

# **Risk-based management verifications in 2021-2027**

---

**Audit perspective**



# Legal framework - risk-based management verifications

- Recital 62 CPR:

“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 that takes into account factors such as the number, type, size and content of operations implemented, the beneficiaries as well as the level of the risk identified by previous management verifications and audits. Management verifications should be proportionate to the risks resulting from that risk assessment and audits should be proportionate to the level of risk to the budget of the Union.”

- Article 74(2) CPR

“Management verifications .... 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..... carried out before submission of the accounts in accordance with Article 98.”



# Legal framework – audits (in Interreg)

- Article 48(2) IR

“The audit authority of an Interreg programme shall be responsible for carrying out system audits and audits on operations in order to provide independent assurance to the Commission that management and control systems function effectively and that expenditure included in the accounts submitted to the Commission is legal and regular.”

- Article 48(3) IR

- “Where an Interreg programme is included in the population from which the Commission selects a common sample pursuant to Article 49(1), the audit authority shall carry out audits of operations selected by the Commission...”

*=> participation in the common sample is not obligatory but highly recommended*



# Legal framework – audit strategy

- Article 78 CPR

⇒ The audit authority shall, *after consulting* the managing authority, prepare an audit strategy...”

⇒ *after “consulting” does not mean joint preparation or agreement necessarily*

⇒ Newly appointed bodies to be audited *within 21 months* of the decision approving the programme or the amendment of the programme identifying such an authority.

⇒ *No designation audit, thus the AA will not automatically audit the risk-based sampling methodology right from the start – reflection on this needed and perhaps discussion with MA*

⇒ The audit strategy [shall be prepared] *based on a risk assessment*

⇒ *Different from risk-based sampling in management verifications*

⇒ *Based on risks for implementing bodies, key requirements of Annex XI, new elements in the system*



# Audits tasks related to risk-based sampling methodology

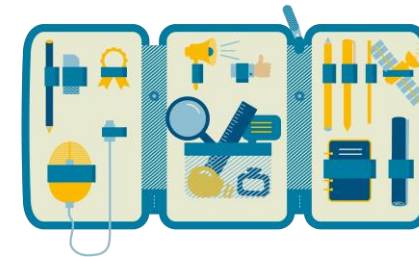
- System audits – the why?
  - ⇒ Risk based sampling needs to be audited as part of the system audit for key requirement 4 (Appropriate management verifications) as required by Annex XI
    - ⇒ *A new assessment criterion has been introduced specifically on this topic*
  - ⇒ Beneficial to audit as early as possible
    - ⇒ *An important new element of the system (potential risk)*
    - ⇒ *Possibility to reduce risk of systemic irregularities which might lead to additional work and corrections in the accounts*



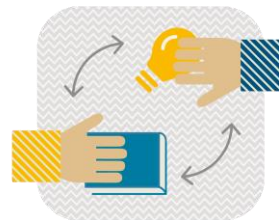
# Audit tasks related to risk-based sampling methodology

- System audits – the what?

*Regulatory  
requirements*



*Commission  
Guidance  
(reflection note)*



*Professional judgement*

# Audit tasks related to risk-based sampling methodology

- System audits – the what?
  - ⇒ Existence of methodology
    - ⇒ Ex ante
    - ⇒ In writing
  - ⇒ Risk-based and proportionate to the risk
    - ⇒ Does the auditor agree with the risk factors identified and the weighting given?
    - ⇒ Do control and audit results confirm the methodology (or does it need revision?)
    - ⇒ Are there any changes in external factors that would require changes in the methodology?
    - ⇒ Is there a provision for revision of the methodology as needed?



# Audit tasks related to risk-based sampling methodology

- System audits – the what?

- ⇒ Equal treatment

- ⇒ Not directly referenced in CPR or IR **BUT** one of the general principles of the Financial Regulation (2018/1046)

- ⇒ If controllers develop the sampling methodology, any differences within the programme must be justified and approved by the MA

- ⇒ Proper application of the risk-based methodology

- ⇒ Testing of adherence to the sampling methodology

- ⇒ What happens if error found in the sample?





# Audit tasks related to risk-based sampling methodology

- System audits – the what?

- ⇒ Timely implementation of risk assessment and management verifications
  - ⇒ Before submission of the accounts as per Article 74(2)
  - ⇒ Payments to lead beneficiary in accordance with Article 74(1)(b) CPR
  - ⇒ According to verification plan as per reflection note?

*How will verifications / resources be planned?*



# Audit tasks related to risk-based sampling methodology

- System audits – the what?

- ⇒ Audit Trail (requirements in key requirement 5)

- ⇒ All documents required for the audit trail as set out in Annex XIII CPR need to be available for all costs (not only sampled costs)

- ⇒ *With adequate documentation and electronic audit trail the audit burden for beneficiaries can be significantly decreased*



# Audits tasks related to risk-based sampling methodology

- Audit of operations – the why:

- ⇒ Audit of operations required by Article 48 and 22 IR for expenditure declared to the Commission
- ⇒ To form an opinion on the legality and regularity of expenditure included in the accounts submitted to the Commission
  - ⇒ *for Interreg programmes in the common sample the opinion on this aspect will be formed globally by the Commission*
- ⇒ Results of audit of operations also give an indication of risky expenditure
  - ⇒ *should be taken into account when reviewing the methodology*



# Audits tasks related to risk-based sampling methodology

- Audit of operations – the what:

- ⇒ Assessment of the legality and regulatory of costs in the audit sample
- ⇒ Population includes all costs declared to the Commission in the accounting year, audited costs do not depend on what had been verified
- ⇒ Global Interreg sample will be statistical, stratification only per programme
- ⇒ *Sample might include items not included in the first level control sample*



# Audits tasks related to risk-based sampling methodology

- Audit of operations – the what:
  - ⇒ Existence of the audit trail
  - ⇒ Assessment of the work of the controller
    - ⇒ the quality of the control work (if verification by controller also carried out)



# Cooperation works

---

All materials will be available on:

[\*\*www.interact-eu.net\*\*](http://www.interact-eu.net)

