

Interreg
North Sea



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RISK-BASED VERIFICATION



PROJECT GUIDANCE
INTERREG NORTH SEA
2021-2027

Risk-based verification in the North Sea Programme 2021-2027

	Valid from	Valid to	Comments to change
Version 1	20 September 2022	-	

Introduction

The Common Provisions Regulation (CPR) for the 2021-2027 programming period introduced a new focus in the approach to management verifications applicable to all Interreg programmes. The new focus aims to ensure an appropriate balance between the cost of control and the control needed when implementing an ERDF funded project. In the 2021-2027 programme period, the management verifications and their purpose, frequency, scope and coverage are based on a risk assessment and should be proportionate to the risks identified¹.

In the North Sea Programme, the management verification of expenditure and proper project implementation is delegated to the designated controller of the individual project partner.

Legal context

The programme managing authority is responsible for carrying out control of reported project expenditure before any reimbursement can take place. However, in accordance with Article 46(3) of Interreg regulation No. 2021/1059 this function can be delegated to the national level;

"By way of derogation to point (a) of Article 74(1) of Regulation (EU) 2021/1060 and without prejudice to Article 45(5) of this Regulation, the Member States, [...], participating in the Interreg programme, may decide that management verifications referred to in point (a) of Article 74(1) of Regulation (EU) 2021/1060 are to be done through the identification by each Member State of a body or person responsible for this verification on its territory (the 'controller')."

This delegation is not new but has been in place since the start of the North Sea Programme in 1997.

Furthermore the (and the basis for this paper) verification shall be risk-based and proportionate to the risks identified ex-ante and in writing².

¹ Common provisions regulation No. 2021/1060, Article 74 CPR

² Common provisions regulation No. 2021/1060, Article 74(2)

Risk-based verification

"Risk-based" verification means that controllers shall not control all aspects of the partner's progress if the risk assessment consider certain focus areas to have no or very limited potential risk of errors. However, if the risk assessment concludes a certain area to compose a risk of errors then the controllers should focus their verification on items associated with this.

The risk-based verification approach is anticipated to reduce both the cost and time spent on controlling project related activities in the North Sea Programme.

Ex-ante risk assessment

The ex-ante risk assessment is put together by the programme in this document. The risk assessment conclude areas or items to which controllers must pay special attention during their control of project progress and associated finances.

The input to risk assessment is first and foremost a result of the work made by the programme Audit Authority (supported by the Group of Auditors) and each year concluded in the Annual Control Report (ACR). Secondary inputs to the risk assessment can be obtained directly from the controller level and/or from the national level.

The outcome of the risk assessment is outlined in the following section.

What do the controller(s) need to do?

The appointed and designated controllers must adhere to the principles of risk-based sampling when controlling project partners and their progress reports. Mandated by the approved and adopted Common Provisions Regulation (2021/1060), the controllers shall balance their control to the extent that no excess control is carried out.

Controllers shall first of all adhere to the control requirements of the programme, however, focus shall be on the identified inherent risks. These risks are presented as focus areas in the section below.

Inherent risks

Based on the findings and conclusions made by the North Sea Programme Audit Authority (supported by the Group of Auditors) a list of inherent risks has been established at programme level. The list of risks identified is generic in nature and the applicability may vary depending on the type of project and partner that is controlled. The inherent risks have to be mitigated and this is done via the control carried out by the controller.

The identified risks are attributed a risk category; the risk categories express the expected frequency of an error occurring linked to the identified risk.

Risk category	Level of risk
1	Low
2	Medium
3	High
4	Very High

The following focus areas and associated inherent risks are currently considered to be the riskiest items and should be checked when the controller is requested (by the partner) to validate a progress report.

Focus areas	Risk category	Inherent risk
Public procurement	2	<p>Procurement of items or services is occasionally misunderstood by public entities or by private partners participating in the North Sea Programme on the terms of public legal entities.</p> <p>All contracts with a value above € 10.000 excluding VAT should be procured in line with the programme rules.</p> <p>The controllers should focus on these contracts and as a tool the controllers can refer to the approved application form which outlines the expected items and services to be procured and also the envisaged award procedures. Any mismatch between the envisaged award procedures and the one actually applied should be explained by the partner and the controller should validate that the correct procedures has in fact been applied.</p> <p>Correct procurement covers the entire process from posting the tender, collecting bids, assessing the bids to awarding the contract.</p> <p>100% control of contracts is recommended.</p> <p>For French partners: French vade mecum on expenses below threshold of 10,000 meaning that the 10,000 threshold does not exempt partners subject to the public procurement code from complying with procedures, but only amounts above the threshold will be systematically checked and documents to be kept.</p>
Artificial split of contracts	1	<p>Contracts above € 10.000 (excluding VAT) but below regional/national thresholds should be procured in line with programme rule of asking three suppliers for a quote.</p> <p>In some cases, partners have tried to circumvent the "three-offer-rule" by splitting contracts into smaller contracts. However, if the services can be considered as one continuous contract (e.g., four controller checks, ten roll-ups, etc.) then this has to be the conclusion by the controller.</p> <p>100% control of contracts is recommended.</p>

Insufficient audit trail	1	<p>Lack of proper documentation for an expenditure is an inherent risk in any organisation. These mistakes should be ruled out prior to reporting expenditure to the programme.</p> <p>Sampling for controlling the general correctness of the audit trail is recommended, ensuring that the audit trail is fully complete at all times.</p>
Staff cost calculation	4	<p>The correctness of staff costs should be one of the main focuses during all controls. The costs reported under the cost category "Staff costs" is significantly higher when compared to other cost categories. The links to the flat rate for office and administration (regular projects) or the 40% flat rate for other costs (small-scale projects) contributes to this cost category being identified as a high-risk expenditure.</p> <p>The programme rules on how to handle staff costs and potential calculations are described in the programme fact sheet. The controller should for each control check the correctness of</p> <ul style="list-style-type: none"> • The salary attributed to the project accounts (per member of staff), • The numbers of hours worked (if the staff member is employed and paid by the hour), • The employment contract per member of staff working on the project. <p>100% of all employment contracts is recommended.</p>
Accounting	1	<p>Separate project accounts or unique identifier must be applied at organisational level to bookkeep the project related expenditure separately.</p> <p>Sampling is recommended to control for this.</p>
Double financing	1	<p>Linked to the bookkeeping of the project expenditures is the inherent risk of a partner receiving funding for the same activity from multiple sources.</p> <p>Sampling is recommended to control for this.</p>

Random sampling

Items not considered a risk can be controlled by a supplementary random sampling of the remaining items in the progress report. Items not covered in the list in previous section is considered not to pose a risk to the eligibility of expenditure.

Professional judgement

The controller's professional judgement is essential for the proper control of partner progress report. Professional judgement should be applied to establish when enough control has been made to ensure the controller that all costs presented is relevant, correct and eligible for the implementation of the project activities.

Revision of this document

This document is updated if the inherent risks has changed. There is no fixed schedule for the update of this document, however, when a new version is realised the designated controllers in the programme will be notified, and the version number will be updated including a date from when the new version is valid.

Questions or comments?

Get in touch!

Feel free to contact one of our project advisors. You can find contact details for our staff at interregnorthsea.eu.

