METHODOLOGY IN PRACTICE

Controllers experiences and impressions

Risk-based Management Verifications in Interreg
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IT-HR Methodology

	IT-HR
Administrative verifications	
Key items - risky items (100% Fully verified):	*Procurement for contracting amounts equal or above Programme threshold of EUR 10.000,00 (excl. VAT);*
	Staff costs of the first and last progress report where staff costs occur. Furthermore, staff costs of a new staff member included for the first time in the progress partner report, or if significant changes in the staff costs occur (> 20%) in the time allocation of staff members (if the fixed percentage method is used) or if there are changes in the staff costs methodology (e.g. a change from fixed percentage method to full time).
	VAT (for projects with total costs of at least EUR 5m, including VAT or in case of State aid).
+ Professional judgment:	*At least one item per cost category must be selected , where available. Item(s) to be controlled are selected from the remaining population of reported real costs and 10% of value (of the remaining reported real costs) must be included in the sample .* *The controller should briefly justify why a certain expenditure item has been checked (list of criteria is given)*

IT-HR Methodology

	IT-HR
On-the-spot verifications	
	based on a risk assessment that considers 3 criteria: 1. **existence of equipment of a certain value, specifically, on site verification of equipment is performed by controllers for all items with a purchase cost equal or above EUR 10.000,00 (VAT excluded).** *Therefore, the unit value of a piece of equipment equal or above EUR 10.000,00 (VAT excluded) is the trigger for inclusion of a partner in the on-site verification sample (next to already mentioned other criteria) and only this equipment is to be checked during OTSC.* 2. **existence of Infrastructure and works of any value should be checked.** 3. **the controller's assessment based on professional judgement.**

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❖ Through experience, controller's are more confident in the application of the methodology, but also in its aggravating factors.

❖ The experience brought a lot and is crucial for further improvement.

Here are the most important impressions from the controller's perspective!

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The biggest concern at the beginning of applying the sampling methodology was...

❖ The biggest unknown is the Sample Expansion

❖ "How will we expand the sample?"

❖ Ultimately, the question arising is "how clear are the instructions on the sample expansion?"

- ❖ The first reports are inherently small and there are fewer reported costs

- ❖ Since there are fewer reported costs, the population is smaller, so the controllers end up checking almost the entire report

- ❖ We believe that we will have a better idea of risk based management verifications and the actual workload only after the 3rd and 4th reporting periods are checked

Extension of sample -> staff cost

If a controller finds an error while controlling an item in staff costs budget category, the sample must be extended to:

I. one more item related to the same project team member if available

II. one more item related to the same month (but of another project team member) if available

III. one more item from the same staff costs calculation methodology (of another project team member) if available

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Extension of sample -> in any other budget category

❖ the sample is to be extended to at least one more item with common features if available. If after the extension of the sample no common features to the error are determined, the sample can be extended to a 100% verification of the reported costs in the affected budget category if errors in initial sample persist.

❖ If there are no more costs in respective budget category one item is to be selected from another real cost category (equipment, external and/or works).

Sampling features

❖ Sampling requires time because the system itself does not generate the sample of costs which need to be checked automatically (through an option generated in JEMS)

❖ Sampling is time-consuming because it needs to be done in line with all requirements and formalities

What does it mean applied to reporting options?

Cost categories	Option n.1	Option n.2	Option n.3
Staff costs	REAL costs (Part time with fixed percentage method or Full-time)	20% Flat on other direct costs	REAL costs (Part time with fixed percentage method or Full-time)
Office and administrative costs	40% Flat on Staff costs	15% Flat on Staff costs	15% Flat on Staff costs
Travel and accommodation costs		15% Flat on Staff costs	15% Flat on Staff costs
External expertise and services costs		REAL costs	REAL costs
Equipment costs*		REAL costs	REAL costs
Infrastructure and works*		REAL costs	REAL costs

* This cost category is available only for Standard projects.

Controllers' experiences for each cost reporting option (6 months ago and now)

1st option

6 months ago:

❖ The controller looks for audit trail for all cost categories, although it is not required for this option

❖ It is confusing that some audit trail is required in Option 2 and 3, but it is not required in Option 1 (costs of travel and accommodation)

Now:

❖ *How to expand a sample*

❖ *What would be considered an error*

Controllers' experiences for each cost reporting option (6 months ago and now)

2nd option

❖ Occasionally, in the real costs category, we only have one cost reported, and this cost is not a key item. All other categories are SCOs

❖ The controller, applying the professional judgement, checks that one cost as a compulsory item, and by doing this they check the entire report

Controllers' experiences for each cost reporting option (6 months ago and now)

3rd option

- ❖ The controller checks all the costs, and only later realizes that they should have taken only some costs for the sample

- ❖ Project Partners send more documentation than necessary. By doing so, the controller is mislead to check everything

- ❖ Another dilemma with this option is how to sample the 10% of the reported real costs for professional judgement

- ❖ **Now:**

- ❖ *How to expand a sample*

- ❖ *What would be considered an error*

Risk based sampling audit trail_Interreg_IT-HR

1. Example: Risk based sampling audit trail_Interreg_IT-HR EFFICIENTN2K_R1

2. Example: Risk based sampling audit trail_Interreg_IT-HR_ML-FREE_R2

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Conclusions and Expectations

❖ Sampling is a great relief when reviewing extensive reports.

❖ It allows the controller to focus on riskier costs.

❖ From the controller's standpoint, we would prefer that the professional judgment considers only one expense, rather than 10%.

❖ We would prefer that, when an error is found in the staff costs, the sample is expanded to only one additional expense from the same cost category.

❖ Definition what is considered as an error

❖ Additional improvement of JEMS is welcome

Thank you for your attention!

Questions can be submitted at:
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