

HIT methodology for risk-based management verifications

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HIT Methodology

Scope of work

The objective of the methodology

Scope (population)

Application of the methodology

Areas of focus (risk/not risk elements)

Definitions of risk elements

Sampling principles

Minimum sample size for random sample

When sample size is extended

Approach and general principles

Management verifications are done by controllers at the level of **each project partner** and its **partner progress report**.

Partner Progress Report



Risky items (key-
item verification")

Professional
judgement

*Random sampling
of the remaining
items*

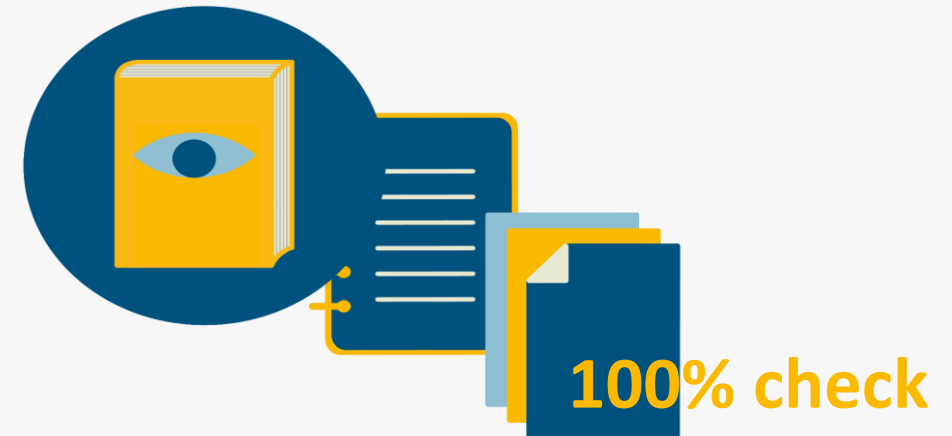


*Random sampling is **OPTIONAL**
A programme can decide to apply a random
sampling to the remaining items!*

Full verification

NOT justified, unless

analysis of the programme data suggests that some specific progress reports are riskier if the controller needs to obtain a necessary quality assurance level of the reported expenditure (if there were errors found in verified items)



Key item verification

In the context of HIT methodology, following items should be checked fully:

Public procurement for contracting amounts above EUR 10.000 (excl. VAT - unless the threshold set by the applicable programme/national rules is stricter).

Staff costs of the first two progress reports where staff costs occur. Furthermore, staff costs of a new staff member included for the first time in the progress partner report, and if significant changes in the staff costs occur (e.g. > 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 an hourly rate).

VAT (for projects with total costs above EUR 5m, including VAT).

Professional judgement

On top of the full verification of key items, the controller, based on his/her professional judgment, can select additional items from the list.

E.g.,

- Unusual
- Give rise to suspicion of fraud

- Based on the quality of the originally reported expenditure and the quality of the key-items verification
 - ✔ items similar to those where errors or ineligible expenditures were identified in the current/previous reports;
 - ✔ where repeated mistakes/errors, such as re-inclusion of ineligible expenditure (projects/reports), were noted in the previous reports.

Random sampling

Key-items verification and professional judgement can be supplemented with random sampling of the remaining (non-risky) items, based on the following sampling principles:

- sampling is done **per cost category** based on the total remaining population of items under that cost category;
- **a minimum of 2 items** per cost category is selected, **a minimum of 10%** of the remaining items.



When random sampling can be exercised?

When errors/irregularities are found in key-item verification or verification of items based on professional judgement.

When a programme does not use many simplified cost items.

Extension of sample

If the initial sample shows that the quality of the information provided is not sufficient, the sample size should be extended.

The purpose of extending the sample is:

to determine whether errors **have a common feature** or whether they are simply random errors.

If no common features are determined, **the sample can be extended to a 100% verification** of the payment claim.

On-the-spot verifications

MA is responsible for establishing the approach to the on-the-spot verifications.

On-the-spot verifications should be carried out:

- when the project is well under implementation;
- it is suggested to have at least one on-the-spot check at the project partner level that implements **productive investments** or **infrastructure**.

Review of the methodology

The MA should **periodically review** the risk elements and sampling methodology for management verifications.

The MA might **amend the methodology** based on:

- the findings from the system audits;
- results of the audit of operations carried out by the audit authorities;
- results of previous administrative and on-the-spot checks;
- external factors that could have an impact on the implementation of projects

Cooperation works

All materials will be available on:
www.interact-eu.net