Methodology for Risk-Based Management Verifications (RBMV)

Interreg Programmes - MA located in Greece

INTERACT Workshop
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Managing Authority "Interreg 2021-2027"

o CBC Programme Interreg VI-A "Greece-Italy Programme 2021-2027"

o CBC Programme Interreg VI-A "Greece – Bulgaria 2021 – 2027"

o CBC Programme Interreg VI-A "Greece – Cyprus 2021 – 2027"

o IPA CBC Programme "Greece – Albania 2021 – 2027"

o IPA CBC Programme "Greece – North Macedonia 2021 – 2027"

Main elements taking under consideration

1. Use of a "common" e-tool (MIS) for management verifications
2. "Common" risk analysis for administrative and on–the–spot verifications"
3. How to choose RBMV risk factors and minimum coverage
4. Public Procurements: different countries have different national thresholds
5. Centralized and Decentralized FLC systems: FLCs (physical persons) don't have the knowledge needed for the inherent risk assessment (e.g. beneficiary's experience, capacity, implemented projects, etc.)

Conclusion: One "common" system which will automatically generate the assessment.

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Main elements taking under consideration

To ensure **equal treatment**, and in consideration of the cooperation goal of Interreg programmes, risk assessments and decisions made by controllers should follow the same principles, regardless of the project/partner in questions or the country of the controller. Thus, there can be two approaches to organizing risk-based management verifications in Interreg programmes:

• the Managing Authority develops a single methodology for risk-based management verifications, which is applied for the whole programme;

• the Managing Authority delegates the responsibility for developing the methodology to the Member States (Article 46(3) Interreg Regulation). In this case, the managing authority needs to ensure the equal treatment of beneficiaries - any difference in the approaches to management verifications between the countries should be duly justified. The Managing Authority can also develop minimum requirements for risk-based management verifications, to be used by the controllers in each country**.**

○ **Conclusion** "**Common**" RBMV methodology for all countries and all Programmes

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General approach

Main steps:

- FLCs' experience
- MA & JS officers' experience
- RBMV methodology in Greek mainstream Programmes
- Results from other Control Bodies
- Statistical analysis of the Programs' data on irregularities (MIS - period 2014-2020)
- <u>Main output</u>: Methodology on the risk-based management verifications for 2021-2027 – 1st draft
- Meetings with the participating countries and feedback
- Simulation practice
- Methodology on the risk-based management verifications for 2021-2027 – final document
- Capacity building procedures to NAs and beneficiaries (targeted training and information sessions by MA)
- Revision of the methodology

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General principles

o The planning of management verifications is based on a risk assessment carried out at the level of the project/partner, taking into consideration specific risk factors and is implemented entirely electronically through MIS

o The assessment at the level of the project/partner is common for administrative expenditure verifications and on-the-spot verifications.

o Risk factors are related to data on the beneficiary (background, experience, etc.) and to data on the project. These are both "characteristics" borne by the operation during its design (such as type/nature, complexity) and elements that arise during its implementation (amendments, financial corrections, etc.).

General principles

o Risk factors receive values and scores automatically through data recorded in the Management Information System (MIS) to ensure reliability and transparency.

o The initial risk assessment, with the automatic award of an overall score to each project/partner, is made immediately after its approval, to have the first indication of its "degree of risk". This score changes during its implementation, as the elements feeding the values of the individual risk factors change and is automatically updated when the methodology is applied.

o The performance of administrative verifications of expenditure is based on the <u>monthly risk assessment</u> as produced by the MIS on the basis of the risk factors and the minimum criteria

General principles

o In administrative verifications, sampling rules and criteria are defined at two levels: a) Payment claim level and b) expenditure level.

o In "on-the-spot" verifications, sampling will be applied to a given population of partners/expenditures which is selected to be verified on-the-spot.

o The methodology allows the use of the FLC "professional judgment" to increase the sample (categories, correlations, etc.).

o The methodology will be subject to annually revision.

Risk factors

o **Identified 11 risk factors** and apply both to the project and the beneficiary. The assignment of a value and a score for each individual factor is done automatically and takes into consideration:

- ✓ primary data, which are inserted in specific fields of the MIS screens (e.g. A.F.),

- ✓ data resulting from the processing of primary data, such as the percentage of financial corrections imposed on the beneficiary. Processing and calculations are done automatically through the MIS.

Risk factors

Risk factor	Type	Grade
Type of Beneficiary	National Public authorities (e.g. Ministries)	1
	Regional Public Authorities (Regions and their Legal Entities)	2
	Local Public authorities (Municipalities and their Legal Entities)	3
	Universities/Institutes	4
	Private bodies/NGOs	5

Risk factors

Risk factor	Type	Grade
Financial corrections to the beneficiary (2014-2020 and 2021-2027 programming period)	financial correction <2%	1
	financial correction 2-5%	3
	financial correction > 5%	5
Number of operations implemented by the beneficiary	1 to 5 projects	1
	6 to 10 projects	3
	>10 projects	5

Risk factors

Risk factor	Type	Grade
Operation complexity per partner	1 to 10 different deliverables	1
	11 to 20 different deliverables	3
	> 20 different deliverables	5
Number of partners of an operation	2 partners	1
	3 to 5 partners	3
	>5 partners	5

Risk factors

Risk factor	Type	Grade
Project duration	1 to 2 years	1
	> 2 to 3 years	3
	> 3 years	5
Project with starting date before AF submission	No	1
	Yes	5

Risk factors

Risk factor	Type	Grade
Budget of partner /project (€)	0 to 100,000	1
	100,001 to 300,000	2
	300,001 to 1,000,000	3
	1,000,001 to 5,000,000	4
	> 5,000,000	5

Risk factors

Risk factor	Type	Grade
Amendments to a project	No amendment	1
	Up to 5 amendments	3
	More than 5 amendments	5
Time elapsed since the previous on-the-spot verification/check	<1 year	1
	>1 year	3
	no control at all	5

Risk factors

Risk factor	Type	Grade
Financial corrections to the project/partner	financial corrections 0 to 2%	1
	financial corrections >2 to 10%	3
	financial corrections >10%	5
Project implementation method	????	

Administrative Verifications – Selection of expenditure declarations

o Not all expenditure declarations (payment claims) from beneficiaries will be subject to management verifications.

o The basic rule for all operations (irrespective of the risk layer) is that, in all cases, the 1st Declaration Expenditure Form (DEF) submitted by the beneficiary must be verified.

o Also, the 1st DEF containing expenses under "infrastructure" budget line, must be verified.

o Then, for each **risk layer** to which the operation/partner has been automatically assigned on the basis of the risk assessment, the minimum number of claims to be verified are determined (according to the following table).

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Administrative Verifications – Selection of expenditure declarations

Risk layer	Claims to be verified
High risk	all claims
Medium risk	the first claim and two intermediate claims (30% and 70% of total expenditures)
Low risk	the first claim and one intermediate claim (70% of total expenditures)

Administrative Verifications – Selection of expenditure declarations

o The first claim and every claim that needs to be verified according to the above risk assessment will be automatically highlighted in the MIS ["**to be verified**"].

o In case the project is implemented exclusively through public procurement, the last DEF will also be verified.

o Controllers could also verify and other declarations due to the identification of significant and/or unusual problems and they should justify this option to the DEFs in the MIS.

Administrative Verifications – Selection of items to be verified inside the selected declarations of expenditure

o Within a declaration of expenditure, not all items will be verified

o <u>Minimum coverage</u>:

✓ At least 20% of total expenditure **and** 30% of number of expenditure items per DEF (apply to cost category)

✓ large number of items (indicatively >150 correlations): the sample must cover at least 15% of total value and 15% of items per cost category (or 10% and 5% respectively).

Administrative Verifications – Selection of items to be verified inside the selected declarations of expenditure

o In order to select the sample items per cost category, we follow the next steps :

- ✓ items of a significant amount (indicative with an amount ≥ 10% of the total amount of the specific cost category)

- ✓ other items which, according to controller's "professional judgement" are unusual or contain indications of fraud

- ✓ Randomly sampled items per cost category, so that, including the above-mentioned expenses, we'll fulfill the minimum coverage.

o The controller may increase the minimum coverage percentages, if it is deemed necessary to have a better knowledge regarding the risk that may be raised with the specific partner/project in particular in high budget infrastructure and supply projects.

o If the controller detects irregular expenditure, expands the items sample to other correlations, depending on the nature and extent of the irregularities, to establish whether the same type of findings appear in the unaudited population of expenses (relevant scroll box in the MIS and relevant justification by the controller).

o In case of the same type of findings in the supplementary sample, the controller may further expand the sample of expenses and/or decide to carry out an "on-the-spot" verification

o If findings could affect the expenditure of previous claims, the controller decides to carry out an "on-the-spot" verification.

Administrative Verifications – Sample extension

o **"Staff" cost category extension** if an error is found:

  ✓ At least 2 additional cost statements/items related to the same project team member for which irregular expenditure has been identified (if any)

  ✓ At least 1 additional cost statement/item with "common" characteristics to those of irregular expenditure (if any – e.g. call for expression of interest, etc.).

  ✓ At least 2 additional cost statements/items relating to the same methodology for calculating personnel costs, but for another member of the project team (if any).

o **Other cost categories extension** if an error is found:

  ✓ At least 1 additional cost statement/item with "common" characteristics with those of irregular expenditure (if any – e.g. type of tender, subject to tender, reason for "irregularity", contractor, travel abroad, etc.).

On-the-spot verifications

Steps of the "on-the-spot" sampling methodology:

1. Risk assessment of projects/partners

2. Identification of the original population

3. Determination of the sample size

4. Selection of projects/partners, based on pre-defined criteria, which will be verified on the spot

5. Stratification of remaining population - selection of original sample

6. Identification of factors that may differentiate the initial identified sample

7. Check to cover the minimum requirements of sample - Finalization of the sample

8. Completion with projects/partners without executed financial object

9. Planning the on-the-spot verifications.

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1. **Risk assessment of projects/partners**

For on-the-spot verifications, the risk assessment shall be applied to the MIS **every six months** and is based on the rating of the projects/partners in the three layers of risk presented above.

2. **Identification of the original population** (automatically through MIS)

   ✓ For the first period, the number of all the operations whose expenditure was administratively verified during the first semester of the accounting year (01/07/ v-1 to 31/12/v-1) is defined

   ✓ For the second period, the number of all operations whose expenditure was administratively verified in the second semester of the accounting year (01/01/v to 30/06/v), deducting the Operations whose expenditure was verified on-the-spot during the first audit period of the same accounting year.

   ✓ Exclusions of projects/partners from the population (e.g. projects/partners that were verified on the spot during previous semesters, projects/partners[25] that have been audited by the Audit Authority, etc.)

3. **Determination of the sample size**

The sample size shall be identified using non-statistical method and according to the following rule:

- ❑ After identifying the projects/partners to be checked, <u>a random sample </u>will be selected meeting two conditions at the same time, i.e. 15% of the number of projects/partners and 10% of the expenditure.

4. **Selection of projects/partners, based on pre-defined criteria, which will be verified on the spot**

Projects/partners that shall be verified in any case shall be deducted from the original population (e.g. projects expected to be completed within the accounting year have not been verified on-the-sport, projects carried out at different locations and requiring periodic on-the-spot verification, operations with significant problems, etc.)

5. **Stratification of remaining population - selection of original sample**

For the selection of projects/partners to be verified on the spot, the three layers of risk created in the first step shall be taken into consideration:

Risk layer	Claims to be verified
High risk	50% of the sample as follows: 25% - partner with the highest scores 25% - random sampling
Medium risk	30% of the sample by random sampling
Low risk	20% of the sample by random sampling

6.   **Identification of factors that may differentiate the initial identified sample**

The responsible Authority of each country may replace a project/partner of the random sample of one layer with another project/partner of the same layer, in the following cases:

❑ A project/partner that is in the initial sample does not have sufficient implementation and does not have significant added value, may be replaced by another operation of the layer not selected in the random sampling.

❑ If the sample does not include operations of a specific type/group (e.g. infrastructure projects, etc.), the responsible Authority may select a project/partner of the specific type/group and replace a project/partner of another group of the same layer.

7. **Check to cover the minimum requirements of sample - Finalization of the sample**

❑ Once all the above steps have been completed to identify the projects/partners to be verified on the spot, the relevant Authority of each country shall confirm that the sample of projects/partners also covers the minimum requirements

❑ If the requirements (15% of operations and 10% of total expenses) are not met, **additional projects are selected** (i.e. added to the sample) from the remaining population (random sampling)

On-the-spot verifications

8. **Completion with projects/partners without executed financial object**

❑ These are projects whose physical object will not be able to be verified in a future semester (e.g. training actions) and which were not included in the population from which the sample was drawn, since they had not incurred any costs.

9. **Planning the on-the-spot verifications**

❑ Creation of "on-the-spot" verification program in the MIS (4.1 screen)

❑ The planning the "on-the-spot" verifications should systematically be monitored and may be reviewed at any time

On-the-spot verifications

Review – Revision of the methodology

This review will normally take place **every year,** taking into consideration:

- ❑ the data of the Annual Audit Report of the Audit Authority (EDEL),

- ❑ the results of the management verifications and the conclusions of the MA,

- ❑ the findings of audits of Audit Bodies of the European Commission and the European Court of Auditors, and other competent National Bodies,

- ❑ cases of suspected fraud that may have a horizontal impact on the MCS,

- ❑ any corrective interventions to the MCS during the accounting year to address identified problems.

As a result of the review work and depending on the nature and extent of the findings, <u>additional corrective measures</u> may be required:

- ✓ Revision of the methodology,

- ✓ adjustments to the MIS,

- ✓ provision of further training/guidance to the Authorities of participating countries responsible for the management verifications.

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Thank you for your attention

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