



EUROPEAN COMMISSION

Directorate General for International Cooperation and Development

Resources and Centre of Gravity of Human Resources in Delegations
Audit and Control

RISK ASSESSMENT EXERCISE FOR THE PREPARATION OF THE AAR 2015

1. INTRODUCTION

The purpose of this analysis is to assess, based on the results of the past ECA DAS exercises, whether certain Internal Control Templates ("ICTs") have a significant higher error risk than others.

IMPORTANT : The samples for the yearly DAS exercises are not drawn per ICT, but on the whole population of payments for a certain period. This global sample is a posteriori split per ICT and might therefore not be genuine random and representative for each ICT sub-population. **Subsequently, it is important to interpret the results with great care and focus on relative incidence and frequency of errors rather than on absolute estimations.**

2. DATA

The total population is extracted from CRIS, using the following criteria :

- All payments signed in 2012, 2013 and 2014 are included
- Domains such as FPI, ENPI, PHARE, CARDS, IPA, IFS/RRM and NEAR-TS have been excluded

Some payments were excluded from the analysis, because the related contract could not be classified into one of the five established ICTs.

Programme Estimates, when identified as such, are included in ICT IV (Indirect Management with Beneficiary Countries)

Where an encoding error in the database, extracted from CRIS, was noticed, it was corrected in the workfiles, but not directly in CRIS.

3. ANALYSIS

The results, based on a 95% confidence level, are presented hereunder.

Given the fact that the sizes of some ICT populations per year do not permit an analysis on yearly basis, it was decided to carry analysis on the basis of the combined three-year sample and population. This has the advantage to provide more reliable information in terms of risk areas, even if it neutralises any possible information about error trends.

The variation in sample size between the different ICTs prevents from having similar confidence intervals everywhere, which affects in turn the interpretation of the results, as explained in the introduction.

Two approaches have been considered :

- One based on the number/percentage of transactions with errors, reflecting the frequency of errors
- One based on the error rate contribution of the transactions with error

3.1 Analysis based on the percentage of transactions with errors

This analysis was executed, following several steps:

- The transactions sampled and audited by the Court were classified by ICT
- Then, per ICT, the percentage of sampled transactions which contained at least one error was calculated, giving as a result the estimated frequency of errors per ICT
- Subsequently , this result per ICT for the sampled transactions, needed to be projected to the whole ICT population. Therefore, the confidence interval, in order to guarantee a 95% confidence level, was calculated.

The results are displayed in the table below, showing for each ICT its frequency with the corresponding confidence interval.

1. % ERROR FREQUENCY		
2012, 2013 & 2014	DISPLAY with confidence interval	
ICT	BUDG	FED
I – Direct Management – Grants	48% [39% - 57%]	63% [49% - 77%]
II – Direct Management - Budgetary support	2% [0% - 6%]	8% [4% - 12%]
III – Direct Management – Procurement	20% [8% - 32%]	13% [1% - 25%]
IV - Indirect management with Beneficiary Countries	23% [12% - 34%]	44% [38% - 50%]
V - Indirect management with International Organisations and Member States Agencies	24% [14% - 34%]	40% [31% - 49%]
GLOBAL	28% [23% - 33%]	36% [32% - 40%]

Looking at the figures, different conclusions can be drawn:

- Grants (ICT I) come out clearly as having the highest estimated error rate.
- Indirect management ICTs (IV and V) follow, but it is difficult to make a distinction between both, since there is a strong overlap of confidence intervals.
- Budget Support (ICT II) shows a very low estimated error rate, compared to the other ICTs.
- Even if the frequency of errors is relatively low, it is difficult to draw conclusions about Procurement at this stage, given the reduced sized of the sample.

These conclusions are identical for both Budget and EDF.

3.2 Analysis based on the error rate of transactions with errors

Here again, the analysis was done, following several steps :

- The transactions sampled by the Court were classified by ICT
- Per ICT, the contributions to the global error rate, for all sampled and audited transactions containing an error were summed and divided by the number of sampled transactions for this specific ICT, giving as a result an estimated average error rate per ICT.
- The results for the ICT sample are then projected to the whole ICT population. The confidence interval was calculated in order to guarantee a 95% confidence level.

The results are displayed in the table below, showing for each ICT its average error with the corresponding confidence interval.

The figures for the average error rate are logically much lower than those for the first approach which represents the frequency of errors.

2. AVERAGE ERROR RATE		
2012, 2013 & 2014	DISPLAY with confidence interval	
ICT	BUDG	FED
I – Direct Management – Grants	4.51% [2.11% - 6.91%]	7.15% [3.04% - 11.26%]
II – Direct Management - Budgetary support	0.02% [0% - 0.06%]	0.63% [0% - 1.34%]
III – Direct Management – Procurement	2.55% [0% - 6.82%]	1.41% [0% - 3.96%]
IV - Indirect management with Beneficiary Countries	1.70% [0% - 3.54%]	3.72% [2.04% - 5.40%]
V - Indirect management with International Organisations and Member States Agencies	5.44% [1.13% - 9.75%]	3.68% [1.59% - 5.77%]
GLOBAL	3.29% [1.88% - 4.71%]	3.35% [2.38% - 4.32%]

Here, the analyses for Budget and EDF need to be looked at separately.

For Budget, Indirect Management with IOs and Member State Agencies (ICT V) and Grants (ICT I) have the highest estimated error rate.

For the EDF, grants (ICT I) stand out once more, followed by both Indirect Management types (ICT IV and V). In this case, it is very difficult to rank ICT IV and V, especially with regards to their similar and overlapping confidence intervals.

When it comes to budget support (ICT II), the estimated error rate is nearly negligible, both for EDF and Budget.

As for the other approach, given the reduced size of the sample, it is very difficult to draw conclusion about Procurement at this stage.

4. CONCLUSION

Whatever approach is used for the analysis, there is no doubt that *Grants* (ICT I) and can confidently be identified as the higher risk area. This applies to both Budget and EDF.

Besides grants, contracts under *indirect management* (ICT IV and V) are a significant risk area, with a clear emphasis on those with *international organisations and Member State Agencies* (ICT V) when it comes to Budget.

No conclusions can be drawn about Procurement at this stage.

Budget Support (ICT II) has a negligible risk.