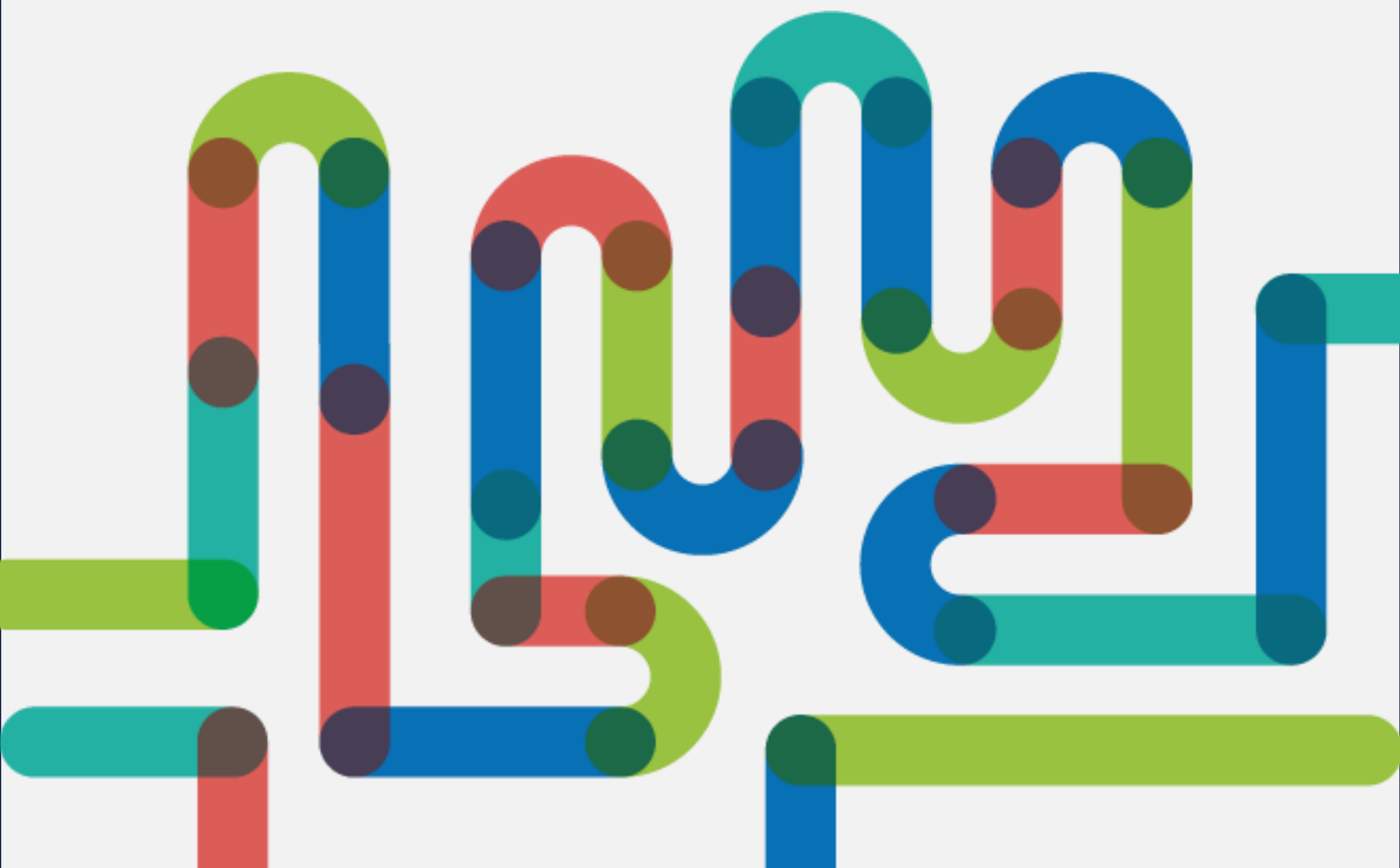


INTERREG VI-A ITALY-SLOVENIA 2021-2027

Programme risk-based management verifications methodology

AUGUST 2024



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ABBREVIATION

MV	Management verification
ADMV	Administrative verifications
OTSV	On-the-spot verifications
ONLY	Online verifications
CTRL	Control
CPR	Common Provisions Regulation
ETC	European Territorial Cooperation
ERDF	European Regional Development Funds
COM	European Commission
MA	Managing Authority
MC	Monitoring Committee
NA	National Authority
JS	Joint Secretariat
AA	Audit Authority

EU legal framework

Title	Year
(EU) 2021/1058 — on the European Regional Development Fund and the Cohesion Fund	June 2021
(EU) 2021/1059 (ETC) — on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments	June 2021
(EU) 2021/1060 (CPR) — common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime	June 2021
EGESIF_14-0012_02 final — Guidance for the Member States on Management verifications (programming period 2014-2020)	Sept 2015
EGESIF_14-0017 — Guidance on Simplified Cost Options (SCOs): Flat rates, Standard scales of unit costs, lump sums	Sept 2014
EGESIF 15-0008-05 — Guidance for the Member States on the Drawing of Management Declaration and Annual Summary – and the Annex 2 — typology of findings from management verifications (programming period 2014-2020)	August 2015 Revision 2018
Guidance on public procurement – on avoiding the most common errors in projects funded by the European Structural and Investment Funds	Revision 2018
C(2019) 3452 final – Commission decision and the annex laying down the guidelines for determining financial corrections for non-compliance with the rules on public procurement	Revision 2019

Regulatory references

The MA has the overall responsibility for management verifications, carrying out verification of the expenditures incurred and paid by the beneficiary.

Regulation (EU) 2021/1058 — on the European Regional Development Fund and the Cohesion Fund

Regulation (EU) 2021/1059 (ETC) — on specific provisions for the European territorial cooperation goal (Interreg)

Regulation (EU) 2021/1060 (CPR) — common provisions on the European Regional Development Fund

Article 46, ETC – Function of the MA

Article 72, CPR – Function of the MA

Article 37, ETC – Rules on the eligibility of expenditure

Article 63, CPR – Eligibility

Article 64, CPR – Non-eligible costs

Article 38, ETC – General provisions on the eligibility of cost categories

Article 39, ETC – Staff costs

Article 40, ETC – Office and administrative

Article 41, ETC – Travel and accommodation

Article 42, ETC – External expertise and services

Article 43, ETC – Equipment

Article 44, ETC – Infrastructure and works

Article 69, CPR – Responsibilities of MSs

Article 74, CPR – Management verifications

Article 81, CPR – Management verifications and audits of financial instruments

Article 82, CPR – Availability of documents

1. Legal basis and rationale for a programme-wide risk-based methodology for management verifications

This methodology is designed to be proportionate to the risks (with a particular focus on staff costs and public procurements) and easy to understand and implement for controllers. In the MCSD, the MA states that the methodology generally provides an outline of its assessment and main addresses, while the technical specifications are delegated to the national controllers who detail the methodology in their National Controllers' Manuals.

In accordance with article 62 of Regulation (EU) 2021/1060, *“to ensure an appropriate balance between the effective and efficient implementation of the Funds and the related administrative costs and burdens, the frequency, scope and coverage of management verifications should be based on a risk assessment that takes into account factors such as the number, type, size and content of operations implemented, the beneficiaries as well as the level of the risk identified by previous management verifications and audits. Management verifications should be proportionate to the risks resulting from that risk assessment and audits should be proportionate to the level of risk to the budget of the Union”*.

Moreover, according to article 74 (2) of the same regulation, *“management verification (...) shall be risk-based and proportionate to the risks identified ex ante and in writing.”*

Finally, in its Reflection note, the EC states that *“each MA is responsible for developing and implementing its methodology... and considering the relevant aspects of the OPs and the specific context in which these are implemented.”*

Interreg Italy - Slovenia is a programme financing partners coming from 2 Members States. The rules and requirements regarding the type of partners, activities and expenditure financed are set at programme level and are therefore the same for both countries. Moreover, in case of audit findings, they are projected across the project partnership and programme as a whole, without any particular reasoning by Partner State. It is thus possible and even necessary to assess the risks at

programme level. Therefore, in order to harmonize and guarantee equal treatment, a methodology at programme level was deemed more relevant than having methodologies developed at Partner State level.

This methodology is included in the management and control system description (MCSD) of the programme (as its annex).

2. Validity and updating of the Methodology

The Managing Authority is responsible for the development and implementation of its own methodology based on a risk management assessment. The relevant and innovative aspects of the 2021-2027 programming period and the specific context in which Programme's specific objectives are implemented are taken into account when preparing the methodological sampling document.

The risks shall be periodically reassessed by the programme based on controller's corrections and audit results. For the first time, this risk re-assessment will take place, if necessary, after the first reporting period.

The methodology will be updated when needed, or when National controllers detect the requirement, and based on the revised risk assessment at the annual anti-fraud working group meetings, to reinforce the controls or further reduce them depending on the level of risks.

Regardless of the provisions of the methodological document, in case major problems are detected (notably through second level audits, system audits or other checks/audits) or in case of external factors affecting the risks, the methodology will be revised immediately without waiting for the periodic re-assessment of the risks.

The Monitoring Committee and the Audit Authority will be informed about the re-assessment of the risks and updates of the methodology.

3. Process

To reach the goal of an efficient, proportionate, and risk-based management verification methodology the programme has decided to structure the process as follows:

- Participation in INTERACT workshop on Risk-based management verifications in 2021-2027 on May 12th 2022.
- Participation in the 1st meeting of the 21-27 programming period Working Group for fraud risk analysis in Trieste (MA/JS/National controllers ITA and SI/Accounting function unit of FVG Region) on December 14th 2022.
- Participation in the 2nd meeting of the 21-27 programming period Working Group for fraud risk analysis in Ljubljana (MA/JS/National controllers ITA and SI/Accounting function unit of FVG Region) on April 5th 2023.
- Exchange with other programmes of the INTERACT workshop documentation on risk-based management verifications methodology.
- Participation in INTERACT Controllers workshop in Sofia (Bulgaria) on May 16th -17th 2023.
- Participation in an internal meeting in virtual mode between MA/JS staff and Italian National controllers on May 18th 2023.
- Participation in the 3rd meeting of the 21-27 programming period Working Group for fraud risk analysis in Trieste (MA/JS/National controllers ITA and SI/Accounting function unit of FVG Region) on June 7th 2023.
- Risk assessment specific to Interreg VI-A Italy-Slovenia 2021-2027 cooperation programme carried out by the MA with the support of JS and of the National controllers: analysis of the errors detected by controllers and second level auditors on all expenditure reported to the programme until April 2023 by partners financed under the 2014-2020 programme.
- Presentation and discussion of risk assessment and draft methodology to national controllers in June 2023.
- Collection of feedback from centralised controllers.
- Final draft of the methodology on June 2023.

- Information to the Monitoring Committee and to the audit authority about the process and the methodology.¹

4. Risk-based assessment

The risk-based assessment is undertaken by estimating the quantitative and severity of the risk related to a specific situation. The overall basis of the risk assessment is the project partner claims and the errors detected by controllers as they were reported in the programme online system for the period 2014-2020 up to April 2023. Generally, the different analyses found that during the 2014-2020 programming period, no errors above 2% were detected, nor the need to submit OLAF files to the European Commission.

IT-SI Risk-based Management Verification is based on sampling checks on two levels:

- 1) *Sampling at Programme level* - how many and which reports to check
- 2) *Sampling per project partner at report level* (all the first and last/final reports will be checked) on the basis of the following items:
 - Beneficiary (Public - Private)
 - Area of origin (from Italy/Slovenia programme Area)
 - Amount of the expenditure
 - Cost categories
 - Procurement procedures

4.1. Data used for the risk assessment

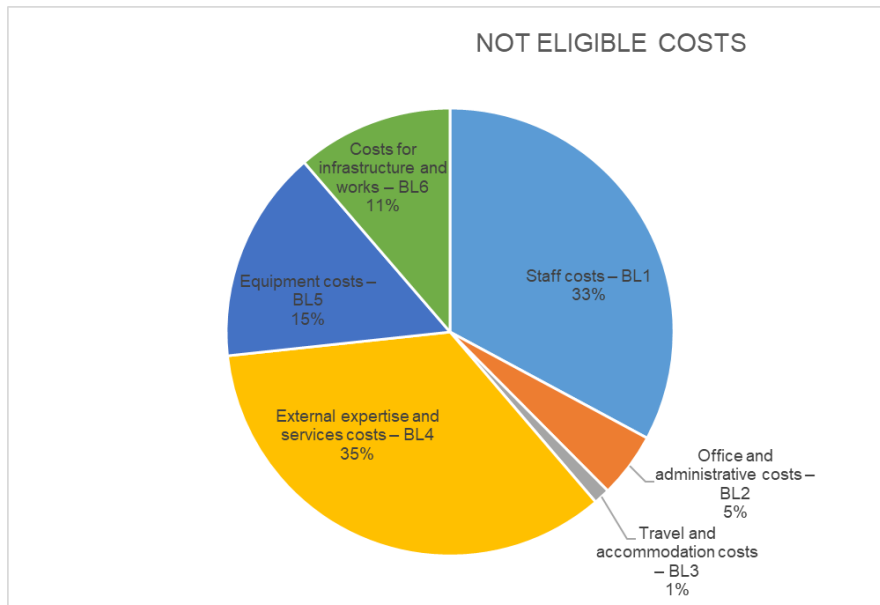
To identify where the risks lie, in April 2023 the Interreg VI-A Italy-Slovenia 2021-2027 cooperation programme used the data from the online monitoring system submitted from 2019-2022². According to art. 74 (1) letter a) of CPR and art. 46 of Interreg Regulation, the data included the collected figures related to awarding procedures, infrastructures, etc. extrapolated from data warehouse (extractions of data per cost categories). The MA/JS made a list of the typology of

¹ Guidance on the risk-based management verifications for 2021-2027 and HIT methodology and Risk based management verifications Article 74 (2) CPR 2021-20271 - REFLECTION PAPER.

² Dates of the beneficiaries reports of the 14-20 programming period.

expenditures in order to verify the dimension per each cost category and identify the main expenditure typology reported by beneficiaries.

Table 1: not eligible costs



Moreover, the analysis included also the verification of the incidence of errors of beneficiaries on costs category, especially on staff costs and external expertise/services and between public and private beneficiaries divided per area of origin (Italy and Slovenia).

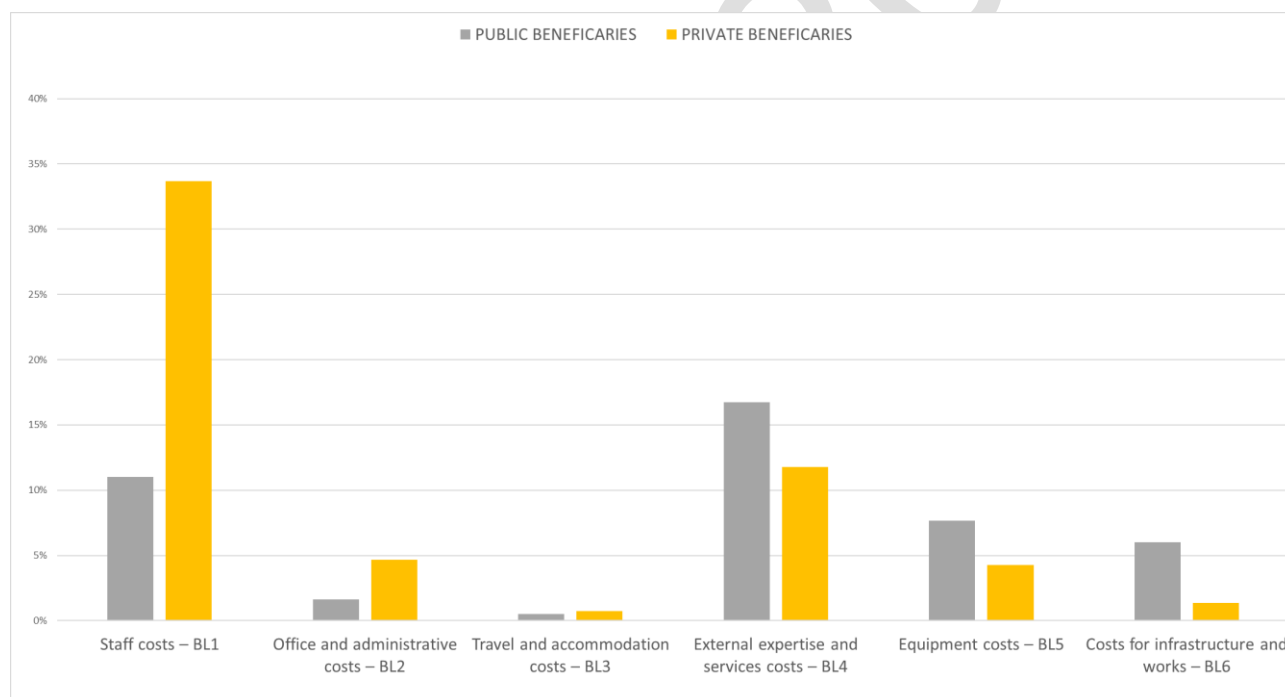
The purpose has been to find the sampling percentage for administrative and on-the-spot checks and put in writing the Programme sampling methodology.

Also errors detected during the second level audits have been taken into consideration as well as the evaluation of the following items checked in 14-20 programming

period as listed in the Annex 1 to the Programme “Self-assessment and Action Plan for the internal control system” document:

- Conflicts of interest
- False declarations
- Double funding
- Tendering process not in compliance with relevant legal framework (intentionally)
- Lack of compulsory tendering process
- Manipulation of expenditure reports and false costs
- False labour costs
- Costs claimed for inadequately qualified labour
- Not correct application of the rules of the Manual of eligibility of expenditure
- Lack of reporting of irregularities (intentionally).

Table 2: public/private bodies not eligible costs percentage (data compared to the percentage of PU/PRI Bodies)



The resulting risk criteria were assessed as follows:

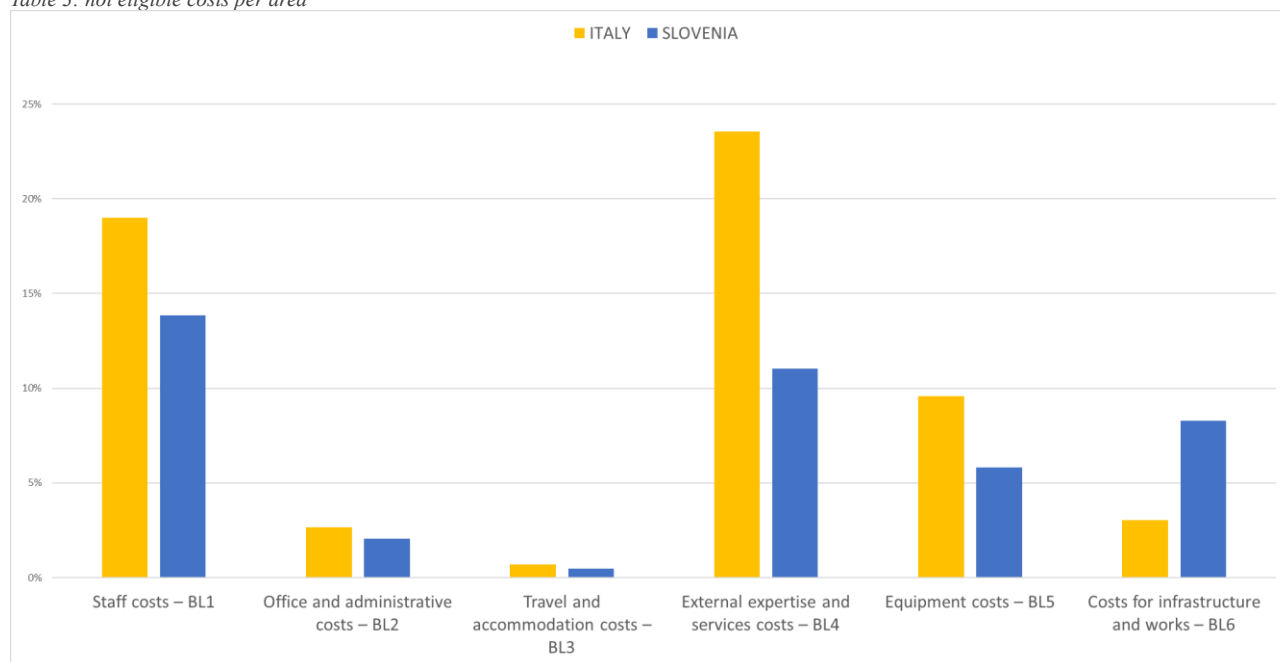
- Are private partners riskier than public ones?
- Is there a difference depending on the typology of call (standard, strategic)?
- Is there a difference depending on the area of origin of the beneficiary (ITA/SI)?
- Is there a difference between report numbers? (eg. Is the risk of errors higher in the first report?)
- Which are the riskiest cost categories?
- Which are the expenditure categories with the largest amounts/budget?

- Which type of errors are the most common ones?

The risk analysis also assessed:

- whether desk-based/administrative or on-the-spot checks detected more errors.

Table 3: not eligible costs per area



4.2. Results of the risk assessment

The risk assessment for the 2014-2020 programming period confirmed that the risks are much more linked to the reported expenditure (especially the ones submitted in the first and last reporting periods) rather than the type of partner, area or the topic of projects' call (see summary of the results below and further detailed in Annex 1). Even if public partners recorded more errors than the private ones, a risk assessment at the selection stage based on criteria linked to the type of partners or type of project is not relevant, also considering that the type of activities and budgeted costs in Interreg Italy-Slovenia are similar for all projects.

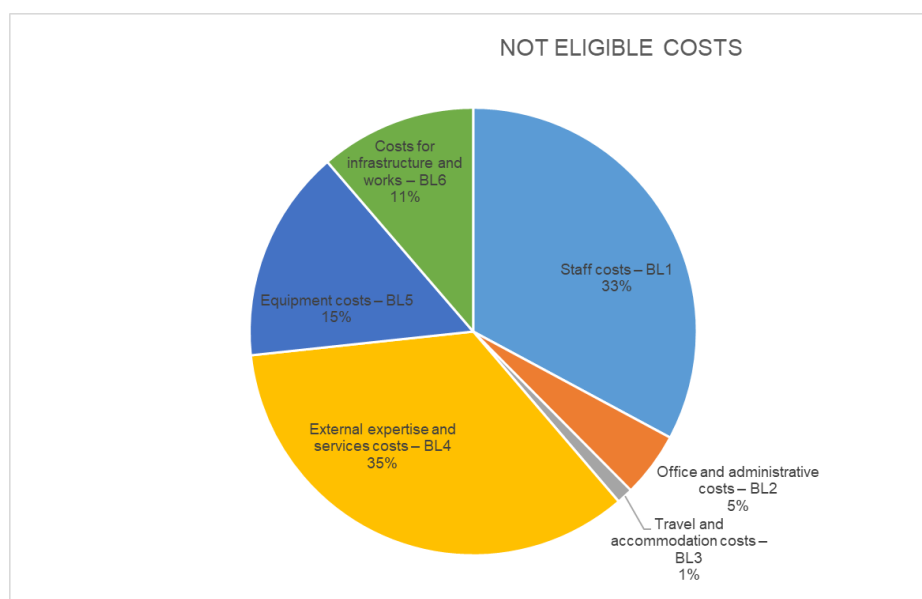
The assessment concluded that **the risk of errors lies with certain cost categories** (staff costs, external expertise and services), and **certain type of errors** (miscalculation, public procurement, audit trail), especially in the **first reporting period**. On the contrary, the risks are very low for other costs categories (eg. Equipment) and other types of errors (eg. double-funding), also according to audit checks results.

Risk Assessed	Result
Are private partners riskier than public ones?	No statistical impact on error rate
Is there a difference depending on the typology of call (standard, strategic)?	No statistical impact on error rate
Is there a difference depending on the area of origin of the beneficiary (ITA/SI)?	No statistical impact on error rate
Is there a difference between different report numbers? (eg. Is the risk of errors higher in the first report?)	First reports

Which are the riskiest cost categories?	Staff, external expertise
Which are the expenditure categories with the largest amounts/budget?	Staff, external expertise
Which type of errors are the most common ones?	Miscalculation, public procurement, audit trail
Which one detected more errors between desk-based/administrative or on-the-spot checks?	Desk-based/administrative checks

August 2024

Table 4: summary of not eligible costs



5. Methodology and Scope of verifications

Verifications under Article 74 (2) common provision regulation comprise two key elements:

- ❖ Administrative verifications (i.e., desk-based) regarding each application for reimbursement by beneficiaries and
- ❖ On-the-spot verifications of operations. Controllers shall ensure that project outcomes have been delivered and paid out in compliance with the programme's requirements and relevant Regulations — EU and national, and specific national legislation (i.e., public procurement rules).

Administrative verifications must be carried out to control the expenditures reported by beneficiaries and the relevant supporting documentation.

On-the-spot verifications must be carried out to control delivery of the co-financed services, supplies and works, and aspects that cannot be observed during administrative verifications.

The novelty for 2021 – 2027 is that management verification is risk-based performed and proportionate to risks identified ex-ante and in writing.³

In order to address the main risks faced by the programme over the previous programming periods (staff, external expertise, miscalculation, public procurement, audit trail), several mitigation measures have been implemented for the 2021-2027 period.

5.1 Extended use of simplified cost options

In the previous programme a preparation cost lump sum as well as a flat rate for office costs were used as simplified costs options (SCOs). For the 2021-2027 programme it was decided to keep different SCOs per each cost category. With specific reference to the Regulation (EU) 2021/1060, point 42 provides that as regards grants provided to beneficiaries, Programme should make greater use of SCOs in order to reduce administrative burdens. The purpose of introducing SCOs in the Interreg VI-A Italy-Slovenia Programme is therefore to support beneficiaries and reduce the administrative

³ Reference document — EGESIF_14-0012_02 final, Guidance for the Member States on Management verifications (programming period 2014-2020)

burden in the reporting phase both by the beneficiaries and in the framework of the administrative and on-the-spot controls.

5.2 Simplification of the reporting of staff costs

To reduce the risk of miscalculation when reporting staff costs, staff costs calculations options have been reduced to the following methods according to art. 55 of Regulation (EU) No 2021/1060) - and to art. 39, par. 1 letter b) of Regulation (EU) 2021/1059 - and to art. 53 of Regulation (EU) No 2021/1060) for the standard unit costs:

- real costs based on fixed percentage;
- flat rate of 20% of direct costs (BL4, BL5 and BL6) other than staff costs;
- standard unit costs.

5.3 Simplification of the reporting of external expertise and services costs

To reduce the risk of miscalculation when reporting External expertise and services costs, a beneficiary can be reimbursed on the basis of one of the following two options, according to Article 42, of Regulation (EU) 2021/1059:

- real costs
- within flat rate of up to 40% of eligible direct staff costs.

As a final result, less controls will be carried out where Simplified Cost Options will be applied.

5.4 SPF – Small Project Fund Operation

Projects of limited financial volume, or 'small-scale projects', are foreseen for the Italy-Slovenia Interreg 2021-2027 Programme as a tool that contributes to Programme objectives' achievement and helps overcoming cross-border obstacles to cooperation by building trust between citizens and institutions, raising awareness, promoting mutual understanding and networking.

The Programme is planning to implement them by supporting projects of limited financial volume according to art. 24 (1.a) of the Interreg Regulation.

The European Capital of Culture 2025 Nova Gorica - Gorizia aims at creating and implementing a programme of events highlighting the richness of culture, shared heritage and history and bringing benefits to local communities. The Interreg Italy-Slovenia 2021-2027 Programme will support the ECoC 2025 through the Small Project Fund. The EGTC GO will manage the implementation of the fund as a sole beneficiary via open calls and simplified application procedures. According to Art. 25 (4) of the Interreg Regulation, *"The selection of small projects shall not constitute a delegation of tasks by the managing authority to an intermediate body, as referred to in Article 71(3) of Regulation (EU) 2021/1060"*. Within the Small Project Fund, a bottom-up approach for selecting the new project proposals will be carried out in order to finance projects that will contribute to the achievement of the Programme goals and will fit the Specific Objective 4.6: *Enhancing the role of culture and sustainable tourism in economic development, social inclusion and social innovation*. *An annual call for projects is foreseen starting from 2022*". 2 types of projects are expected:

- short projects with a maximum duration of twelve months and the budget within 30.000 € and 50.000 €;
- long projects exceeding twelve months' duration, but end within 24 months. The allocation is up to 200.000 €.

The Small Project Fund will apply simplified cost options as defined by the Art. 25 (6) of the Interreg regulation for the projects that do not exceed EUR 100.000. The EGTC GO will also support the use of simplified cost options for projects with greater budget. The SCOs will be determined and selected at the Programme level.

The MA considers that the implementation of the specific objective SO4.6 and, specifically, of the operation SPF - Small Projects Fund, represents a high risk due to its newly defined contents.

On the basis of the risk analysis carried out, the MA has concluded that the methodology must take into account the risk factors linked to the verification of the management of the Small Projects Fund, foreseeing, at Programme level, a specific sampling by the Italian national controllers on the Sole Beneficiary, according to the legal status of the EGTC-GO, aimed at carrying out the quality checks with the EGTC-GO in order to verify how Sole Beneficiary performs controls on final

recipients of the Fund. Such quality checks could be also performed with the support of Slovene national controllers when required, in case by case basis.

The methodology foresees to carry out checks at Programme level on the first and final reports of EGCT- GO as Sole Beneficiary, and at least one interim report per year, as well as at least one on-the-spot checks.

5.5 Specific focus on prevention and trainings

Independently from the system chosen for the risk-based sampling, the programme will provide training and guidance for projects to reduce the risk of errors when reporting costs to the controllers. In particular:

- ❖ The staff costs reporting requirements are clearly explained to project partners in the Programme manual on eligibility of expenditures for approved projects to reduce the risk of errors in staff costs and related flat rates.
- ❖ The office and administrative costs can be reimbursed on the basis of one of the following two options: a flat rate of 15% of eligible direct staff costs or within a flat rate of up to 40% of eligible direct staff costs.
- ❖ Travel and accommodation costs of a beneficiary can be reimbursed on the basis of one of the following two options: 4% of eligible staff costs or a flat rate of up to 40% of eligible direct staff costs.
- ❖ Public procurement principles and related risks identified by controllers and audits will be clearly explained in programme seminars/webinars organised for approved projects.
- ❖ All the documents needed for the verification of costs will be uploaded to the programme informative system (JEMS) by the partners. This will further facilitate the work of controllers and auditors and reduce the risk of errors/findings linked to audit trail.

5.6 Monitoring of progress reports by the Joint Secretariat

Once the report has been confirmed by the controller and included in a progress report by the lead partner, the monitoring of the progress report is done by the Joint Secretariat. The JS officers' verifications focus mainly on checking the link between the activities and costs reported, the compliance with the budget flexibility rule and justification for under/overspending, and this for each progress report submitted to the programme. The JS then confirms that the progress report can be considered complete and the Managing Authority signs the statement of expenditure.

5.7 Extension of the verifications by the controller

In addition to the expenditure items included in the sample generated by JEMS system based on errors detected and also on his/her professional judgement, the controller can decide to extend the sample to additional items (e.g. in case of doubts about some items or about the partner, in case of suspicion of fraud). In such case, an explanation should be provided in the report. If the controllers detect any error during their check of the sample, the sample should be extended. Using their professional judgement, the controllers can extend the sample to similar types of expenditure, to the whole cost category concerned, until arriving at the 100% of the list of expenditure. In case of errors detected in the sample, controllers must extend the verification (see chapter 7.2).

6. Types of verifications

6.1 Administrative verifications

Administrative verification, also known as desk-based verifications, are the control checks the controllers undertake on the documentation of each claim for reimbursement in their own offices. The control must be carried out for any

intermediate or final claim for reimbursement submitted by beneficiaries to control the expenditures reported and relevant supporting documentation.

Controllers can complete administrative verifications regularly over the cost categories chosen i.e. budget lines for:

- Staff costs
- external expertise and services costs.

Thus, verifications are undertaken through the inspection of documents and records. In simple terms, it is the reading and understanding of any relevant document, provided in electronic form or print out of an electronic record.

Once the administrative verifications are done, controllers prepare the on-the-spot verifications while increasing the control for the uncertain expenditure items and risky areas only — and outcomes that require specific control (i.e., publicity and visibility perspective); typical actions for on-the-spot verifications, interviews, and walk-throughs.

Online verifications — an innovative tool for verifications

Online verifications, complementing the administrative and on the spot verification, represent an innovative option to reduce the time, human, and financial resources for control. Besides the added value of the online verifications (by reducing the resources involved and shorter the time allocated for control), the advantages of using these online verifications have been considered to enhance and provide quality control and complete the work done with administrative/on-the-spot verifications.

6.2 On-the-spot verifications

On-the-spot verifications facilitate checks on the reality of the equipment or works delivered, the physical implementation of the project and compliance with publicity requirements. On-the-spot-checks may also be useful to verify the good functioning of internal processes, notably in case of doubts about the partner's understanding of requirements, issues with the reporting, or suspicion of fraud for example.

On-the-spot verifications have mainly an added value in practice, for projects for which there is a physical implementation to check (i.e., projects with pilot action equipment/or infrastructure).

Furthermore, the above risk-analysis shows that in the context of Interreg V-A Italy-Slovenia 14-20 programming period, on-the-spot checks did not detect more errors than administrative checks. For this reason, it is recommended that controllers carry out on-the-spot checks once in a project lifetime and for projects with a pilot action which includes

reported equipment/infrastructure costs. This on-the-spot verification should take place once the costs related to the equipment/infrastructure costs have been reported. Based on their professional judgement, the controller can however decide to carry out an on-the-spot check for a project not reporting pilot equipment/infrastructure costs, if they deem that it has an added value for their check of suspicion of fraud, issues with the partner reporting/understanding of requirements, doubts about the proper functioning of internal processes, etc.). Finally, controller can decide to carry out on-the-spot check according to the findings of the open reports that recorded cuts and of the beneficiaries who used the flat rate of up to 40%.

In summary, as a result of the analysis above, on-the-spot check will be carried out according to the following 3 principles, as basis of the universe sample:

- on the basis of the findings of the administrative checked reports that reported financial corrections
- beneficiaries who used the flat rate of up to 40%
- reports related to equipment and infrastructure and works cost category

Yearly RANDOM control is foreseen and it will be performed in the percentage of the 30% of the total amount of the expenditure already validated during the previous accounting year.

The **Extension of Sample** is foreseen after the performance of the 30% yearly random on-the-spot check when errors or irregularities have been detected within the sample.

In case of irregularities or errors, the expenditure already submitted in Jems system shall be cut by National controllers. Only in case of errors, meaning expenditure not already submitted to the EC, beneficiary may submit again the amount deducted according to the internal decision made by controllers. The evidence of the cut expenditures will be reported in the next beneficiary's report (data related to cut expenditures of the on-the-spot check will be present in the subsequent beneficiary's report).

6.3 Technical aspects

The sample will be drawn by JEMS system based on the items included in the list of expenditure by the project partner. All supporting documents will be uploaded by the partners to the IT system. on for extension should be documented in the control report.

7. Interreg VI-A Italy Slovenia 2021-2027 programme strategy of the Methodology

Based on the results of the risk assessment and the results/recommendations from the Audit Authority, the MA developed the following strategy the national controllers have to follow applying the methodology of Interreg VI-A Italy - Slovenia 2021-2027 Programme, which foresees 2 sampling levels:

1. **Check at Programme level** - how many and which reports to check (data extrapolated from Jems):
 - ❖ The first 100 reports with reported expenditures received in the reporting phases will be checked.
 - ❖ In the following phases RBMV will be revised on the basis of the findings of the first 100 reports checked. Methodology will be revised consequently.
2. **Sampling per project partner at report level** - National controllers have to respect the following indications to check the 100 reports chosen for the sampling at Programme level according to the following items:
 - ❖ Cost categories (up to 5 per each items reported for Staff costs and external expertise cost categories).
 - ❖ Procurement procedures (at least 3 procurements procedures, giving priority to those whose amount is above 10,000.00 euro).
 - ❖ In case of equipment and infrastructures reported there will be the verification of the evidence of their existence.
 - ❖ Expenditures with errors detected by national controller in previous reports verifications.

- ❖ In case that individual errors or irregularities are discovered during the control of the sample, as a result of which a financial correction of the expenditure is carried out, it is necessary to increase the sample by 10% of all items in the category being sampled. The sample thus increases to 20% of all items of each cost category in the partner's project progress report, which are randomly selected.
 - ❖ If additional errors are discovered in the enlarged sample, a 100% administrative check is carried out for the cost category in which additional errors were found in the enlarged sample.
 - ❖ With reference to control of legal bases, namely employment contracts, annexes or decisions for work on the project, etc., must be made 100% for all employees on the project. If significant errors are found in the sample, an analysis is made to determine whether the errors have a common characteristic (among other things, type of transaction, time period, etc.), which is taken into account in further work.
3. **Sample of on-the-spot verification** - These are the minimum requirements National controllers has to follow to perform on-the-spot verification. As a result of the analysis above, on-the-spot check will be carried out according to the following 3 principles, as basis of the universe sample:
- ❖ on the basis of the findings of the administrative checked reports that reported financial corrections
 - ❖ beneficiaries who used the flat rate of up to 40%
 - ❖ reports related to equipment and infrastructure and works costs categories

Yearly RANDOM control is foreseen and it will be detailed in the national Controls' Manual.

4. **Sample checks for SPF Operation** - as defined below:
- ❖ quality check at Programme level on Sole beneficiary
 - ❖ control of the first and final report and at least one interim report per year
 - ❖ at least one on-the-spot checks.

Additional verification can be carried out also on the basis of the *professional judgment* of the National controllers, based on the quality of the expenditure reported and the quality of key items verification.

8. Revision of the Methodology

Pursuant to paragraph 2 (Validity and updating of the Methodology) and 7.1 (Check at Programme level), in view of the results of the first 100 reports received during the first reporting phase (50 for IT National Controllers and 50 for SI National Controllers), MA proposed to apply a change to the methodology used for sampling the additional reports to be checked in order to homogenise the first and second reporting periods and to allow all reports to be processed by 4/7/2024, in compliance with the regulatory deadline of 90 days set for checking the reports sent by the beneficiary (CPR 2021/1060). With mail prot. N. 376557/P/GEN dated 13.06.2024, the MA sent some operational/technical explanations to apply some integration to the Methodology for sampling beneficiaries' reports as reported in Annex 2 "INTEGRATION TO THE METHODOLOGY FOR SAMPLING BENEFICIARIES REPORTS" to the present document. The Methodology, i.e. the document, as Annex 1 to MCSD, has been amended subsequently by FVG Regional decree.

9. Changes to the sampling methodology after the first reporting period

Objective:

To develop a sampling methodology that assesses the risk associated with each report received. This assessment is based on risk analysis and determines whether a particular report has a high or low probability of containing irregularities.

Analysis:

The reports validated so far have been analysed. The data is updated at each validation. The analysis of the reports is divided into two phases:

- Phase 1 - Analysis of data at programme level

➤ Phase 2 - Data analysis at report level.

Phase 1: The Programme Level Data Analysis allows for the analysis of 2 types of factors at the level of overall historical data drawn from the sample that contribute to the determination of risk. The factors identified are as follows:

- P1: Type of error
- P2: Real cost and SUC (standard unit costs - only for Italian beneficiaries) reporting method.

Phase 2: Data Analysis at Report Level allows for the analysis of seven possible risk factors within each individual report, mostly derived from the data of Phase 1:

- R1 Actual reporting method on the basis of declared expenditure
- R2 Presence of prior PP checks
- R3 Errors/follow up previous report
- R4 Previous PP corrections
- R5 PP budget size
- R6 Budget variance
- R7 budget linked to public procurements procedures up to 10.000,00 €.

A score is associated with each Risk Factor. The sum of the risk factors determines whether a report has high risk (to be checked) - low risk (not to be checked). The flow of the analysis carried out is reported in *Annex 4_ Sampling methodology instruction*.

The calculation method is given in *Annex 3_Sample basis for sampling*, which is the basis for risk calculation for the identification of reports to be sampled. The excel file will be implemented from time to time for subsequent sampling and will be frozen at each individual sampling.

On the basis of the methodology above described, an ad hoc control certificate will be issued within JEMS system for beneficiaries' reports not part of the periodic sample.