

Management verifications in Interreg

Regulatory framework

Differences in the legislative framework between 2014-2020 and 2021-2027

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Interact



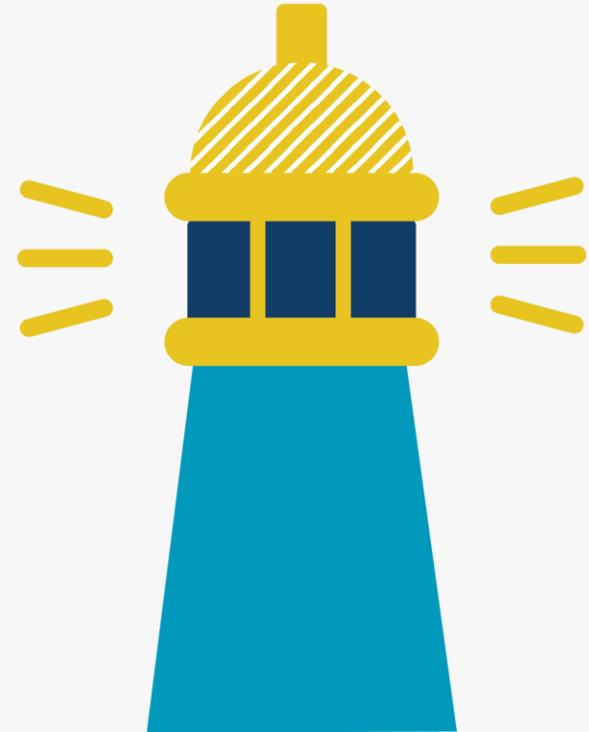
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Interreg

Management verifications in 2021-2027

what is new

Legal framework Continuation

- Continuation: CPR (incl. relevant templates/models), ERDF, ETC Regulation
- Integration for IPA/ENI; MSs, third and partner countries, oversea countries and territories (OCTs) on equal footing
- Specif component for outermost regions
- Delegated Regulation on eligibility of expenditures included
- 100% verifications remain theoretically possible; however, this only can be carried out when the level of risk would impose such an approach



Relevant Documents

- Risk based management verifications (RBMV) Reflection paper (24/05/2023)
- Methodological note for the assessment of management and control systems in the MSs (24/05/2023)



Management and control system

No designation

- Functions of the MA (Art. 46, ETC): MA carrying out management verification or MS 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*').
- Accounting function (Art. 47, CPR): responsibility of MA or other programme body, *no additional verifications at level of beneficiary*
- Management verifications at MA level (Art 74, CPR)
- Management verifications (Art 74, CPR): risk-based and proportionate to risks identified

Eligibility

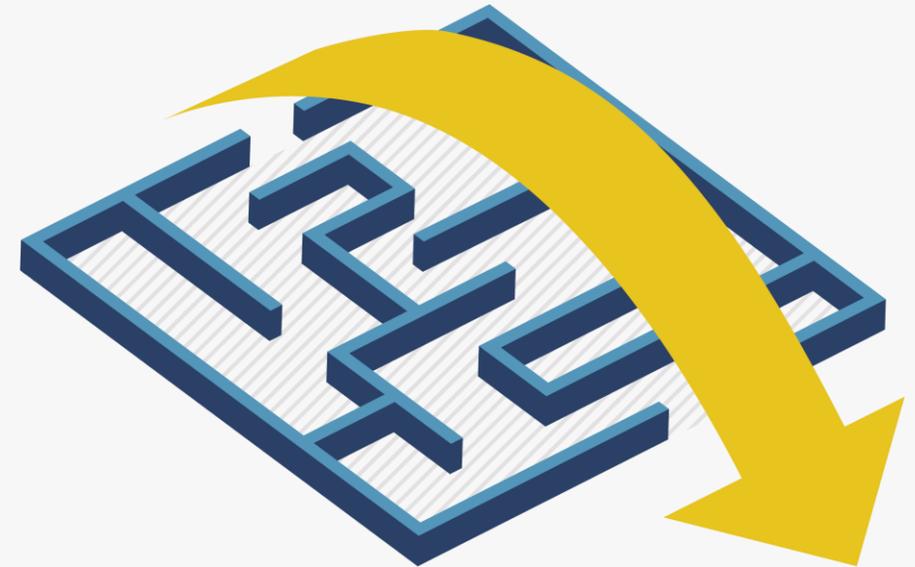
Legal clarity

- Hierarchy of rules for eligibility continued (Recital 29, ETC)
- MA opinion (with involvement of MC) prevails over AA on the eligibility as such of an operation selected under the Interreg programme objectives
- Eligibility provisions (formerly included in a separate delegated act) have been integrated into the CPR, except:
 - ✓ Flat rate for travel & accommodation: **up to 15%** of the direct staff costs
 - ✓ budget line: Infrastructure & works (Art. 44, ETC)
 - ✓ VAT eligible expenditure for projects < 5M euros (including VAT) , for projects > 5M euros, where it is non-recoverable under national VAT legislation, (Art. 64, CPR)

Simplified cost options (1)

Further strengthening

- Projects up to **200,000 EUR** only SCOs (Art. 53, CPR) (**100,000 EUR** small project funds (Art. 25, ETC))
- **Admin costs** (indirect costs) (Art. 54, CPR):
 - ✓ up to 7% flat rate of eligible direct costs
 - ✓ up to 15% flat rate of eligible direct staff costs
 - ✓ up to 25% flat rate of eligible direct costs (methodology required)



Simplified cost options (2)

Further strengthening

- Staff costs (Art. 55, CPR): **20%** flat rate of other eligible direct costs; without there being a requirement for the Member State to perform a calculation to determine the applicable rate; if no public procurement above threshold (works & services);
- Other costs than staff (Art. 56, CPR): up to **40%** flat rate of eligible direct staff costs to cover all other costs;
- Travel & accommodation (Art. 41, ETC): may be calculated at a flat rate up to **15%** of eligible direct staff costs;

Rules on eligibility of expenditures

Art 37, ETC

- Interreg operation may be implemented outside of a MS, including outside the Union, as long as it contributes to the objectives of the respective Interreg programme
- Additional rules on eligibility of expenditures on categories of expenditure not covered by those provisions shall be established by MSs and, where applicable, third countries, partner countries and OCTs upon MC decision

Exchange rate

Art 38, ETC

- By way of derogation from Art 76(1) (c) CPR, expenditure paid in another currency shall be converted into euro by each beneficiary coming from countries which have not adopted the euro as their currency using **the monthly accounting exchange rate of the Commission in the month during which that expenditure was submitted for verification**



Eligibility of cost categories

Art 38, ETC

- Eligible expenditure should be related to the costs of initiating or initiating and implementing an operation or part of an operation
- MSs can decide if certain expenditures in/or specific cost categories (Art. 39 to 44, ETC) will not be eligible under one or more priorities of an Interreg programme
- The following costs are not eligible:
 - ✓ Fines, financial penalties, and expenditure on legal disputes and litigation.
 - ✓ Costs of gifts.
 - ✓ Costs related to the fluctuation of foreign exchange rates
- When using the flat rate of up to 40% of eligible direct staff costs (Art 56(1) CPR), this calculation method should not be applied to direct staff costs calculated based on a flat rate referred to in point of Art 39(3) (c), ETC.

Staff costs (1)

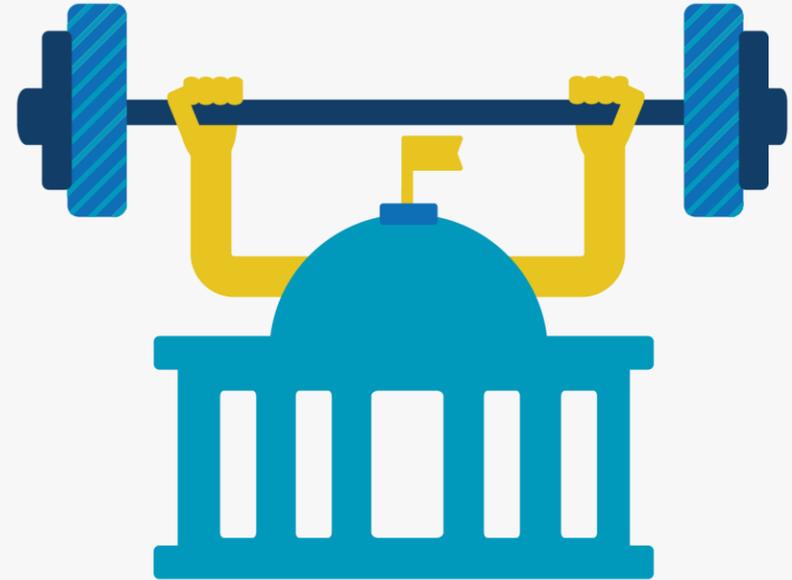
Art 39, ETC

- Staff costs for an Interreg operation can be reimbursed through the following methods:
 - ✓ Cost actually incurred, which requires proof through employment documents and payslips (Art 53 (1) (a) CPR)
 - ✓ Simplified Cost Options (Art 53 (1) (b) to (f) CPR)
 - ✓ Flat rate of up to 20% of the direct costs other than direct staff costs of the operation, where no requirement for the MSs to perform a calculation to determine the applicable rate
 - ✓ Hourly rate, applicable for individuals working on full-time or part-time assignment on the operation as specified in as per (Art 55(2) to (4) CPR)

Staff costs (2)

Art 39, ETC

- Staff costs shall consist of gross employment costs of staff employed by the Interreg partner in one of the following ways:
 - ✓ full time
 - ✓ part-time with a fixed percentage of time worked per month
 - ✓ part-time with a flexible number of hours worked per month
 - ✓ on an hourly basis.



Staff costs (3)

Art 39, ETC

- Staff costs related to individuals who work on part-time assignment can be calculated :
 - ✓ Fixed percentage of the gross employment cost (Art 55 (5) CPR).
 - ✓ Flexible percentage of the gross employment cost, based on the monthly number of hours worked on the operation. This calculation should be based on a time registration system that covers 100% of the employee's working time
- For staff employed based on an hourly basis assignment (Art 39 (1) (d), the hourly rate should be multiplied by the number of hours actually worked on the operation (based on a time registration system).

Staff costs (4)

Art 39, ETC

- Staff costs for an Interreg operation are limited to the following:
 - ✓ **Salary payments related to activities** the entity would only carry out if the operation was undertaken. These payments should be specified in an employment document (such as an employment or work contract, appointment decision, or specified by law) and should align with the staff member's responsibilities mentioned in the job description
 - ✓ **Other costs directly linked to salary payments**, such as employment taxes, social security (including pensions), as long as they meet the following conditions:
 - They are provided for in an employment document or by law
 - Comply with the legislation mentioned in the employment document and align with standard practices in the country or organization where the staff member works
 - Not recoverable by the employer

Staff costs (5)

Art 39, ETC

- Payments to natural persons working for the Interreg partner under a contract other than an employment or work contract can be considered assimilated to salary payments. Such a contract is deemed to be an employment document.



Office and administration (1)

Art 40, ETC

- **Flat rate**
 - ✓ up to 7 % of eligible direct costs, no calculation required
 - ✓ up to 15 % of eligible direct **staff** costs (gross employment cost (Art. 54 (b) CPR)
 - ✓ up to 25 % of eligible direct costs, calculation required (a fair, equitable and verifiable calculation method, Art 53 (3) (a) CPR)
- **Real cost basis**, shall be limited to the following elements:
 - ✓ Communication (such as telephone, fax, internet, postal services, business cards)
 - ✓ Bank charges for opening and administering the account or accounts where the implementation of an operation requires a separate account to be opened; and
 - ✓ Charges for transnational financial transactions.

Office and administration (2)

Art 40, ETC

- Office and administrative costs, **real cost basis**, shall be limited to the following elements:
 - ✓ Office rent
 - ✓ Insurance and taxes related to the buildings where the staff is located and to the equipment of the office (such as fire or theft insurance)
 - ✓ Utilities (such as electricity, heating, water)
 - ✓ Office supplies
 - ✓ Accounting
 - ✓ Archives
 - ✓ Maintenance, cleaning and repairs
 - ✓ Security
 - ✓ IT systems

Travel and accommodation (1)

Art 41, ETC

- Travel and accommodation costs, whether incurred and paid inside or outside the program area, are limited to the following cost elements:
 - ✓ Travel costs, including tickets, travel and car insurance, fuel, car mileage, tolls, and parking fees
 - ✓ Cost of meals
 - ✓ Accommodation costs
 - ✓ Visa costs
 - ✓ Daily allowances

Travel and accommodation (2)

Art 41, ETC

- If a cost element listed in points (a) to (d) of paragraph 1 is covered by a daily allowance, it should not be reimbursed in addition to the daily allowance
- Costs for external experts and service providers are categorized under external expertise and services costs as listed in Art 42
- If an employee of the beneficiary makes a direct payment for cost elements listed in points (a) to (d) of paragraph 1, it should be supported by proof of reimbursement
- Flat rate of up to 15% of the direct staff costs of that operation, where no requirement for a calculation to determine the applicable rate

External expertise and services (1)

Art 42, ETC

- External expertise and service costs shall be limited to the following services and expertise provided by a public or private body or a natural person, other than the beneficiary, and all partners of the operation:
 - ✓ Studies or surveys (such as evaluations, strategies, concept notes, design plans, handbooks)
 - ✓ Training
 - ✓ Translations
 - ✓ development, modifications and updates to IT systems and website
 - ✓ Promotion, communication, publicity, promotional items and activities or information linked to an operation or to a programme as such
 - ✓ Financial management;
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External expertise and services (2)

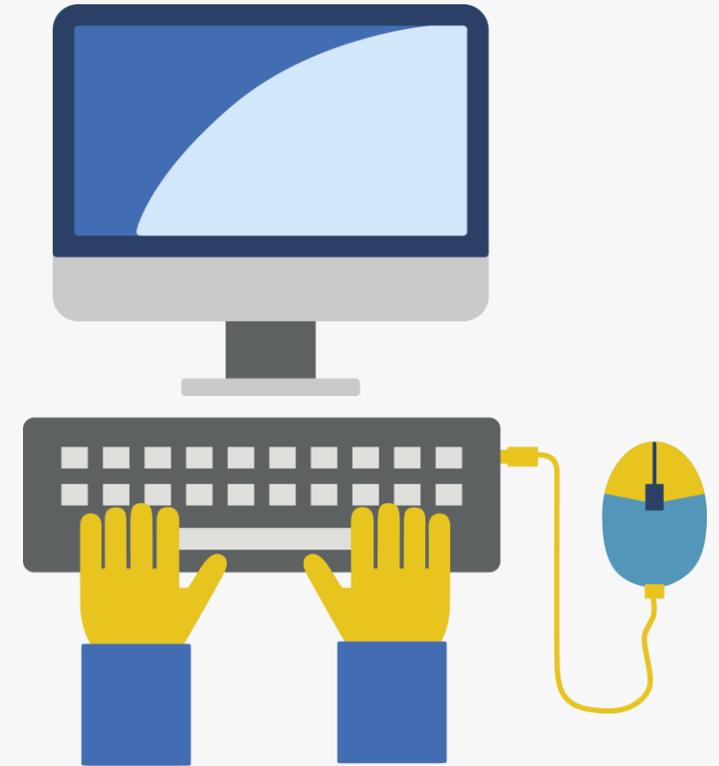
Art 42, ETC

- ✓ Organization and implementation of events or meetings, including rent, catering, or interpretation, participation in events such as registration fees.
- ✓ Legal consultancy and notarial services, technical and financial expertise, other consultancy and accountancy services.
- ✓ Intellectual property rights.
- ✓ Verifications as per Art 74(1)(a) CPR and Art 46(1) ETC.
- ✓ Costs for accounting function on the program level as per Art 76 CPR and Art 47 ETC.
- ✓ Audit costs on the program level as per in Art 78 and 81 CPR and Art 48 and 49 ETC
- ✓ Provision of guarantees by a bank or other financial institution, as required by Union or national law or specified in a programming document adopted by the MC.
- ✓ Travel and accommodation expenses for external experts, speakers, chairpersons of meetings, and service providers.
- ✓ Other specific expertise and services needed for operations.

Equipment (1)

Art 43, ETC

- Costs for purchase of **new equipment** by the beneficiary of the operation other than those covered by office and administrative costs (Art 40, ETC) shall be limited to the following:
 - ✓ Office equipment;
 - ✓ IT hardware and software
 - ✓ Furniture and fittings
 - ✓ Laboratory equipment
 - ✓ Machines and instruments
 - ✓ Tools or devices
 - ✓ Vehicles
 - ✓ Other specific equipment needed for operations



Equipment (2)

Art 43, ETC

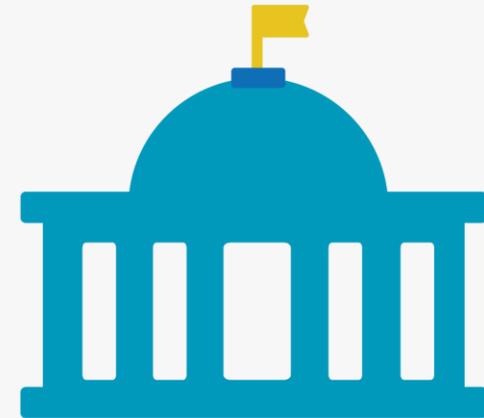
- Costs for the purchase of **second-hand equipment** may be eligible subject to the following conditions:
 - ✓ No other assistance has been received for it from the Interreg funds or from the funds listed in point (a) of Art 1(1) CPR;
 - ✓ Its price does not exceed the generally accepted price on the market in question; and
 - ✓ It has the technical characteristics necessary for the operation and complies with applicable norms and standards.



Infrastructure and works

Art 44, ETC

- Costs for infrastructure and works shall be limited to the following:
 - ✓ Purchase of land as per Art. 64(1) (b) CPR
 - ✓ Building permits
 - ✓ Building material
 - ✓ Labour
 - ✓ Specialised interventions (such as soil remediation, mine-clearing).



Eligibility of expenditures

Art 56, ETC

- Expenditures shall be eligible if it has been incurred and paid in the preparation and implementation of Interreg operations from **01/01/2021** or
- From the **date of the programme submission**, *whichever date is earlier*, but may be claimed from the programme after the date when the financing agreement with the respective third country, partner country or OCT was concluded
- Expenditure for technical assistance managed by programme authorities located in a MS may already be claimed from the programme before the date when the financing agreement with the respective third country, partner country or OCT was concluded

Eligibility of expenditures

Art 63, CPR

- Expenditure shall be eligible if it has been incurred by a beneficiary or the private partner of a PPP operation and paid in implementing operations between the date of submission of the programme to the Commission or **from 01/01/2021**, whichever date is earlier, and **31/12/2029**
- For costs reimbursed as per Art 53(1) (b), (c) and (f), CPR, the actions constituting the basis for reimbursement shall be carried out between the **date of submission of the programme to the Commission** or from **01/01/2021**, whichever is earlier, and **31/12/2029**

Non eligible costs (1)

Art 64, CPR

The following costs shall not be eligible for a contribution from the Funds:

- Interest on debt is generally only eligible for funding if it is related to grants in the form of an interest rate subsidy or guarantee fee subsidy
- Land purchase is limited to **10%** of the total eligible expenditure, except for derelict sites and former industrial sites with buildings, where the limit is increased to **15%**

Non eligible costs (2)

Art 64, CPR

- VAT, however, there are exceptions:
 - ✓ Operations with a total cost below 5,000,000 EUR (VAT included)
 - ✓ Operations with a total cost of at least 5,000,000 EUR (VAT included), VAT can be eligible if it is non-recoverable under national VAT legislation.
 - ✓ Investments made by final recipients in the context of financial instruments may be eligible for VAT exemption.
 - ✓ Small project funds (SPF) and investments made by final recipients under Interreg

Functions of the MA (1)

Art 46, ETC

- MA of an Interreg programme shall carry out the functions laid down in Art 72 CPR (**managing the programme**), 74 CPR (**management verifications, availability of funding, proportionate anti-fraud measures, prevent, detect and correct irregularities**), 75 CPR (**support the work of MC**) with the exception of the task of **selecting operations** Art 72(1) (a) CPR and Art 73 CPR, where the accounting function is carried out by a different body
- Those functions shall be carried out in the **whole territory covered by that programme**
- MA shall set up a **JS**, and one or more **branch offices of the joint secretariat**

Functions of the MA (2)

Art 46, ETC

- MSs may decide that **management verifications** (Art 74(1) (a) CPR) are to be done through the **identification by each MS of a body or person (controller)** responsible for this verification on its territory
- Any **controller** shall be functionally **independent from the AA or any member of the group of auditors**
- MA shall satisfy itself that the **expenditure** of beneficiaries participating in an operation **has been verified by an identified controller**
- MSs, third country, partner country or OCT shall ensure that the expenditure of a beneficiary can be verified **within a period of three months** of the submission of the documents by the beneficiary concerned
- MSs, third country, partner country or OCT shall be **responsible for verifications carried out on its territory**

Functions of the MA (3)

Art 46, ETC

- MSs, third country, partner country and OCT shall **identify as controller either a national or regional authority or a private body or a natural person**
- Where the controller carrying out management verifications is a **private body** or a **natural person**, those controllers shall meet at least one of the following **requirements**:
 - ✓ **be a member** of a national accounting or auditing body or institution which in turn is a member of International Federation of Accountants (IFAC);
 - ✓ **be a member** of a national accounting or auditing body or institution without being a member of IFAC, but committing to carry out the management verifications in accordance with IFAC standards and ethics;
 - ✓ **be registered** as a statutory auditor in the public register of a public oversight body in a MS, third country, partner country or OCT

Functions of the MA (4)

Art 72, CPR

- **MA shall be responsible for managing the programme with following functions:**
 - ✓ **select operations**
 - ✓ **carry out programme management tasks**
 - ✓ **support the work of the MC**
 - ✓ **supervise intermediate bodies**
 - ✓ **record and store electronically the data** on each operation necessary for monitoring, evaluation, financial management, verifications and audits, and ensure the security, integrity and confidentiality of data and the authentication of users
- MS may entrust the accounting function (Art 76 CPR)

Responsibility of MSs (1)

Art 69, CPR

MSs must:

- Have **management and control systems** for their programmes and ensure proper functioning in accordance with the **principle of sound financial management** and the key requirements stated in Annex XI
- Ensure the effective functioning of their management and control systems and the **legality and regularity of expenditure** submitted
- Ensure the **quality, accuracy, and reliability of data**
- Take necessary actions to **prevent, detect, correct, and report irregularities, including fraud**. This includes collecting information on the beneficial owners of recipients of Union funding as specified in Annex XVII while complying with **applicable data protection rules**
- Ensure **access to the necessary information for Commission, the European Anti-Fraud Office, and the Court of Auditors**

Responsibility of MSs (2)

Art 69, CPR

MSs must:

- Have systems and procedures to maintain all required documents for the **audit trail**, as specified in Annex XIII, as per Art 82 CPR (availability of documents)
- Conduct **information exchanges between beneficiaries and program authorities** through electronic data exchange systems, as per Annex XIV, and provide necessary support to beneficiaries
- In exceptional cases, MA may accept requests from beneficiaries for **exchanging information in paper format while still recording and storing data**
- MSs must **report irregularities** according to the criteria, data, and reporting format outlined in Annex XII

Management verifications

Art 81, CPR

- MA shall carry out on-the-spot verifications as per Art 74(1) only at the level of bodies implementing the financial instrument and, in the context of guarantee funds, at the level of bodies delivering the underlying new loans
- MA may rely on verifications carried out by external bodies and not carry out on-the-spot verifications if it has sufficient evidence of the competence of these external bodies

Availability of documents

Art 82, CPR

- Without prejudice to the rules governing State aid, the managing authority shall ensure that all supporting documents related to an operation supported by the Funds are kept at the appropriate level for a **5-year period** from 31 December of the year in which the last payment by the MA to the beneficiary is made
- The time period referred to in paragraph 1 shall be interrupted either in the case of legal proceedings or by a request of the Commission

Discussion

Q&A

Roundtable

Remember the working agreement..
..speak up and share opinions and views



Risk assessment Exercise

Drive Google

Pick up your mobile and directly go to

bit.ly/3XF2nL7



Relevant documents

Drive Google

Pick up your mobile and directly go to

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Evaluation Link

Interact website

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Cooperation works

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