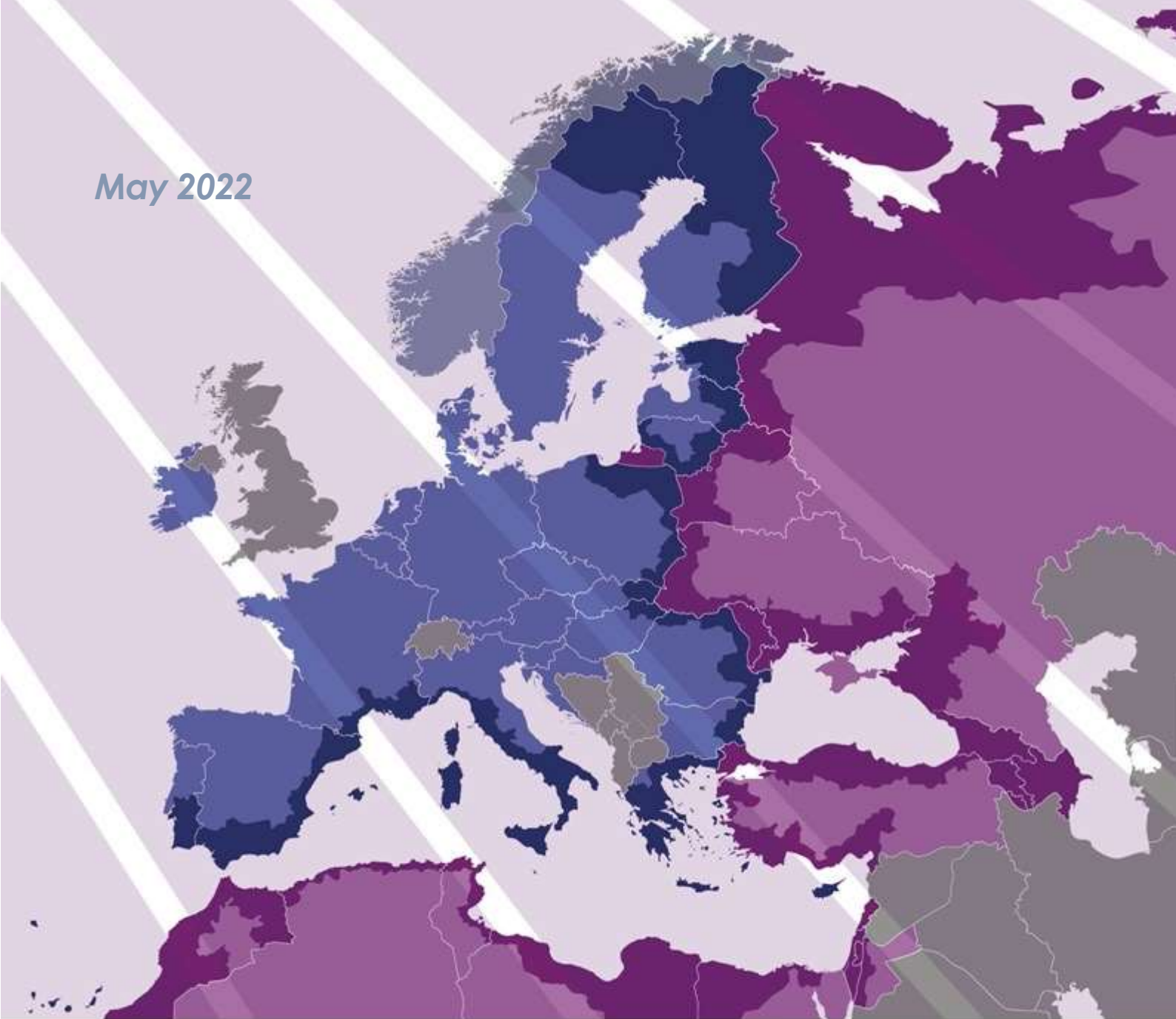


Management verifications in the Interreg NEXT programmes

Continuity and twist of the new approach for the programme bodies, national authorities, auditors/controllers and beneficiaries.

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Introduction

The new approach in the management verifications for post-2020 programmes can be well considered as a typical example of the “**continuity with a twist**” that illustrate the transitioning from ENI CBC to Interreg NEXT.

While the ultimate goal of the control systems remains unchanged, the new approach brings in a series of **twist elements**, both in terms of simplification of the administrative burden for the programmes and the beneficiaries, as well as a different approach to the responsibilities for the verification-related tasks.

In order to thoroughly understand all the implications, it is important to deconstruct the management verification process, compare it with the ENI CBC practices and understand what continues and what changes for all parties involved:

- for the programmes;
- participating countries / national authorities;
- Managing Authorities (MAs) / Joint Secretariats (JSs);
- the auditors/public officers in the ENI CBC, which may become controllers in Interreg NEXT;
- the project beneficiaries.



Whenever you see **this sign** in the document,
we will address **the continuity with a twist**,
an important implication in the context of establishing
the approach to management verifications in NEXT!

1. From ENI CBC to Interreg NEXT - continuity and twist for the programmes

As anticipated, the main goal of the management and control systems (MCS) will remain the same in the upcoming period, and this represents the core of the **continuity** between the ENI CBC and the Interreg NEXT programmes. The systems should function effectively and ensure that the expenditure included in the programme accounts is legal and regular.

*The aim of the management verifications in NEXT is comparable¹ to the **combined objectives** of the expenditure verifications by the auditor/public officer and the verifications by the MA in ENI CBC:*

“to verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the programme and the conditions for support of the operation.”

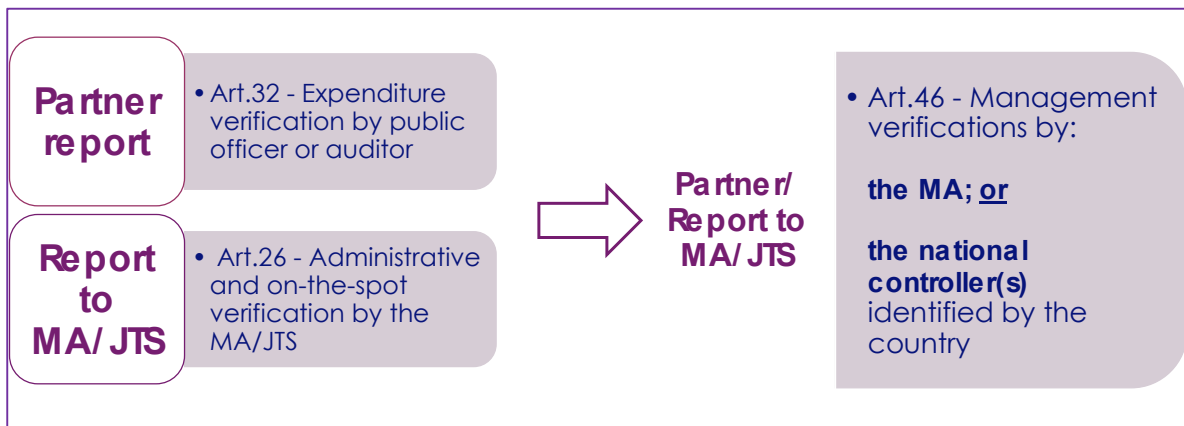
One might assume that the programmes (including the MAs and the participating countries) would aim for the **continuity** in the control approach. In that case, first we have to establish the parallels with the system in ENI CBC.

The control system of ENI CBC programmes relies on two layers of verification concerning the expenditure declared by the beneficiaries:

- first, the expenditure is examined by the auditor/competent public officer at country level (so-called expenditure verification under article 32 of the ENI CBC IR);
- second, prior to including the expenditure in the payment requests to the EC, the MA verifies it according to article 26.5 of the ENI CBC IR.

In the NEXT programmes these two layers will be combined into one (management verifications):

¹ Article 74 of the Common Provisions Regulation (CPR) 2021/1060 and article 46 of the Interreg Regulation 2021/1059; article 26.5 of the ENI CBC Implementing Rules (ENI CBC IR) 897/2014.



As a result:

- the **first twist** of the new management verification system is a positive one. It can be expected that administrative burden and work load at the level of the programme bodies as well as beneficiaries will decrease, while reliability of the MCSs will be maintained.
- The **second twist** is the need to choose the body responsible for the management verifications, either the MA directly or the national controllers.

We will describe in detail in this document how these changes affect the different actors concerned.

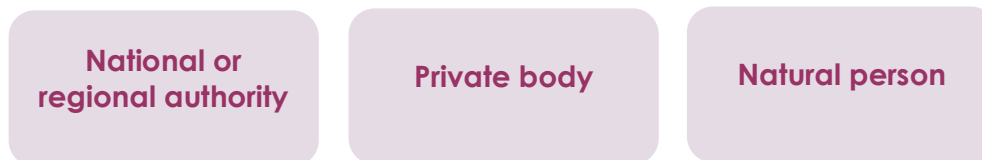
2. Continuity and twist for the actors involved

2.1. National authorities of the participating countries

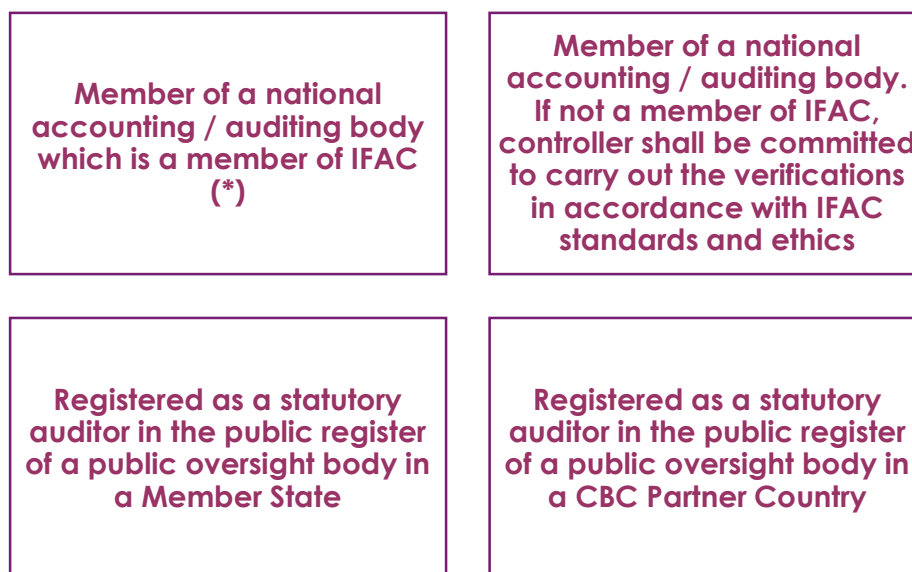
From the perspective of the national authorities in the participating countries, the continuity or the twist will very much depend on the approach chosen.

2.1.1. Continuity option: expenditure verified by an entity at country level

In case the programmes would like to opt for having the expenditure verified by an entity at country level, then the option for each participating country of identifying a so-called controller would ensure a high dose of continuity. In fact, according to article 46.8 of the Interreg Regulation, the countries may choose among the following options:




One of these three options was used by each of the participating countries in ENI CBC, thus the strong potential for continuity. In practical terms, it would mean that the expenditure declared by the beneficiary is verified by the national controller(s), similarly as how the expenditure is being verified by the auditor/public officer in the ENI CBC programmes (article 32 verifications in the ENI CBC IR). Likewise, the requirements for private bodies and natural persons are the same as in ENI CBC:



(*) International Federation of Accountants

At the same time, two aspects have to be highlighted:

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- due to the one-layer system in the NEXT programmes, the scope of the work of the national controllers would be slightly different, even if the same entities that carried out expenditure verifications in ENI CBC would be identified as the controllers and carry out the management verifications in Interreg NEXT.
 - if this continuity option is chosen, each participating country shall be responsible for verifications carried out on its territory.

Even if the Interreg Regulation states that the participating country shall be responsible for the verifications carried out on its territory, it leaves decisions of the implications to the countries/programmes themselves.

From the ENI CBC experience, two **key implications** can be identified:


Procedural aspects

Financial aspects

a) Procedural aspects

For what concerns procedural aspects, the most obvious question that arises is: “How to approach the responsibility of organising the verifications, that is, developing the methodology, templates and procedures?”

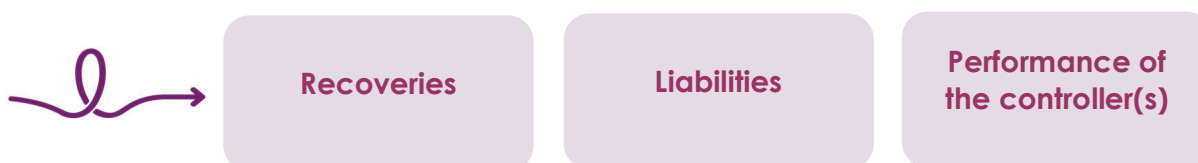
If we draw parallels with the ENI CBC programmes, a possibility can be explored to **continue** with a similar approach:

- 
- in the ENI CBC programmes the countries already agreed on a single set of rules, procedures and templates for the expenditure verifications, by approving them jointly in the Joint Monitoring Committees;
 - this approach allowed to harmonise the process in all the countries and could be explored again in the future. However, such a harmonised set should not prevent the possibility of including country sections, such as for procurement verifications under national legislation.

At the same time, one cannot exclude an option where the programme authorities and country(-ies) agree to individually assume the responsibility by developing its own set of rules, procedures and templates. While possible, this choice presents additional challenges, when it comes to both developing all the necessary documents at country level, as well as harmonising the different country approaches within the programmes.

b) Financial aspects

In relation to the financial aspects, the main question is “What financial implications does the country responsibility represent?”. From the practical discussions in the programmes so far, we have identified three features:



When it comes to the **recoveries**, the Interreg Regulation (article 52) gives an indication of the financial responsibilities of the participating countries, irrespective of the choice on who carries out the management verifications. The responsibility for the unsuccessful recoveries is extended to all partners located in the country, whereas in the ENI CBC country responsibility was limited to the public bodies. Two elements must be taken into account:

- in practical terms, based on ENPI CBC data, the financial risk (amounts and types of errors) of the unsuccessful recoveries from public and private beneficiaries may be minimal;
- in any case, each country has to assess the legal, organisational and procedural changes needed to assume this new responsibility.

The second feature is the apportionment of **liabilities** to be addressed in the cooperation programme template (chapter 7), including the following aspects:

- responsibility for irregularities directly attributable to individual beneficiaries;
- responsibility for irregularities directly attributable to a specific country;
- financial corrections applied either by the MA or by the Commission;
- technical assistance and financial corrections.

You can find further details in TESIM's tips and recommendations document “Apportionment of liabilities in Interreg NEXT cooperation programmes”, sent to the MAs on 9 November 2021².

As for the **performance of the controller(s)**, there is no automatic link to the country responsibility, as referred to in the Interreg Regulation. The ENI CBC experience has been that the relationship between the private auditors carrying out the expenditure verification and the beneficiaries is regulated via service contracts and that the countries do not assume any specific financial responsibility or role in such contracts.

² This document is not published in TESIM's library and is available on demand.

At the same time³, there will be an indirect link in the country responsibilities to the performance of the controller in Interreg NEXT, as non-reliable work may lead to individual or systemic errors and unsuccessful recoveries. The liabilities stemming from the systemic errors related to the work of the controllers would be treated in line with the rules on apportionment of liabilities agreed in the programme document.

2.1.2. Twist option - expenditure being verified directly by the MA

In case the countries and the MA in the programme would come to the agreement that management verifications are carried out by the MA alone, that would represent a **significant change** in comparison with the systems currently established in the ENI CBC programmes.

In this case, the national authorities would not assume the work related to the current expenditure verification in the ENI CBC programmes, such as the validation of the compliance of the auditors with the requirements of article 32 of the ENI CBC IR or the management of short and long lists of auditors (where such approaches were chosen). On the other hand, the MA and the national authorities should agree if any country institution would provide support whenever a need for clarification about national rules arises, as currently done by the Control Contact Points.

2.2. Managing Authorities / Joint Secretariats

Continuity or twist for the MAs / JSs will depend on the control system agreed by the programme, either through national controllers or by means of direct MA management verifications.


- A) In addition to the aspects mentioned in the previous section, from the perspective of expenditure being verified by an entity at country level, the system with the national controllers would present a continuation of the approach from the ENI CBC programmes. Nevertheless, it would imply an **important change** for the MAs: most specifically, as the management verification will be done at national level, the MA is not required to carry out additional checks and shall just satisfy itself that the expenditure of beneficiaries has been verified by an identified controller.

The removal of one control layer will reduce the work load for the MAs/JSs, but will not prevent the performance of certain checks. On top of the verification of the completeness and correctness of the submitted documentation linked to each

³ Regardless whether the management verifications are carried out by the MA or the national controller.

payment claim, the MA may consider checking selected aspects of the overall project progress before authorising the payment.

B) In the case of the management verifications being carried out only by the MA, the **main twists** would be:

- 
- transitioning from checking the verifications carried out by the auditors/public officers to a direct performance of the work with a more focused risk analysis;
 - reshaping the procedures to the new responsibilities and enhancing the IT tools for an adequate work flow and related archiving mechanisms of the direct controls;
 - ensuring the capacities of an adequate number of staff members to carry out the verifications, both administrative and on-the-spot. The reinforced capacities, on top of adequate language skills, should include aspects such as risk analysis, sampling methodology, legal framework of the countries in the programme or applicable financial rules.

2.3. Controllers (former auditors/public officers)

For the programmes where the MA does not carry out the management verifications, the national controllers, that is, the former auditors/public officers in ENI CBC, will continue to serve as the fundamental basis of the control system.

There will be in fact a high dose of **continuity** for public officers in the countries hosting MAs with centralised systems in ENI CBC, that is, where the expenditure verifications are carried out by *ad-hoc* units set up by the Member State. The auditors carrying out the expenditure verifications in ENI CBC will also find **continuity** in the programmes/countries choosing the option of identifying national controllers.

At the same time, and irrespective the option, there is a significant **methodological twist**: the compulsory risk-based approach of the verifications, that will allow the controllers to work on a sample basis and focus their work on the risky areas of the expenditure.

2.4. Beneficiaries

The simplification of the control system will bring clear advantages to the beneficiaries, even though the expenditure will still need to be verified. The **continuity** can be seen in the nature of the work performed either by the MA or the controller. For the few programmes/countries already allowing an expenditure verification coverage of less than 100% in ENI CBC, there will be also a **continuity** of the risk-based verifications of the payment claims.

At the same time, the removal of one control layer and the need to apply a risk-based approach represent **an important twist**.

Another **twist** for the beneficiaries will arise from a generalised use of off-the-shelf simplified cost options, as it may significantly reduce the amount and type of work carried out, either by the MA or by the national controller.

Regardless of the approach (verifications carried out by the MA or by controllers), the new one-layer risk-based approach, combined with simplified cost options, should:


- **decrease the work load and administrative burden** of the verifications faced by the beneficiaries;
- **accelerate the approval** of the project progress reports;
- allow **for faster reimbursement** due to one layer of control and no need to revisit the national controller's work at MA level.

3. Risk-based approach as key methodological twist

From the methodological point of view, the compulsory risk-based approach is the **key methodological difference** in comparison with the ENI CBC approach. During the 2014-2020 period:

- in an absolute majority of programmes 100% of expenditure was checked during the expenditure verifications, and
- all of the programmes checked 100% of payment claims, in accordance with the requirements of article 32 of the ENI CBC IR.

In the Interreg NEXT programmes, the frequency, scope and coverage of management verifications shall be based on a risk assessment and be proportionate to the risks identified. Since the risk-based approach is a novelty, this would also require adapting or newly developing part of the procedures used in 2014-2020 programmes. The new approach implies two key differences, depending on the risk methodology established by the MA:

- 
- the possibility to exclude non-risky payment claims from the verification;
 - the possibility to focus on selected expenditure items within individual payment claims.

According to the article 74.2 of the CPR, the management verifications shall include the administrative verifications in respect of the payment claims made by beneficiaries and on-

the-spot verifications of the operations. In that sense, parallels can be drawn with the verifications of the MA in ENI CBC (article 26.6 of the IR) which also consisted of these two elements.

Despite the major novelty element, the programmes can draw an inspiration for the risk-based approach from the current experiences as well. In ENI CBC, even if the MA has to carry out an administrative verification of all payment claims, the frequency and coverage of the on-the-spot verifications are proportionate to the size of the projects, the level of risks identified by the MA, as well as the risks identified by the Audit Authority. To that end, the current methodologies can serve as a first point of reflection before setting up the new systems.

The risk identification should be prepared *ex-ante* and in writing. Therefore, the first risk assessment exercise should include both the methodology and the criteria used to identify operations, payment claims and expenditure items to be verified.

Risk assessment will be the basis for deciding on the frequency, scope and coverage of the verifications, that is, if the MA/JS decides to request the check of all payment claims (or not); this decision shall need to be based on the results of this exercise, which should be performed at least once per year.

Continuing the current practices, the following risk factors could be taken into consideration for the methodology:

- number, type, size, content and complexity of operations;
- the presence of an infrastructural component in the project;
- type of beneficiary (e.g., public/private; experienced/ unexperienced);
- value of payment claims and amounts and types of expenditure;
- mistakes and risks detected by previous management verifications and audits;

In terms of procedures and templates, TESIM is actively participating in the **Harmonised Implementation Tools** initiative by Interact. One of the sub-groups in the initiative is dedicated to developing the risk-based verification methodology template, to be released next year.

In 2022 TESIM will also work on the development of a set of practical documents to support the Interreg NEXT programmes in establishing their systems. In the meanwhile, examples of this kind of assessment for expenditure items can already be found in annexes 4 and 5 of TESIM's document on "Working papers for expenditure verification", available in our library.

