# Interreg Programme Management Handbook

## Guide to the 2021-2027 period

The Interreg Programme Management Handbook comprises a series of factsheets. They can be read individually, or collectively, to understand the relevance of certain aspects of Interreg management. They cover the relevance, legal basis, key challenges and approaches to the given subject.

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## Factsheet | Risk Assessment

### 1. What is it? What is the definition of this work?

Risk in the context of Interreg programmes means a potential source of errors or irregularities. Risks are usually quantified or described in qualitative terms and ranked as low, medium, or high.

Risk assessment refers to the estimation of quantitative or qualitative risk in a given situation, such as financial reporting errors in a project.

The formula for risk assessment remains:

Risk = Probability x Magnitude of Potential Loss.

This means that a risk is high if either the probability of occurring or the magnitude of loss, or both, are high compared to other risks.

**Advanced Risk Assessment Methodologies**[1]

- Quantitative Risk Assessment:

Uses statistical models to calculate the probability and expected financial loss from identified risks.

- Qualitative Risk Assessment:

Relies on expert judgment and scoring systems to classify risks (high, medium, low). Often used in the absence of extensive data.

- Hybrid Approach:

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[1] 2021 Volume 2 Risk Assessment and Analysis Methods

Advanced Risk Assessment Techniques: Merging Data-Driven Analytics with Expert Insights to Navigate Uncertain Decision-Making Processes

Combines both methods.

Risk management involves identifying, assessing, and prioritizing risks, followed by actions to mitigate them. This includes not only categorizing risks (low, medium, high) but also implementing controls to reduce their likelihood and impact, particularly in areas such as financial management or legal compliance. Ongoing monitoring, reviews, and controls and audits are also mandated to ensure risks are effectively managed throughout the programme lifecycle.

The materiality threshold refers to the level of error that can be considered acceptable in the management and implementation of the ERDF programmes without triggering the need for corrective actions or financial corrections. The materiality threshold is **2%**. This means that if the total error rate of the programme is found to be below 2%, the programme is generally considered to be compliant. If the error rate exceeds 2%, the European Commission may request corrective actions, including financial corrections or adjustments to prevent the misuse of funds.

The threshold is important for financial audits and monitoring, helping to determine whether the expenditure and implementation of projects are in line with EU regulations. It helps strike a balance between ensuring proper use of EU funds and avoiding excessive administrative burdens in cases of small errors.

The threshold applies to both the expenditure and the implementation of the ERDF programmes, ensuring that funds are used efficiently and effectively, in line with the programme objectives.

Risks of material misstatement in financial report: this risk consists of inherent risk, which arises from the nature of the beneficiary, project, or transaction, and control risk, which depends on the effectiveness of internal controls. Inherent risks are higher for private or inexperienced beneficiaries, complex projects, and transactions like public procurement. Control risk remains even with strong internal systems due to human errors, weak oversight, or fraud.

New challenges include increased digitalization, cybersecurity threats, and adaptation to automated financial systems. At the same time, simplified cost options (SCOs) help reduce control risk by minimizing reliance on actual cost reporting. Strengthened anti-fraud measures, including AI-based monitoring and whistleblower mechanisms, are now required. Interreg's cross-border nature adds complexity due to varying national regulations and compliance standards. Effective risk management demands stronger internal controls, rigorous monitoring, and proper beneficiary training. While digital tools enhance efficiency, beneficiaries must ensure they mitigate emerging risks to maintain financial integrity.

Irregularities and fraud According to Article 63 (2) c) of the Financial regulation "*When executing tasks relating to budget implementation, Member States shall take all the necessary measures, including legislative, regulatory and administrative measures, to protect the financial interests of the Union, namely by: (…) preventing, detecting and correcting irregularities and fraud; (…)*

*In order to protect the financial interests of the Union, Member States shall, while respecting the principle of proportionality, and in compliance with this Article and the relevant sector-specific rules, carry out ex ante and ex post controls including, where appropriate, on-the-spot checks on representative and/or risk-based samples of transactions. They shall also recover funds unduly paid and bring legal proceedings where necessary in that regard."*

## 2. Why are we discussing it?

Risk assessments are an essential component of programme management, as they help ensure compliance, reduce financial misstatements, and detect potential fraud. Effective risk management supports efficient allocation of funds and prevents irregularities.

Key reasons why risk assessment matters:

- Helps prevent financial mismanagement and fraud.
- Ensures compliance with EU regulations and programme guidelines.

- Supports decision-making in project selection and implementation.
- Improves the efficiency of financial control measures.

Risk assessment exists at various levels in programmes. It helps in targeting controls towards areas with high risks of material misstatement and is essential for fraud risk management.

The European Commission has emphasized the need for risk-based management, where control efforts are proportionate to identified risks. This approach reduces administrative burden while enhancing programme effectiveness.

The legislation requires that MAs put in place effective and proportionate anti-fraud measures based on the risks identified.

## 3. What are the Legal references and basis for this topic?

The updated legislative framework for the 2021–2027 programming period includes:

- Regulation - 2021/1060 - EN - EUR-Lex – Common Provisions Regulation, mainly:

**Article 2 (31-36)** - Definitions defining the terms

**Article 15** - Enabling conditions detailing measures that link the effectiveness of ESI Funds to sound economic governance

**Article 69** - Responsibilities of Member States outlining the general principles of management and control systems

**Article 74** - Programme management by the managing authority which discusses management verifications and anti-fraud measures

**Article 103** - Financial corrections by Member States determining rules to protect the Union budget and apply financial corrections

**Article 104** - Financial corrections by the Commission saying about applying financial corrections by reducing funding to a programme if serious deficiencies or irregularities are found

- EGESIF_14_0021_00 Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures including Annexes

- Interact Guidance on the risk-based management verifications for 2021- 2027.

## 4. What are the challenges and key considerations?

Some key challenges in the 2021–2027 period include:

- How to assess and mitigate control risks.
- How to respond when a significant risk is identified.
- How to align risk assessments with EU anti-fraud measures.
- Detecting Fraud in Complex Financial Networks: Fraud schemes are increasingly sophisticated, requiring AI-based monitoring systems.

## 5. How are they addressed?

Control risks, such as ineffective internal controls by beneficiaries, can be assessed based on past report quality submitted to national controls or the JS. This evaluation helps determine the reliability of reported expenditures by cost category. If reports show consistent quality, risk based verification methodology could be revised and lower number of risky items applied, provided no major changes occur. Control risk assessments are typically updated after each reporting period's verification.

Risk assessment should lead to better-targeted controls rather than excessive bureaucracy. It must be proportional and focus on areas that present real financial or operational risks.

In practice, risk assessment involve multiple layers of controls and monitoring mechanisms. Key elements include:

• Identifying inherent risks based on programme-specific factors.

• Assessing control risks based on the effectiveness of internal controls in projects.

• Implementing proportionate control measures to mitigate identified risks.

• Ensuring continuous monitoring and adaptation of risk strategies.

Risk assessment outcomes must lead to meaningful actions, ensuring that financial management remains effective and compliant with EU regulations.

To enhance fraud detection in Interreg programmes, an AI-powered fraud detection system[2] can be implemented to analyse transactions in real-time and identify irregular patterns. An automated reporting and case management system will streamline the review process for flagged transactions, helping authorities manage fraud investigations more effectively. Strengthening cooperation with anti-fraud agencies such as OLAF and national audit bodies will improve data sharing and joint fraud prevention efforts.

Finally, capacity building and AI training for programme managers and auditors will enhance their ability to interpret AI-generated fraud insights and promote a culture of fraud awareness.

## 6. How does it work in practice?

The main steps of the programme-level risk/fraud risk management process can be outlined as follows:

Establishing the risk/fraud risk management process and risk/fraud risk assessment methodology;

Risk/fraud risk assessment:

- Identifying the main objectives of the programme and the related processes for the timeframe concerned.
- Identifying the related risks/fraud risks.
- Assessing (categorising) risks/fraud risks based on probability, impact and impact magnitude.

Defining and implementing risk-mitigating measures.

[2] EU Anti-Fraud Conference in Athens focuses on preventing, detecting and investigating fraud in the digital age - European Commission

Risks shall be identified and assessed in the annual risk assessment table, i.e. a separate MS Excel spreadsheet listing all risks identified based on the main programme objectives for the year concerned, risk levels and risk mitigating measures.

Risk-mitigating measures shall be defined and implemented in case of high and very high level risks based on management action plans to be drawn up by the responsible body, i.e. JS, MA.

The exercise for both risk assessment and fraud risk self-assessment should be carried out by the team of experts/staff whose daily agenda is connected with the exact knowledge of programme/project conditions and situation. Adequate training shall be ensured for the staff members participating in the exercise. The results of the risk/fraud risk assessment exercise shall be made available for the entire relevant teams.

## 7. Good practice examples, innovative approaches

Risk assessment:

Risk assessment process is clearly documented allowing for clear review of the conclusion reached. Those are stated in the table separately for each risk by each actor of the assessment team. Each value is consistent with explanations provided by the assessment team and relevant supporting evidence provided by the assessment team.

In order to categorise risks identified based on the annual programme objectives, both their probability and impact need to be estimated.

Risk probabilities can be principally estimated by taking into account current programme developments, earlier experience especially from the relevant stages of the previous programming periods but information from other programmes may be considered as well. As an example five levels of probability from very low to very high could be assigned with scores from 1 to 5.

**Scoring**

Risk scores are established by multiplying the probability and impact scores as shown in table. Darker shades indicate higher risk levels.

| | Impact scores | | | | | |
|---|---|---|---|---|---|---|
| Probability | | **1** | **2** | **3** | **4** | **5** |
| | **1** | 1 | 2 | 3 | 4 | 5 |
| | **2** | 2 | 4 | 6 | 8 | 10 |
| | **3** | 3 | 6 | 9 | 12 | 15 |
| | **4** | 4 | 8 | 12 | 16 | 20 |
| | **5** | 5 | 10 | 15 | 20 | 25 |

Finally, by breaking down the risk scores (which based on the above table range from 1 to 25) into five equal intervals, the below risk levels can be established (indicated in the above table by different shades of grey).

| Risk score | | Risk level |
|---|---|---|
| From | To | |
| 1 | 5 | Very low |
| 6 | 10 | Low |
| 11 | 15 | Moderate |
| 16 | 20 | High |
| 21 | 25 | Very high |

A risk is considered inherent risk if risk eliminating or mitigating measures have yet to be put in place, while the risk remaining after introducing such measures is considered residual risk.

Residual risk is assessed in the same way as inherent risk: the probability and impact of risks after putting in place mitigating measures should be re-evaluated in line with the methodology described above. In case of high and very high inherent risk levels, the mitigating measures (to be) put in place shall facilitate reducing the residual risk level to at least moderate level.

The above calculations shall be carried out using the annual risk assessment table.

Fraud risk assessment:

Fraud risk assessment process is the same as risk assessment process: clearly documented with exhausting justifications and adequate supporting evidence.

The anti-fraud cycle: prevention, detection, correction and prosecution should be put in place to avoid fraudulent behaviour.

| Anti-fraud cycle | |
|---|---|
| **Prevention** | - Commitment to combat fraud and corruption and has a zero-tolerance policy against fraud. |
| **Detection and reporting** | - Recommendation to check expenditures with 'appropriate scepticism'.<br>- A mandatory control checklists.<br>- A template to report any cases of suspected fraud.<br>- A 'whistle-blowing' procedure.<br>- Suspected fraud cases report to national law enforcement bodies or directly to OLAF. |
| **Correction and prosecution** | - Suspected fraud to be transmitted to the competent national body.<br>- Ensuring recovery of expenditure unduly paid. |

**Disclaimer**: Cooperation can be complex, and while Interact's job is to make it easier, Interact cannot offer assurances on the accuracy of our pan-European information in any specific context.

Furthermore, understanding and knowledge evolves throughout the programming period. If you spot something out of date or inconsistent, please contact us at communication@interact.eu



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