

Management verification methodology 2021-2027

1. Legal basis and overall responsibilities

Pursuant to the Article 74(2) Regulation (EU) 2021/1060 (hereinafter referred to as the ‘CPR’) management verification shall be risk-based and proportionate to the risks identified ex ante and in writing. Management verifications shall include administrative verifications in respect of payment claims made by beneficiaries and on-the-spot verifications of operations.

The Managing Authority has the overall responsibility for management verifications and carrying out verification of the expenditures incurred and paid by project partners.

Management Verification means verifications pursuant to Article 74(1)(a) and Article 74(2) of the CPR which requires the Managing Authority to verify that the co-financed products and services have been delivered, that the projects comply with applicable law, the Programme, and the conditions for support of the projects. In this document the co-financed products and services may refer to goods, works, services etc.

Management Verification shall include:

- administrative verifications in respect of partner reports made by project partners;
- on-the-spot verifications of projects.

Management verifications are done by the controllers of the Control Bodies who are responsible for the verification work in the respective Member State. The Joint Secretariat and the Managing Authority can use the Control Bodies’ reports in carrying out their control work, which is described in the Programme Manual as well as in the Description of the Management and Control System and its annexes.

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) 2021/1059, national level legal acts about public procurement (public procurement act(s)) and other relevant regulations.

2. Needs and method of the management verification

Based on the ex-ante assessment of the Programme data and with most common errors identified, the Programme is simplifying the Programme’s rules and reducing administrative burden for project partners by using off-the-shelf simplified cost options and programme-specific simplified cost options extensively.

To minimise the risks the Programme applies simplified cost options and implements off-the-shelf flat rates according to the CPR. The lump sum methodology and unit costs for staff costs methodology have been designed specifically for the Estonia-Latvia Programme 2021-2027 and approved by the Monitoring Committee.

Using simplified cost options means also that the human resources and administrative effort involved in management of the Programme can be focused more on the achievement of policy objectives instead of being concentrated on collecting and verifying financial documents. It decreases the programme consultants’ workload as regards giving advice to the project partners on project

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implementation and reporting. It will facilitate access of small project partners to the funds/Programme thanks to the simplification and increased efficiency of the management process.

The Programme uses:

- lump sum: project preparation costs as a lump sum of 6000 euros(total cost);
- flat rate: office and administrative costs are calculated as a flat rate of 15% of staff costs;
- flat rate: travel and accommodation costs are calculated as a flat rate of 10% of staff costs;
- unit costs (single hourly rate) for staff costs: a programme-specific unit cost based on the established hourly rate is used:
 - the hourly rate for the Estonian project partners is €29;
 - the hourly rate for the Latvian project partners €24.

The ex-ante risk assessment identifies risks related to verification of the project's reports. **To ensure equal treatment of the project partners the Programme implements a joint Management verification methodology (hereafter referred to as the '*Methodology*) for risk-based management verification.**

Management verifications are risk-based and proportionate to the risks identified ex ante. Both administrative and on-the-spot verifications should be proportionate to the risks identified. This means that not all partner reports and all items within the partner reports should be verified.

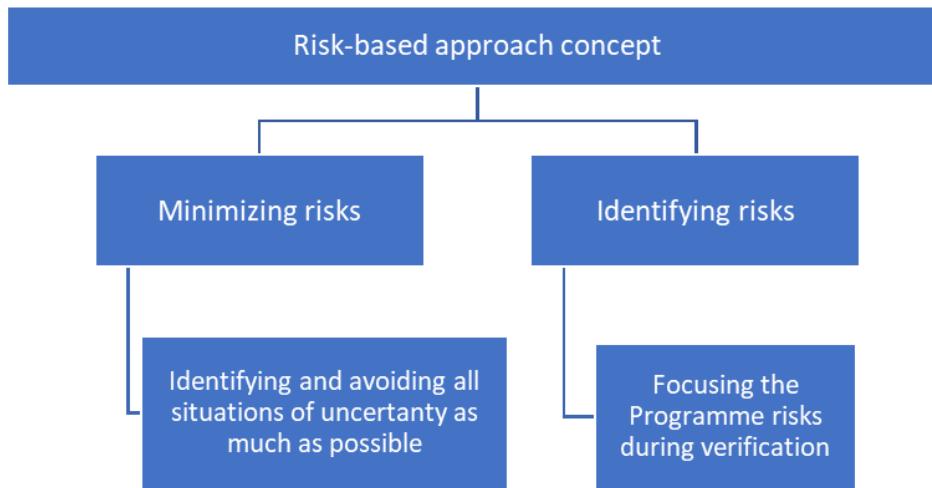
The Managing Authority analysed the Programme level risks using the State Shared Service Centre's Mainstream (ESIF) risk methodology, to assess risks related to the achievement of the Programme objectives and indicators; eligible and purposeful use of the Programme funds; fraud and Do No Significant Harm. According to the Mainstream risk methodology the overall risk assessment of the Programme was average/low, therefore the 10% sample of the cost categories for random sampling is sufficient and on-the-spot verifications is carried out only for investment objects or if other control methods do not provide full certainty about the eligibility of the costs.

The Managing Authority of the Programme defined, based on the data of the Programme 2014-2020, the risks and factors that would hamper high quality of the verifications. The Managing Authority analysed what type and how thorough level of detail of the verifications is justified – why certain factors are considered risky or not risky and why certain scores, or weights are used in the Methodology.

The Managing Authority analysed the management verification risks at different levels, based on the 2014-2020 data:

- cost category;
- project partner: legal status, country of the partner, role of the partner;
- number of the payment claim of the project partner;
- items within the partner report related to specific cost categories/budget lines.

The whole idea on the Programme level is to focus management verifications on the risky items cost categories in the partner reports and risky projects. Management verification is concluded with a control certificate issued on the verified costs. The control certificate shows whether the reported expenditures comply with the principles of sound financial management; and the compliance with EU legislation, the Programmes requirements and national legislation.



Management verification is a combination of the following types of verifications:

- administrative verifications in respect of payment claims by project partners;
- on-the-spot verifications:
 - 1) face-to-face;
 - 2) online.

Administrative verifications must be carried out to control the partner report expenditures and that they are in accordance with EU, national and Programme rules, legal acts, and the supporting documents are provided by project partners.

On-the-spot verifications are carried out to ensure that the co-financed products, services, and works are delivered, and relevant legal acts are followed, only in cases when these requirements cannot be controlled during administrative or online verifications.

Online verifications can replace on-the-spot verifications or complement the administrative and on-the-spot verification. The added value of online verifications, in addition to reducing the resources involved and shortening the time allocated for control, is that they enhance and provide quality control, complement, and complete the work done with administrative/on-the-spot verifications. Also, the online working environment is convenient for project partners and controllers.

Link between the verification types and tasks

Verification tasks	Administrative verification	Online on-the-spot verification	Face-to-face on-the-spot verification
ensure the correctness and the eligibility of the expenditures incurred	X	X	X
guarantee that all Programme provisions and legal requirements have been respected, regarding the public procurement procedures, and relevant horizontal principles	X		
confirm that all expenditures requested for reimbursement are related to activities in approved	X	X	X

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project application, incurred and paid in line with the latest approved application and related budget			
verify the existence of co-financed products, services and works	X	X	X
verify that Programme communication and visibility requirements are met, and measures are taken: publications, homepages, agendas of events etc.	X	X	X

X – verification task is carried out under the type of verification

The intensity of administrative and on-the-spot verifications derives from the principles of this risk-based control methodology.

The controller performs on-the-spot checks after administrative verification and a risk-based analysis have been carried out. The controllers notify the project partner of an on-the-spot verification in advance, to allow the project partner to prepare all the available resources, except in case the advance notification is incompatible with the objective of the verification¹. The responsible person as a rule shall be available at the moment of control at the project premises, or at the site of the project deliverables: products and services and works.

3. Basic principles

Controllers must check all cost categories in relation to a project, including costs calculated based on simplified cost options, in order to verify the legality and regularity of the expenditure.

Controllers are responsible for verification of costs declared under the following cost categories:

- staff, unit cost is calculated automatically in Joint electronic monitoring system (Jems);
- office & administration: flat rate is calculated automatically in Jems;
- travel & accommodation: flat rate is calculated automatically in Jems;
- external expertise and services costs: real cost;
- equipment costs: real cost;
- costs for infrastructure and works: real cost.

State Aid

The programme grants State aid in accordance with the Articles 20 and 20a of the Commission Regulation (EU) No 651/2014, of 17 June 2014 declaring specific categories of State aid compatible with Article 107 and 108 of the Treaty (the State aid General Block Exemption Regulation, the GBER).

According to the Article 20 of the GBER, the aid for costs incurred by undertakings participating in European Territorial Cooperation projects covered by Regulation (EU) 2021/1059 shall be compatible with the internal market within the meaning of Article 107(3) of the Treaty.

Article 20a of the GBER stipulates that, the total amount of aid granted to an undertaking per project shall not exceed EUR 20 000.

¹ The 2021–2027 European Union Cohesion and Internal Security Policy Funds Implementation Act: § 26

(1) The person subject to verification is to be notified of an on-the-spot verification in advance, except in the case advance notification is incompatible with the objective of the verification.

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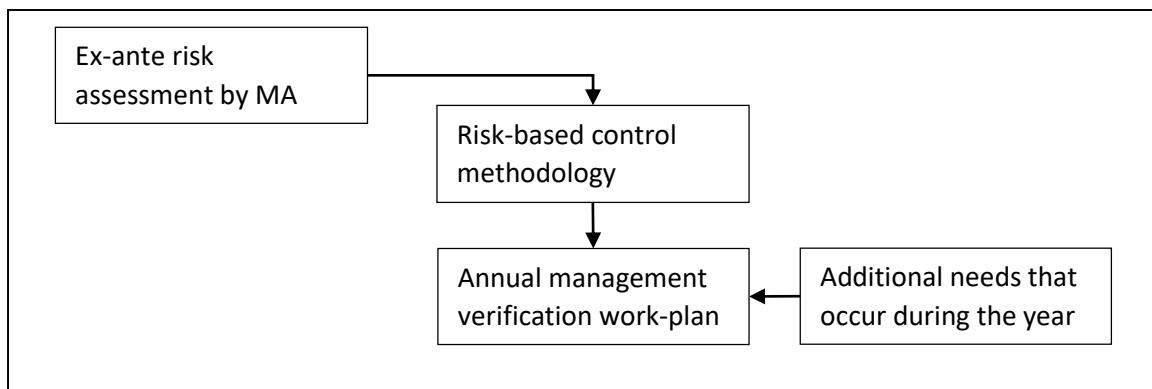
According to the Article 7(1) of the GBER the amounts of eligible costs may be calculated in accordance with the simplified cost options set out in Regulation (EU) No 2021/1060, whichever is applicable provided that the operation is at least partly financed through a Union fund that allows the use of those simplified cost options and that the category of costs is eligible according to the relevant exemption provision.

During the preparation of the project application the project partners analyse whether a project or some of the project activities may contain State aid. During the project application assessment, the Joint Secretariat checks whether the project activities fall under the State aid or not.

4. Risk-based control methodology²

4.1 Ex-ante risk assessment

The ex-ante risk assessment is the Annex of this document. It addresses how proportionality will be put into practice e.g., defines the criteria for having verifications that are proportionate to the types and levels of risks. During the performance analysis of the Programme the Managing Authority reviews the ex-ante risk assessment of the management verification and control activities.



All the partner report control activities, including administrative and on-the-spot management verifications for the accounting year, are carried out before submission of the accounts.

The process of the development of the methodology is comprised of the following components:

- identification of the risks;
- analysing risks;
- evaluation and prioritisation of the risks —based on the analysis of impact and probability: high, medium or low risk;
- mitigation of the risks—the projects and cost categories that need to be controlled.

The Managing Authority measures and controls the risk management process—by defining the processes and procedures and using standard templates and measurement scales. The Managing Authority may take into account system risks, internal control risks, risks that are identified during State Shared Service Centre and the Programme risk assessment etc., when considering amendment of the Management Verification Methodology.

² The control certificates/checklists will be annexes of the Methodology

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4.2 Risk-based control methodology for administrative verification

Based on the ex-ante risk assessment of the 2014-2020 period data in the eMS the risk-based control methodology defines:

- when administrative verification is justified to be done at the 100% level;
- when administrative verification is done by sample, the methodology by making the sample as random sampling;
- the principles for on-the-spot verification.

100% administrative verification is done for:

- first time when the staff costs occur in the partner report:
 - timesheets/ reported hours are provided and declared project working hours are in accordance with the employment/work contract, an appointment decision;
 - contracts: respective project partner has concluded necessary job contract(s);
 - job descriptions: content of the tasks and relation to the project, if not described in the work contracts;
- public procurements including all documents related to the implementation of the contract, except for items below €10 000 (excluding VAT);
- high value items, as defined in ex-ante assessment, with the total value from €10 000 (excluding VAT).

The Programme uses sampling in order to accelerate the management verification of the partner reports and focus on risks. The sample items are selected so that the sample can be expected to be representative of the population, including the coverage of all cost categories. According to the point 2 of the Article 73 of the CPR the non-statistical sampling method covers a minimum of 10 % of the sampling units in the population of the accounting year, selected randomly. The Programme uses the same approach for management verification. All items in the population have an equal chance of being selected. The simple random sampling is applied as a sample selection method.

When cost category includes both high and low value items, the population of sample consists of low value items that are not controlled 100%. The sample covers 10% of the total value of the low value items. 10% sampling covers following cost categories:

- staff, as regards the reports of hours;
- external expertise and services;
- infrastructure and works;
- equipment.

Principles of sampling:

- the controller draws sample for each project partner's list of expenditure in Jems;
- the expenditures that are not controlled 100% form the population of 10% sampling;
- costs related to the high value item when any expenditure of the related contract has been previously verified or is planned to verify within the same report and no mistakes were noticed in previous controls of the item and it is not the last expenditure of the procurement contract;
- if the report includes cost categories, where previously have been shortcomings (ineligible costs, irregularities, likelihood of fraudulent conduct, etc.), the costs of these cost categories may be further included in the sample.

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When both of the following conditions are fulfilled, the partner reports with no procurements above 10 000 (excluding VAT) can be excluded from risk-based sampling:

- there are no errors or irregularities in any of the previous partner reports;
- the partner report does not cover the reporting periods 2-4 or the last reporting period.

When mistakes are noticed during management verification, the controllers or the Joint Secretariat can reopen previously verified or not controlled (due to not being the part of sample) partner and progress reports for additional control to avoid the risk of irregularities, which may affect also previous partner reports. Controllers can check previous reports without reopening them and cut ineligible costs from the report that is under control, in case such costs are detected.

According to the Article 82 of the CPR, the management and control system of the Programme is functioning effectively when the total error rate for each year is 2 % or below. The Programme uses same approach for the project partners and sample is not extended where ineligible costs in the verified expenditure is up to 2%.

Pursuant to the Article 80 of the CPR the Programme uses similar professional judgement approach, the controller's shall first use all the information and obtain additional documents and evidence from the project partners and extend the sample where, based on their professional judgement, this is required to support robust conclusions. Professional judgement means the application of professional knowledge and experience in defining objectives, solving problems, establishing guidelines, reviewing the work of others, interpreting results and providing and assessing advice or recommendations and other matters which have an element of latitude or decision - making.

For the purpose of an adequate audit trail, the controller must document and describe in Jems why the sample was extended; and also refer to the results and the type of errors detected during verification.

Principles for the extension of the sample (the list is not final):

- case by case based on controllers' professional judgement;
- where ineligible cost (except for missing documents etc.) in the verified expenditures is found in the amount above 2.01 % of the reported amount in the specific cost category the sample will be extended on the professional judgement of the controller and at least by one item from the same cost category;
- if previous partner report had irregularities, ineligible costs or was of low quality³, controllers can decide based their professional judgement.

4.3 Face to face on-the-spot verification

Online verification can be replaced with on-the-spot verification when the controllers need to visit the site to be ensured in the correctness of expenditures.

Face to face on-the-spot verifications are done to control the following cases:

- requirements cannot be controlled during administrative or online verifications;
- equipment, investments, infrastructure and works (one cost item) above 10 000 (excluding VAT) are purchased;

³ Low quality is defined by the controllers case by case.

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- risks or shortcomings are found by the controller during the administrative or online verification of partner reports.

5. Annual on-the-spot verification work-plan

Based on the ex-ante assessment (please see Annex), in proportion with the risks and taking into account the principles of the control methodology, the Control Bodies prepare their annual on-the-spot verifications work plan during the 4th quarter for the next year and submit these to the Managing Authority for reviewing and approval.

6. Adjustment of the Management Verification

The adequacy and quality of the management verifications are examined by an Audit Authority's audits of operations and system audits based on a sample selected by the European Commission from the management verifications already carried out.

The Managing Authority might amend the methodology based on:

- results of annual review of the ex-ante risk assessment of the verification and control activities;
- the findings from the system audits;
- results of the audit of operations;
- results of previous administrative and on-the-spot checks;
- external factors that could have an impact on the implementation of the projects.

The Managing Authority and the Audit Authority systematically review and discuss errors identified in audits to build a joint understanding of the remaining risks and of areas where improvements in the risk assessment and future management verifications can be made.

When the Audit Authority considers that some detected irregularities undermine the suitability of the methodology for the risk-based verifications, the effectiveness of the management verifications or the effective functioning of the Management and Control System, the Managing Authority reviews and amends the methodology for risk-based management verifications and possibly increases the coverage of the partner report sample in the subsequent accounting year.



Ex-ante assessment and analysis of the Estonia-Latvia programme 2014-2020 costs

The aim of the ex-ante assessment is to identify risk factors and items that have previously caused errors and irregularities in the Programme. Risk assessment data were taken from the eMS and the ex-ante assessment is based on the analysis of historical programme data. Collected data covered the period 01.02.2017-30.04.2022. Additional on-the-spot checks and visits information have been collected from the Financial Controllers and the Joint Secretariat.

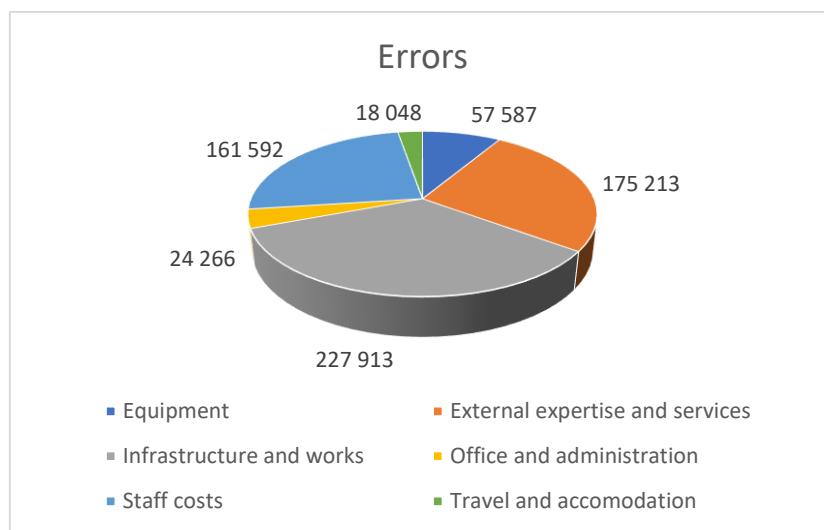
The Managing Authority analysed the risks at different levels:

- cost category;
- project partner: legal status, country of the partner, role of the partner;
- number of the payment claim of the project partner;
- items within the partner report related to specific cost categories/budget lines.

The main steps of finding the risk on the basis of the 2014-2020 Programme statistics:

- analysis of the historical data of the management verifications of the Programme;
 - analysis of the Financial Controllers corrections;
 - analysis of the Joint Secretariat corrections;
- analysis of the on-the-spot checks and visits;
- analysis of the irregularities and financial correction decisions, including the findings of the Audit Authority.

According to the Programme data the 38% of the errors are in the external expertise and services budget line. About 36% of the errors are in the travel and accommodation budget line. 29 % of the errors are in the infrastructure and works budget line. In the staff cost budget line errors make up to 13 % and in the administration budget line, related to the staff costs, errors are 10%. In total about 23% of errors are related to the staff cost budget line.



Therefore, the use of simplified cost option is justified in order to reduce the amount of errors and risks in the following cost categories:

- preparation cost;
- staff cost;
- administration and office;
- travel and accommodation.

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Management Verification data of the Programme 2014-2020

Based to the Management Verification data of the Programme 2014-2020 in the eMS, the biggest risk is related to public procurements. Analysis shows that so far, mostly errors have been due to incorrect implementation of public procurement, followed by the missing evidence. As the proportion of labels 'other' and 'other ineligible expenditure' is high, the Managing Authority decided to analyse both labels in more detail. For this purpose, more detailed data for both labels were taken separately from the eMS system, and the explanations of the FCs were analysed.

Correction	Staff costs	Office and administration	Travel and accommodation	External expertise and services	Equipment	Infrastructure and works	Net Revenue	Total per correction type
Incomplete audit trail, missing evidence	34016,55	4822,49	4354,89	11731,77	25,00	0,00	0,00	54 950,70
Incorrect public procurement	0,00	0,00	443,10	46226,74	26536,87	61512,01	0,00	134 718,72
State aid-related error	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Revenue generating operation	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Information and publicity error	0,00	0,00	5,00	177,23	0,00	0,00	0,00	182,23
Incorrect use of simplified cost option	0,00	0,01	0,00	0,00	0,00	0,00	0,00	0,01
VAT not eligible	0,00	0,00	164,81	9693,37	2092,15	2429,75	0,00	14 380,08
No or insufficient link to project	658,16	98,71	438,41	18344,33	164,23	0,00	0,00	19 703,84
Miscalculation	8404,71	1339,00	255,43	44,49	320,00	3371,75	0,00	13 735,38
Cost declared twice	5150,90	772,63	0,00	4683,76	7149,11	0,00	0,00	17 756,40
Double funding	0,00	0,00	289,26	1657,89	0,00	0,00	0,00	1 947,15
Breach of sound financial management principle	1862,96	279,44	214,54	83,19	0,00	0,00	0,00	2 440,13
Other ineligible expenditure	21507,49	3226,03	4995,90	44015,87	4886,42	44642,96	0,00	123 274,67
Positive correction	-63,16	-9,47	0,00	-3328,36	0,00	0,00	0,00	-3 400,99
Other	75839,93	11375,83	3024,68	23144,12	14513,99	87208,76	0,00	215 107,31
Total	147377,54	21904,67	14186,02	156474,40	55687,77	199165,23	0,00	594 795,63
FC+JS	147377,54	21904,67	9188,32	164645,45	58027,77	210007,37	0,00	611 151,12

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The analysis of the labels ‘other’ and ‘other ineligible expenditures’

Label, explanation	No cases	Amount
Incorrect public procurement	15	30 045.39
Paid after the project end	43	46 420.59
Miscalculation	21	4 635.41
Daily allowance mistakes	37	4 262.34
Exceeded project budget	69	138 809.33
Wrong budget line	11	2 900.18
Reported twice	7	9 030.68
Incomplete audit trail, missing evidence	11	157 063.35
Conflict of interest	2	4 326.58
Not foreseen in the AF	3	941.34
Due to Covid (cancellation of the event)	2	2 315.00
No explanation	177	52 947.53

The data of the labels ‘other’ and ‘other ineligible expenditures’ shows that most of the errors are caused under the labels ‘incomplete audit trail, missing evidence’ and ‘exceeded project budget’. In order to prove the eligibility of ineligible expenditures with these types of errors, the project partners must provide missing evidence during management verification. One of the systemic problems of the management verification is that often there is no explanation in the eMS to clarify why the financial controller(s) considered the expenditures ineligible. The Managing Authority and Control Bodies have agreed to use more detailed labels during 2021-2027 period to solve this systemic problem.

Both, the Methodology for checking expenditure documents of the Estonia-Latvia Programme 2014–2020 and the Procurement procedures of the State Shared Service Centre stipulate that the Estonian financial control bodies control and verify high value items with the value above 5000 euros (excluding VAT).

The Managing Authority analysed the Programme eMS list of expenditure data. Public procurements are related to the equipment, external expertise and services, infrastructure and works budget lines. 7 % of the certified expenditures are between 5000 and 10 000 euros and about 29 % of the certified expenditures are less than 10 000 euros. Therefore, the Managing Authority is of the opinion that above 10 000 euros are high value items.

In order to harmonise Interreg programmes with overlapping territories and project partners - the Interreg Baltic Sea Region and Interreg Central Baltic-the high value items are above 10 000 (excluding VAT) euros.

On-the-spot checks and visits

Estonian Financial Controllers have carried out 24 on-the-spot verifications, in addition to 2 that are ongoing. Errors that would have led to a financial correction were not identified on the spot. During the pandemic, wherever possible, Estonian Financial Controllers relied on the results of site visits conducted by the Joint Secretariat, and in some cases Financial Controllers did not conduct a separate on-the-spot verifications.

Latvian Financial Controllers have carried out 98 on-the-spot verifications and in 23 cases findings were detected. All of the findings were solved and errors that would have led to a financial correction were not identified on-the-spot.

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The Joint Secretariat carried out *circa* 200 on-the-spot visits to the projects' joint activities, e.g., conferences, seminars or other public events and construction sites. On-the-spot visits to individual partners were not carried out. There were no site visits that concluded with the Joint Secretariat financial correction.

The JS did not perform on-the-spot visits to the investments that are already verified by the FCs, if the purpose of the check and procedure overlap (i.e., the assessment criteria in the constructions check lists overlap).

Financial corrections

The Managing Authority analysed financial correction decisions, including those made on the basis of the findings by the Audit Authority. Majority of the financial correction decisions are related to the public procurements.

14 violations have been detected during the implementation of the Programme and of which public procurement violation made up 71%. Errors in the large public procurements have an impact to the Programme error rate. The highest impact was related to irregularity in the public procurement of the project Est-Lat 51 "Valga – Valka Twin Town Centre Development". That increased the Programme error rate drastically and impacted the implementation of the Programme.

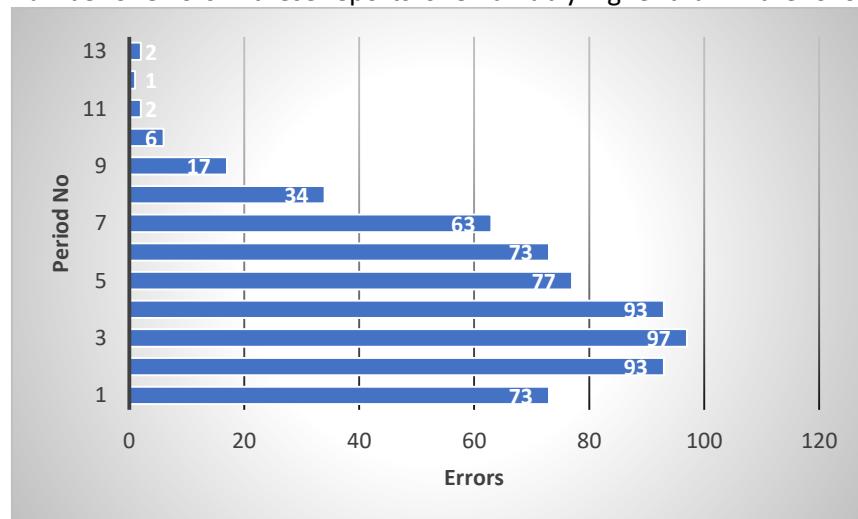
Legal status, country, and role of the project partner

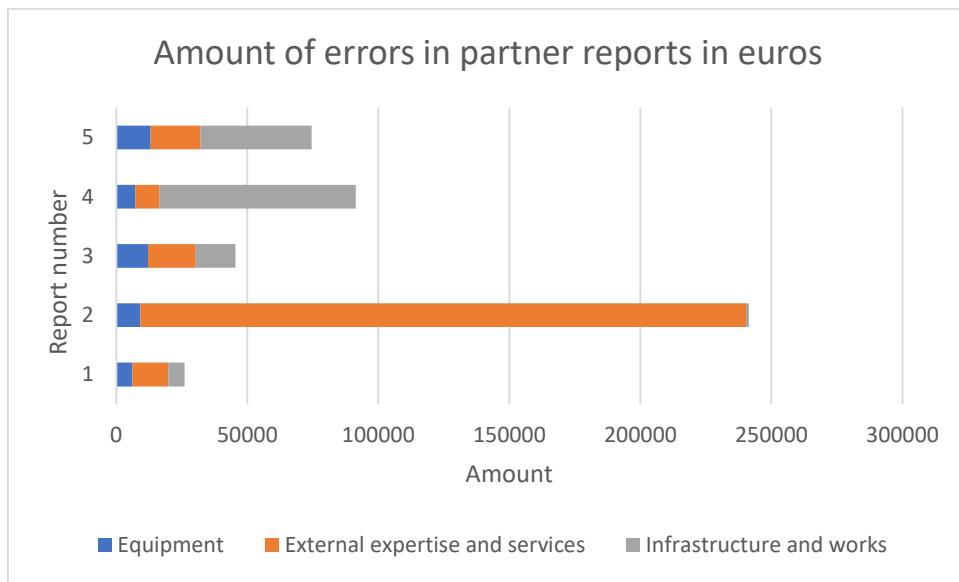
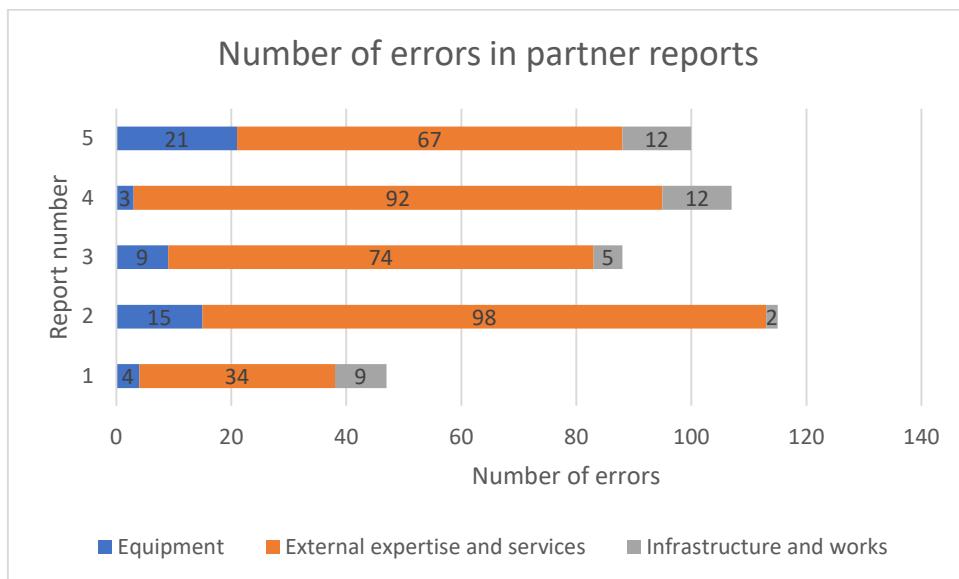
The Managing Authority analysed the total data that were declared by project partners and found ineligible by the Financial Controllers, lead partners, the Joint Secretariat and Managing Authority.

The legal status and country of the project partner have no major impact on the design of the Management Verification Methodology. Project partners (does not include Lead Partners) have made 84% of the errors and the verification at partner level in both Member States must remain.

Partner reports

Most crucial is to control the first four-five partner reports of the project partners because the total number of errors in these reports is remarkably higher than in the following reports after them.





Conclusion

According to the analysis the high-risk item is still **public procurement** above the €10 000 and therefore **100% control** of public procurements must remain. As the Programme is small, the impact of the high value investments errors in public procurements is high and can affect the implementation of the Programme.

Public procurement high risk item is related to the cost categories:

- **external expertise and services;**
- **infrastructure and works;**
- **equipment.**

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In order to harmonise with the Interreg Baltic Sea Region and Interreg Central Baltic programmes, the Programme defines **items that are above 10 000** (excluding VAT) euros as **high value items** similarly to these programmes.

Analysis shows that most errors occur in the reporting periods 2-4. 80% of the number of the errors and about 60% of the amount of the errors are related to the external expertise and services budget line costs. It is crucial for avoiding errors to control partner reports of the reporting periods 2-4 in order to avoid errors.

On-the-spot verification gives good overview about the progress of projects, accounting and document storage, but it is not justified as main means to identify financial errors. The ratio of the on-the-spot verification with the aim to control the original documentation should be reduced and replaced with the desk-based control. **On-the-spot verification related to the control of the infrastructure and works as well as the equipment should remain.**

According to the risk assessment legal status, country of origin and role of the project partner have low level of impact.