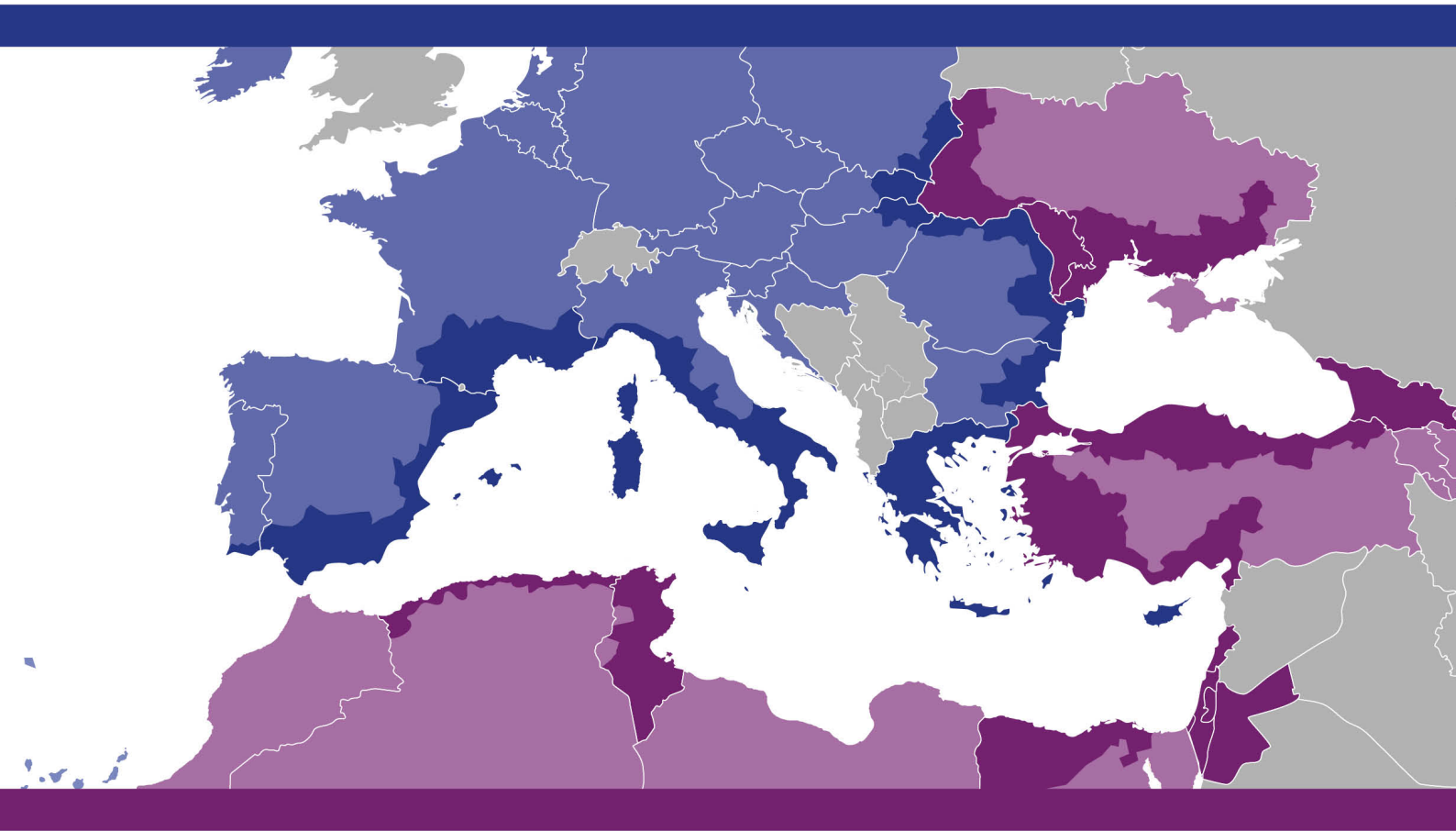


Carrying out management verifications in the Interreg NEXT programmes:

- *Questions and answers*
- *Templates for organizing the work*

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1. Introduction

The continuous support provided by the European Commission, Interact and TESIM has enabled Interreg NEXT programmes to develop their own risk-based management verification methodologies, procedures and templates.

[TESIM](#) and Interact have provided guidance on establishing the methodology and documenting the process of verification, in particular the [HIT Control Report package developed by Interact](#). This package includes control report and checklist templates, as well as the guidance on the risk-based management.

In addition, TESIM's guidance "[Management verifications in the Interreg NEXT programmes](#)" describes continuity and twist of the new approach for the programme bodies, national authorities, auditors/controllers and beneficiaries.

Complementing this previous guidance, this document focuses on the 'last mile' in the verification process: the development of the management verification procedure.

We have structured the document around three key questions that the programme practitioners have frequently raised, namely:

- *Is the goal of management verifications different from that in ENI CBC?*
- *Are the working procedures for management verifications different from those in ENI CBC?*
- *Are the responsibilities of the controller and the beneficiary different from those in ENI CBC?*

We hope you will find the answers to these questions helpful and that they can assist you in developing the management verification procedure of your programme.



2. Scope of the management verifications

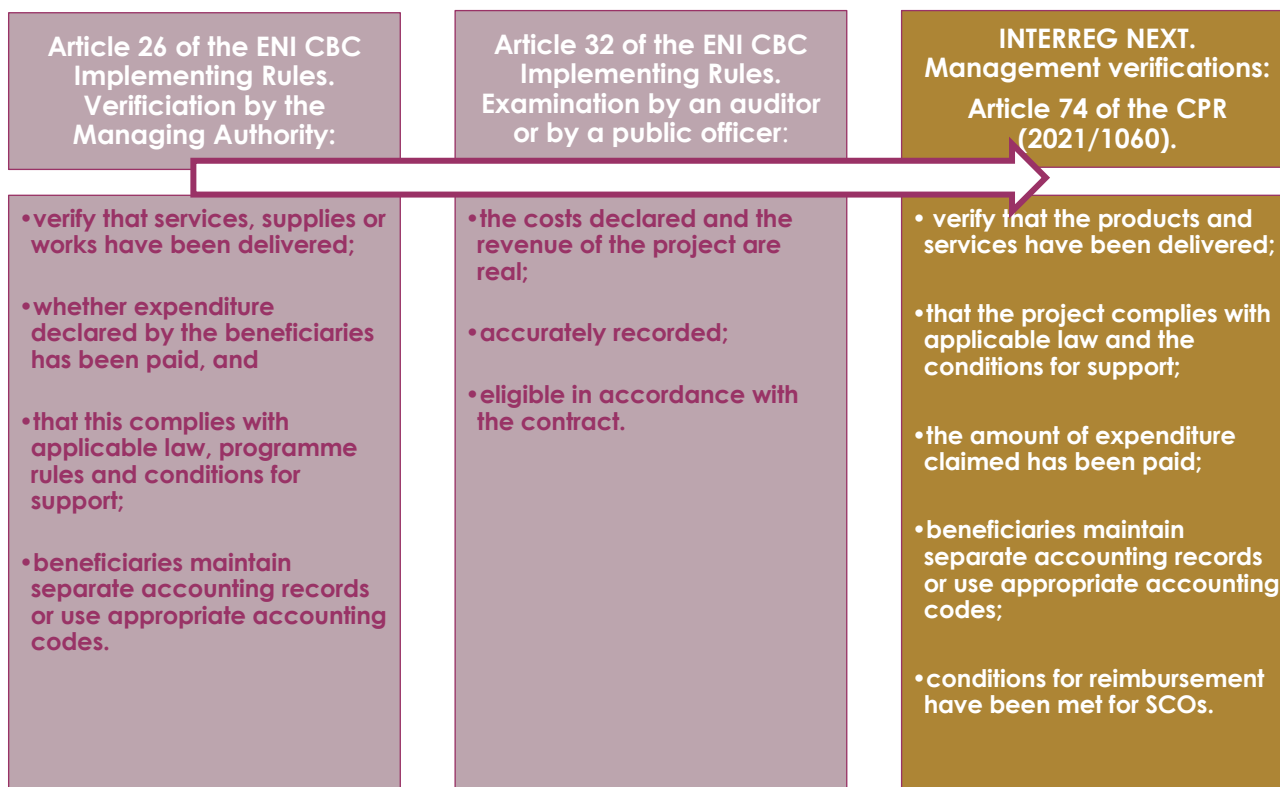
2.1. Is the goal of management verifications different that in ENI CBC?

There is an overall high degree of continuity.

Similar to ENI CBC, the verification should allow to conclude that the costs declared by the beneficiary are real, accurately reported and eligible.

However, contrary to ENI CBC, there is no explicit requirement for the Interreg NEXT programmes to check the no-profit principle during the management verifications.

As part of the ENI CBC programmes, the expenditure verification procedure had to include the check of revenue and compliance with the 'no-profit principle' (article 47.3 of the ENI CBC Implementing Rules). There is a strong continuity in examining the costs incurred and services, supplies and works delivered for the 2021-2027 programmes. At the same time, the new legislative package introduces general simplification measures (e.g., increased use of the SCOs) to make the verification process more efficient. We also would like to highlight that there are no specific rules regarding the verification of the revenue or the no-profit principle.



2.2. Are the working procedures for management verifications different from those in ENI CBC?

In formal terms, the new approach will be different from the one in ENI CBC, where the expenditure verification had to be performed based on the agreed upon procedure in accordance with the International Standard on Related Services 4400.

However, in practical terms, there will be a lot of resemblance. In ENI CBC the agreed-upon procedures were defined by the programmes and then applied by the controller. Similarly, in Interreg NEXT the particularities of the management verification procedure shall be defined by each programme in accordance with the requirements of article 74 of the CPR Regulation (2021/1060) and then the verification will be carried out by the controller (or the MA).

Management verification is the procedure for ensuring the correctness and regularity of the expenditure that every programme must establish as part of the management and control system. Similar to ENI CBC, procedures will be defined by the programme and referred to in the Description of the Management and Control Systems (DMCS), whose content is defined in Annex XVI of the CPR Regulation¹.

The document templates (HIT Tools) developed by Interact, such as the control report, the control checklist or the controller's certificate can be directly adapted or used as source of inspiration by the Interreg NEXT programmes.

As we often will refer to the controllers in the remaining part of the document, we will use the term 'controller' when referring to the entities carrying out the verification work. The term 'National Controller' refers to the institution being responsible for the management verifications at the national level and/or supervising the work of the controller.

As was the case in ENI CBC, in Interreg NEXT many participating countries have decided to delegate the work to private auditors, who will act as controllers at national level. For these cases, we would like to draw inspiration from the good practices in ENI CBC and suggest to the programmes to provide the framework template for the contract between the beneficiary and the controller (in particular, in the countries where private auditors act as the controllers).

¹ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021.



A common template on the programme level would allow to harmonise expenditure verification process and give possibility for a similar approach to the quality control over the controllers' performance.

The annex 1 of this document presents the framework template of the contract between the controller and the beneficiary. The template is fully customisable, and you can add/remove elements according to the needs of your programme.

2.3. Are the responsibilities of the controller and the beneficiary different from those in ENI CBC?

Similar to ENI CBC, the preparation of the financial report, the list of expenditure items and other reporting documents, will be the obligation and sole responsibility of each Interreg NEXT beneficiary.

Also, just like in the expenditure verification of the ENI CBC period, the responsibility of the controller in Interreg NEXT will be to carry out the management verification procedure. The Managing Authority (MA) and/or National Controller might carry out additional quality control.

The subject of the verification is the financial report produced by a beneficiary, where the project expenditures are declared, and programme contribution is sought for the eligible part of that expenditure.

3. Management verification procedure

The CPR, as well as the Interreg Regulation², set a number of requirements in relation to the eligibility of expenditure that will have to be checked during the management verification.

Building on the ENI CBC experience, and in order to help the MAs in developing the verification procedure, we have pointed out in the sections below the practical aspects of verification that should be covered therein.

The purpose of identifying the building blocks of the procedure is to equip the controller with the tools necessary to examine whether the costs declared are real, accurately recorded and eligible.

² Regulation (EU) 2021/1059 of the European Parliament and of the Council of 24 June 2021.



3.1. What general aspects should the verification procedure foresee?

Suggested component	Explanation
Access to the grant contract and partnership agreement	The controller should have clear instructions on how to require and access all necessary information and documentation for his/her duties concerning the use of the electronic monitoring systems. Provisions should be in place allowing the controller to access the grant contract and related documents, such as amendments and correspondence with the MA/Joint Secretariat (JS).
The rules for selection of expenditure and the principles and criteria for verification coverage	The rules for selection of expenditure should be described according to the methodology chosen by the programme. In case the MA is responsible for choosing the expenditure items (for example, via an algorithm in the electronic monitoring system), the reference to the selection principles might be sufficient. In case the controller itself should select the items, the methodology should be clearly communicated.
Financial report	The verification procedure should clearly communicate that the controller should verify that the financial report complies with the conditions of the grant contract, the partnership agreement and the compulsory reporting templates published by the programme.
Rules for accounting and record keeping	The controller should verify whether beneficiaries maintain either a separate accounting system or a suitable accounting code for all transactions relating to a project in accordance with the grant contract and article 74 of the CPR regulation.
Exchange rates	In line with article 38.5 of the Interreg regulation, expenditure incurred in a currency other than the euro shall be converted using the monthly accounting exchange rate of the Commission in the month during which that expenditure was submitted for verification. In principle, the exchange rate conversion should be done by the electronic monitoring system; however, in case it is done manually, the auditor should verify the calculation.

3.2. What aspects should be considered to verify whether the expenditure is real, accurately recorded and eligible?

Suggested component	Explanation
Whether the costs are real	
Examination of supporting documents / conditions for reimbursement	<p>Costs should be actually incurred by and pertain to the beneficiary and should not double-financed.</p> <p>As far as SCOs are concerned, the conditions for reimbursement should be verified.</p> <p>It should be also verified whether expenditure items that are covered under the SCOs are not reported under other budget headings.</p>

	<p>Supporting documents (e.g., invoices, contracts) and, when required, proof of payment should be examined. The controllers should check the originals at least once in the project lifetime.</p> <p>Checking the reality of the costs should be mainly focused in examining the proof of work done, goods received or services rendered; the controller verifies the existence of assets.</p> <p>Incurred costs should be supported by adequate documents, both of financial and technical nature.</p>
	<p>It should be examined whether the costs are necessary for the project implementation.</p> <p>A good understanding of the project activities and expected results is essential for this examination!</p>
Whether the costs are accurately recorded	
Examination of the accounting system	<p>Information in the financial report should be reconciled with the accounting records and documents of the beneficiary (i.e., costs are recorded in the accounting records of the beneficiary and determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary).</p> <p>As above, for the SCOs the conditions for reimbursement should be verified.</p>
Whether the costs are eligible	
Compliance with the eligibility rules	<p>The procedure should include verification of the costs against the eligibility rules in article 63 of the CPR regulation, articles 39 to 44 of the Interreg Regulation, the programme or the national rules where defined.</p>
Compliance with budget of the grant contract	<p>An analytical review of the budget headings in the financial report should be carried out, as well as the verification that the budget in the financial report corresponds with the budget of the grant contract and that the expenditure incurred was indicated in the budget.</p> <p>In case of electronic reporting system, it is important to verify that the amendments (with and without addendum) to the budget of the grant contract are in line with the information in the system.</p>
Compliance with direct cost categories	<p>It should be verified whether incurred direct costs are attributed in the appropriate budget line, in conformity with the definitions of direct cost category in the programme document such as guidelines for applicants and/or grant contract.</p>
Compliance with sound financial management principles	<p>It should be verified whether the costs are reasonable, justified and comply with sound financial management principles, in particular economy and efficiency.</p>
Compliance with tax and social legislation	<p>It should be verified that the relevant tax and social legislation is observed for the costs declared.</p>
Examination of non-eligibility and procurement rules	
Non-eligible costs	<p>It should be verified whether the cost items declared are not considered as non-eligible, in particular as defined in article 64 of the CPR Regulation and in article 38 of the Interreg Regulation.</p>



Compliance with procurement rules	It should be verified whether the procurement was carried out in line with the provisions of article 58 of the Interreg Regulation and Annex II of the financing agreements.
Examination of compliance with contractual conditions	
Compliance with visibility rules	It should be checked whether the visibility rules were taken into account in line with the provisions of the grant contract.
Other contractual conditions	The procedure also should foresee checking other contractual conditions, related to the cost eligibility that might be mentioned in the grant contract or programme documents, such as State aid. To that end it is advisable to cross check the verification procedure against the requirements laid down in the grant contract/guidelines for applicants.

3.3. Additional tools

Management verifications are one of the main tools for the programme to prevent and detect irregularities. At the same time, they play a role in the anti-fraud strategies of the programmes.

Therefore, as part of verification process, we would like to also suggest to the programmes develop harmonised template of the report on suspected and/or established fraud (**annex 2**), regulating the reporting responsibilities between the controller and the MA.

Taking into account the nature of the fraud, it is suggested that the controller directly informs the programme bodies (for example, National Controller and/or the NA) about the suspicion and detection of the fraud, in order for the programme to apply appropriate measures in due time.

4. Closing remarks

The management verifications in the Interreg NEXT and verification process in the ENI CBC bear significant amount of similarities:

- as in the past, the management verification should allow to conclude that the costs declared by the beneficiary are real, accurately recorded and eligible. At the same time the new changes (such as the SCOs or no need to verify the no-profit principle) bring simplification to the process;
- the procedures set-up for the expenditure verification in ENI CBC can be relatively easily adapted to the Interreg NEXT programmes;
- the responsibilities of key actors, namely beneficiaries and controllers, remain similar.

With that being said, we encourage the programmes to take a look at their existing procedures with a critical eye and on the basis of past experience to adjust where necessary. To that end, an exchange with experienced controllers might be useful.

We wish you success in this journey!



ANNEX 1:

Template of Contract between the Beneficiary and the Controller

SERVICE CONTRACT FOR THE MANAGEMENT VERIFICATION
 of a Grant Contract
 under the [name of the Interreg NEXT programme]
 [Title of and number of the grant contract]
 [Name of beneficiary]

Full official name of the Beneficiary> [<Official registration number>] <Full official address> [<VAT number>], ('the Beneficiary'), on one part,	<Full official name of the Contractor> [<Official registration number>] <Full official address> [<VAT number>], ('the Controller') on the other,
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have agreed as follows:

Article 1. Subject

1.1. The subject of this Contract is the management verification of the above-mentioned Grant Contract made in <Location> with identification number <contract reference> ('the service').

1.2. The Controller shall execute the tasks assigned to him/her in accordance with the procedures and templates annexed to this Contract or any update issued by the Managing Authority or the Joint Secretariat.

Article 2. Contract value

2.1. This Contract, established in [Euro] <or national currency>, is a global price contract. The Contract value is [Euro] <national currency> <amount>.

Article 3. Order of precedence of Contract documents

3.1. The following documents shall be deemed to form and be read and construed as part of this Contract, in the following order of precedence <to be adapted according to the programme needs>:

- the Grant Contract and its annexes;



- the partnership agreement;
- annex I: description of the procedure;
- annex II: control check-list;
- annex III: template of individual report <or consolidated report>;
- annex IV: template of list of findings;
- annex V: template of report on suspected and/or established fraud.

The various documents that are referred to in this contract shall be deemed to be mutually explanatory; in cases of ambiguity or divergence, they shall prevail in the order in which they appear above. Addenda shall have precedence over the document they are amending.

Article 4. Language of the Contract

4.1. The language of the Contract and of all written communications, including reports, between the Controller and the Beneficiary shall be <language>.

Article 5. Communications

5.1. Indicate here the contact persons, addresses of the Parties, their other contact details, the documents to provide and the procedure to be used by the Parties for communication.>

Article 6. Implementation of the tasks and delays

6.1. [The start date for implementation shall be <date/date of signature of the Contract by both parties>]

6.2. The period for delivery of the reports to the Beneficiary is <...> calendar days from submission of each financial report by the Beneficiary.

Article 7. Responsibilities

7.1. The Beneficiary is responsible for providing the Financial Report, as well as giving access to its accounting, supporting documents and project documentation and physical investments to the Controller, so that the procedures described in annex I can take place in due time and without restrictions.

7.2. The Controller is responsible for performing the procedures described in annex I with due care, as well as submitting the reports to the Beneficiary. Additionally, the Controller shall submit an *ad hoc* report directly to the Managing Authority in case of suspicion or establishment of fraud. The Controller will attend the specific trainings and meetings for Controllers organized by the competent Programme or national bodies. The Managing Authority or the National Controller³ may request the termination of the controllers not attending to these events.

³ National Controller – responsible body designated by the participating country of the programme.



Article 8. Reports

8.1. The Controller shall submit the verification reports to the Beneficiary, with its annexes, following the templates and procedures established in the annexes mentioned in article 3.

8.2. In case of identification of suspected and/or established fraud, the Controller shall submit the report in annex V without delay directly to the Managing Authority <or Joint Secretariat> and the National Controller indicated in the Grant Contract. This report shall not be submitted to the Beneficiary.

Article 9. Approval of the reports

9.1. The financial reports from the beneficiaries and the management verification reports shall be revised by the Managing Authority <or Joint Secretariat> indicated in the grant contract after submission by the Lead Beneficiary. <The reports also shall be made available upon the request of the National Controller>.

9.2. Should the Managing Authority or the Joint Secretariat have any doubt concerning the findings indicated in the expenditure and revenue verification report, the Controller will receive a request for clarification via the Beneficiary, which will be answered in a maximum of <...> calendar days.

Article 10. Quality control by the programme bodies

10.1. The Managing Authority, the Joint Secretariat or the National Controller may conduct quality control of the work carried out by the Controller at any moment during the execution period of the grant contract.

10.2. As a result of the quality control, the Managing Authority or the National Controller may request to the Beneficiary the early termination of the contract with the Controller. Such termination shall be free of charge for the Beneficiary.

Article 11. Administrative and financial penalty clauses

11.1 The Controller who has committed substantial errors, leading to the significant amount of irregularities or fraud detected by the programme authorities, national authorities or the European Commission, has made false declarations in supplying required information at the moment of the submission of the expenditure verification reports or has failed to supply such report in time or has been found in serious breach of its obligations under the Contract may be liable to:

- (a) administrative penalties consisting of exclusion from performing expenditure and revenue verification within the Interreg NEXT programme in question for a maximum of <duration> from the date on which the infringement is established; and/or
- (b) financial deductions from <XX%> up to <YY%> of the contract value specified in Article 2, depending on the gravity and repeatability of the errors committed.



Article 12. Payment

Payments shall be made in accordance with the following instalments:

Report	[EUR] [<ISO code of national currency>]
1	<X% of the contract value>
<n>	<X% of the contract value>
Final report	<X % of the contract value>
	<Total contract value>

Article 13. Settlement of disputes and applicable law

12.1. Any disputes arising out of or relating to this Contract which cannot be settled amicably shall be referred to the exclusive jurisdiction of the courts of location of the Beneficiary.

12.2. This contract shall be governed by the law of the country of the Beneficiary.

Article 14. Data Protection

14.1. Any personal data included in the Contract shall be processed pursuant <adapted according to the data protection policy of the programme>

14.2. The Controller undertakes to adopt technical and organisational security measures to address the risks inherent in processing and in the nature of the personal data concerned.

Article 15. Further additional clauses

<Add other relevant clauses.>

Contract prepared in <English> <French> in two originals, on the <dd/mm/yyyy>

For the Contractor:

Name:

Title:

Signature:

Date:

For the Beneficiary:

Name:

Title:

Signature:

Date:



ANNEX 2

Template of report on suspected and/or established fraud

REPORT ON SUSPECTED AND/OR ESTABLISHED FRAUD
of a Grant Contract

under the [name of the Interreg NEXT programme]
[Title of and number of the grant contract]
[Name of Beneficiary]

I hereby inform the Managing Authority and <the National Controller> of the INTERREG NEXT programme [name of programme] that, based on the provided documents, on my verification and my professional judgement as the Controller, I have become aware [and/or] found evidence of suspected fraud [and/or] established fraud for the above-mentioned project beneficiary.

1. Typology of fraud

<i>Please explain in detail the nature of suspected and/or established fraud that you wish to inform the Programme about.</i>

2. Scope of expenditure concerned by the fraud

Concerned Beneficiary report(s)	
Concerned budget category(ies)	
Identification of specific contracts and expenditure items concerned	



Amount of expenditure concerned (in EUR and local currency)	
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3. Basis for suspected and/or established fraud

Please explain in detail the reasons/circumstances leading you to suspect the existence of fraud or to report established fraud for this specific project Beneficiary (i.e., Why do you think there may be fraud? / How did you become aware of the suspected/established fraud?).

Please provide concrete facts about the suspicion of fraud or the details of the established fraud (including reference of the competent authority/court decision for established fraud).

Please indicate the actions you already undertook to analyse the specific case in-depth. Please also specify if you reported this suspected or established fraud to any other competent authority and if any administrative or judicial proceedings in relation to this case has been initiated.

4. Potential impact of the suspected or established fraud outside the INTERREG NEXT project

If applicable, please list other EU co-funded programmes and projects in which the same Beneficiary is involved (to your knowledge).

Please add any complementary indication you deem useful to identify and limit the impact of the suspected or established fraud.

I hereby declare that my assessment is based on actual evidence that I have seen during the management verification procedures.

I am aware that the Managing Authority and European and national competent bodies may use this evidence to undertake further investigations which could lead to appropriate administrative and/or legal actions in relation to suspected unlawful activity.

Controller's signature [person or firm or both, as appropriate and in accordance with company policy]

Name of the Controller signing [person or firm or both, as appropriate]

Date of signature <dd/mm/yyyy> [date when the final report is signed]

