



Interreg Baltic Sea Region

Risk-based management verification of expenditure for the period 2021-2027

Methodology for controllers

version 1.0
19.06.2023





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1. Introduction and legal basis

The management verification described in this document is considered in the context of the Interreg Baltic Sea Region Programme (Programme), the related management and control system in place, and the risks identified. According to Article 74(2) of the REGULATION (EU) 2021/1060 of the European Parliament and of the Council, the **management verification shall be risk-based and proportionate to the risks identified ex-ante**. "Risk-based" means that controllers should focus their verifications on areas where, according to the risk assessment, the risk of material misstatement is high. In the areas where the risk of material misstatement is low, control work should be reduced. Such verifications shall include administrative verifications in respect of payment claims made by project partners and on-the-spot verifications of projects. Those verifications shall be carried out before the submission of the accounts for each accounting year, i.e. before 15 February following the given accounting year.

The purpose and objective of this document are to present the outcomes of the risk analysis, describe the risk factors based on the ex-ante analysis and to set minimum requirements for risk-based management verification of core projects co-financed by the Programme.

Core projects

The core projects are the main tool to deliver the change Interreg Baltic Sea Region aims at. All core projects are requested to prepare, pilot and transfer practical and durable solutions to the challenges they choose to tackle. These challenges must correspond to one of the Programme objectives. Activities in the core project are structured in three work packages (WP).

The main results of the core project are increased capacities of the target groups to deal with the defined challenges. The core projects can also include some productive or infrastructure investments.

This type of project should consist of a minimum of 3 and a maximum of 35 project partners. According to the statistics from the programming period 2014-2020, this type of project had, on average, 13 project partners. Further, they should cover at least three countries. The project duration is up to 42 months. There are no specific budget limits. The duration of each reporting period is 6-10 months. On average, this type of project will submit approximately six progress reports.

2. Risk assessment

Risk assessment is an integral part of the risk-based management verification of expenditures declared in the partner report. No matter what type of verification is chosen, see chapter 3.1 Types of verifications, the risk assessment is the first step of each of them. **The risk assessment is an ex-ante exercise analysing the specific risk factors.**

In the preamble of the REGULATION 2021/1060 (CPR), point 62, specifies that risk assessment should consider factors such as the number, type, size and content of operations implemented, the beneficiaries, and the level of the risk identified by previous management verifications and audits.



The MA/JS analysed the audit and control outcomes from the period 2014-2020, the Programme structure with its reporting rules and requirements in both programming periods 2014-2020 and 2021-2027 and the types of projects and partnerships. It proves that the detected errors are neither related to only specific types of projects nor projects under a particular Programme's priority. The analyses were also done from the perspective of the partnership. Also, here MA/JS does not identify any pattern that would lead only to lead partners or project partners or to the certain legal status of the project partner organisations.

Identification of risk factors

The analysis of errors from the programming period 2014-2020 demonstrates that there is no specific risk involved in the cost category (CAT) and does not indicate any specific type of error that would appear more often than other errors according to a certain scheme or system. Still, there is a group of CAT or types of errors with a lower number of cases and amounts corrected and a group with a higher number of cases and amounts corrected.

For the purpose of the risk assessment, the MA/JS can conclude that special attention should be given to CAT 1 Staff costs, CAT 3 Travel and accommodation, CAT 4 External expertise and services, and all items relevant to public procurement or involving VAT.

Analyses of risk factors

Considering these results from 2014-2020 and the new rules and reporting system in 2021-2027, the following issues are either improved or the risk is reduced or eliminated:

- Reporting of CAT 1 Staff costs is based on simplified cost options and not on real costs with different calculation methods. Consequently, the staff costs do not represent the calculation risk and risk of wrong application of a certain calculation method.
- Reporting of CAT 3 Travel and accommodation is based on a fixed flat rate of CAT 1 and not on real costs. There is no risk of mistakes in this cost category.
- New regulation treats VAT differently and in a simplified way than in the period 2014-2020. The VAT for projects below EUR 5 million (incl. VAT) will be eligible. **Note for state aid relevant project partners under GBER: VAT, which is recoverable under national legislation is, at any case, not eligible for project partners receiving State Aid support under General Block Exemption Regulation.**



Conclusion on risk factors

In the light of the audit and control outcomes from the period 2014-2020, the rules and system established for the period 2021-2027, the MA/JS, in its capacity, identifies the following risk criteria to be applied for management verification of expenditure:

- **CAT 4 External expertise and services**
- **Public procurement**
- **VAT for projects above EUR 5 million (incl. VAT) or higher. VAT recoverable under national legislation of project partners receiving State Aid support under General Block Exemption Regulation (GBER).**

Due to the involvement of public procurement and higher volumes, the MA/JS adds as a risk factor also the following cost category:

- **CAT 6 Infrastructure and works.**

The MA/JS will regularly monitor the management verification methodology, including its risk factors in relation to the yearly outcomes of the audits and controls. MA/JS and AA will discuss their strategies to have a mutual understanding. Both authorities are aware that the multiplication of controls at the project partner level should be avoided as long as this does not contradict the risk assessment strategy (for management verifications) of the MA/JS and the audit strategy of the AA. Both the AA and the MA/JS need to comply with their responsibilities and strategic principles.

3. Risk-based management verification for 2021-2027

The management verification of expenditure refers to checks of expenditure declared to the Managing Authority/Joint Secretariat (MA/JS) for Programme co-financing. From the point of view of responsibility for management verification, Interreg Baltic Sea Region 2021-2027 differentiates between two types of costs belonging to:

- Simplified cost options (SCO)
- Real costs.

Project partners (including the lead partner) compile a partner report and submit it to the lead partner via the electronic data exchange system BAMOS+. A partner report consists of the following parts:

Part A. activity part,

Part B. financial part for cost categories covered by simplified cost options,



Part C. financial part for cost categories covered by real costs.

The MA/JS verifies and certifies cost categories covered by simplified cost options during monitoring the progress report, i.e. after the lead partner has submitted the complete progress report.

Designated controllers verify and certify cost categories covered by real costs, i.e. part C of the partner report, before the submission of the partner report to the lead partner.

Project partners may decide not to report cost categories covered by the real costs in a given reporting period. Real costs from more than one period can be combined and reported all at once. A partner report that includes expenditure based only on the simplified cost options is not subject to verification by the controllers.

The MA/JS recommends that core projects include expenditures based on real costs in every second or third progress report. Other types of projects report their expenditure based on a simplified cost option scheme.

3.1 Types of verifications

The Interreg Baltic Sea Region Programme 2021-2027 differentiates between two types of verifications:

- Administrative and
- On-the-spot verifications

Every administrative and on-the-spot verification consists of procedures that MA/JS or controllers apply in chronological order. When performing the control, these procedures provide a complete picture of the co-financed activities and project-related expenditures declared by the project partners. At the end of the verification, the MA/JS or the controller document their verification conclusions in the form of a control certificate, a control report, and a checklist integrated in BAMOS+.

All project partners and their payment claims/project partner reports are verified via administrative or on-the-spot verification.

Administrative verification

Administrative verifications, also known as desk-based verifications, are the control checks the MA/JS or controllers undertake on the documentation of each claim for reimbursement/partner report in their own offices. The control must be carried out for any intermediate or final claim for reimbursement/partner report submitted by project partners. It includes verification of reported cost items and relevant supporting documentation. The MA/JS or controllers can

- check 100% of cost items in the expenditure population of the project partner in the given payment claim or



- based on ex-ante risk assessment, select a risk-based sample of cost items.

On-the-spot verification

On-the-spot verifications are the control checks the controllers undertake at the premises of project partners or project-related sites (on-site verifications). The control is carried out to check the actual delivery of the co-financed products, services, supplies and works, and aspects that cannot be observed during administrative verifications. Verifications are undertaken on the project's physical progress, delivery of the products, services and works, publicity rules, accounting system, and related documentation. Control also includes reviewing documents requiring special attention (i.e., documents lately requested through clarifications, the partner accounting system, and related documents).

Both types of management verification are risk-based and proportionate to the identified risk. The MA/JS and controllers will avoid duplication of work in the whole verification process. This is already partly ensured by a clear split of responsibilities for verification of the simplified cost options and real costs, namely by the given CATs.

In exceptional cases, administrative and on-the-spot verifications can be supported by online verification. Online verification is considered a type of check complementing administrative and on-the-spot verifications.

3.2 Risk-based verification methods

MA/JS defines requirements and steps upon risk-based verification of

- real costs and
- simplified cost options.

According to the Programme rules and reporting structure, each of the above-listed types of costs has its specific character requiring a targeted approach to the management verification and consequently tailor-made requirements upon the risk-based sampling method.

3.2.1 Risk-based verification method for real costs

The controllers conduct management verification of expenditure declared in each **project partner report, part C, for cost categories based on real costs**, i.e.

- CAT 4 External expertise and services costs
- CAT 5 Equipment
- CAT 6 Infrastructure and works



In the beginning, the controllers **review the population** of expenditure declared in the partner report according to the following **risk factors and its professional judgement**:

- public procurement
- Investments (productive and infrastructure) with a focus on procurement, ownership and visibility
- VAT for projects above EUR 5 million (incl. VAT) or higher. VAT recoverable under national legislation of project partners receiving State Aid support under General Block Exemption Regulation.

Further, based on the expenditure review, the controller decides on the management verification method. The controller can decide whether it is reasonable to select a **representative sample** from CAT4-6 or to **verify 100% of expenditures** declared in CAT4-6. The MA/JS recommends using the sampling method whenever possible and justified.

The controllers must include the following **minimum requirements when drawing the sample** for verification checks in their sampling method:

- At least 10% of the expenditure declared on cumulative basis in all three CAT4-6 of the partner report **and**
- At least two items from each CAT4-6

The selection of the sample should consist of two steps.

I. Obligatory items to be selected and checked:

- a) All investments (productive and infrastructure)
- b) All expenditures at or above EUR 10,000 subject to public procurement, including the bid-at-three rule.
- c) Any suspicious items based on professional judgement.

II. Complementary selection of items from the population based on professional judgement and/or random selection of items from the population of project partner expenditure. The complementary selection should be done in case the obligatory items do not cover the sampling conditions, e.g. 10% of expenditure in CAT4-6, or 2 items from each CAT4-6, or according to the controller professional judgement additional items should be checked.



After the sample of items for checks is drawn, the controller carries out the verification process. All expenditures selected for the sample are subject to verification. In case the controller has not detected any ineligible expenditures and there are no other reasons for extending the sample controller may draw conclusions and issue a control certificate.

If the controller identifies deficiencies or errors in the selected sample, further actions like an **extension of the sample** may be needed. For such a decision, the controller must evaluate the errors and conclude on the next steps.

Example 1: errors have a common feature

- ⇒ The controller shall verify all similar items
- ⇒ If more errors are detected, the controller proceeds with a full verification of the partner report

Example 2: errors do not have a common feature

- ⇒ The controller shall draw an additional sample of items from the remaining population
- ⇒ If more errors are detected, the controller proceeds with a full verification of the partner report

An additional reason to extend the sample can be the fact that the controller has a reasonable suspicion that the identified ineligible expenditure results from activities inconsistent with the project objectives or that the ineligible expenditure identified is the result of fraud and abuse.

3.2.2 Risk-based sampling method for on-the-spot verification

The controllers should also conduct management verification on the spot. Such verifications should preferably be undertaken when the project is well underway, both in terms of physical and financial progress.

The controllers are asked to carry out at least one on-the-spot check of each project partner during the project duration. The controllers responsible for more project partners can apply the sampling method or other methods based on risk criteria and professional judgement to select the project partners to be checked on the spot. The controllers must have a method of selecting project partners to be checked on the spot and documentation of the on-the-spot check carried out.

The main factor for risk assessment should be the occurrence and advancement of productive investments and/or elements of infrastructure and works. The controller can apply professional judgement and results of administrative verifications. It is possible to combine administrative verification with on-the-spot verification.

3.3 Documentation of management verification

There are two ways to document the management verification:



- Written documentation of the verification method used, particularly when a sampling method is applied.
- Written documentation of the verification of expenditure as such. The MA/JS developed templates of control report and checklist for the basic documentation in BAMOS+.
- Written documentation of on-the-spot checks.

The audit trail of the management verification should be performed with adequate arrangements for documentation in digital form.