Auditdienst Rijk
Ministerie van Financiën

Riskbased Management Verifications

From an AA perspective

The Audit Authority of the Netherlands

Auditdienst Rijk Ministry of Finance

Independent, knowledgeable and committed

14-09-2023

Audits by AA on EU funds within NL

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05-10-2021

Roles and responsibilities

- The AA must safeguard its independence and avoid the risk of collusion

- As expert of risk-based audits, we can advise on risk models and on the pros and cons of choices about the approach

- **The MA is responsible for making the analyses and choices**

Roadmap to a risk-based approach and methodolgy

To define an approach/methodology

It (never) ends with a continuous process of risk evaluating and adjusting

It starts with gathering knowledge

Gathering knowledge

The 3B's model:

- Knowing the **B**usiness
    - Specific inherent risks of branches/lines of business in the program
    - Risks of conflicts with program goals

- Knowing the **B**udget
    - Materiality
    - High value-Low value
    - Procurement risks

- Knowing the **B**eneficiary
    - Specific inherent risks for types of beneficiaries within the projects

Choices to make (among others)

Percentage of financial coverage

Program expenditure level or project expenditure level

Integral/in full verification or partial observation of high-risk expenditures or entities/projects/partners

Partition in high value and low value strata

Coverage of projects/partners during a project period

The architecture of your approach/methodology

After

- Finishing the 3 B's of gathering knowledge
- Analyzing your risks
- Making up your choices

You will be able to define your approach or methodology

We can't offer you a standard recipe. The approach is program specific

We strongly advise you to construct your arguments on a solid basis and file the properly**!**

Ready?   **There will be findings!**

Evaluation – Findings

- Evaluation depends on the nature of the finding

- Is it systematic or a stand-alone error?

- Besides the finding being systematic or stand alone, there could also be an indication that the initial risk assumptions is invalid

OR

Evaluation – Findings – Systematic or stand alone

- Evaluation depends on the nature of the finding

- Systematic error
  - An error that is also likely to be present in other non-selected observations

- Stand-alone error
  - An error that is atypical, hence that is not representative to other non-selected observations (requires a lot of determination and possibly additional auditwork to proof)

Evaluation – Findings – Risk assumptions

- Initially the MA made assumptions within the risk assessment

- Findings can give an indication that the assumptions made are not valid, which has to be considered

- If assumptions deem not to be valid, the risk should be raised and additional work must be performed (risk wide, hence the complete group that the risk is applicable to)

Evaluation – Findings – Example

- The MA has a lot of hospitals that are being funded with ERDF for various research projects

- Based on historical experience the MA knows that internal systems regarding the registration of worked hours is very well established in these organisations through software that is used sector wide

- The MA therefore assigns a low risk on the Q component of worked hours for hospitals

- As a consquence, less observations are audited on the Q component of worked hours

Evaluation – Findings – Example

- During the audit, an error has been found in the Q component of worked hours

- First question: What is the nature of the error?

- Imagine that the error occured because the hospital in particular found a workaround in the system regarding the segeration of duties → which seems a systematic error

- This means, systematic for the hospital in particular. The finding itself does not portray evidence for it being applicable to other hospitals

- Hence, the risk assumptions made by the MA are still valid for other hospitals

Evaluation – Findings – Example

- Same situation, but with the knowledge that the systematic error derived from an error in the software that is used by hospitals in general

- While analysing the error, it has been found that the software has serious shortcomings

- Additional to the systematic error that also plays a role here, the assumptions of the MA to assign a low risk on the Q component of worked hours for hospitals is questionable

Evaluation – Findings – Example

- Because of the nature of these assumptions, there is an iterative learning process

- In the situation of the hospital, the MA had the assumption that the sector wide software was reliable, therefore a low risk was applied

- During the audit, it is shown that the assumtion of the MA wasn't suitable

- As a consquence, the MA selected too little observations regarding the Q component of worked hours in hospitals

Evaluation – Findings – Example

- Therefore, the MA should change its assumptions for coming periods (and apply a higher risk)

- Given the assumption was wrong, the MA should restore its error by selecting additional observations, as were the assumption not there in the initial selection

Evaluation – Final remarks of the example

- In the given example, the risk of the Q component of worked hours for hospitals was determined to be low

- Specification of risks should be given on a very detailed level and not only on a project, partner of cost type of level

- For example, the P component in the example could have a very high risk

- If in that case, the matter were to be determined on the level of cost type, the risk would probably even out to a medium risk level → which, in essence differs from a high-risk P component and a low-risk Q component

Conclusion

The risk-based approach/methodology is not static but a continuously evolving process

Risk-based verifications approach

Findings

Evaluation and additional audit work

Adjustment of approach

05-10-2021