**HARMONISED IMPLEMENTATION TOOLS FOR INTERREG PROGRAMMES – TN AND CBC**

**Annex 3 - INTERNAL Risk Assessment (OPTIONAL) (not part of the checklist)**

Guide to programmes and FLC: This is an example of an internal risk assessment for FLC administrative verifications. It can be used as a basis for risk-based controls and sampling. It can also be used as a means to emphasis typical issues in a programme and to raise controllers’ awareness.

The template includes an *assessment of inherent risks* (i.e. based on the experience with types of project or project partner). The list of inherent risks was identified by Controllers and Joint secretariats throughout Europe and can be adapted according to programme needs. In the beginning (prior to the actual control work) controllers fill in this table for each project partner. If risks are identified (i.e. found *applicable*), specific measures are outlined to address these risks (e.g. additional verifications) and explained in the section ‘Conclusion’.

The template also includes an *assessment of control risk* (i.e. is the risk that internal controls of the project partner are not working). This is updated for each reporting period after the verification has been completed. It provides information on the quality of the documents submitted to FLC and the reliability of the expenditure reported by cost category. The assessment of control risks can be used to justify sampling (e.g. in case the quality was good this reporting period for a certain cost category, sampling can be applied in the next reporting period, provided that no major changes occurred – see also *Sampling Methodology*).

Both assessments can be adapted to programme needs.

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| **The templates are primarily for internal use of FLC and usually NOT provided to the controlled entity.**  **It can also be made available to JS/MA or authorised third parties such as SLC and Commission auditors.** |

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| INHERENT RISK – Risk often associated with this type of project or entity.  Fill in **BEFORE** control work for the first report starts and update if necessary. | | | |
| **Inherent Risk** | **Applicable to the project/entity** | **NOT applicable to the project/entity** | **Conclusion (measures/verifications) to address the risks** |
| Inexperienced beneficiary |  |  |  |
| Beneficiary with poor track record, known issues |  |  |  |
| Beneficiary with other EU or non-EU grants (potential for double funding) |  |  |  |
| Large partnership |  |  |  |
| Large partner budget |  |  |  |
| Private partner |  |  |  |
| Person responsible for preparation of the financial report has changed recently |  |  |  |
| Large public procurements |  |  |  |
| Project with few tangible outputs (based on networking, meeting, etc.) |  |  |  |
| Others (add as necessary) |  |  |  |

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| CONTROL RISK – Risk associated with the quality of internal controls of the beneficiary.  Fill in **AFTER** control work for the first report is completed and update after each subsequent control. It serves as a basis for controlling the subsequent report.. | | | | | | | | |
| **Quality of costs declared – see checklist** | **Quality of the expenditures when originally reported** | | | **Number of clarification rounds with the beneficiary** | **Quality of the expenditures after clarifications** | | | **Note (e.g., types of errors, any observations, unusual cost items, unsolved issues, etc.). Also include here any conclusions on the possibility of sampling (for the next control report)** |
| **Good[[1]](#footnote-1)** | **Medium[[2]](#footnote-2)** | **Bad[[3]](#footnote-3)** | **Good** | **Medium** | **Bad** |
| General |  |  |  |  |  |  |  |  |
| Staff Costs |  |  |  |  |  |  |  |  |
| Office and Administration |  |  |  |  |  |  |  |  |
| Travel and Accommodation |  |  |  |  |  |  |  |  |
| External expertise and services |  |  |  |  |  |  |  |  |
| Equipment |  |  |  |  |  |  |  |  |
| Net revenue |  |  |  |  |  |  |  |  |

**HARMONISED IMPLEMENTATION TOOLS FOR INTERREG PROGRAMMES – TN AND CBC**

**Annex 4 - Sampling methodology for FLC administrative verifications (OPTIONAL) (not part of the checklist)**

Guide to programmes and FLC: This is a sampling methodology for administrative verifications developed by INTERACT based on experiences of controllers and updated with information provided in the European Commission guidance on management verifications[[4]](#footnote-4) This EC guidance points out *although management verifications of 100% of the applications for reimbursement submitted by beneficiaries are required by the regulation, verification of each individual item within each application sent for reimbursement and related proof of delivery included in an application, although desirable, may not be practical*.

Experience of many controllers also shows that often 100% verification of financially rather insignificant items drains away time from more significant verifications such as thorough verifications of public procurements.

Sampling is therefore seen as a good way to increase the quality of FLC, especially as more experience with certain project partners (and the quality of their internal controls) becomes available over time.

The sampling methodology developed appears in line with the recommendations provided in the European Commission guidance on management verification (draft): *Therefore, selection of the expenditure items to be verified within each application sent for reimbursement, where justified, may be done on a sample of transactions, selected taking account of risk factors (value of items, type of beneficiary, past experience), and complemented by a random sample where considered necessary to ensure that all items have probability to be selected. The sampling methodology used shall be established ex-ante by the managing authority and it is recommended to establish parameters in order that the results of the sample checked can be used to project the errors in the unchecked population. In case that material errors are found in the sample tested, it is recommended to extend the testing to determine whether the errors have a common feature (i.a. type of transaction, location, product, period of time) and then either extend the verifications to 100% of the payment claim or project the error in the sample to the unchecked population.*

In parts this sampling methodology is stricter than EC guidance (e.g. the first report or public procurements are never sampled).

The sampling methodology can be adjusted to programme needs.

First Level Control applies a **risk-oriented control approach**, which is adapted throughout the lifetime of the project and for each financial report. Risk-oriented means that controllers focus verifications on areas where, according to their assessment, the risk of material misstatement is high, and reduce control work in areas, where the risk of material misstatement is low.

In case of doubt, controllers extend verifications up to a 100% of supporting documents.

In order to have sufficient evidence for the risk assessment, sampling of expenditure items is excluded for the verification of the first financial report.

Based on the results of this first administrative verification, the controller concludes on risks for the project and the project partner and determines the purpose and type of control procedures and the extent of controls for the verification of the next financial report (see *risk assessment* templates).

**Basic principles of sampling**

* Sampling is done per budget line based on the total population of items under this budget line.
* Sampling items (i.e. the units that are in the total population) are for example: monthly payments to an employee, invoices, business trip reports, monthly office and administration costs, etc.
* Non-statistical sampling is applied, namely a combination of[[5]](#footnote-5):
  + Key-item sampling (i.e. selection of specific items, see below)
  + Simple random sampling
* A 100% verification is done in case of:
  + The first report
  + Public procurements[[6]](#footnote-6)
  + General controls on the List of Expenditures (see *Audit trail checklist - List of Expenditure* of the FLC checklist)
  + Budget lines, where a high risk was identified in the previous report(s): i.e. less than 98% of the total amount declared in this budget line was found eligible AND errors were NOT well defined or confined and could NOT be sufficiently addressed by the project partner during clarifications.
  + Simplified cost options
  + Unusual or suspicious items
  + Items of significant value (i.e. those above 10% of the total costs declared under the cost category in this reporting period)
* The minimum sample size for random sampling per cost category is at least 10%[[7]](#footnote-7)of the costs declared under each cost category in this reporting period AND at least 2 items. Should items exist that are unusual or suspicious or exceed 25%[[8]](#footnote-8) of the total costs declared under the cost category in this reporting period, they are additionally included in the sample.
* If the initial 10% sample shows that the quality of the information provided is not as good as expected, the sample size is extended. The purpose of extending the sample is to determine whether or not errors have a common feature (e.g. type of transaction, location, period of time, product/output[[9]](#footnote-9), name of employee, etc.).
* In case no common features can be determined, the sample is extended to 100% payment claim.
* In case common features can be determined, the total error can be determined by verifying all relevant items (i.e. those likely to be affected by the same/similar error). Alternatively, controllers can project the error in the sample to the unchecked population based on a fair and transparent method.[[10]](#footnote-10)

1. **Good** according to the methodology used. E.g., more than 98% of the total declared amount was found eligible. [↑](#footnote-ref-1)
2. **Medium** according to the methodology used. E.g., less than 98% was found eligible but the error(s) were well defined and confined and were addressed by the project partner in clarification rounds. [↑](#footnote-ref-2)
3. **Bad** according to the methodology used. E.g., less than 98% were found eligible and errors were NOT well defined or confined or could NOT be addressed sufficiently by the project partner in clarification rounds. Sampling is not recommended in this case. [↑](#footnote-ref-3)
4. Guidance document on management verifications to be carried out by Member States on operations co-financed by the Structural Funds, the Cohesion Fund and the EMFF for the 2014- 2020 programming period; DRAFT March 2014 [↑](#footnote-ref-4)
5. The draft EC Guidance also recommends a combination of the two approaches. [↑](#footnote-ref-5)
6. The draft EC guidance recommends verification of all public procurements as best practice: Verify all public procurements above EU threshold and sample those below. **Programmes may wish to set a limit below which a purchase it not considered a ‘public procurement’.**  [↑](#footnote-ref-6)
7. This is an estimate of what is required. Programmes and controllers can of course increase the size of the initial sample. [↑](#footnote-ref-7)
8. Also an estimate that can be adjusted. [↑](#footnote-ref-8)
9. List of common features: see also draft EC guidance. [↑](#footnote-ref-9)
10. Both methods also recommended in draft EC guidance. [↑](#footnote-ref-10)