HIT Guidance on the risk-based management verifications for 2021-2027 and HIT methodology

15 September 2022 I Online, Zoom

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Management verifications 2021-2027

Effective and efficient implementation of Funds

Related administrative costs and burdens

Risk-based management verifications (Article 74(2) CPR + recital 62)

HIT Guidance on the risk-based management verifications for 2021-2027 and HIT methodology as part of HIT Control package 2021-2027

HIT (Harmonised Implementation Tools)

Developed by Interreg programmes for Interreg programmes

Used for selection and monitoring of Interreg projects

Templates, checklists, guidance and glossary

Publications

HIT 2021-2027 | Application form
26/02

Reporting Package

HIT | Reporting Package
07/04/2022

Interreg HIT 2021-2027

Control Package

HIT | Control Package
07/04/2022

- Control Certificate
- Control Report and Checklist
- Public procurement Checklist
- *HIT Guidance on the risk-based management verifications for 2021-2027 and HIT methodology*

Goal – harmonize controllers work across Europe!

HIT Core group sub-group

❯ 7 Interreg programmes, Interact

Work approach

- Started from scratch (first meeting on 06/05/2021)

- Zoom online meetings

- Homework – analysis of the programme's data on irregularities

Outcome:

- Guidance on the risk-based management verifications for 2021-2027

- HIT methodology for the risk-based management verifications

Guide vs methodology

Guidance

- Hints and recommendations on HOW to develop a methodology for risk-based management verifications, incl. concrete steps

- Hints for mitigation measures on reducing risks

- Principles and ideas for risk-based management verifications

- Ideas/examples on extension of sample

- Ideas WHEN to update methodology

Methodology

- Simple

- Fulfils the regulatory requirements for risk-based management verifications in the 2021-2027 period

- Can serve as minimum requirements to be followed by all controllers in their verifications (if responsibility of MV is delegated to MS)

- Every aspect or element of the methodology can be customized to fit each specific programme's context

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HIT Methodology
Scope of work

- The objective of the methodology

- Scope (population)

- Application of the methodology

- Areas of focus (risky/not risky elements)

- Definitions of risk elements
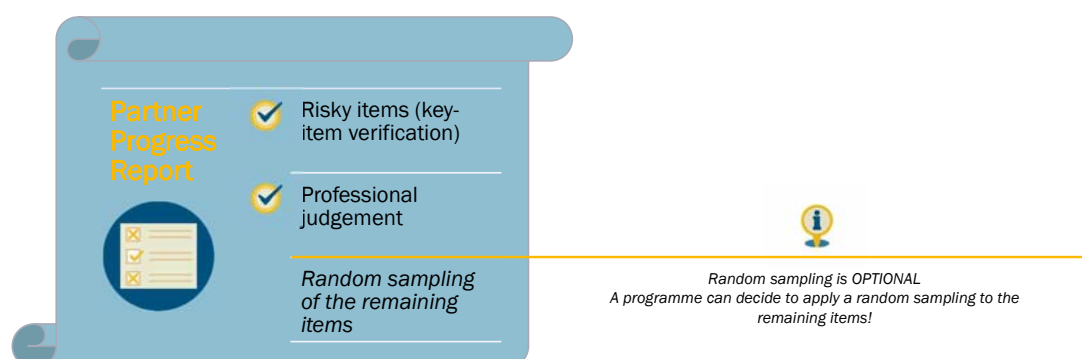
- Sampling principles

    The minimum sample size for a random sample

    When the sample size is extended

Approach and general principles

1. Management verifications are done by controllers at the level of each project partner and its partner progress report.

Partner Progress Report

✔ Risky items (key-item verification)

✔ Professional judgement

Random sampling of the remaining items

ⓘ

*Random sampling is OPTIONAL
A programme can decide to apply a random sampling to the remaining items!*

Full verification

Is NOT justified, unless:

- analysis of the programme data suggests that some specific progress reports are riskier;

- if the controller needs to obtain a necessary quality assurance level of the reported expenditure (if there were errors found in verified items).

100% check
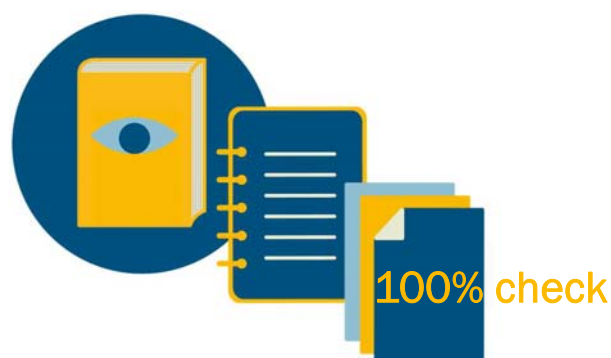
Key-item verification

In the context of HIT methodology, following items should be checked fully:

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

- **Staff costs of the first two progress reports where staff costs occur.** Furthermore, staff costs of a new staff member included for the first time in the progress partner report, and if significant changes in the staff costs occur (e.g. > 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 an hourly rate).

- **VAT** (for projects with total costs above EUR 5m, including VAT).

> Key items for full verification should be based on the analysis of programme data!

Professional judgement

On top of the full verification of key items, the controller, based on his/her professional judgment, can select additional items from the list.

E.g.,

- Unusual items

- Items that give rise to suspicion of fraud

- Based on the quality of the originally reported expenditure and the quality of the key-items verification

  - items similar to those where errors or ineligible expenditures were identified in the current/previous reports;

  - where repeated mistakes/errors, such as re-inclusion of ineligible expenditure (projects/reports), were noted in the previous reports.

Random sampling

Key-items verification and professional judgement can be supplemented with random sampling of the remaining (non-risky) items, based on the following sampling principles:

- sampling is done per cost category based on the total remaining population of items under that cost category;

- a minimum of 2 items per cost category is selected, a minimum of 10% of the remaining items.

When random sampling can be exercised?

1. When errors/irregularities are found in key-item verification or verification of items based on professional judgement.

2. When a programme does not use many simplified cost items.

Extension of sample

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.

On-the-spot verifications

MA is responsible for establishing the approach to the on-the-spot verifications.

On-the-spot verifications should be carried out:

- when the project is well under implementation;

- it is suggested to have at least one on-the-spot check at the project partner level that implements productive investments or infrastructure.

Review of the methodology

The MA should periodically review the risk elements and sampling methodology for management verifications.

The MA might amend the methodology based on:

- the findings from the system audits;

- results of the audit of operations carried out by the audit authorities;

- results of previous administrative and on-the-spot checks;

- external factors that could have an impact on the implementation of projects.

Where to find the methodology?

www.interact-eu.net

Library

HIT | Guidance on risk-based management verifications in 2021-2027 and HIT methodology

Fields of expertise: Programming 2021 - 2027
HIT
Eligibility of expenditure
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Programme examples (1)

European Union | European Regional Development Fund

Background for methodology

1. Conducted analysis of controllers corrections from 2014-2020

2. Support from audit firm

3. Analysis of controllers corrections statistics and audit results

4. Options for future risk-based management verifications

Outcomes/conclusions of the audit

1. Corrections made by FLC are low, remain below 2% and concern a minority of projects

2. Over the past years and programming periods, the second-level audit error rates have always remained low (e.g., 2021 = 0.17%, 2020 = 0.10% etc.)

3. Risks regarding expenditure verification are concentrated on two types of expenditure: staff costs and external expertise representing 83% of corrections.

4. Miscalculation of staff costs and incorrect procurement procedures are the two highest zones of inherent risk

5. To draw the sample, a sufficient number of items is needed (10) > quite difficult in IR-E.

Programme methodology

Main principles:

- 10 items of staff costs based on a random selection

- 10 items of all other costs. Public procurement and key items would be included in this second sub-sampling category

Sample drawn by the electronic monitoring system Portal

Extension of the sample possible based on controller's professional judgement or if error detected: justification in control report

Programme examples (2)

Interreg Baltic Sea Region — Co-funded by the European Union

Background for methodology

1. Analysis of errors from different responsibilities for audit and control and different perspectives

2. Risk factors defined based on the results of audits and controls

- *CAT 4 External expertise and services*

- *public procurement*

- *VAT for projects above EUR 5 million (incl. VAT)*

- *CAT 6 Infrastructure and works*

Programme methodology

Payment claim of each project partner (PP) and **only CAT 4, 5 and 6.**

Review of PP's expenditure population according to risk factors

- Public procurement

- Investment

- VAT for projects above EUR 5 million and according to its professional judgment.

The average number of items in the population for CAT 4-6 will be rather low.

100% check or selection of representative sample:

- Min. 10% of expenditure of CAT4-6 and

- At least 2 items from each CAT4-6

Verification

Real costs

Representative sample selection:

Obligatory items

- All investments

- All expenditure that are subject to procurement above EUR 10,000

- Suspicious items

Complementary selection

Extension of selected sample

SCOs

Risk factors for CAT1 Staff costs

- Amounts of hours worked for the project

- Legal status of the project partners, with focus on …

- Project partners involved in more projects

- Outcomes of the quality assessment of the Application form

- Outcomes of the CAT1 verification of previous reports.

Cooperation works

All materials will be available on:

www.interact-eu.net

European Regional Development Fund