EXPENCES** external services	SAMPLE SIZE **ITEMS** infrastructure+ equipment	SAMPLE SIZE **TOTAL EXPENSES** Infrastructure + equipment
Italy	2,10%	A (below 5%)	10%	10%	10%	10%	10%	10%
Spain	2,24%							
Palestine	4,53%							
Cyprus	5,15 %	B (5 - 10%)	20%	20%	20%	20%	20%	20%
Lebanon	5,34 %							
Greece	6,01%							
France	7,35%							
Algeria (average value)	8,14%							
Turkiye (average value)	8,14%							
Jordan	8,46%							
Malta	9,23%							
Tunisia	10,72%	C (above 10%)	25%	25%	25%	25%	25%	25%
Egypt	11,29%							
Israel	16,26%							
Portugal	17,08%							

As far as procurement is concerned the proposal is to check all the procurement procedures above or equal to the threshold of 10.000 euros.

The sample will be drawn by the Information System (JEMS) based on the items included in the list of expenditure by the project partner.

In addition to the expenditure items included in the sample generated by JEMS, based on his/her professional judgement, the controller can decide to extend the sample to additional items (e.g.in case of doubts about some items or about the partner, in case of suspicion of fraud). In such case, an explanation should be provided in the control report.

If the controllers detect any error during their check of the sample, the sample should be extended. Using their professional judgement, the controllers can extend the sample to similar types of expenditure, to the whole cost category concerned or to 100% of the list of expenditure. In such case, an explanation should be provided in the control report.

9. ON-THE-SPOT VERIFICATIONS

On-the-spot verifications means control checks undertaken on the premises of the beneficiary or any other project - relected site.

As a general rule, they may be performed at any time this is found to be necessary.

It is mandatory to have at least one on-the-spot check for each project partner implementing productive investments, infrastructure or acquiring equipment (**minimum requirement**). In these cases, they should be carried out when the project is well under implementation.

10. QUALITY CHECK

The quality check is a quality control carried out on the work of controllers to assess the quality of the work done.

In accordance with article 46(3) of the Interreg Regulation, Türkiye and the EU Member States participating in Interreg NEXT MED programme have taken over the responsibility for management verifications referred to in article 74(1)(a) of the Common Provisions Regulation (EU) 2021/1060.

In the Mediterranean Partners Countries, in accordance with Financing Agreements, the Managing Authority shall carry out managements verifications to verify that the operations comply with article 74 (1)(a) of Common Provisions Regulation (EU) 2021/1060.

Control Contact Points shall support the Managing Authority in carrying out quality controls of the expenditure verifications reports.

A quality check will be made using a sampling methodology that covers 10% of the total Programme expenditures verified by first level controllers (FLCs) per semester (**minimum requirement**).

For Türkiye and the EU Member States in the event of irregularities implying cuts, detected by National Controllers, the Managing Authority will act on the basis of the figures reported in the irregularity report.

According to article 74 paragraph 1(b) of Common Provisions Regulation (EU) 2021/1060 the relevant authority must ensure that a beneficiary receives the amount due in full no later than 80 days from the date of submission of the payment claim by the beneficiary.

11. UPDATING THE METHODOLOGY

The risks shall be periodically reassessed by the Programme Bodies based mainly on controller's corrections and audit results. For the first time, this risk re-assessment will take place after the first accounting year cycle.

The methodology will be updated when needed, and based on the revised risk assessment, to reinforce the controls or further reduce them depending on the level of risks.

In case major problems are detected or in case of external factors affecting the risks, the methodology will be revised immediately without waiting for the periodic re-assessment of the risks.