Italy-Croatia RBMV methodology

What is checked and controllers' first experiences
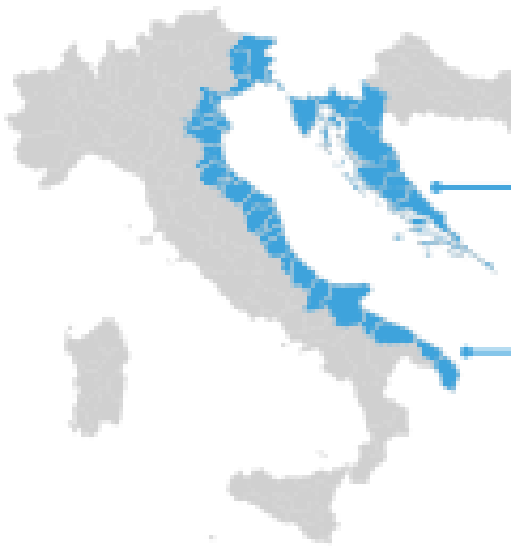
Controllers Workshop I Split I 15-16 May 2024

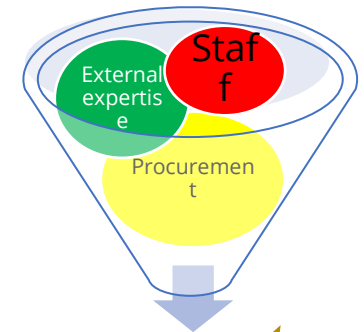*Marco Popolizio – JS finance & control officer*

Nevena Budimir– Senior Expert Advisor; HR Control body

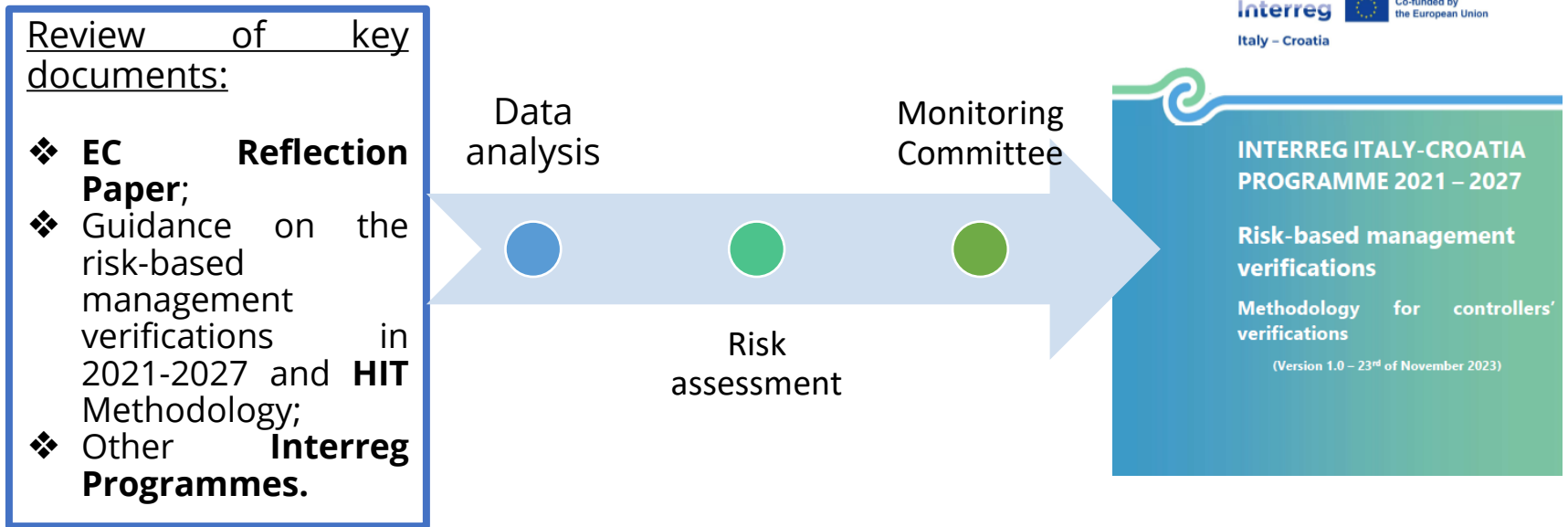*Ana Mesić– Senior Expert Advisor; HR Control body*

National control systems

➢ **Croatia - Centralized system:** The body in charge is the Ministry of Regional Development and EU funds.

➢ **Italy - Decentralized system:** Controllers are appointed according to the requirements set at National level for ETC Italian control system.

External expertise

Staff

Procurement

Risk-based Management verifications

IT-HR Methodology

	IT-HR
Key items - risky items (100% Fully verified):	*Procurement for contracting amounts equal or above Programme threshold of EUR 10.000,00 (excl. VAT);*
	Staff costs of the first and last progress report where staff costs occur. Furthermore, staff costs of a new staff member included for the first time in the progress partner report, or if significant changes in the staff costs occur (> 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 full time).
	VAT (for projects with total costs of at least EUR 5m, including VAT or in case of State aid).
+ Professional judgment:	*At least one item per cost category must be selected, where available. Item(s) to be controlled are selected from the remaining population of reported real costs and 10% of value (of the remaining reported real costs) must be included in the sample.* *The controller should briefly justify why a certain expenditure item has been checked (list of criteria is given)*

IT-HR Methodology

	IT-HR
On-the-spot verifications	
	based on a risk assessment that considers 3 criteria: 1. **existence of equipment of a certain value, specifically, on site verification of equipment is performed by controllers for all items with a purchase cost equal or above EUR 10.000,00 (VAT excluded).** Therefore, the unit value of a piece of equipment equal or above EUR 10.000,00 (VAT excluded) is the trigger for inclusion of a partner in the on-site verification sample (next to already mentioned other criteria) and only this equipment is to be checked during OTSC. 2. **existence of Infrastructure and works of any value should be checked.** 3. **the controller's assessment based on professional judgement.**

What does it mean applied to reporting options?

Cost categories	Option n.1	Option n.2	Option n.3
Staff costs	**REAL costs** (Part time with fixed percentage method or Full-time)	**20% Flat** on other direct costs	**REAL costs** (Part time with fixed percentage method or Full-time)
Office and administrative costs	**40% Flat** on Staff costs	**15% Flat** on Staff costs	**15% Flat** on Staff costs
Travel and accommodation costs		**15% Flat** on Staff costs	**15% Flat** on Staff costs
External expertise and services costs		**REAL costs**	**REAL costs**

<u>Note:</u> Cost categories Equipment costs and Infrastructure and works are also available for Standard projects (1st Call).

Option n.1 – Flat 40%

Rationale: The fact that by using this option <u>the whole reimbursement is based only on the quality of reported staff expenditures</u> makes verification of these costs particularly relevant in relation to the first and last progress report. It is indeed important to reduce the errors under Staff costs as any error found under this category would also lead automatically to the correction of the 40% Flat.

<u>Administrative verifications:</u>

❖ Key-items verification: Staff costs of the 1ˢᵗ and last progress report + New staff + Significant changes (> 20%) or changes in the staff costs methodology (e.g. a change from fixed percentage method to full time).

❖ Professional judgement.

<u>On-the-spot verifications:</u>

❖ In principle no OTSC has to be planned in this case, unless previous administrative management verifications have identified the risk of double-funding, suspicions of fraud or mismanagement of EU funds. (⮚ Professional judgment).

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Option n.2 – Staff costs 20%

Rationale: Equipment and Infrastructure cost categories are elements of relatively higher risk (not applicable for Small-scale projects). On-the-spot verifications should focus on those riskier cost categories.

Administrative verifications:

❖ Key-items verification

1. Procurement for contracting amounts equal or above Programme threshold of EUR 10.000,00 (excl. VAT);

2. VAT (for projects with total costs of at least EUR 5m, including VAT or in case of State aid – GBER schemes).

❖ Professional judgment: At least 1 item per cost category must be selected. 10% of value (of the remaining reported real costs) must be included in the sample.

On-the-spot verifications:

❖ 3 criteria: 1) Equipment purchase cost equal of above 10.000€ (VAT excluded); 2) Infrastructure and works of any value; 3) Professional judgment.

Option n.3 – Staff costs real

Rationale: Staff is reported on a real cost basis (☐ quality of reported staff expenditures makes verification of these costs particularly relevant in relation to the 1st and last PR) & External expertise is also reported on a real cost basis in case of Small-scale projects.

Administrative verifications:

❖ Key-items verification

1. Staff costs of the 1st and last progress report + New staff + Significant changes (> 20%) or changes in the staff costs methodology.

2. Procurement for contracting amounts equal or above Programme threshold 10.000,00€ (excl. VAT);

3. VAT (for projects with total costs of at least EUR 5m, including VAT or in case of State aid – GBER schemes);

❖ Professional judgment: At least 1 item per cost category must be selected. 10% of value (of the remaining reported real costs) must be included in the sample.

On-the-spot verifications:

❖ 3 criteria: 1) Equipment purchase cost equal of above 10.000€ (VAT excluded); 2) Infrastructure and works of any value; 3) Professional judgment.

Supporting documents

❖ Risk-based sampling audit trail (☐ annexed to the Methodology)

❖ Summary table of reported staff costs (☐ Project partners must provide a detailed table laying out all reported staff costs per project team member; for each month…).

Practical experience in Jems
⯈ Control report / Report identification:

4. Verification

General methodology (multiple selection possible):

☑ Administrative verification
☐ On-the-spot verification

Risk-based verification applied

Yes   No

If (yes), briefly describe sampling methodology and indicate where a detailed description can be found. For example, include additional information on the scope and on the percentage checked.

Enter text here
In line with the RBMV methodology reported staff costs of the first report were verified in total (100% verification). After performing full verification of key items, sampling is done per cost category based on the total remaining population of items under that cost category (key items excluded). Therefore one item from category "External expertise and services" was sampled for verification.

Jems – Control report / Expenditure verification

Expenditure data						Control work			
ID	ⓘ	Unit costs and Lump sums	Cost category	Declared amount in EUR ⓘ	Attachments ⓘ	Part of sample	Deducted amount in EUR	Certified amount in EUR	Typology of error
R1.14	☐	N/A	Staff costs	501,04		⬤	0,00	501,04	N/A
R1.15	☐	N/A	Staff costs	501,04		⬤	0,00	501,04	N/A
R1.16	☐	N/A	Staff costs	610,13		⬤	0,00	610,13	N/A
R1.17	☐	N/A	Staff costs	1.060,20		⬤	0,00	1.060,20	N/A
R1.18	☐	N/A	Staff costs	1.060,20		⬤	0,00	1.060,20	N/A
R1.19	☐	N/A	Staff costs	1.060,20		⬤	0,00	1.060,20	N/A
R1.20	☐	N/A	Staff costs	1.082,95		⬤	0,00	1.082,95	N/A
R1.21	☐	N/A	Staff costs	1.324,53		⬤	0,00	1.324,53	N/A
R1.22	☐	N/A	External expertise ...	3.000,00	📄 S_LoE_VANJSKI_ST... ⬇	⬤	0,00	3.000,00	N/A
R1.23	☐	N/A	External expertise ...	4.000,00	📄 S_LoE_VANJSKI_ST... ⬇	⬤	0,00	4.000,00	N/A

❖ The situations encountered by controllers in the application of the new methodology can largely be identified and classified into several groups of the most common experiences and initial impressions

Let's check them together!

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Observation number 1

❖ The biggest challenge for controllers is to make a change in the approach and their mindset

❖ The assumption that a controller must approve a cost without checking it first, causes discomfort and anxiety

❖ Consequently, the controller becomes more cautious, which slows down their work

❖ Controllers have already had similar experiences when flat rate for office and administration costs was first introduced in the 14-20 period

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Observation number 2

❖ Sampling also requires time because the system itself does not generate the sample of costs which need to be checked automatically (through an option generated in JEMS)

❖ Sampling is time-consuming because it needs to be done in line with all requirements and formalities

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Observation number 3

❖ The first reports are inherently small and there are fewer reported costs

❖ Since there are fewer reported costs, the population is smaller, so the controllers end up checking almost the entire report

❖ We believe that we will have a better idea of risk based management verifications and the actual workload only after the 3rd and 4th reporting periods are checked

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Observation number 4

❖ The biggest unknown is the Sample Expansion

❖ "How will we expand the sample?"

❖ Experience is crucial for answering the questions and it is something we still lack

❖ Ultimately, the question arising is "how clear are the instructions on the sample expansion?"

Controllers' experiences for each cost reporting option

1st option

❖ The controller looks for audit trail for all cost categories, although it is not required for this option

❖ It is confusing that some audit trail is required in Option 2 and 3, but it is not required in Option 1 (costs of travel and accommodation)

Controllers' experiences for each cost reporting option

2nd option

❖ Occasionally, in the real costs category, we only have one cost reported, and this cost is not a key item. All other categories are SCOs

❖ The controller, applying the professional judgement, checks that one cost as a compulsory item, and by doing this they check the entire report

Controllers' experiences for each cost reporting option

3rd option

❖ The controller checks all the costs, and only later realizes that they should have taken only some costs for the sample

❖ Project Partners send more documentation than necessary. By doing so, the controller is mislead to check everything

❖ Another dilemma with this option is how to sample the 10% of the reported real costs

Risk based sampling audit trail_Interreg_IT-HR EFFICIENTN2K.xlsx

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Conclusion

❖ both new and old controllers instinctively check everything, the entire report, the entire documentation

❖ Experience is crucial / Looking forward for the new reporting periods

❖ additional improvement of JEMS is welcome

Thank you for your attention!

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Thank you for your attention!

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