1. TITOLO 1

**Interreg IPA CBC Italy – Albania – Montenegro Programme**

**PROGRAMME MANUAL**

**4O RISK MANAGEMENT AND SAMPLING FOR ON-THE-SPOT VERIFICATIONS**

**Current version:** Version 1B

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1. **Risk analysis**

The following risk analysis, carried out by the Unit office of the Managing Authority responsible for sampling procedure and quality review, as described in paragraph 2.2.2 of the MCSD , is the basis for the sampling of the operations to be subject to on-the-spot checks, which will be carried out by the first level controllers (in Italy, Albania and Montenegro), on the basis of a checklist provided by the MA / JS, enclosed in Annex 1. This sample is extrapolated according to Article 23 (4) of Regulation (EU) no. 1299/2013 and Article 125, paragraph 6 of Reg. (EU) no. 1303/2013.

In order to be able to define the sample, the Managing Authority carries out the following risk analysis on the certificates of the individual operations, which constitute the reference universe, identifying the risk factors related to the "type of Beneficiaries and operations involved", as required by the Regulation (EU) n. 1303/2013 (Article 125, paragraph 5).

This risk analysis will determine a stratification of the universe to be sampled according to the level of risk, i.e. the HIGH, MEDIUM and LOW risk for the layer. The higher the level of risk for the layer, the greater the sample size to be extracted. Therefore the following dimensions are foreseen:

1. layers characterized by a high level of risk: extraction of a sample equal to at least 30% of the layer;
2. layers characterized by a medium level of risk: extraction of a sample equal to at least 20% of the layer;
3. layers characterized by a low risk level: extraction of a sample equal to at least 10% of the layer.

Risk analysis takes place in two phases: the first phase (phase A) consists in processing the information available to the Managing Authority, which is recorded in the eMS information system, as specified in the table enclosed in Annex 2, while in the second phase (phase B) the analysis carried out in phase A is completed with the implementation of the sampling plan.

**A) Risk analysis based on information recorded in the eMS**

In accordance with internationally recognized audit standards, risk analysis is mainly based on the assessment of following components:

* IR (inherent risk or intrinsic risk), which represents the risk of irregularity connected to the intrinsic characteristics of operations, such as organizational complexity, type of Beneficiary, etc .;
* CR (control risk or internal control risk), which represents the risk that the controls performed by the same body responsible for the operations (and therefore the self-checks of the Beneficiary) are not effective in detecting significant irregularities or errors.

**Inherent Risk (IR)** is assessed in relation to the following variables:

1. type of Beneficiary: the risk is related to the public or private nature of the Beneficiary and, therefore, either to the unavailability or not to public or structured control systems, and to the degree of solvency and ability to return the contribution in case of bankruptcy. The risk values ​​associated with the type of Beneficiary may therefore be as follows:

|  |  |  |
| --- | --- | --- |
| **Beneficiary typology** | **Risk level** | **Points** |
| Public authorities involved in the implementation of the Programme, i.e. national ministries departments, departments of the regional administrations or equivalent, Public bodies other than public authorities involved in the implementation of the Programme, i.e. small municipalities or equivalent. | low | 1 |
| Private beneficiary, i.e. non-profit organisation and private body governed by public law. | high | 2 |

2. number of co-funded operations held by an individual Beneficiary: the level of risk of a Beneficiary is also related to the number of operations held within the Programme. Therefore, the risk values connected to the number of operations owned by an individual Beneficiary can be as follows:

|  |  |  |
| --- | --- | --- |
| **Number of operations** | **Risk level** | **Points** |
| 1 or 2 operations per beneficiary | low | 1 |
| 3 or 4 operations per beneficiary | medium | 2 |
| More than 4 operations per beneficiary | high | 3 |

3. budget of the operation with reference to the individual beneficiary: an expense related to a high amount operation corresponds to a higher risk factor than a lower amount:

|  |  |  |
| --- | --- | --- |
| **Operation Budget related to one beneficiary** | **Risk level** | **Points** |
| Up to € 100.000 | low | 1 |
| From € 100.000 to € 199.999 | medium | 2 |
| Above € 200.000 | high | 3 |

4. implementation typology: the level of risk is assessed on the basis of the nature of the expenses reported and the methods of awards, i.e. compliance with the public procurement rules. On the basis of an analysis of the average amounts of the projects financed within the first call, which indicate the probability of including public procurement procedures above the public procurement thresholds, the risk is calculated according to the probability that public procurement errors occur, especially in case of higher amounts, for which more complex procurement procedures are necessary, and the impact on the Programme budget that these procurement errors may have as follows:

|  |  |  |
| --- | --- | --- |
| **Nature of the expenses** | **Risk level** | **Points** |
| Partners with budget in the "External expert" budget line below or equal to 40.000 and Partners with total budget in the 3 budget lines, "External expert" + "equipment" + "works" below or equal to 50.000 | low | 1 |
| Partners with budget in the "External expert" budget line from 40.000,01 to 80.000 and  Partners with total budget in the 3 budget lines, "External expert" + " equipment " + "works" from 50.000,01 to 100.000 | medium | 2 |
| Partners with budget in the "External expert" budget line exceeding or equal to 80.000,01  and Partners with total budget in the 3 budget lines, "External expert" + “equipment” + "works" exceeding or equal to 100.000,01 | high | 3 |

In case of partners not belonging to one of the above mentioned cases, the risk level will be automatically associated with the total budget in the 3 budget lines, "External expert" + "Equipment " + "Works".

For the **Control Risk (CR),** related to the effectiveness of self-control carried out by the Beneficiaries on the expenditure subject to the contribution, the risk factor must be correlated at least to the financial impact of unacceptable expenditure recognized in the context of the first level controls on-desk.

The risk analysis will be based on the results of the previous controls in order to concentrate firstly the levels of control on the operations that showed substantial criticalities detected. The outcome of the controls already concluded at the date of the sampling, with the final report and carried out by the Audit Authority and by the Audit Services of the European Commission will also be considered.

Should there be a difference between judgments in different levels of control, the relative score for the results of the higher level controls will be considered absorbent compared to those of a lower level. The table shows the scores associated with the different levels of risk:

|  |  |  |
| --- | --- | --- |
| **Previous controls outcomes** | **Risk level** | **Points** |
| Regular expenditure or total deducted expenditure per partner below or equal to 2,00% | low | 1 |
| Regular expenditure or total deducted expenditure per partner from 2,01% to 9,99% | medium | 2 |
| Irregular expenditure or total deducted expenditure per partner equal to or above 10,00% | high | 3 |

On the basis of the total values ​​assigned for each type of risk, the placement of each operation is determined in one of the three following layers:

|  |  |  |
| --- | --- | --- |
| **Total points** | **Risk level** | **Sample** |
| Value = 5 | low | 10% of the layer |
| Value from 6 to 10 | medium | 20% of the layer |
| Value from 11 to 14 | high | 30% of the layer |

**B) Sampling**

The Unit Office of the Managing Authority responsible for sampling procedure and quality review, on the basis of the data available in the eMS system referred to the certified expenditure, proceeds twice a year to the sampling through a stratification procedure based on a risk analysis carried out for all certified expenditures, in all Axes of the Programme.

The completion of on-the-spot checks is scheduled for the following dates:

* + 31 July year for operations sampled on certified expenditure by December year n-1;
  + 31 October year n for the sampled operations on certified expenditure by July year n.

In any case, checks on certified expenditure must be completed before sending the Audit Authority to the accounts referred to in art. 137, par. 1, of the Reg. (UE) n. 1303/2013. This choice was made to allow the completion of the checks in time for the preparation of the documentation required by the annual closure of the accounts.

The Unit Office of the Managing Authority responsible for sampling procedure and quality review preserves the documentation that describes and justifies the sampling method and the recording of the sampled operations. The variables and risk type will be reviewed annually on the basis of varying situations, the number of projects that are part of the identified population stratification and the concrete experience connected to the results of the checks carried out in the previous years.

The extent and frequency of on-the-spot checks by the first level controllers will take into account the overall level of risk, depending on the nature of the beneficiary, the number of operations financed by the beneficiary, the allocated budget, the type of project implementation, the results of any on-the-spot checks already carried out and the results of the fraud risk assessment. Each controller uses a specific check list within the eMS platform for a self-assessment of both the inherent risk and the risk of control.

The universe from which to extract the sample consists of the certificated expenditures of projects, i.e. the project partner report, available in the eMS system. An increase in expenditure compared to the previous historicization and whose total certified amount is equal to at least 40% of the amount granted under the Programme (i.e. the total partner budget) lead to the inclusion of the project partner report in the sample. In order to ensure that the control is carried out on well-established operations, project partner reports are excluded from the universe operations if, due to the nature of the activities included in the project partner reports, these require checks at the time of their implementation, i.e. the controller cannot detect any additional irregular expenditures on-the-spot (e.g. intangible operations and where there are few or no physical evidence of their actual implementation after completion, such as participation in fairs, realization of events of limited duration, etc.).

The extraction of the operations to be controlled within the individual layers will be random. Since the number of projects with a certified amount equal to 40% of the amount granted may not be significant during the start-up phase of the Program, for the first two sampling the percentage is reduced to 20%.

1. **Increase in the percentage of checks following irregularities detected**

In carrying out the sampling related to a specific on-the-spot verification session, the Unit Office of the Managing Authority responsible for sampling procedure and quality review, on the basis of the risk analysis carried out and taking into account the levels of irregularities registered in the previous session with reference to all Axes, possibly proceeds to an increase in the percentage of operations to be submitted to control on-the-spot.

The method of increasing the percentage of controls derives from the intersection between the percentage incidence of the number of irregular operations and the seriousness of irregularities detected for all Axes. The latter is the ratio between the sum of the economic values relating to the irregularities detected during the first level checks on-the-spot and the sum of the amounts reported in the eMS system being verified.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Severity of the irregularities \*** | | | |
| **Irregular operations**  **rate\*\*** | **Very low**  **(≤ 3%)** | **Low**  **(> 3%, ≤ 20%)** | **Medium**  **(> 20%, ≤ 50%)** | **High**  **(> 50%)** |
| **Low ≤ 30%** | **Fixed percentage** | **Fixed percentage** | **Fixed percentage X 1,25** | **Fixed percentage X 1,50** |
| **Medium > 30%, ≤ 60%** | **Fixed percentage** | **Fixed percentage X 1,25** | **Fixed percentage X 1,50** | **Fixed percentage X 1,75** |
| **High > 60%** | **Fixed percentage X 1,25** | **Fixed percentage X 1,50** | **Fixed percentage X 1,75** | **Fixed percentage X 2,00** |

*\* Ratio between the sum of the economic values related to the irregularities detected during the on-site level I checks and the sum of the amounts reported in the eMS system being verified.*

*\*\* Ratio between the number of controlled operations with irregularities and the total number of operations audited.*

Any increase in the percentage of controls will be applied to all the sampling layers. The percentage can be brought back to its initial value if, at the end of the checks relative to the incremented sample, irregularities are not found such, due to their number and seriousness, to determine the application of the coefficients referred to in the previous matrix.

In order to reduce the administrative burdens on well-performing beneficiaries, the reports related to a well-performing beneficiary, i.e. who was controlled on-the-spot without any finding in the previous reporting period, shall be excluded from the sample in the first subsequent sampling period. The same beneficiary may be subject to on-the-spot verifications again in the second subsequent sampling period. In order to ensure wide coverage of the on-the-spot verifications, at the fore-last reporting period the Managing Authority may request controllers to perform on-the-spot verifications at beneficiaries, who have not been subject to any on-the-spot verification.

Thematic projects, for which a higher risk is based on the higher budget, shall be subject to at least two on-the-spot verifications, even in case the specific project partner’s report has not been sampled, while applying this sampling methodology. Small scale projects of the targeted call are excluded from this sampling, because they are based on a different sampling methodology as explained in the call.

1. **Purpose and frequency of on-the-spot verifications**

In the Interreg IPA CBC Italy-Albania-Montenegro, on-the-spot visits have different typologies:

1**) On-the-spot visits by the MA-JS:** These focus on the overall progress of the project, the results achieved, the existence of project outputs and the consistency with the approved project application. This is done at least once in the project life cycle for all projects (100%), addressed to the project lead partner, therefore at its premises or where the main outputs of the project may be verified, as well as at an advanced stage of project implementation, i.e. third or fourth project report for the first call for standard projects. This may be carried out together or separately with an on-the-spot verification by the national controllers.

Where specific deficiencies in project implementation arise, such as a substantial delay in project implementation or requests of major changes in the project, the MA-JS reserve the right to carry out additional on-the-spot visits together with or in addition to national controllers.

2**) On-the-spot verifications by the national controllers:** These are done on the basis of this sampling methodology.

**3) On-the-spot verifications carried out by National Controllers,** according to a check list provided by the MA/JS enclosed in Annex 1 and a sample extrapolated by the MA on a sample basis in accordance with Article 23 (4) of Regulation (EU) No. 1299/2013 and Article 125 (6) of Reg. (EU) No. 1303/2013.

In accordance with the Management and Control System Description, each State is responsible for the checks carried out in its territory and carried out by the respective controllers identified according to the procedures described in the paragraph 2.2.3.6 of MCSD.

For this reason, Managing Authority will proceed to communicate to National Authorities in Albania and Montenegro the sampled projects and the on the spot verification to be completed.

On-the-spot verifications focus on:

1. verification of the existence of operation and of beneficiary selected (with private beneficiaries);
2. verification of subsistence, at the headquarter of the beneficiary, of all original administrative and accounting documents (including supporting documentation), as required by EU and national legislation, the programme, to be available on-the-spot, according to a consistent archiving method;
3. verification of subsistence at the head office of the beneficiary of a separate accounting system or a proper accounting coding for all operations carried out within the framework of the co-financed project;
4. verification of the timely progress or, where appropriate, completion of the project, in line with the documentation submitted by the beneficiary through the report;
5. verification of the conformity of the works, goods or services subject to co-financing under EU and national legislation, the programme, the procurement and contract;
6. verification of the compliance of the operation with procurement and state aid rules, as well as obligations regarding sustainable development, equal opportunities and non-discrimination;
7. verifying the reliability of the data collection, retention and quality system and the correctness of the data reported by the beneficiaries in relation to the programme indicators.

From a procedural point of view, on-the-spot verification must be carried out at the headquarter of the beneficiary within the deadlines set by the MA with a specific notice sent to the sample of selected beneficiaries (see Annex 3 standard template) and their respective controllers and for knowledge of lead partners. The controller is required to send in a timely manner to the beneficiary and to MA a notice about the exact date and time of the visit and the list of the documentation to be produced on that occasion for verification. At the end of verification, the controller has to complete a Report of the verification (Annex 4 template), with the list of participants attached. In any moment, MA reserves the right to accompany the controllers, in order to perform the MA/JS on-the-spot verification as specified.