

Interreg



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**Methodology
for national controllers on
risk-based management verification of
expenditure**

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1. Introduction and legal basis

According to Article 74(2) of the Regulation (EU) 2021/1060¹ (hereinafter – CPR), the **management verification shall be risk-based and proportionate to the risks identified ex-ante**. "Risk-based" means that National controllers (hereinafter – Controllers) should focus their verifications on areas where, according to the risk assessment, the risk of material misstatement is high. In the areas where the risk of material misstatement is low, control work should be reduced. Such verifications shall include administrative verifications in respect of payment claims made by project partners and on-the-spot verifications of projects.

The purpose and objective of this document are to present the outcomes of the risk analysis, describe the risk factors based on the ex-ante analysis and to set minimum requirements for risk-based management verification of projects co-financed by the Interreg VI-A Latvia-Lithuania Programme 2021-2027 (hereinafter – Programme).

The Managing Authority (hereinafter – MA) will consider the annual revisions of the methodology based on the results of the management verifications and audit findings, if relevant.

2. Management verification methodology 2021-2027

Management verifications are done by the controllers of the National Control Bodies who are responsible for the verification work in the respective Member State. The Joint Secretariat (hereinafter – JS) and the MA can use the National Control Bodies' reports in carrying out their control work, which is described in the Programme Manual for the respective Call for Proposals as well as in the Description of the Management and Control System.

Control activities must ensure that all the products and services paid for have been delivered and costs paid out in compliance with CPR, Regulation (EU) 2021/1059² (hereinafter – Interreg Regulation), national level legal acts about public procurement (public procurement act(s)) and other relevant regulations.

All Partner Reports are available in JEMS (Joint Electronic Monitoring System: <https://jems.latlit.eu>) which is an online application and reporting system used by the Programme for all official communication and for all steps of the application and implementation of a project.

The registration of Controller in JEMS and technical aspects how to perform verification in JEMS are described in JEMS guide for controllers.

¹ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy

² Regulation (EU) 2021/1059 of the European Parliament and of the Council of 24 June 2021 on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments

3. Risk assessment

The MA/JS analysed the available control outcomes from the Interreg V-A Latvia-Lithuania Cross Border Cooperation Programme 2014-2020 (data included more than 50000 cost items reported by Project partners (hereinafter – PP) during project implementation).

3.1. Identification of risk factors

Taking into account that available data have rather limited amount of comparable quantities as provided reasons for errors (most stated error reasons are not defined by selected classification, but instead as description of situations), the analysis of errors from the programming period 2014-2020 demonstrates that there is rather minor deviations or specific risk involved in the Cost Category (hereinafter – CC) and it does not indicate clearly proven any specific type of error that would appear more often than other errors according to a certain scheme or system. Still, there is a group of CC or types of errors with a lower number of cases and amounts corrected and a group with a higher number of cases and amounts corrected.

The CCs with more errors detected (listed by decreasing order):

- CC “Infrastructure and works” (9,7% of reported items had errors, which equals to about 2,56% of total reported costs)
- CC “Equipment” (3,27% of reported items had errors, which equals to about 1,3% of total reported costs)
- CC “External expertise and services” (1,7% reported items had errors, which equals to about 0,79% of total reported costs)
- CC “Staff costs” /Real costs method (1,82% of reported items had errors, which equals to about 0,24 % of total reported costs).

This list is also inversely proportional by total number of listed items per CC (total number of CC “Staff costs” items exceed CC “Infrastructure and works” by approximately 20 items).

3.2. Analysis of risk factors

Following issues from 2014-2020 programming period are either improved or the risk is reduced or eliminated, due to new rules applied in 2021-2027 programming period:

- Reporting of CC “Staff costs” is based on simplified cost options (Flat rate and Standard scale of unit cost) and do not include different calculation methods of real costs. Consequently, CC “Staff costs” does not represent the calculation risk and risk of wrong application of a certain calculation method.
- Reporting of CC “Travel and accommodation” is based on a fixed flat rate of PP eligible staff costs and not on real costs. Consequently, CC “Travel and accommodation” does not represent the calculation risk.
- The VAT will be eligible for all PPs, as in 2021-2027 programming period VAT for projects with budget below EUR 5 million (incl. VAT) is eligible.

- Limitations for purchase of equipment and prohibition of investments in infrastructure under Priority I significantly decreases amount of comparably higher risk items in total pool of expenditure.
- Based on Programme's data from programming period 2014-2020 for CC "Infrastructure and works" items with value equal or bigger than 10 000 EUR are covering about 90% of total reported costs in CC "Infrastructure and works".
- Programme's Priorities have changed, therefore data about error rates per Priority are not considered as representative.

3.3. Conclusion on risk factors

Based on analysis of costs deducted by Controllers and JS in 2014-2020 programming period, the MA/JS identified the following risk factors to be applied for management verification of expenditure:

- CC "Infrastructure and works" and CC "Equipment" due to higher number of items which were subject of deductions by Controllers or JS,
- Public procurement,
- Publicity rules,
- MA/JS adds as a risk factor also application of Standard scale of unit costs, due to nonexistence of data from 2014-2020 programming period, as well as possible misuse of this method by potential to report more working hours by personnel than were spent for implementing of project activities in PP institution.

4. Types of verifications

The Programme applies two types of management verifications:

- administrative verifications,
- on-the-spot verifications.

Based on the ex-ante risk assessment of the 2014-2020 programming period data, the risk-based methodology on management verifications defines:

- when administrative verification is justified to be done at the 100% level,
- principles for on-the-spot verification.

4.1. Risk-based method for administrative verifications

Flat rate method used as a simplified cost option under CC "Staff costs", CC "Office and administration costs" and CC "Travel and accommodation costs" are not risky items and therefore do not have to be checked by Controllers.

4.1.1. Sampling of cost items for administrative verifications

The Controllers must apply the following sampling method for drawing the sample for verification of costs reported in each Partner report.

1.	For CC “Staff costs” (where standard scale of unit cost method is applied) sample consists of:
1.1.	Mandatory check: cost item(s) for employee(s) when reported for the first time;
1.2.	Check based on professional judgement: at least two cost items with reported staff costs within the project reporting period (except employees who are checked according to Point 1.1.).
Controller must verify for each employee within applied sample:	
<input type="checkbox"/>	Document(s) certifying establishment of employment relations with the respective employee (e.g., labour contract for new employee; amendment to labour contract for the employee who is already employed in the PP institution; order on employment in the project, etc.).
<input type="checkbox"/>	Job descriptions indicating content of the tasks and relation to the project, if not described in above mentioned document(s).
<input type="checkbox"/>	Filled in Programme’s timesheets for each employee. It has to be verified that hours are reported in timesheets and they are in accordance with the employment documents (labour contract, order, appointment decision, PP institutions internal working time records, if relevant, etc.). Controller shall also check that information on implemented tasks is stated in timesheet, with exceptions referred in section 7.5.1 of the Programme Manual, when summary of work implemented by management staff of LP/PP in reporting period should be indicated in the respective PP’s report’s section “Summary of Partner’s works in reporting period”.
<input type="checkbox"/>	The following conditions have been met: <ul style="list-style-type: none"> ▪ PPs have reduced maximum number of hours to a pro-rata of 1720 hours for employees working part-time in institution; ▪ for a six-month period maximum limit of 860 hours (or respective pro-rata for employees working part-time in institution) is not exceeded; ▪ total amount of foreseen working hours stated in Application Form (hereinafter - AF) is not exceeded.
2.	For CC “External expertise and services”, CC “Equipment”, CC “Infrastructure and works” within each CC sample includes:
2.1.	Mandatory check: all cost items from 10 000 EUR and above.
2.2.	Check based on professional judgement: at least two cost items that are not included in mandatory check as specified in Point 2.1. (If all cost items in particular CC have been covered by mandatory check as specified in Point 2.1, this step is not applicable).

4.1.2. Actions to take

During verification of costs reported in Partner report Controller:

1. Reviews the list of expenditures in submitted Partner report to understand the type and nature of the expenditure (CCs) reported.
2. Draws the sample of cost items for administrative verifications according to requirements stipulated in section 4.1.1:

- 2.1. selects cost items for **mandatory** checks according to Point 1.1 and 2.1 of the section 4.1.1.
- 2.2. selects cost items for checks **based on professional judgement** according to Point 1.2 un 2.2 of the section 4.1.1.

The Controller's professional judgement should be grounded on decision-making, analysis, and evaluation that draw upon the knowledge, skills, training, and experience the controller possesses. The Programme highly recommends applying professional judgement for costs with the greatest potential implications, taking into account the Programme's assessment of risk factors - especially those related to public procurement and publicity rules - as well as the potential for whistleblowing. Examples of applying professional judgement for sampling:

- *cost items that seem unusual or give rise to suspicion of fraud,*
- *several cost items paid to one supplier that potentially could be a sign for splitting of procurement,*
- *cost items where repeated mistakes/errors (e.g., re-inclusion of ineligible expenditure, etc.) were noted in the previous Partner reports,*
- *etc.*

3. Performs full administrative verification for cost items that are included in the sample ensuring that costs reported by PP to the Programme are correct. Full administrative verification means:
 - a) for CC "Staff costs" checking of documents listed in Point 1 of section 4.1.1,
 - b) for CC "External expertise and services", CC "Equipment" and CC "Infrastructure and works" checking that:
 - the co-financed products and services have been delivered,
 - purchase of products, services and works complies with applicable requirements (EU regulations, Programme rules (e.g., Programme Manual for the respective Call for Proposals, etc.), national rules),
 - the activities have been implemented in compliance with the Subsidy Contract and approved AF,
 - PP has excluded from a public procurement procedure or competition persons and entities included in the EU or national sanction lists or an entity that is related to persons or entities included in these lists (Council Regulation (EU) No 2022/576 of 8 April 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine).

4.1.3. Extension of sample for verifications

If **ineligible costs** are found **during the check of sampled cost items**, sample should be extended by checking additional two items selected based on professional judgement from the same CC (not applicable if there are no remaining unchecked costs items in CC).

If **ineligible costs** are found **in extended sample**, then remaining unchecked cost items of respective CC must be checked. For example, if an ineligible cost item is found in CC “External expertise and services”, the Controller should check other cost items under CC “External expertise and services”.

If **ineligible costs** are found **in any two CCs**, then sample should be extended to all reported cost items under all CCs in the respective Partner Report.

4.2. On-the-spot verifications

On-the-spot verifications are the control checks that controllers undertake physically at the premises of PP or project-related sites or online (ensuring proper audit trail).

4.2.1. Planning and conducting of on-the-spot verification

Verifications are undertaken on the project's physical progress, delivery of the products, services and works, publicity rules, accounting system, and related documentation.

The on-the-spot checks should usually be performed during the project implementation considering the progress of projects activities, achievement of deliverables etc., therefore it is suggested that they are done after PP have reported 50% of planned expenditure.

During on spot verifications Controllers should gain assurance:

- on functioning of internal processes and systems related to the approval, ordering, accounting, and payment of reported costs.
- that existence and delivery of reported goods and services are in line with AF.

In Latvia, with a centralized control system, on-the-spot checks are carried out on a sample basis based on controllers developed methodology, which is confirmed by the MA.

In Lithuania, with a decentralized control system, on-spot verifications of each PP are compulsory at least once within the project duration.

4.2.2. Actions to take

After implementation of on-the-spot check Controller must fill in Programme On-the-spot Check Report Form, e-signed or scanned version of which should be uploaded in JEMS.