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Italia - Malta

Methodology for Risk Analysis of the Managing Authority and Maltese National Coordination Authority

**Identification of risk factors and definition of the sample of
transactions to be checked**

INTERREG "VI - A ITALIA MALTA

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LEGEND

AA	Audit Authority
MA	Managing Authority
AF	Application Form
MNCA	Maltese National Coordination Authority
MC	Monitoring Committee
EC	European Commission
CIPES	Interministerial Committee for Sustainable Economic Planning
NC	National Contribution
CP	Contact Point
ETC	European Territorial Cooperation
ERDF	European Regional Development Fund
IAID	Internal Audit and Investigations Department
IGRUE	Inspectorate General for Relations with the European Union
VAT	Value Added Tax
LP	Lead Partners
MFIN	Ministry for Finance
SME	Small and Medium-sized Enterprises
PP	Project Partners
JS	Joint Secretariat
EU	European Union
GdF	Financial Guard

1.Foreword

Recital 62 of Regulation (EU) 2021/1060 - CPR states that: *"In order 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 taking into account factors such as the number, type, size and content of operations implemented, the beneficiaries and the level of risk identified by previous management verifications and audits. Management verifications should be proportionate to the risks resulting from the risk assessment and audits should be proportionate to the level of risk to the Union budget."*

Pursuant to Article 74(1)(a) of Regulation (EU) No. 1060/2021, the Managing Authorities (hereinafter MA) are required to perform management verifications aimed at ensuring that the co-financed products and services have actually been delivered, that the operation complies with the applicable law and the conditions established for the support of the operation. These verifications, in the context of the INTERREG VI A Italy-Malta programme, are called "first-level controls" and constitute an essential component of the Management and Control System (Si.Ge.Co.) of the Programme.

In accordance with Article 74 (2) of the CPR: *Management verifications referred to in point (a) of the first subparagraph of paragraph 1 shall be risk-based and proportionate to the risks identified ex ante and in writing. Management verifications shall include administrative verifications of payment claims submitted by beneficiaries and on-the-spot verifications of operations. These verifications shall be carried out before the submission of the accounts in accordance with Article 98.* In addition, under Article 46(3) of Regulation (EU) 2021/1059 - Interreg, the following applies: *"By way of derogation from Article 74(1)(a) of Regulation (EU) 2021/1060 and without prejudice to Article 45(5) of this Regulation, the Member States and, where appropriate, the third country, partner country or OCT participating in the Interreg programme may decide that the management verifications referred to in Article 74(1)(a) of Regulation (EU) 2021/1060 shall be carried out through the identification by each Member State of a body or person responsible for such verification on its territory (the "controller")".*

The purpose of this document is to provide a methodological reference framework for risk analysis for use by the parties responsible for performing first-level checks in Italy and Malta by the respective auditors in charge of conducting such checks pursuant to Article 46(3) of Regulation (EU) 2021/1059 - Interreg. The guidelines and operational procedures described are drawn up in compliance with the provisions contained in Regulation (EU) No. 1060/2021, as well as with the indications provided in the document prepared by the European Commission *"Reflection Paper risk-based management verifications 2021-2027"* transmitted by note ARES(2023)4220662 of 19/06/2023.

The document therefore illustrates:

- The purpose and scope of first-level checks as a tool to ensure the regularity and correctness of certified expenditure;
- The rules and methodological principles to be followed when carrying out audits, ensuring uniformity of behaviour between Italian and Maltese auditors involved in management audits respectively;

- The operational tools and procedural models to be used for the formalisation of verifications and the traceability of activities carried out.

In consideration of the nature of the cross-border cooperation programme and of the possible evolution of the regulatory and procedural framework, this document is conceived as a dynamic instrument, subject to periodic revisions and updates. Such updates may be arranged by the Managing Authority in agreement also with the Maltese National Coordination Authority in order to take into account:

- a) Of the results of the first-level checks carried out during implementation in Italy and Malta;
- b) The results of system checks and audits carried out by the Audit Authority or national (Italian and Maltese) and Community control services;
- c) The evolution of national and EU guidelines on management and control;
- d) Of any operational criticalities reported by the first-level auditors and/or by the MA/NACM or that have emerged in the framework of monitoring and supervision activities.

2. Overview of the Control System on INTERREG VI - A Italia-Malta Programme (2021-2027)

The Common Provisions Regulation (CPR) for the 2021-2027 programming cycle introduced an innovative approach to first-level checks, with the aim of harmonising the effectiveness of controls with the need to reduce the administrative burden on administrations and beneficiaries. Within this framework, the frequency, scope and extent of first level checks are determined on the basis of a prior risk assessment, carried out ex-ante and updated periodically, taking into account the results of checks carried out during programme implementation.

The introduction of this risk-based approach makes it possible to modulate the intensity of controls in a proportionate manner, focusing attention on operations and beneficiaries with higher risk profiles, and reducing the administrative pressure on low-risk subjects and operations. In this way, the resources devoted to controls are deployed in a targeted and efficient manner, in line with the proportionality principle enshrined in Article 74 CPR.

In this context, the Managing Authority and the Maltese National Coordination Authority, within the framework of their responsibility, carry out the first-level controls in their territory according to a risk-based approach, calibrated on the risk profiles associated with the reports of the individual beneficiaries and updated throughout the project life cycle. The controls aim to verify

- that the co-financed products and services have actually been delivered;
- that the expenses claimed are real, paid and compliant;
- that the operation complies with the applicable law, the rules of the programme and the eligibility conditions established for the granting of support.

These principles are enshrined in Article 74(1) and (2) of Regulation (EU) 2021/1060, which is the regulatory basis for management verifications in the 2021-2027 period and constitutes the main reference for the construction and evolution of the first-level control system of the Programme

For more details, please refer to the control manual attached to the programme's Si.Ge.Co.

3.Risk Assessment for Administrative Audits

The methodological approach identified, taking into account the principle of proportionality of the controls with respect to the nature of the programme, involves the assessment of risk factors/criteria associated with the accounts of individual beneficiaries in order to identify different levels of risk of the reference universe. This is aimed at improving the effectiveness of the control system, concentrating administrative checks where individual risks are greatest, and ensuring that these checks are carried out in good time for the results to be reflected in the presentation of the accounts.

Specifically, as further detailed below, the methodology put in place provides for two separate verification moments for individual reports:

- an **automatic check** conducted on all reports prior to their submission, which is ensured through the JEMS information system:
 - the correctness of the parameters for the use of lump sums;
 - compliance with the expenditure ceilings of the project partner's financial plan (if the maximum limit is exceeded, the expenditure is marked with a negative sign);
 - the presence of the mandatory annexes;
- **an administrative-accounting audit**, conducted on a sample of beneficiaries in proportion to the risks identified ex ante by the risk analysis.

In detail, the activity of risk analysis and sampling of interim reports and their supporting documents, subject to administrative checks, consists of the following **four steps**:

1. Definition of the universe to be controlled;
2. Classification of reports according to risk factors/criteria;
3. Definition of sample size;
4. Method of sample extraction.

3.1 Definition of the reference universe

The reference universe for the risk assessment and for the subsequent extraction of the sample of cost statements to be subjected to administrative checks consists of the individual beneficiaries present in the statements submitted through the JEMS Information System by the scheduled dates indicated in table 1.

The table below shows the deadlines for submitting the request for reimbursement. During the implementation, additional time frames may be included depending on the program's implementation requirements.

Table 1 - AdG/ANCM sampling schedule based on reports

	EXPENSES INCURRED AND RECEIPTED BY THE BENEFICIARIES			SUBMISSION OF REPORTS BY THE BENEFICIARY (LEAD AND PARTNER)	SAMPLING
N.	FROM	AL	MONTHS		
1	Starting date of the activities	31/10/2025		07/11/2025	12/11/2025
1 bis	01/11/2025	21/11/2025		26/11/2025	01/12/2025
2	22/11/2025	28/02/2026	4	07/03/2026	12/03/2026
3	01/03/2026	30/06/2026	4	07/07/2026	12/07/2026
4	01/07/2026	31/10/2026	4	07/11/2026	12/11/2026
5	01/11/2026	28/02/2027	4	07/03/2027	12/03/2027
6	01/03/2027	30/06/2027	4	07/07/2027	12/07/2027
7	01/07/2027	31/10/2027	4	07/11/2027	12/11/2027
8	01/11/2027	28/02/2028	4	07/03/2028	12/03/2028
9	01/03/2028	30/06/2028	4	07/07/2028	12/07/2028
10	01/07/2028	31/10/2028	4	07/11/2028	12/11/2028

N.	EXPENSES INCURRED AND RECEIPTED BY THE BENEFICIARIES			SUBMISSION OF REPORTS BY THE BENEFICIARY (LEAD AND PARTNER)	SAMPLING
	FROM	AL	MONTHS		
11	01/11/2028	28/02/2029	4	07/03/2029	12/03/2029
12	01/03/2029	30/06/2029	4	07/07/2029	12/07/2029
13	01/07/2029	31/10/2029	4	07/11/2029	12/11/2029
14	01/11/2028	31/12/2029	2	31/01/2030	05/02/2030

The MA will therefore classify the reports by risk level and subsequently extract the expenditure slips to be subject to administrative checks which will normally take place three times a year.

3.2 Classification of statements according to risk factors/criteria

All individual beneficiaries' interim reports submitted by the deadlines in Table 1 are subject to an ex-ante risk analysis. This assessment envisages, first of all, the identification of the risk components, i.e. of the factors/criteria (borrowed from the list included as an example in the EC Reflection Paper risk-based management verifications 2021-2027), distinguished by type of risk (intrinsic risk at operation level, at beneficiary level and control risk) capable of influencing the probability of detecting individual risks. Specifically, the model envisaged by the MA has identified risk assessment criteria and factors to be applied to each beneficiary that has submitted a report and associated partners:

- type of operation and/or procedure (inherent risk);
- type of beneficiary (inherent risk);
- Risk factor related to reporting itself
- control risk, associated with the results of Level I and Level II checks already carried out on previously submitted reports and payment claims.

The following table shows the risk factors identified, the corresponding evaluation criteria associated with each factor and the scores awarded which will be assessed in relation to each Member State's claims.

Table 2 - Risk Factors and Criteria: Administrative Checks for Interim Reports

Risk factor	Criteria	Score
Risk factors associated with the transaction		
1. Type of operation	Acquisition of goods and services o Aid to enterprises	1
	Acquisition of goods and services + Public works o Acquisition of goods and services+ Aid to enterprises	2
	Acquisition of goods and services + Public works + Aid to enterprises	3
Beneficiary-related risk factors		
2. Subject	Public entity	1
	Private entity	3
3. Beneficiary's experience	Beneficiary who participated in Interreg Programming 2014-2020 or 2021-2027 (approved projects)	1
	Beneficiary who did not participate in Interreg Programming 2014-2020 or 2021-2027	3
5. Arachne control Overall score of the Beneficiary <i>Note: If the Beneficiary's overall score cannot be found on the Arachne platform, an average risk score of 2 points will be assigned.</i>	Score between 0 and 19	1
	Score between 20 and 39 o	2
	Score not detectable on Arachne	
	Score of 40 and above	3
5. Type of Reporting	Expenses related to works and/or supplies of services	3
	Personnel expenses at real expensescosts/travel and subsistence	2
	Flat-rate expenses (personnel and/or administrative costs)	1
6. Amount of the statement	Report with the higher than average amount (calculated on the total quarterly reports taken into account).	2
	Report with the amount below the average calculated on the total quarterly reports taken into account).	1
7. Number of reports	Are there more than two interim reports of the project partner within the project that were not included in the previous sampling procedures?	2

	Are there less than two interim reports of the project partner within the project that were not included in the previous sampling procedures?	1
8. Correction factor associated with the results of the checks already carried out (given by the ratio of the admitted expenditure to the expenditure declared in the previous claims related to the beneficiary)	equal to 0% of declared expenditure	1
	between greater than 0 and equal to 10% of the declared expenditure	2
	greater than 10% of the declared expenditure	3
9. Irregularities found by the AA and other competent Authorities in the checks reported to the Beneficiary during the 2021-2027 programming cycle (debtors' ledger)	No	1
	Yes	3

Overall, the scores can vary between 9 (lowest value) and 25 (highest value). Depending on the score obtained, each Beneficiary is classified on the basis of a level of risk associated with it, as shown in the table below.

Risk value	Risk level
19 to 25	High risk
from 12 to 18	Medium Risk
Up to 11	Low risk

3.3 Definition of sample size

Once the beneficiaries have been classified according to their risk value, the amount to be checked will be defined.

This procedure follows different methodologies for the first reports submitted by each Beneficiary and the interim and final reports. The selected reports will be subject to a detailed administrative-accounting audit. During this process, evidence of expenditure, accounting records and all relevant information will be examined to ensure the conformity and accuracy of the expenditure and qualitative descriptions in the progress reports reported.

The sampling procedure for administrative-accounting verifications for interim reports is based on an assessment of the risk associated with each report. The risk assessment is carried out through a detailed analysis of the documents and information provided by the Beneficiaries.

- **High Risk:** If the report is assessed as high risk, **30% of the interim reports** will be selected for in-depth scrutiny.
- **Medium Risk:** If the report is rated as medium risk, **20% of the interim reports** will be selected for in-depth scrutiny.
- **Low Risk:** If the report is assessed as low risk, **10% of the interim reports** will be selected for in-depth scrutiny.

The expenditure items to be verified in the context of a reimbursement claim may therefore be selected on a sample basis, taking risk factors into account. This may occur when, due to the high number of transactions, the management verification of each individual expenditure item highlighted in a beneficiary's reimbursement claim is particularly burdensome. The selection based on risk factors will be completed by extracting an additional random sample to ensure that all transactions have the same probability of being selected.

The number of expenditure items to be checked—based on the expenditure items to be verified—is determined according to the table below. The table is constructed on the basis of a linear reduction in the number of expenditure items sampled per bracket of the total number of items.

Number of expense items		Percentage of transactions sampled by bracket	Maximum number of titles sampled
from:	to:		
1	20	100,00%	20
21	30	50,00%	25
31	40	25,00%	28
41	80	12,50%	33
81	160	6,30%	38
161	320	3,10%	43
321	640	1,60%	48
641	1.280	0,80%	53
1.281	2.560	0,40%	58
2.561	5.120	0,20%	63

In the event of suspected fraud or irregularities, each First Level Controller (FLC) has the authority to perform ad hoc checks on statements and/or amounts that have not been sampled according to the standard procedure mentioned above.

3.4 Method of Sample Extraction

In the process of drawing the sample for administrative reporting checks, the aim is to achieve a representative selection that accurately reflects the diversity of priorities and territories involved in the projects. Territorial balance is considered to ensure adequate representation of the different geographical areas involved. Consequently, variations in process analyses and subsequent sampling may occur depending on the Member State concerned. (Italy and Malta).

Where there are reports from different programme priorities, at least one report corresponding to each priority is included in the sample, if available.

The results of the procedure for drawing a sample of transactions to be subject to administrative audits are recorded in a special register, the so-called 'register of administrative audits'.

4. Extension of the Verification Sample

In the event that a first-level controller detects errors within its sample, it must ensure a mechanism for extending the selected sample. For example:

- if errors are present in the main sample, the auditor must check items of a similar nature, expanding the sample size per stratum (e.g. if an error is detected in personnel costs, the auditor must check other items relating to personnel costs);
- if a certain number of entries (e.g. 10 entries) were checked for random sampling, an extension of the sample can be made to check a further 10 entries;
- if there are errors and no items of a similar nature in the main sample (e.g. all personnel costs were included in the main sample), random sampling can be used (e.g. a random percentage of the remaining items);
- if further errors are present in the random sample, a full audit of the entire cost statement can be carried out under professional judgement.

If errors are still found after the extension of a sample, a verification of 100% of the items in the payment request can be justified. In general, extending the sample up to 100% of the expenditure items should be possible in case of uncertainty, errors and other doubts. 100% verifications are therefore possible, provided they are justified by the risk assessment.

In the control report, the inspector will give the reasons for the extension of the sample with the relevant conclusions.

5 Risk assessment for on-the-spot verification

The procedure for the selection of operations to be subjected to on-the-spot verifications is essentially the same as that identified for the selection of interim reports and explained above.

Again, the selection of the sample of beneficiaries to be audited is developed on the basis of the following steps:

- 1) Definition of the universe to be controlled;
- 2) Application of the analysis of risks associated with transactions belonging to the universe;
- 3) Definition of sample size;
- 4) Method of sample extraction.

5.1 Method of Sample Extraction

In the process of drawing the sample for on-the-spot audits of reports, the aim is to achieve a representative selection that accurately reflects the diversity of priorities and territories involved in the projects. Territorial balance is considered to ensure adequate representation of the different geographical areas involved. Where specific priorities are identified, at least one report corresponding to each of them is included in the sample, if available.

It is guaranteed that each of the sampled operations can be extracted and subjected to on-the-spot verification. It is specified that should it be found that the verifications are not exhaustive, the MA/ANCM will proceed to integrate the sampled operations.

At the level of the individual control instance, the selection of operations subject to on-the-spot checks may be supplemented by taking into consideration the professional judgement of the first-level control operators, having regard to the criteria and parameters set out above. Also in the event that the documentary checks carried out previously have revealed critical issues or require in-depth investigations to be investigated through an on-site inspection, further on-the-spot checks can be arranged also for the beneficiaries that have not been sampled by the MA/ANCM. The results of the sampling procedure of the operations to be checked on the spot are recorded in a special register, the so-called "register of on-the-spot sampling".

If exceptional circumstances so require, on-site inspections may also take place remotely.

6 Updating the risk analysis

The methodology for risk-based management reviews may be reviewed and updated periodically, using the results and conclusions of previous administrative and on-site reviews. In addition, external factors that may have an impact on the implementation of operations (e.g. potential conflicts of interest and concerns reported in the media, other conclusions, etc.) may form the basis for revising the methodology. The risk assessment methodology is also subject to system audits by the audit authorities, where the adequacy and quality of the checks are verified. The Managing Authority may consider updating its methodology on the basis of recommendations and conclusions from system audits and audits of operations.