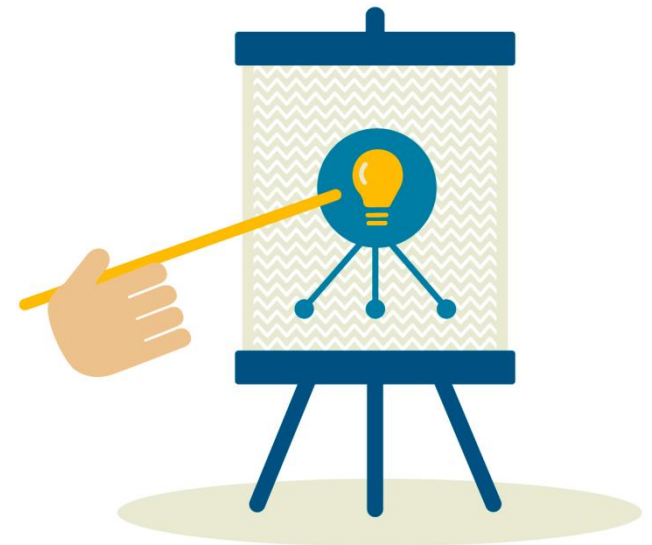# Risk-based verifications and sampling

Management verifications in Interreg

21/02/2018 I Thessalonoki, Greece

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Sampling

- Sampling involves the application of control procedures to less than 100 % of items within a class of transactions or budget lines.

- Routinely applied by certified auditors, second level control, EC auditors etc.

- Was used in some ETC FLC systems (on-the-spot, administrative).

- Usually done if it is impossible, unnecessary or not practical to control all expenditure items.

Risk

- Potential error source

Risk assessment

- Aimed at obtaining a better understanding of potential error sources related to the project, the beneficiary, the type of expenditure, etc.

- Sampling methodologies often include risk assessments as a basis for planning the sampling methodology.

Risk-based approach to control (1)

Decrease control work for low-risk control areas where certainty more controls will not result in the discovery of material errors, such as:

1. Items of low value (e.g. bus tickets, plastic bags, pens, etc.)

2. Standard internal processes for which it is already known that they function well (e.g. payment processes, deduction of VAT, staff cost budget line, etc.)

Risk-based approach to control (2)

➢ **Increase control work** for control areas where the risk of material errors is high, even if difficult to control.

➢ More thorough controls: Spend more time, pay more attention to details, etc.

1. Infringement of public procurement rules,

2. Double funding,

3. Lack of existence and reality,

4. Fraudulent external expertise arrangements,

5. etc.

Risk-based approach is not new to controllers

Controllers ...

1. are very aware of potential risks (especially experienced controllers)

2. have good feelings about the quality of the reports they control

3. many adapt their work over time to the quality of reports

Intensity

Administrative verifications

Guidance on management verifications: Where justified, verification of a sample of expenditure items is allowed.

On the spot verifications

Art 125.5, Reg. 1303/2013: on-the-spot verifications may be carried out on a sample basis

Methodology – Recommendations (1)

Administrative verifications

- Methodology established ex-ante (by the MA)

- Sampling based on risk factors (e.g. value of items, type of beneficiary, past experience)

- Risk-based selection is complemented by a random sample

Methodology – Recommendations (2)

On-the-spot verifications

- MA keeps records of the operations selected and description of the sampling method and reviews the sampling method annually

- Risk-based selection is complemented by a random sample

- Risks e.g.: complexity of operation, amount of public support, risks discovered during management verifications, etc.

- Sample, e.g.: high value operations, <u>problems/irregularities or unusual transactions have been previously been identified</u>

Risk

Inherent Risk

- Typical for this type of beneficiary, project or report...

Control Risk

- Related to the quality of internal accounting and controls of the beneficiary

- Assessment requires experience with the quality of the expenditure reported by the beneficiary.

- No sampling of the first report!

Inherent risk

- Inexperienced beneficiary

- Beneficiary with poor track record, known issues

- Beneficiary with other EU or non-EU grants

- Large partnership

- Large partner budget

- Private partner

- Person responsible for preparation of the financial report has changed recently

- Large public procurements

- Few tangible outputs (based on networking, meetings, etc.)

- Others (e.g. programme- or country-specific risks)

Control Risk

Assess the quality of the partner report:

1. Quality of expenditure when originally reported (e.g. good, medium, bad)

2. Number of clarifications with beneficiary

3. Quality of expenditure after clarifications

Draw conclusions for the next report.

Sampling (Example)

Simple random sampling:

1. the suggested minimum sample size per budget line is **at least 10%** of the total value of declared expenditure for the budget line

2. @ least 2 items

Key-item sampling:

1. All items that exceed 25% of the total value of the budget line.

2. Any risky item (e.g. based on type of beneficiary) and unusual or suspicious items.

No necessary to expand sample until controllers have a good feeling about the reliability of information.

Extending controls after the initial sample

Management verifications

- In case that material errors are found in the sample tested -> extend the testing **to determine whether the errors have a common feature** (i.e. type of transaction, location, product, period of time)

- Either:

  - No common feature(s): extend the verifications to 100% of the application for reimbursement, or

  - Common feature(s): project the error in the sample to the unchecked population.

- The total error is calculated by adding the errors from the risk based sample to the projected error from the random sample.

HIT Sampling methodology for administrative verifications

Sampling <u>not</u> recommended for:

1. The first partner report

2. Public procurements

3. Budget lines where quality of previous report was not sufficient

4. Simplified Cost Options

5. Unusual or suspicious items

Developing own sampling method

- Define risk factors for inherent risk

- Define quality of partner report for control risk (good, medium, bad reports)

- Develop sampling methodology consisting e.g. random sample minimum size (e.g. 10%) plus key item sample (e.g. all risky and suspicious items)

- Determine what should never be sampled

- Adapt control work over time

- Review methodology and adapt if necessary

Thematic Network on National Control -FLC

Community of National Controllers

Discussion Forum on National Control in Interreg

Topics of joint interest to controllers here:

- Tricky issues related to national control and eligibility

- Simplified cost options

- Sampling of on-the-spot as well as administrative verifications

- Harmonised tools for national control

- Simplification of national control

Thematic Network on National Control -FLC

Adding your colleagues:

https://apps.interact-eu.net/interact/main.nsf/registration.xsp

Email Florin Neculcea florin.neculcea@interact-eu.net or Aija Prince aija.prince@interact-eu.net and ask to add your colleagues.

Cooperation works

All materials will be available on:

www.interact-eu.net