

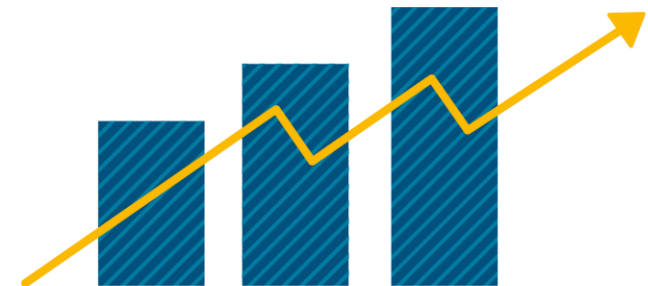
Management verifications of MA and audit work of AA

What is the difference? Where is the connection?



Structure of the session

- Management verifications in Interreg – roles and responsibilities
- Audits in Interreg
 - System audit and management verifications
 - Audit of operations and management verifications
- Management verifications vs audit work
- Discussion, Q&A



Management verifications 2021-2027

- **WHAT**
 - administrative and on-the-spot verifications are risk-based and proportionate to the 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 the submission of accounts.**
- **HOW**
 - the ex-ante risk assessment defines risk factors/ criteria for the selection of projects/ beneficiaries/ payment claims for verifications;
 - the MA/ MS may define a certain coverage of the management verifications; conditions and factors for a regular revision of the methodology.



– roles and responsibilities

MA/ MS (controllers)

- MA – develops risk assessment & methodology, bears full responsibility;
- Controllers perform management verifications (can also contribute to the risk assessment) – MA to ensure equal treatment of beneficiaries by providing MS with requirements for management verifications (**different approaches in MS could be used but they have to be justified and approved by the MA at the programme level!**).

AA

- Does system audit + audit of operations (and audit of accounts);
- Gives recommendations for the update of the methodology if needed;
- Performs audit of operations (common sampling in Interreg)

Controllers/ SPF beneficiary

- Perform verifications of items based on the methodology developed by the MA/MS ex-ante and in writing – verifications proportionate to risks identified; no 100% verifications if not justified!

Legal framework – audits in Interreg

- Article 48(2) of the Interreg Regulation:

The audit authority of an Interreg programme shall be responsible for carrying out system audits and audits on operations in order to provide independent assurance to the Commission that management and control systems function effectively and that expenditure included in the accounts submitted to the Commission is legal and regular.

- Article 48(3) of the Interreg Regulation:

Where an Interreg programme is included in the population from which the Commission selects a common sample pursuant to Article 49(1), the audit authority shall carry out audits of operations selected by the Commission...”

=> participation in the common sample is not obligatory but highly recommended by the EC!

=> no additional audits if part of the common sample and if not requested by the EC or if specific risks identified (Article 48(2) IR).



Legal framework – audit strategy

- Article 78 CPR

The audit authority shall, after consulting the managing authority, prepare an audit strategy...

⇒ *“consulting” does not mean joint preparation or agreement necessarily, mutual understanding.*

Newly appointed bodies to be audited *within 21 months* of the decision approving the programme or the amendment of the programme identifying such an authority.

⇒ *No designation procedure (no designation audit) - the AA will not automatically audit the methodology for risk-based management verifications right from the start – reflection on this is needed and a discussion with MA.*

The audit strategy [shall be prepared] *based on a risk assessment:*

⇒ *Different from the risk-based approach in management verifications*

⇒ *Based on risks for implementing bodies, key requirements of Annex XI, new elements in the system.*



System audit of the AA

... and methodology for the risk-based management verifications



MCS – regulatory framework

MCSD – to be in place by the time of submission of the final payment application for the first accounting year (1 Jan 2021 – 30 June 2022) and no later than 30 June 2023 (Article 69(11) CPR).

Annex XVI Template for the description of the management and control system – Article 69(11) CPR

- 2. MANAGING AUTHORITY
- 2.1. Managing authority – description of the organisation and the procedures related to its functions and tasks as provided for in Articles 72 to 75.
 - 2.1.1. The status of the managing authority (national, regional or local public body or private body) and the body of which it is part.
 - 2.1.2. Specification of the functions and tasks carried out directly by the managing authority.
 - 2.1.3. Where applicable, specification per intermediate body of each of the functions and tasks delegated by the managing authority, identification of the intermediate bodies and the form of the delegation. Reference should be made to relevant documents (written agreements).
 - 2.1.4. Procedures for the supervision of the functions and tasks delegated by the managing authority, if any.
 - 2.1.5. Framework to ensure that an appropriate risk management exercise is conducted when necessary, and in particular in the event of major modifications to the management and control system.
 - 2.1.6. Organisation chart of the managing authority and information on its relationship with any other bodies or divisions (internal or external) that carry out functions and tasks as provided for in Articles 72 to 75.
 - 2.1.7. Indication of planned resources to be allocated in relation to the different functions of the managing authority (including information on any planned outsourcing and its scope, where appropriate).

Annex XI Key requirements of management and control systems and their classification – Article 69(1) CPR

Table 1 - Key requirements of management and control systems

		Bodies/authorities concerned
1	Appropriate separation of functions and written arrangements for reporting, supervising and monitoring of delegated tasks to an intermediate body	Managing authority
2	Appropriate criteria and procedures for the selection of operations	Managing authority ¹
3	Appropriate information to beneficiaries on applicable conditions for support for the selected operations	Managing authority
4	Appropriate management verifications, including appropriate procedures for checking fulfilment of conditions for financing not linked to costs and for simplified cost options	Managing authority
5	Effective system to ensure that all documents necessary for the audit trail are held	Managing authority
6	Reliable electronic system (including links with electronic data exchange systems with beneficiaries) for recording and storing data for monitoring, evaluation, financial management, verifications and audits, including appropriate processes to ensure the security, integrity and confidentiality of the data and the authentication of users	Managing authority
7	Effective implementation of proportionate anti-fraud measures	Managing authority

Methodological note for the assessment of the management and control systems in the MS – draft, June 2022

- A practical tool to help auditors to assess the functioning of the management and control system (MCS) in 2021-2027
- Key requirements 1 - 10 (MA), 11 - 15 (AA)
- Assessment of criteria along key requirements
- Outcome: conclusion on the functioning of the MCS on the basis of 4 categories:
 - Category 1 – works well
 - Category 2 – works, some improvements are needed
 - Category 3 – works partially, substantial improvements are needed
 - Category 4 – essentially doesn't work.

Key requirement 4: Appropriate management verifications, including appropriate procedures for checking fulfilment of conditions for financing not linked to costs and for simplified cost options.

- KR4 – one of the most important criteria and “first line of defense against irregularities”.
- Appreciation of the proper functioning of this essential key requirement is, therefore, crucial to assess the risk of reimbursement of irregular expenditure by the Commission.



Key requirement 4: Management verifications

4.1	Appropriate systems and procedures are in place and are adequately used ensuring that the frequency, scope, and coverage of management verifications carried out by the MA or its IB(s) are proportionate to the risks identified ex-ante and in writing.
4.2	MV includes: 1) administrative verifications in respect of payment claims made by beneficiaries; 2) on-the-spot verifications of operations >> (based on risks identified by MA in its risk assessment under 4.1)
4.3	Written procedures and comprehensive checklists are properly used for the management verifications and conclusions are adequately documented. Such checklists should, as a minimum, include verifications of real costs, SCOs and FNLC
4.4	For programmes applying enhanced proportionate conditions: a) If the managing authority is applying national procedures to carry out management verifications, these procedures are complied with.
4.5	Evidence is kept for admin and on-the-spot checks (work done, results, conclusions); the follow-up (if irregularities, fraud)
4.6	Payments to beneficiaries are done in full and no later than 80 days from the date of submission of the payment claim by the beneficiary (extended if clarifications) (<i>Article 74(1) CPR vs Article 76 IR</i>)
4.7	Management verifications are completed before submission of the accounts to the Commission in accordance with Article 98 CPR.

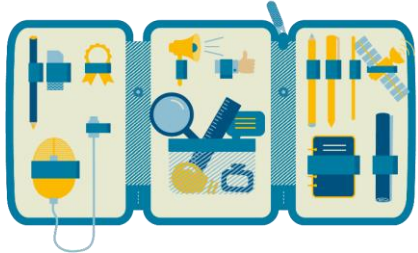
System audit – a methodology for risk-based verifications

- ⇒ Methodology for risk-based management verifications needs to be audited as part of the system audit for key requirement 4 (Appropriate management verifications) as required by Annex XI
 - ⇒ *A new assessment criterion has been introduced specifically on this topic*
- ⇒ Beneficial to audit as early as possible
 - ⇒ *An important new element of the system (potential risk?)*
 - ⇒ *Possibility to reduce the risk of systemic irregularities which might lead to additional work and corrections in the accounts*



System audit – a methodology for risk-based verifications

Regulatory requirements



EC Reflection note on RBMV



Professional judgment

System audit – a methodology for risk-based verifications

⇒ Existence of the risk-based methodology

⇒ Ex-ante

⇒ In writing

⇒ Risk-based and proportionate to the risks identified

⇒ Does the auditor agree with the risk factors identified and the weighting/ scores given (if any)?

⇒ Do control and audit results confirm the methodology (or does it need revision)?

⇒ Are there any changes in external factors that would require changes in the methodology?

⇒ Is there a provision for revision of the methodology if needed?



System audit – a methodology for risk-based verifications

⇒ Equal treatment

- ⇒ Not directly referenced in CPR or Interreg Regulations **BUT** one of the general overarching principles of the Financial Regulation (2018/1046)
- ⇒ IF the task of the management verifications is delegated to the MS, any differences within the programme must be justified and approved by the MA

⇒ Proper application of the risk-based methodology

- ⇒ What happens if errors are found in the sample?



System audit – a methodology for risk-based verifications

- ⇒ **Timely implementation of risk assessment and management verifications**
 - ⇒ Before submission of the accounts as per Article 74(2) – by 15 Feb N+1
 - ⇒ Payments to lead beneficiary in accordance with Article 74(1)(b) CPR – 80 days
 - ⇒ Verification plans - in the reflection note (schedules of the verifications) – not a must requirement but recommended in the reflection note.

- ⇒ **Audit trail (4.5 + key requirement 5)**
 - ⇒ All documents required for the audit trail as set out in Annex XIII CPR need to be available for all costs (not only sampled costs).



Audit of operations of the AA

... and methodology for the risk-based management verifications

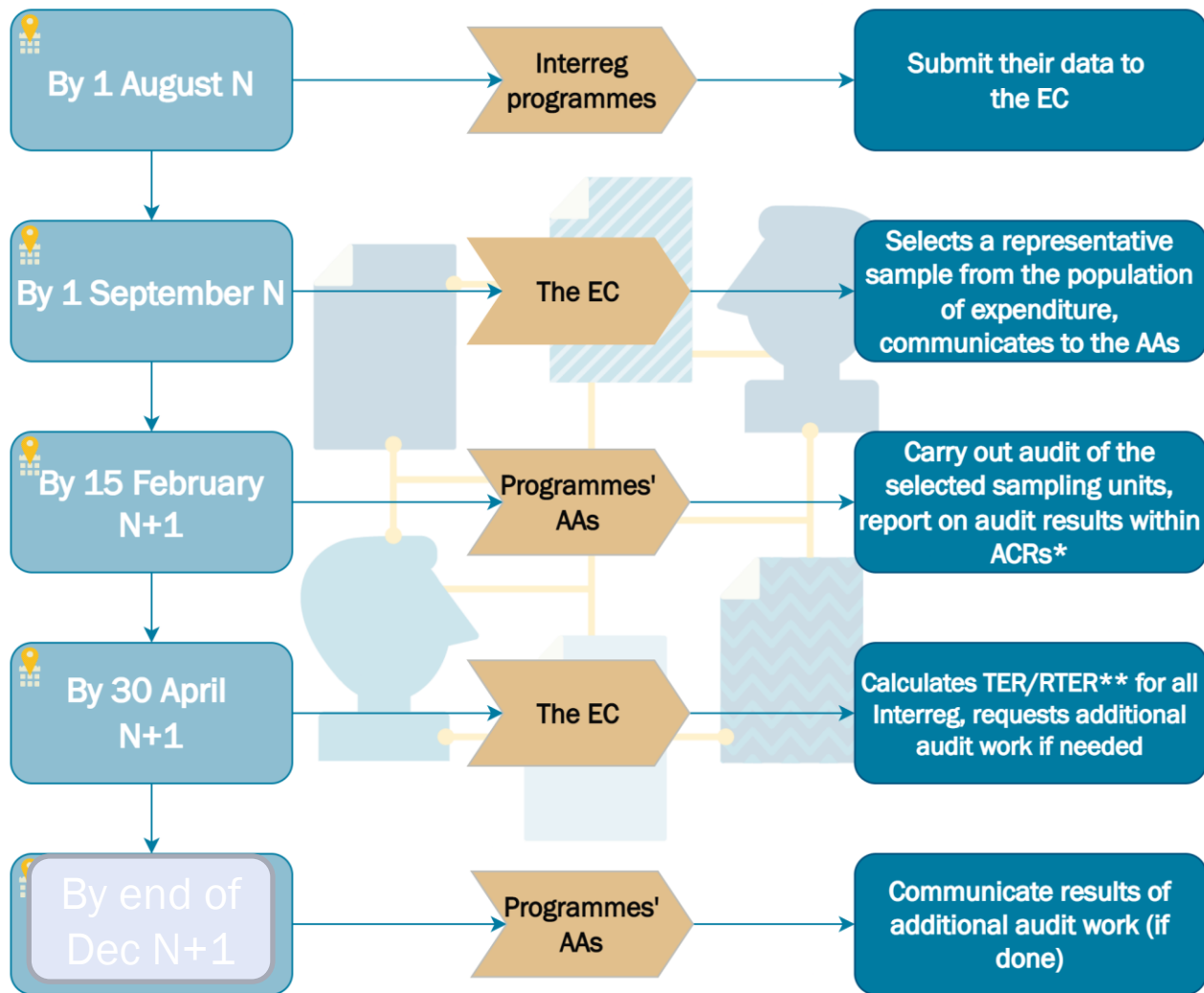


Audit of operations in 2021-2027

- Simplified audit work in 2021-2027
- One of the biggest simplifications – Interreg common sample at the EU level
- Objective: significant reduction of audit effort and associated costs



Common sample process



- Interreg programmes provide data to the EC;
- The EC selects a representative sample from the positive population of expenditure;
- The audit of the selected sampling units is done by the programme AA;
- The AA reports on the findings of the audit in the ACR to the EC;
- The EC calculates a **global** error rate for all Interreg programmes covered by the common sample;
- Programmes that do not submit the data in time will have to carry out an audit of operations with separate representative full samples and to provide an opinion on legality and regularity of expenditure (not required if data is included in the common sample, only opinion on accounts and MCS).

*ACR - Annual Control Report

**TER/RTER - Total error rate/ Residual total error rate

Common sample – sampling design

- Sampling unit – project partner (the cumulative expenditure declared in the accounting year by the project partner in an operation) – min 3 for CPs with less than 500 partners, 5 for CPs with 500 or more partners (no of partners with expenditure declared to the EC);
- Stratification: by programme (min 3 operations will be included in the common sample);
- TA not audited (but included in the EC calculations for extrapolation and adjusted to the total expenditure on operations for calculation of the TER/RTER);
- SPF audited as one operation (the body implementing it is considered beneficiary)

Common sample – sampling design

Per each audited sampling unit (project partner), the AA should provide (SFC, ACR):

- a) the error in EUR (as input to calculate the **global error rate**); if sub-sampling is used, this would be an error extrapolated by the AA to the level of project partner on the basis of sub-sample;
- b) the financial corrections (if the case) for irregularities detected by the AA in the sampled operations in EUR. Moreover, the AA should indicate any other corrections in the population reducing the risk identified with the total error rate.

Common sample – results of audits

Global TER and RTER above 2%:

- Global TER and RTER were below 2% for Interreg throughout the entire 2014-2020 period
- No automatic extrapolated corrections!

IF global TER/RTER is above 2% (theoretical example):

- Assessment of audit results, determination of the problem
- Calculation of RTER, if still above 2%:
 - targeted additional audit work required for the concerned CP;
 - financial corrections – to the concerned programme.
- The EC will communicate deadlines (latest – end of the calendar year in which accounts were submitted) – results to be made available in SFC.



Audit of operations and methodology for risk-based verifications

- ⇒ Audit of operations required by Articles 48 and 22 of the Interreg Regulation for expenditures declared to the Commission

- ⇒ To form an opinion on the legality and regularity of expenditure included in the accounts submitted to the Commission
 - ⇒ for Interreg programmes in the common sample the opinion on this aspect will be formed globally by the Commission



Audit of operations and methodology for risk-based verifications

- ⇒ Results of an audit of operations can also give an indication of risky expenditure(s)
 - ⇒ Could be taken into account when reviewing the methodology for risk-based management verifications by the MA



Audit of operations and methodology for risk-based verifications

- ⇒ Assessment of the legality and regularity of costs in the audit sample:
 - ⇒ Population includes all costs declared to the Commission in the accounting year, audited costs do not depend on what had been verified by the MA;
 - ⇒ Sample might include items not included in the verifications of the MA;
 - ⇒ Global Interreg sample will be statistical, stratification only per programme! + financial corrections per programme!



Management verifications vs audit work

Management verifications	Audit work	Comments
Responsibility of the MA/ MS (controllers)	Responsibility of the AA	Different authorities in charge
Internal control function within the MCS	Ex-post control	Different level of control
Purpose: identify errors in payment claims of beneficiaries and correct them	Purpose: to test whether the control system as defined in the MCS functions properly and to provide independent assurance on the system	Different purpose!
Done via risk-based verifications through administrative and on-the-spot checks	System audits (design and operating effectiveness of controls); audit of operations (common sample)	Different samples used by MA for management verifications and AA for audit of operations (sample is done by the EC).
Risk-based – according to the risk assessment and risk-based methodology developed by the MA in advance and in writing	Common sample at EU level – sample selected by the EC according to their methodology; sub-sampling if a large number of invoices	

Management verifications vs audit work

Management verifications	Audit work	Comments
No extrapolation if errors are found (non-statistical sample)	Extrapolation for all programmes covered by the common sample (TER/RTER below 2% for Interreg in 2014-2020) Targeted financial corrections for programmes with errors (if above 2%)	
Subject to the AAs system audit of KR4	<ol style="list-style-type: none"> 1. System audit: Adequacy and quality of the management verifications is examined by the AA on the basis of a sample selected by the management verifications already carried out + additional checks if needed 2. Common sample – all expenditures of the sampling unit (project partner) regardless of the results of MV (sub-sampling is possible) 	<p>Well-functioning MV:</p> <ul style="list-style-type: none"> - MCS – cat 1 or 2; - Evidence of risk-based approach; - Adequate checklists; - Properly recorded and documented <p>The AA's sample may contain both (1) the expenditure subject to previous management verifications and (2) expenditure which has not (yet) been verified by the MA/IB.</p>

MA to regularly revise the methodology – based on results of MV, system audit, audit of operations, recommendations of the AA (examination if an irregularity is one-off or systematic).

Discuss within your tables



Have you started discussions about the methodology for risk-based management verifications with your AA?

- *If yes, what is the initial feedback?*

What would a perfect collaboration between the AA and MA look like regarding risk-based management verifications?

- *Reality, dreams?*

Cooperation works

All materials will be available on:

www.interact-eu.net

