INTERACT

EUROPEAN UNION

What’s new?

Controllers’ workshop

19 October 2022 I Malmö, Sweden

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European Regional Development Fund

Structure of the session

- Legal framework in 2021-2027 – controllers' perspective
- Risk-based management verifications
- Q&A

Updates on the legislative package 2021-2027

- As of September 2022, 31 Interreg programmes are adopted by the EC:
  - 21 cross-border;
  - 6 transnational;
  - 3 interregional;
  - 1 IPA-CBC programme;
  - no NEXT-CBC programmes adopted (7 are submitted to the EC).

Suspension of cooperation programmes with Russia and Belarus

- March 2022 – suspension of cooperation with Russia and Belarus in 9 ENI-CBC programmes and 2 TN (no further payments to Russia and Belarus).
- Cooperation with both countries under the 2021-2027 period is suspended too.
- 22 March 2022 - a meeting in Brussels to explore ways to continue the implementation of concerned ENI CBC programmes. As a result, it was understood that the EU beneficiaries can carry on the project operations, whereas the activities and financial flows on the Russian and Belarusian sides have to be suspended.
- Strengthening cooperation with Ukraine (CBC programmes, Danube, Black Sea Basin) and Moldova – especially after granting a candidate status for EU membership to Ukraine (23.06.2022).
- 3 June - the EC proposed to transfer €26.2m from the NDICI, originally earmarked for the 2021-2027 Interreg NEXT programmes with Russia and Belarus, to the same programmes with Ukraine and Moldova.

Updates on the legislative package 2021-2027

- CPR, Interreg Regulation – Jun 2021
- NDICI Regulation – Jun 2021 (Regulation (EU) 2021/947)
- IPA III Regulation - Sep 2021 (Regulation (EU) 2021/1529)
- The IPA III programming framework - adopted in Dec 2021
- EC adopted 2 Implementing Acts (Articles 8 and 11 IR) – Jan 2022:

  => Commission Implementing Decision 2022/74 with the list of Interreg Programmes and global allocations for each programme (Article 11)

  => Commission Implementing Decision (EU) 2022/75 with the list of Interreg programme areas receiving support (Article 8)
- NDICI multiannual strategic document adopted in Aug 2022

Updates on the legislative package 2021-2027

- Figures in the Implementing Decision (2021/1131 as of July 2021 – annual breakdown of global resources) – 2 tables:

Global amounts of the total support ≠ Amounts available for programming

- Global amounts of the total support = Amounts agreed by the Council and Parliament expressed in 2018 prices
- Amounts available for programming = 2018 prices indexed by 2% each year less amounts transferred for EU-wide activities

Updates on the legislative package for 2021-2027

Annual breakdown of global resources by MS under the ETC goal (Interreg in Implementing Decision 2021/1131 of 5 July 2021)

EUR 2018 prices								
	2021	2022	2023	2024	2025	2026	2027	Total
Belgium								
Bulgaria								
…								
Total	1 150 000 000	1 150 000 000	1 150 000 000	1 150 000 000	1 150 000 000	1 150 000 000	1 150 000 000	8 050 000 000

EUR current prices								
	2021	2022	2023	2024	2025	2026	2027	Total
Belgium								
Bulgaria								
…								
Total	1 220 389 202	1 244 796 985	1 269 692 924	1 295 086 781	1 320 988 519	1 347 408 289	1 374 356 454	9 072 719 154

Updates on the legislative package for 2021-2027

- Commission explanatory note on the application of the "do no significant harm" (DNSH) principle under the Cohesion - September 2021
- Draft of the risk-based management verification reflection note - December 2021 (to be adopted by end of 2022)
- Draft of the system assessment methodological note – June 2022
- Commission Notice on the Guidelines on the closure of operational programmes 2014-2020 (Closure guidelines) - October 2021 (to be revised, end of 2022)
- Q&A document on the draft closure guidelines - Version 3 published in March 2022

Interreg Regulation for 2021-2027

Focus on finance

Article 13 – Co-financing rates

Summary of changes

- Co-financing rate established at the programme level, not at the level of the priority axis!
- Interreg: co-financing rate at the programme level not higher than 80%
- Interreg D (OCT) – not higher than 85%
- IPA III programmes – the Union co-financing rate at the level of each priority shall not be higher than 85 % of the eligible expenditure of a programme; ~~for TA - the Union co-financing rate shall be 100%.~~ (Article 10)
- NDICI programmes – co-financing rate up to 90% (Article 22(4))

Article 24 & 25 – Projects of limited financial volume and SPF

Summary of changes

- No definition of the term -> to be defined in the context of the programme (size, purpose, target groups)
- Compulsory for strand A; optional for B, D strands
- Support to projects with limited financial volume via:
    - small-scale projects (Article 24) -> “regular” projects, regular eligibility rules apply
    - small projects within SPF (Article 25)
    - both

Article 25 – Small Project Fund

Summary of changes

- Legal certainty and simplification;
- SPF is an operation that deliver outputs and results through particular type of activities – small projects; body implementing the Fund – not intermediate body -> not part of programme management, which is important! Small projects – not operations!

- Mandatory use of SCOs for small-scale (regular) and small projects (SPF):
  - for small-scale projects (Article 24), the total costs of the project do not exceed EUR 200 000 (Article 48 CPR),
  - for small projects (SPF), public contribution to the project does not exceed EUR 100 000 (Article 25(6) Interreg Regulation).

Article 27 – Technical assistance

Summary of changes

- Reimbursed as a flat rate of reported programme expenditure (projects) without being its own priority axis;
- TA is no longer a fixed maximum amount, independent from the implementation speed of the projects -> only if projects advance and report, the programme will receive the TA.

Article 37-38 – Rules on eligibility of expenditure

Summary of changes

- No more monitoring of expenditure spent outside the programme area, concerned projects simply have to contribute to the objectives of the programme (programme area vs ~~programme eligible area~~);
- MA can "overrule" the AA in cases where the AA finds a project as such not eligible;
- Gifts are not eligible as such;
- Simplified approach to exchange rates:
  - limited to beneficiaries coming from non-Euro countries;
  - single method for conversion: month during which the expenditure was submitted for verification (EC website, InforEuro).

Article 39-44 – Cost categories

Summary of changes

- Eligibility of cost categories incorporated from the Delegated Regulation to Interreg Regulation;
- Staff costs: 2 method to calculate hourly rate (1720h method & dividing latest documented monthly gross employment costs by the average monthly working time) are considered off-the-shelf SCOs (unit cost);
- Office and administration – 2 real off-the-shelf options + 1 (1 described in IR):
  - up to 7% of the eligible direct costs,
  - up to 15% of the eligible direct staff costs,
  - up to 25% of eligible direct costs (methodology required!!)

- Travel and accommodation: up to 15% of the direct staff costs of an operation (off-the-shelf flat rate);
- Equipment: no real changes
- Infrastructure and works: purchase of land (built on or not built on) eligible.

Article 46 – Functions of the managing authority

Summary of changes

- No significant changes for the set-up, BUT management verifications have to be carried out accordingly to a risk-based sampling approach:
  - Sampling – application of control procedures to less than 100% of items;
  - The MA has to identify risks ex-ante and in writing which becomes a part of its procedures (part of the MCSD);
  - A risk management assessment should define the risk factors/criteria (value of items, type of beneficiary, past experience, etc.) for the selection of payment claims and operations as well as the requirements with regard to coverage of the management verifications;
  - Not all payment claims from beneficiaries and not all operations have to be systematically subject to a management verification;
  - Within a payment claim or operation, not all items need to be verified.

Article 47 – The accounting function

Summary of changes

- CA is transformed in the accounting function.

Accounting function in the programme

MA assumes the accounting function	MA assumes the function, but externalises certain tasks of it	MA entrusts the accounting function to other body
The same person can carry out the MA tasks and the accounting function tasks (the accounting function is not a programme body, but **a function**)	The MA carries out the overall responsibility for the accounting function. Some tasks of it can be externalised to an external body (e.g., drawing up accounts)	The body should be identified as a **programme authority** and is fully responsible for the accounting function. Separation of functions between programme authorities must be ensured.

Article 48 – Functions of the audit authority & Article 49 – Audit of operations

Summary of changes

- Functions of the AA -> with regard to common sample for audit of operations (no more opinion on the legality and regularity of expenditure)
- Ex-ante assessment of the EU-level SCOs (not explicit in the Regulations, but in Appendix)
- Audit of operations -> all Interreg programmes will be pooled for sampling for the audit of operations and calculating the error-rate

Article 51 – Payments and pre-financing

Summary of changes

- No more initial or annual pre-financing -> pre-financing;
  - Interreg programmes: 1% for 2021 & 2022, 3% for 2023-2026 (14%);
  - IPA III programmes: 50% of the first three budgetary commitments to the programme are paid as pre-financing (Article 10(3) IPA III Regulation);
  - NDICI programmes: at the request of the MA, for each financial year, the pre-financing rate may be up to 80 % of annual commitments to the programme (Article 22 NDICI);
- Annual clearance for pre-financing is limited to 2021 and 2022 (with submission of annual accounts 2023, the latest), all other pre-financing to be cleared with final annual accounts;
  - For IPA III and NDICI programmes (and programmes with ERDF < 50%) -> clearance is done with the final accounting year.
- 5% retention

Decommitment & Recoveries (Article 52)

Summary of changes

- Decommitment rule: N+3, except 2029: n+2 (for all, incl. IPA III and NDICI);

- Recoveries:
  - EUR 250 non-recovery stays for Interreg (not in CPR) (per project, per accounting year);
  - No changes with regard to the recovery chain;
  - Changes concern the recovery possibilities in case MS does not reimburse the MA.

VAT & Revenues

Summary of changes

- VAT eligible for projects where total costs do not exceed EUR 5m (non-respective if it's recoverable or not)
- Where total costs exceed EUR 5m, VAT is eligible if not recoverable!
- Eligible for small projects within SPF.

- Revenues
  - No rules regulating handling of revenues (aparfromof investments in large infrastructure and productive investments and state aid relevant projects).

Hierarchy of rules apply: EU level -> programme level -> national level!

Risk-based management verifications in 2021-2027

Novelty, main principles and practical implications

Management verifications 2021-2027

Effective and efficient implementation of Funds

Related administrative costs and burdens

Risk-based management verifications (administrative and on-the-spot) - Article 74(2) CPR

Recital 62 CPR:
… 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.*

Management verifications 2021-2027

- **WHAT**
  - administrative and on-the-spot verifications are risk-based and proportionate to risks identified;
- **WHEN**
  - risk assessment methodology should be prepared **ex-ante** and **in writing** and address how **proportionality will be put into practice** (criteria for having verifications that are proportionate to the types and levels of risks);
  - management verifications included in the ex-ante risk assessment for the accounting year are carried out **before submission of accounts.**
- **HOW**
  - the ex-ante risk assessment defines risk factors/ criteria for the selection of projects and payment claims;
  - the MA/ MS may define a certain coverage of the management verifications; conditions and factors for a regular revision of the methodology.

Responsibility for management verifications 2021-2027

WHO

- Article 74 CPR: MAs/ IBs will carry out management verifications to verify the delivery of co-financed products and services, the reality of expenditure claimed for reimbursement, and compliance with the relevant law and conditions for support of the operation.
- Article 46(3) Interreg Regulation: management verifications in Interreg programmes, by way of derogation, can be carried out by controllers appointed by each Member State. To ensure equal treatment and considering the cooperation goal of the programmes, risk assessments made by controllers should be reviewed and approved by the MA*. Any difference in approach between MS should be justified (*from EC reflection note).

MA to develop a joint methodology for risk-based management verifications for the whole programme

MA to delegate responsibility for risk-based management verifications to MS BUT to ensure equal treatment of beneficiaries (to develop minimum requirements guide to be followed by all MS/partner state...).

Management verifications in Interreg

Article 46 of the Interreg Regulation:

8. Each Member State, third country, partner country and OCT shall identify as controller either a **national or regional authority** or a **private body or a natural person** as set out in paragraph 9.

9. Where the controller carrying out management verifications is a private body or a natural person, those controllers shall meet at least one of the following requirements:

(a) be a member of a national accounting or auditing body or institution which in turn is a member of International Federation of Accountants (IFAC);

(b) be a member of a national accounting or auditing body or institution without being a member of IFAC, but committing to carry out the management verifications in accordance with IFAC standards and ethics;

(c) be registered as a statutory auditor in the public register of a public oversight body in a Member State in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council (21); or

(d) be registered as a statutory auditor in the public register of a public oversight body in a third country, partner country or OCT, provided this register is subject to principles of public oversight as set out in the legislation of the country concerned.

Management verifications - comparison

**Based on EC Reflection note on risk-based management verifications in 2021-2027 – not guidance!*

Management verifications	2014 - 2020	2021 - 2027
Responsibility	MA/ MS	MA/ MS
Rationale	100% verifications not practical	Focus on the risky operations Beneficiaries and payment claims where the risk of material error is high **100% verifications only when duly justified!**
Risk-based methodology	No 100% verification of risky items Focus on random sampling used for projection of results (methodology for random sampling required ex-ante)	Yes Existence of methodology (format – up to MA) is the only basis to select items for verifications.
Risk-based methodology requirements	No specific requirements Recommended: - risk-based methodology may take into account risk factors (value of items, type of beneficiary, past experience); - best practice – project partner to be verified	- Methodology prepared **in advance** and **in writing**; - verifications are **proportionate to types of risks/ levels of risks** identified; - defines risk factors/ criteria for the selection of operations and payment claims; - may define a certain coverage (e.g., min % of expenditure/ operations to be checked); - analysis of risk factors; - **updates** of methodology (e.g., results of management verifications, audit findings, external factors, etc.)

Management verifications - comparison

Management verifications	2014 - 2020	2021 - 2027
Planning of verifications (WHEN - planning)	No specific requirements	Verifications plans – indicative! (both for administrative and on-the-spot checks): - risk assessment results; - estimated timing of the submission of payment claims; implementation forecasts (content and financial); - deadline for management verifications and payments (80 days).
Level of application (WHERE)	Within payment claims	Different levels are possible: policy objective, type of operation, beneficiary, payment claims, items inside payment claims.
Selection of items (WHAT)	Risk-based + random sampling (statistical selection)	Risk-based
Timing of verifications (WHEN - implementation)	- After the methodology is developed; - before the deadline for verification of partners – 90 days after the submission of payment claim to the controller; - before CA submits the payment application to the EC.	- After methodology is developed and after indicative plans for administrative and on-the-spot verifications are in place (optional); - the deadline for verification of partners by controllers – 90 days; - the deadline for payments to lead partners (by MA/ accounting function) – 80 days (Article 74(1)(b) CPR); before submission of the accounts in which the expenditure is certified.

Management verifications - comparison

Management verifications	2014 - 2020	2021 - 2027
Results	Withdrawal of real errors Recommended: - extend the verifications in case material errors are found in the sample tested; - project results on the level of the payment claim (since statistical sampling is used); - if projected error on the level of payment claim > 2% → verifications of entire payment claim or project the error in the sample to the unchecked population.	- Withdrawal of real errors; - no projection (risk-based sampling); - potential updates of the methodology.
Cooperation with AA	No specific requirements Recommended: - MA might ask AA for advice, however, separation of functions have to be ensured.	- MA and AA to discuss their strategies to have a mutual understanding; - multiplication of controls should be avoided as long as this is not in contradiction with the risk assessment strategy (for the management verifications) of the MA and audit strategy of the AA; - Compulsory AA ex-ante approval of SCOs in Article 94 (EC – programme level).
Documentation	Depending on real costs or SCOs.	- Depending on real costs or SCOs; - standardized elements for audit trail – Annex VIII CPR, Annex XVII CPR; - additional requirement to collect data on beneficial owners (Article 69(2), Annex XVII CPR); - all documents required for an appropriate audit trail should be in electronic form (Article 69(8), 72(1) CPR).

Risk-based management verifications 2021-2027 – roles and responsibilities

MA/ MS

- MA – develops risk assessment methodology, bears full responsibility;
- MS performs management verifications – MA to ensure equal treatment of beneficiaries by providing MS with min requirements for management verifications.

AA

- Does system audit of the risk-based management verifications + audit of operations (and audit of accounts);
- gives recommendations for the update of the methodology if needed;
- performs common sampling (fundamentally different from risk-based management verifications of the MA!)

Controllers

- Perform verifications of items based on the methodology developed by the MA/MS ex-ante and in writing – verification of the risky items, no 100% verifications if not justified!

Risk-based management verifications – audit trail

Use of e-Cohesion!

- General rule – all necessary documentation is to be kept at the appropriate level for a 5-year period from 31 December of the year in which the last payment by the MA to the beneficiary was made (simplified procedure!)
- MA, controllers, AA – to use IT systems first before requesting documents from beneficiaries!

Risk-based management verifications vs system audits and audit of operations

2 fundamentally different concepts!

- MA’s risk assessment – part of the MA’s internal control function within MCS (purpose – identify errors in payment claims and correct them);
- Audits – ex-post engagements by auditors who determine whether the system developed by the MA for risk assessment functions properly (proper functioning of MCS)
- MA’s sampling – non-statistical – no projections of errors to determine error rate! (contrary to AA’s audits);

Risk-based management verifications vs system audits and audit of operations

- AA concludes (via system audits) whether:
  - The MCS is classified in category 1 or 2;
  - There is evidence of an appropriate risk-based approach for management verifications;
  - Adequate management verification checklists are used; and
  - Management verifications are properly recorded and documented.
- Audit of operations - AA’s sample may contain both (1) expenditure subject to previous management verifications and (2) expenditure that has not (yet) been verified by the MA/IB.

Risk-based management verifications - material

- How to develop a risk-based methodology – guide
- HIT methodology 2021-2027
- EC Reflection note on risk-based management verifications in 2021-2027 (draft March 2021) – *not guidance!* + Q&A on the document

Questions

Cooperation works

All materials will be available on:

www.interact-eu.net

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