



Technical support to the implementation and management of ENI CBC programmes

Managing the risks of the ENI CBC programmes

Guide on risk management for programme bodies and national authorities

July 2019

DISCLAIMER

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It does not necessarily reflect the views of the European Commission on the topic, and is presented to programme practitioners **for illustrative purposes only**.

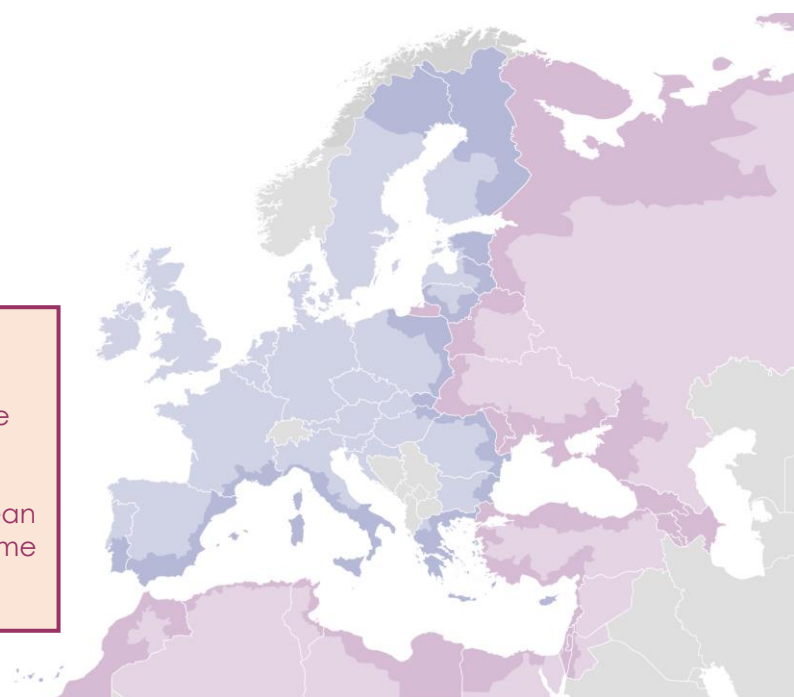


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1. Aim of this guide

The Implementing Rules for the ENI CBC programmes¹ (hereinafter ENI CBC IR) included risk management as one of the five designation criteria for the Managing Authorities. Even though a first risk assessment has been already carried out by a number of programmes, this provision obliges to perform a regular and formalized exercise every year. Therefore, all programmes included this obligation in the description of the management and control systems.

The designation criteria are in line with the international standards on internal control set by the [Committee of Sponsoring Organisations of the Treadway Commission \(COSO\)](#), where risk management is one of its five key components. This approach is confirmed by the [Communication from Commissioner Oettinger](#) dated April 2017, on the revision of the Internal Control Framework (ICF) for the European Commission.

Moreover, the importance of risk management is clearly stated as one of the objectives for internal control defined in article 36 of the recently approved [Financial Regulation](#)². **Effective risk management** provides **reasonable assurance** that the operational, reporting and compliance objectives are being achieved.

This guide **aims** at providing **background information** on the main applicable international standards on risk management, as well as **practical tools, hints and current practices from programmes** on how to put the procedures in place **in the context of ENI CBC**. A specific section will be devoted to risks linked to **fraud and corruption**.

¹ COMMISSION IMPLEMENTING REGULATION (EU) No 897/2014 of 18 August 2014 laying down specific provisions for the implementation of cross-border cooperation programmes.

² REGULATION (EU, Euratom) 2018/1046 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 July 2018 on the financial rules applicable to the general budget of the Union.

2. Why risk management?

Risk management is the systematic process of identifying, analyzing, monitoring and responding to risks.

Risk is any event or issue that could occur and adversely impact the achievement of the objectives.

Beyond the legal obligations, a **holistic approach for risk management**, not limited to a regular assessment of risks in a formal yearly exercise, may give a significant leverage to the **achievement of the programme goals**.

*“Every choice we make in the **pursuit of objectives** has its risks. From day-to-day operational decisions to the strategic trade-offs in the Joint Monitoring Committee, **dealing with uncertainty** in these choices is a part of our programme lives.”³*

As shown in the following chart from ISO, ENI CBC programmes are now in an inflection point, where they must decide which value they give to risk management and which approach they will follow:



The **degree of sophistication** of tools, the **level of detail** and the **amount of time and resources** applied to risk management have to be **proportional** to the characteristics of the programme and the value that this process may give to the achievement of goals, whether at global programme level, at national or

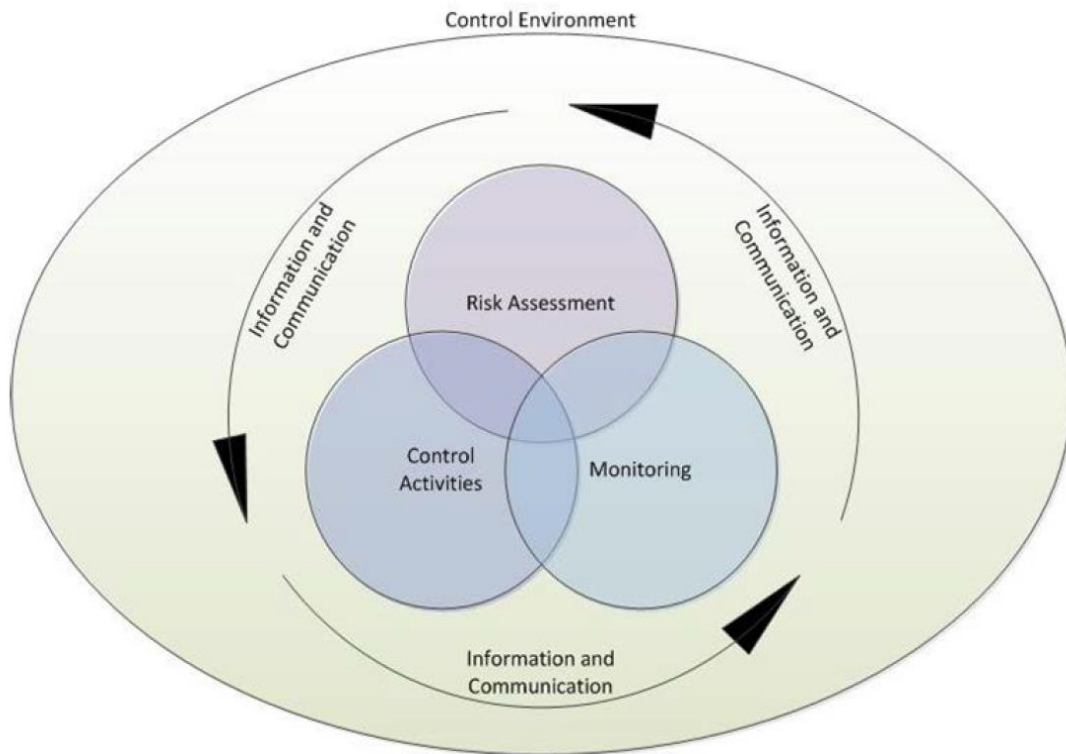
³ Executive summary. Enterprise Risk Management Integrating with Strategy and Performance. Committee of Sponsoring Organizations of the Treadway Commission, June 2017.

at project level. Moreover, in some cases the risk management by Managing Authorities is part of the overall risk management of the organization (such as a State Ministry).

Anyhow, **whatever the scale** of the exercise, we may identify several **critical factors for success**:



Thus, **risk management** cannot be seen as an isolated exercise once per year; it must be **embedded** with the other components of the internal control. Only if all the components are strongly inter-connected, the system will be effective.



Two examples:

- the scope of the control tasks and the choice of the sample of projects for the on-the-spot checks must be based on a risk exercise,
- the reports from project officers after monitoring visits must include a risk assessment section, which updates previous assessment(s) based on desk analysis or reports received.

Finally, we would like to state that risk assessment has been introduced in previous programming periods as a tool to put in place **effective anti-fraud and anti-corruption measures**, but the present guide will go far beyond this aspect. It will give reference to the documents already published by the European Commission on fighting fraud and corruption, but will focus on **how this fraud risk assessment fits into the global mechanism** of risk management, which has a much wider scope.

3. Legal framework and international standards

3.1. Legal framework

The Financial Regulation makes a direct link between the principles of sound financial management and internal control, in particular efficiency and effectiveness. There are two mentions to risk management in this article:

1. The support of risk management to the compliance objectives leading to eligibility of expenditure,
2. The need of adequate risk management as a necessary tool supporting the achievement of the strategic goals, that is, effectiveness.

There is also an explicit mention to “**best international practices**”. In the next section of this chapter, we identify the main applicable international standards and briefly describe the main elements of these standards with a potential direct use in the context of ENI CBC.

The use of risk management as required by the Financial Regulation has a direct stipulation in the annex of the ENI CBC IR:

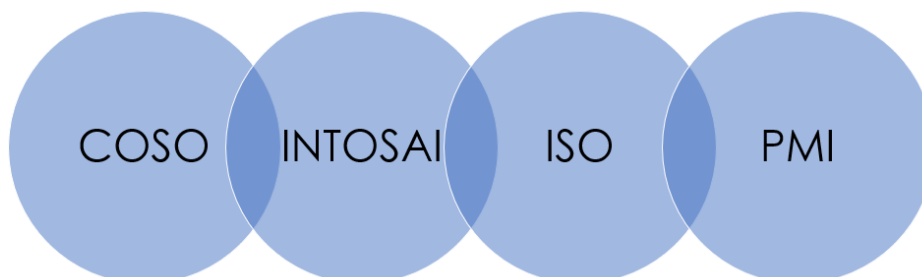
2. Risk management

*Taking into account the principle of **proportionality**, a system for ensuring that an **appropriate risk management exercise** is conducted at least once per year, and in particular, in the event of major modifications of the activities.*

The next question is then: **what is an appropriate risk management exercise?** We will start finding the answers in the international practices.

3.2. International standards

There are four main entities issuing international standards, which may be used for risk management:

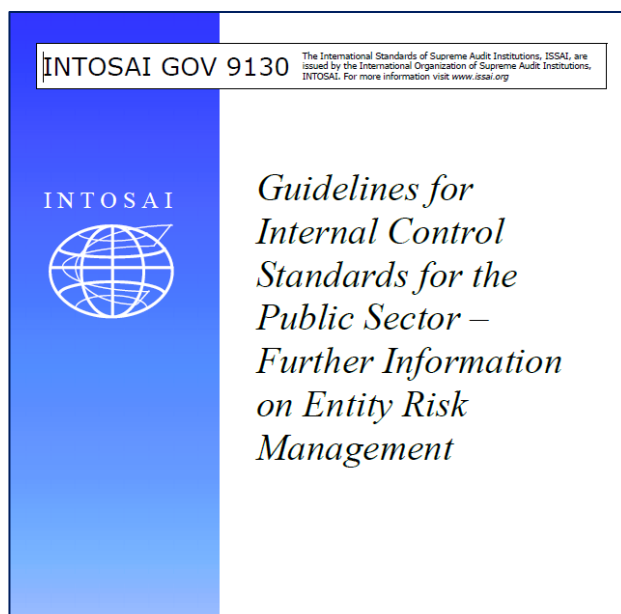


Considering that it is explicitly endorsed by the European Commission, the international standards on internal control set by COSO, in particular its Entity Risk Model (ERM), are the main source of inspiration of this document. COSO has issued a number of [guidance documents](#), which are fully available by purchase, but some are for free download. Some examples are:

- Internal control – Integrated framework
- Enterprise Risk Management – Integrating Strategy with Performance
- Fraud Risk Management Guide
- Risk Assessment in Practice

Even though COSO addresses its documents mainly to private bodies, the standards and tools may be adapted and applied in the context of ENI CBC.

INTOSAI also issues internationally accepted standards, some of them addressed to the public sector, such as the [INTOSAI Guidance for Good Governance \(INTOSAI GOV\)](#).



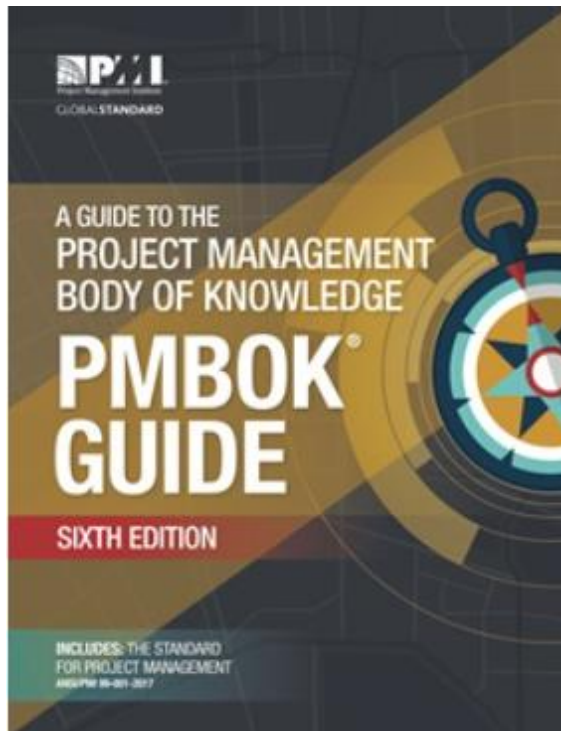
This standard adapts COSO's framework to the specificities of the public sector. Therefore, the references to "Enterprise" are substituted by "Entity".

These guidelines put the focus on the need of all public entity, whichever its mission, to face uncertainty and the challenge to determine how much of it may accept, while striving to obtain the best value and to manage public resources properly.

ISO has its own standard on risk management, which may also be a source of inspiration for the set-up of the systems in ENI CBC: [ISO 31000](#). As in the case of COSO, this standard is originally addressed to private entities, even though it may also be adapted to the specificities of public bodies in the framework of ENI CBC.

Another useful document is the [Guidance on Project Management \(ISO 21500\)](#), which includes recommendations on risk management at project level, some of which may also be adapted to programme level.

Finally, the American entity [PMI](#) provides interesting standards on project management, also usable by programmes and projects.



In particular, chapter 11 of “[A guide to project management body of knowledge \(PMBOK © Guide\)](#)”, includes practical tips and good practices on the set up and performance of risk management by projects.

If INTOSAI is the adaptation of COSO's framework to public bodies, PMBOK is the adaptation to project management.

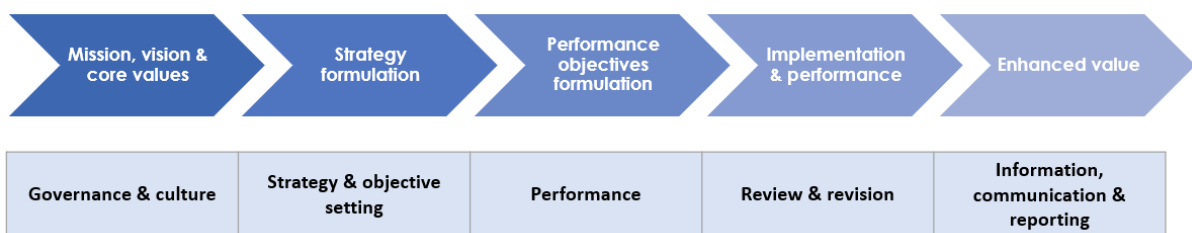
Some elements of this guide are easily adaptable to the programme level and will be described in the next chapter.

4. Basic features of risk management

This section develops some key aspects of the international standards identified in the previous chapter.

4.1. The risk management principles

COSO and INTOSAI define 'risk management framework' as a set of principles organized into five interrelated components:



| Component |
|---|
| Governance and culture: governance sets the organizations' tone, reinforcing the importance of oversight responsibilities, ethical values, desired behaviours, and understanding of risk in the entity. |
| Strategy and objective-setting: risk management, strategy, and objective-setting work together in the strategic-planning process. A risk appetite is established and aligned with the strategy; performance objectives put the strategy into practice while serving as a basis for identifying, assessing, and responding to risk. |
| Performance: risks that may impact the achievement of the strategy and the performance objectives need to be identified and assessed. Risks are prioritized by severity in the context of 'risk appetite' ⁴ . |
| Review and revision: by reviewing performance, an organization can consider how well the risk management components are functioning over time and in light of substantial changes, and what revisions are needed. |
| Information, communication, and reporting: risk management requires a continual process of obtaining and sharing the necessary information, from both internal and external sources, which flows up, down, and across the organization. |

⁴ The concept of 'risk appetite' is described in the next section.

4.2. Basic definitions

The international standards on risk management set a very specific terminology for the basic concepts. In particular, INTOSAI 9100 includes five basic definitions, which are necessary for the understanding of the risk process:

| Concept | Definition |
|---------------------------------|--|
| Risk assessment | The process of identifying and analyzing relevant risks to the achievement of the objectives and determining the appropriate response |
| Risk identification | The process of determining what can happen, why and how |
| Risk analysis/evaluation | The systematic use of available information to determine the likelihood of specific events occurring and the magnitude of their consequences, taking into account its significance |
| Risk register | Risk recording and monitoring tool |
| Risk appetite | The amount of risk that an organization is prepared to accept. Different levels of risk appetite may apply to different activities |

4.3. The risk management process

Before starting the first iteration, that is, the first fully-fledged risk management exercise requested by the ENI CBC IR, two prior elements are necessary:

- Getting the **mandate** from the top management and engaging all concerned stakeholders to ensure an adequate **commitment**,
- Initiating the process by **establishing the context**, which includes the **design of the risk management framework**,

All the international standards stress the importance of the initiation process; the way you develop the framework will set the tone during all the programme cycle.

4.3.1. Preliminary phase: establishing the context and designing the framework

Once we get the clear mandate and commitment, we can start the development of the design of the risk management framework, which once

finalized in its initial moment, becomes also iterative, thanks to the monitoring of its implementation and the continual improvement.

Tip#1: revise your DMCS if necessary, as a strong internal control system is essential for effective risk management.

The **first step** of the risk management process will be to identify the concerned stakeholders.

Tool #1: you will find in annex 1 a template for the **stakeholders' matrix**, including instructions on how to fill it in.

The **second step** will be setting the objectives...but **are they not set in the Joint Operational Programme (JOP)?** The [evaluation guide](#) from DG Near identifies three types of objectives. The first two are included in the JOP, but not the third type. Let's see them:



Which objectives are we referring to for the programme performance level? According to INTOSAI, on top of the **strategic objectives**, we have to set: **operational, reporting and compliance** ones. We have a clear indication on them in article 36 of the Financial Regulation (FR), which we can classify following the INTOSAI categories:

| INTOSAI category | Objective in article 36 of FR |
|--------------------|--|
| Operational | Effectiveness of operations |
| | Safeguarding of assets and information |

| | |
|-------------------|---|
| Reporting | Reliability of reporting |
| Compliance | Efficiency and economy of operations |
| | Prevention, detection, correction and follow-up of fraud and irregularities |
| | Adequate management of risks relating to the legality and regularity of the underlying transactions [...] |

These objectives must be transformed into SMART objectives, which are usable by the programme bodies and national authorities, including adequate measurement through indicators. Baselines can be estimated from the available data from ENPI CBC 2007-2013.

Tool #2: you will find in annexes 2 & 3 templates for the problem analysis and the objective analysis, which may be used for setting these objectives, using the logframe methodology.

Let's see some examples⁵:

| Type of objective | Objective | Indicator | Baseline from 2007-2013 | Target for 2014-2020 |
|--|--|--|-------------------------|----------------------|
| Operational (effectiveness of operations) | To support projects in achieving their objectives | % of projects reaching more than 90% of the target values of their specific objectives, as set in their logframe | 75% | 85% |
| Reporting (reliability of reporting) | To get reliable expenditure verification reports from project auditors | % of reports with no additional ineligible expenditure after administrative checks | 30% | 50% |

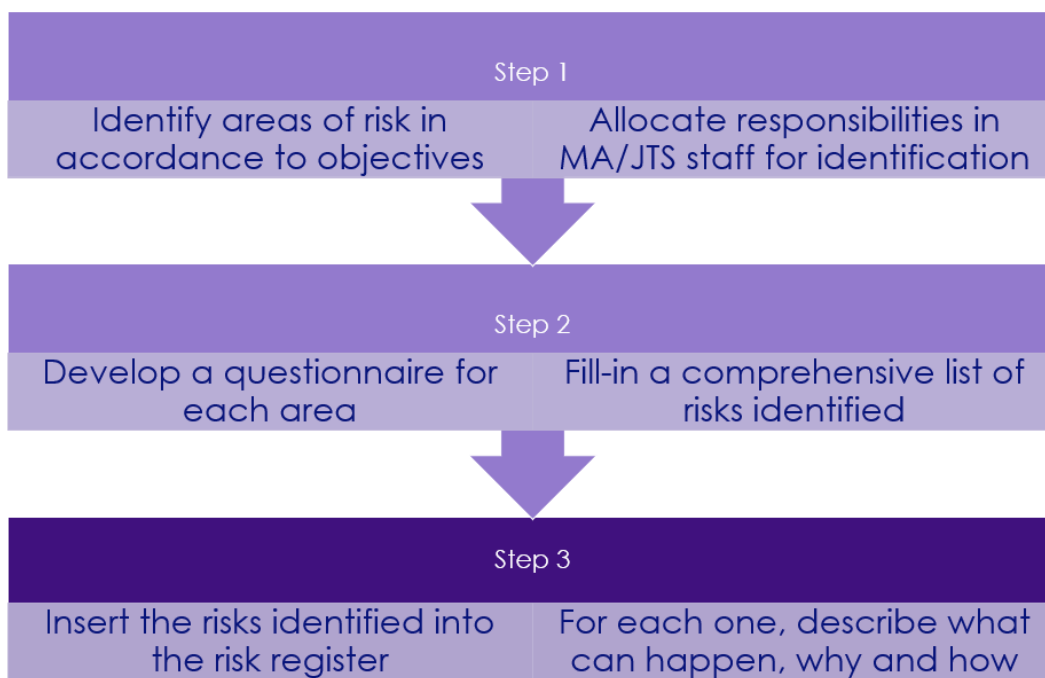
⁵ The values are just an example and they do not correspond to any available statistical data. They have to be calculated by each programme.

| | | | | |
|---|--|--|-----|-----|
| Compliance (legality and regularity) | To ensure compliant secondary procurement by beneficiaries | % of procurement procedures compliant with rules | 75% | 95% |
|---|--|--|-----|-----|

And last, but not least: **allocate responsibilities**. See point 4.3.7.

4.3.2. Risk identification

The **first phase** involves identifying those incidents, occurring internally or externally, that could prevent the achievement of the defined objectives. The events that may have a negative impact represent **risks**, while the ones that may have a positive one, represent **opportunities**. The steps should be:



Tip #2: the assessment of risk is the next step. Therefore, do not just identify the events which might have a high risk of occurrence or a big impact. **Identify ALL the potential events.**

INTOSAI 9310 gives some **examples of typical risks**, which we adapted to the ENI CBC context:

- Failure in measuring performance,
- Failure to monitor implementation,

- Failure to select adequate projects,
- Loss or misappropriation of funds,
- Project delays and difficulties in delivery of results,
- Inadequate skills or resources by the teams,
- Low understanding of the rules.

Classify the events in accordance to its **link to the objectives**. In the context of risk management, an event not linked to an objective is incompletely described.

4.3.3. Risk assessment

The **second phase** allows to understand the extent to which potential events might impact objectives. The assessment of the risks is double-fold:

- The likelihood (probability)
- The significance (impact)

You must employ a combination of both qualitative and quantitative assessment methodologies to evaluate the risks both on an inherent and residual basis. **What does this mean?**

| Type of assessment | Inherent risk | Residual risk |
|---|---|--|
| Significance (the consequences if the risk event takes place) | The extent of the consequence for the programme if the risk arises in the absence of control | The extent of the consequence for the programme if the risk arises in the presence of control |
| Likelihood (the probability of the risk event occurring) | The probability of the risk arising in the absence of controls | The probability of the risk arising in the presence of controls |

The result of the analysis must be recorded in the so-called **risk matrix**, which may be at the same time the **risk register** - where to record the events, linked to the objectives - but also the tool to **record the assessment**. The matrix may be simple or complex, but organisations usually assess the risk with a simple colour code.

Simple risk matrix example

| LIKELIHOOD | CONSEQUENCE | | |
|------------|-------------|----------|-------------|
| | Minor | Moderate | Significant |
| Unlikely | Low | Low | Medium |
| Possible | Low | Medium | High |
| Likely | Medium | High | High |

Detailed risk matrix example

| LIKELIHOOD | CONSEQUENCE | | | | |
|----------------|--|--|--|--|---|
| | Insignificant | Minor | Moderate | Major | Critical |
| Rare | LOW Accept the risk Routine management | LOW Accept the risk Routine management | LOW Accept the risk Routine management | MEDIUM Specify responsibility and treatment | HIGH Quarterly senior management review |
| Unlikely | LOW Accept the risk Routine management | LOW Accept the risk Routine management | MEDIUM Specify responsibility and treatment | MEDIUM Specify responsibility and treatment | HIGH Quarterly senior management review |
| Possible | LOW Accept the risk Routine management | MEDIUM Specify responsibility and treatment | MEDIUM Specify responsibility and treatment | HIGH Quarterly senior management review | HIGH Quarterly senior management review |
| Likely | MEDIUM Specify responsibility and treatment | MEDIUM Specify responsibility and treatment | HIGH Quarterly senior management review | HIGH Quarterly senior management review | EXTREME Monthly senior management review |
| Almost Certain | MEDIUM Specify responsibility and treatment | MEDIUM Specify responsibility and treatment | HIGH Quarterly senior management review | EXTREME Monthly senior management review | EXTREME Monthly senior management review |

Tool #3: you will find a **template for risk matrix** in annex 4. It is built by merging and adapting the fields of the matrix used by several ENI CBC programmes. You may adapt it or use it as a source of inspiration.

4.3.4. Response to risks

Once we identified and assessed the risks, you must evaluate which are the possible responses, taking into account the risk appetite and their cost/benefit, as well as the degree to which the response will have the capacity to reduce the impact or the likelihood.

Therefore, the first step in this phase, if not already established, is to decide on the **risk appetite**, that is, decisions about responses to risks have to be taken in conjunction with an **identification of the amount of risk that can be tolerated**.

Tip #3: do not be misled by the peculiar name of this key concept. You have limited resources and you must set priorities. Defining the **risk appetite** on a solid basis **will allow you to take decisions** and reduce or even avoid efforts devoted to events with low probability to occur and low impact, if they happen.

So, **what to do with the risks identified?** There are four types of responses:

- **Treat risks** - through internal control activities, such as closer follow-up during monitoring or including them in the key elements of the on-the-spot checks. ⁶
- **Transfer risks** – for example, by contractual conditions, like bank guarantees. ⁷
- **Tolerate risks** - when the cost of taking any action is disproportionate to the potential benefit gained, no action is taken.
- **Terminate risks** - when the only possibility to treat the risk or contain it to an acceptable level is terminating the related activity, e.g. by terminating a project.

4.3.5. Control activities

Control activities are the policies and procedures that help ensure that management risk responses are carried out. We can find four broad categories⁸:

- **Preventive controls**, designed to limit the possibility of risk maturing and an undesirable outcome being realized, such as clear instructions to project beneficiaries,
- **Directive controls**, designed to ensure that a particular outcome is achieved. They are particularly important in critical risks, often linked to compliance objectives, such as ex-ante check of procurement procedures,
- **Detective controls**, designed to identify whether undesirable outcomes have occurred after the event, focused on-the-spot checks on specific topics,
- **Corrective controls**, designed to correct undesirable outcome that have been realized, such as non-acceptance of incurred expenditure.

4.3.6. Last steps

Once the risk is treated, we must implement the two last steps of the process, in order to complete the cycle and open the door to **continual improvement**:

- **Monitoring** the identified events and the effectiveness of the mitigating measures

⁶ In some cases, in particular where there is a high impact but low probability, you may envisage the preparation of a contingency plan.

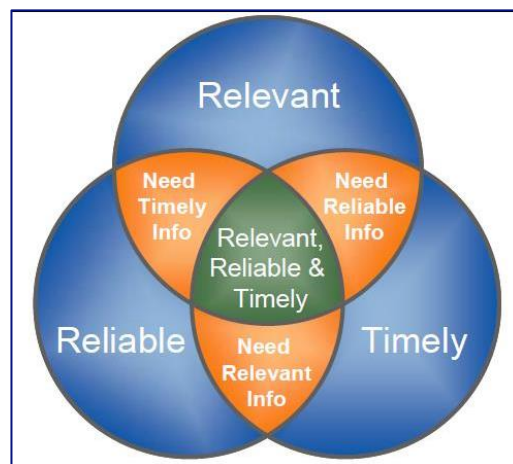
⁷ Remember that you will never be able to transfer reputation; if the third party fails, you will still remain accountable.

⁸ According to INTOSAI GOV 9310.

- **Report** to the concerned stakeholders about the results of this monitoring process

The monitoring activities imply that the institution applies policies and procedures to ensure that the risk responses are carried out. The appointment of a **risk owner for each type of risk**, that is, someone responsible for monitoring the occurrence of the event and the implementation of the responses, is essential for the success of the monitoring stage.

On the other side, the risk owner must be the reference person for any flag alert, raised by any stakeholder. He/she must also be the main source of information of the risk manager or the risk committee (see next subsection). The flow of information and communication between the concerned persons must be ensured through clear and direct reporting procedures. The risk management is not a one-off exercise and not even a yearly exercise; it must be embedded in the daily procedures to be effective. For that purpose, we must ensure to have **suitable information**, which should be provided by the concerned stakeholders via the programme's management and information system:



As indicated in the annex of the ENI CBC IR, once per year the programme will have to carry out a risk management exercise, that is, back to the beginning of the process, revise and eventually extend the identification of events, taking into account the results of the monitoring and report stages.

4.3.7. Risk manager and/or risk committee

As already mentioned, the success of this internal control component depends on an adequate allocation of responsibilities amongst the staff of all the bodies concerned. We can envisage two overall key roles on top of the key owners:

- **Risk manager**, who must be responsible, either at programme level or at institution level, to keep and permanently update the risk register,
- The **risk committee**, which may be created as a coordination body of the risk managers of the different concerned institutions, e.g. MA-JTS-BO or NA-CCP-MoGoA at country level.

Tip #4: ensure that all concerned staff, especially the risk managers and the members of the risk committee, receives adequate **training**. Also ensure that the **procedures** envisaged in the Description of the Management and Control Systems take these functions adequately into account.

4.4. Risk of fraud and corruption

The fight against fraud and corruption deserves a **specific strategy** by the programmes, including an ad-hoc exercise of risk management. Therefore, the methodology and the tools should be adapted to the special characteristics of combating them, as a key component of the effective anti-fraud and anti-corruption measures required by the applicable regulations. This ad-hoc exercise should be assigned to a specific risk owner, without duplicating the above-mentioned proposed committee.

4.4.1. Anti-fraud strategy by DG Near

On the strategy level, the key document for the ENI CBC programmes is the “**DG NEAR Anti-fraud strategy 2016-2017**”, which is included as annex 5 of this guide.

Tip #5: check the specific type of risks identified by DG Near, which tackle the participating Partner Countries of ENI CBC and verify if they are relevant to your programme.

The document includes an action plan, which involves the role of OLAF and the **anti-fraud focal points** in the Partner Countries. These same correspondents are identified in the Financing Agreements signed for ENI CBC. It is important to ensure **synergies** and complementarities between the work carried out by DG Near and these national bodies. Risk of **duplication** of activities must also be avoided.

4.4.2. Tools for fighting fraud and corruption by DG Regio

The TESIM guide on “Development of the description of the management and control systems in ENI CBC programmes” recommended to adapt and use as

a source of inspiration the “[Guidance note on fraud risk assessment and effective and proportionate anti-fraud measures](#)”.

This guide includes a whole section on fraud risk assessment and an annex with a specific grid. This grid is different from the template proposed for others risks in this guide, as it has a particular scoring system and pre-filled-in potential risks and examples of effective controls, both at application stage and at project implementation stage.

Tool #4: use, adapt and complete the anti-fraud grid annexed to DG Regio's guide. You can find it as annex 6.

5. Risk management levels

Risk management is explicitly stipulated as one of the internal control components in the annex of the ENI CBC IR. Therefore, it is one of the designation criteria assessed by the Audit Authorities during the compliance assessment. In particular, the check-list on compliance prepared by TESIM includes the following key question:

KEY QUESTION

Does the Managing Authority (MA) identify risks to the achievement of its objectives across the organisation? Are risks analysed as a basis for determining how they should be managed?

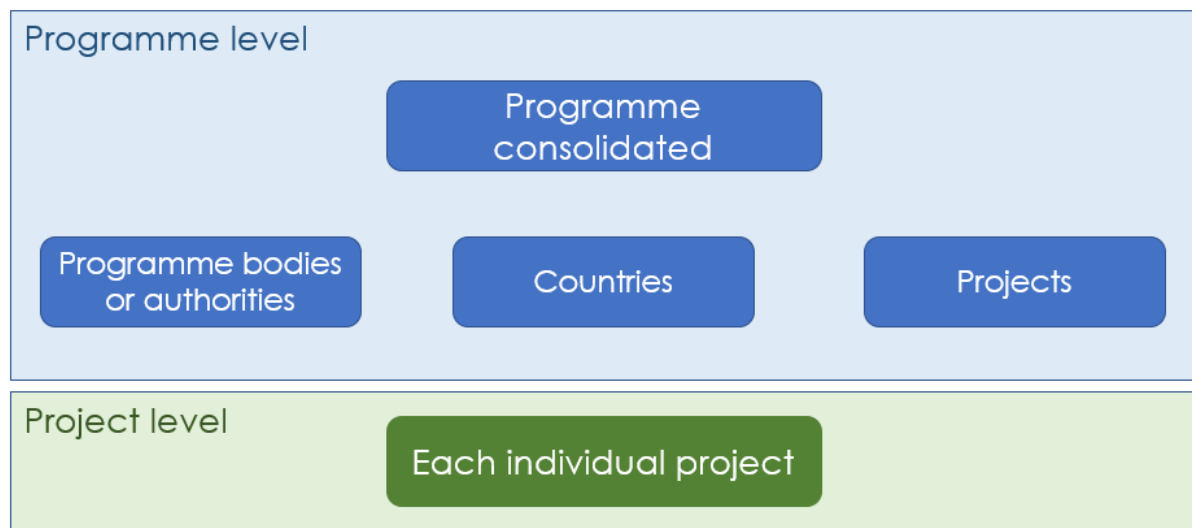
The question is developed with the following additional ones:

| # | Questions |
|---|--|
| 1 | Does the MA specify its objectives with sufficient clarity to enable the identification and assessment of the risks relating to them? |
| 2 | Are the procedures in place to ensure that the MA conducts regular risk assessment exercises (at least once per year) which allow to identify, assess and address existing and potential issues that may hamper the achievement of the objectives? If yes: <ul style="list-style-type: none"> • Who performs them? • At what level are they performed? (organizational level, specific-activities level, etc.) • What kinds of risks are identified (internal, external)? • Are they documented? |
| 3 | Do the procedures foresee that the risk assessment is done on a regular basis and in the event of major modifications of the activities? |
| 4 | Do the procedures foresee to: <ul style="list-style-type: none"> • Identify events and risks affecting the achievement of the objectives? • Analyse the significance of the risks and the likelihood of their occurrence? |

- Determine actions and follow-up mechanisms needed in response to the risks?
- Implement and modify controls to respond to changes in identified risks?

The system audit by the AA as far as the risk management is concerned will review the implementation of these questions; perhaps with some adaptations.

ENI CBC programmes constitute a **complex ecosystem**: multi-country, multi-bodies, multi-authorities, multi-type of beneficiaries, etc. Therefore, the risk exercise **cannot become the sole responsibility of the MA**. A multi-level complex system requires multi-level complex risk management involving all concerned actors, in order to be “appropriate”, as required by the ENI CBC IR.



Risk management must a programme level must work as a consolidation of different layers, including the project level.

5.1. Programme level

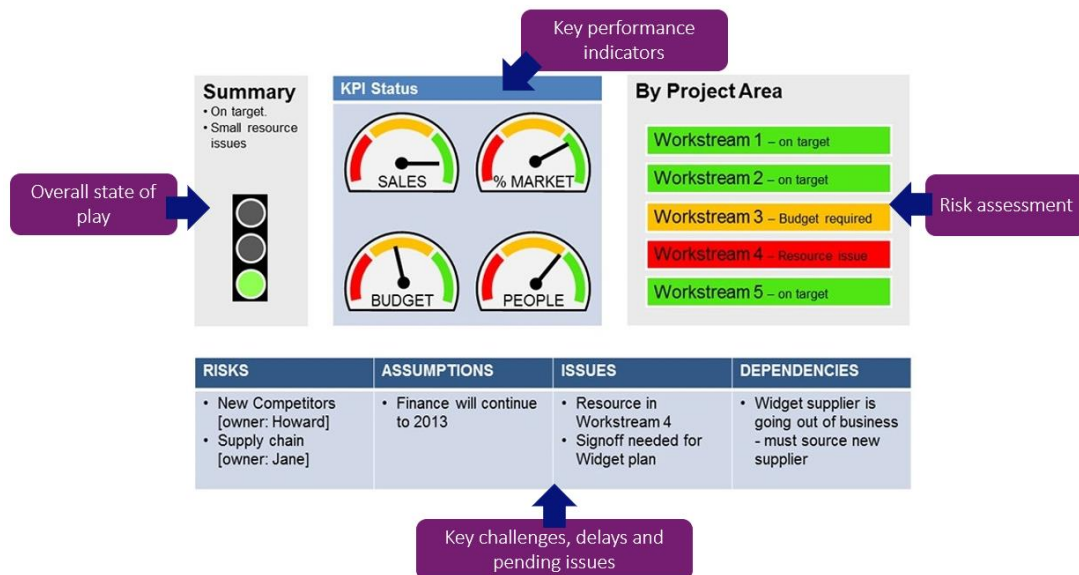
“The Joint Monitoring Committee shall follow the programme implementation and progress towards its priorities using the objectively verifiable indicators and related target values defined in the programme. The Joint Monitoring Committee shall examine all issues affecting the programme performance.” (article 24 of ENI CBC IR)

This task can only be carried out with an adequate flow of information supplied by the MA, who will need, at its turn, to get a reliable supply chain of

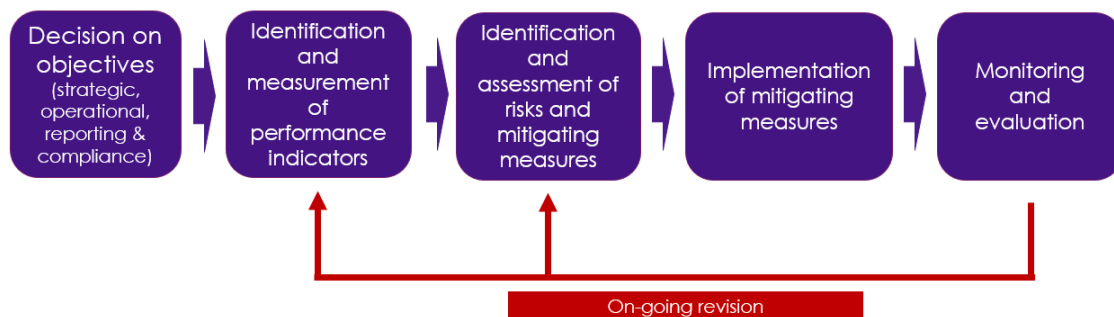
information from the other programme bodies and national authorities supporting management and control.

Tip #6: Read the section on risk assessment in pages 84 and 85 of “*DG Near Guidelines on linking planning/programming, monitoring and evaluation*”.

One of the components of the **information for monitoring and evaluation**, which must be available for the Joint Monitoring Committee (JMC), will be the results of the risk management. As recommended during the Monitoring and Evaluation Network Event organised by TESIM in April 2018 in Brussels, MAs should build adequate **dashboards** at the disposal of the different stakeholders. These dashboards must include risk assessment elements, as in the following example from the private sector:



This way, the JMC will have adequate data to examine programme performance and may take evidence-based decisions and issue recommendations to the MA.



Tip #7: embed the risk indicators with your information for monitoring and evaluation at all levels. If integrated in the dashboards, the different stakeholders will have at their disposal permanently updated data. The colour code will allow you to fix priorities.

5.2. Programme body or authority

Each programme body and authority - namely the MA, the JTS and the BOs - need to perform their contribution to the programme's risk exercise⁹.

These bodies may carry out their risk exercise individually or not, depending on the organizational structure of the programme. For example, in some cases the BOs work with a high dependency of the JTS and may join it in the risk assessment. However, we recommend that each body carries out its own contribution to the risk management exercise, following the principle of proportionality. The setting up phase should include training staff and bring ownership to the risk-driven attitude needed for an effective risk management.

There are three key elements in the organisation of the risk management by the programme:

- Adequate **procedures** in the description of management and control systems
- Good allocation of tasks and capacity building for all staff, including identification of **risk owners**, appointment of a **risk manager** per each body or, optionally, a **risk committee** supporting the permanent update of the consolidated data to a single **programme's risk manager**.

Example #1: you will find in annex 7 the example of a risk management procedure, included in the DMCS of the Latvia-Russia programme, which includes the set-up of a risk management committee. Annex 7bis of this guide is annex 1 to that procedure, that is, the risk matrix¹⁰.

⁹ We will not tackle the risk assessment for audit purposes in this guide, so we will exclude the Audit Authorities from the content of this section.

¹⁰ The risk matrix is called "risk management plan" in the Latvia-Russia document.

5.3. National level

The governance system for ENI CBC significantly enhances the role and responsibilities of all participating countries. Therefore, the management and control of the programme is not any more the responsibility of the MA and JTS alone. In this context, also the countries must actively participate in the risk management exercise. A contribution in the global exercise at the JMC is not enough:

- NAs and CCP may include the risk management in their procedures, appoint a risk manager and carry out its own assessment at national level,
- The members of the Group of Auditors will contribute to the risk assessment for audit purposes.

Tip # 8: involve the NAs and CCPs in the risk management exercise and encourage to carry out their own process, as it will enhance the added value of your annual exercise and will provide relevant information for decision-making. **National specificities** may be lost if no country-driven approach is taken.

Example #2: the Black Sea Basin is already encouraging the NAs and CCPs in performing their risk exercise. The two leading countries are:

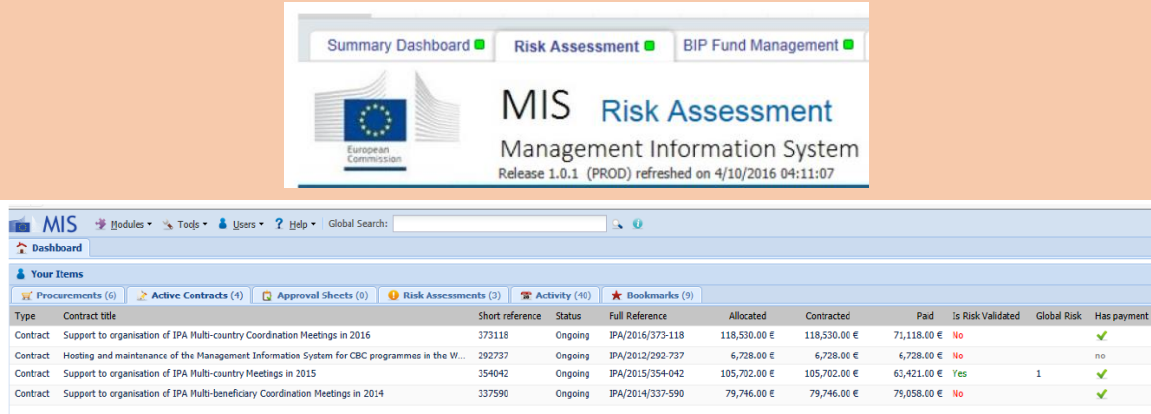
- The Republic of Moldova, which included the risk management in their national procedures and appointed a joint risk manager for NA & CCP
- Armenia, which carried out the initial steps in setting up objectives, identifying events, assessing the risks and selecting mitigating measures. See a couple of events of the Armenian analysis in annex 8, using the risk matrix template of the programme.

| Category | Objectives/activities | Description of risk and its impact | Date of identification | Who identified (structure) | Causes | Inherent risk | | | | Preventive actions | Residual risk | | | | Responsible person / structure |
|-------------------------|---|--|------------------------|----------------------------|--|---------------|--------|---------|-------------|--|---------------|--------|---------|-------------|--------------------------------|
| | | | | | | Probability | Impact | Control | Global risk | | Probability | Impact | Control | Global risk | |
| | | | | | | P | I | C | R=Ix P/C | | P | I | C | R=Ix P/C | |
| Programme participation | To increase participation of AM institutions in awarded project | Low participation, due to lack of adequate knowledge and understanding of the EU opportunities | 2018 | NA/CCP | Lack of experience (not many EU projects in AM) & inexistence of consolidated networks of partners with institutions from other countries, compared to other participating countries | 3 | 3 | 2 | 4,5 | Carry out problem analysis (why it happened); better targeted events; guidance in national and programme languages; partner forum in Yerevan with strong preparation; more coordination with the other NAs | 2 | 3 | 2 | 3 | NA |
| Compliance | To ensure adequate reliability of EVR | Irregularities not detected by controllers | 2018 | NA/CCP/MA | Lack of experience and knowledge of the controllers | 2 | 3 | 2 | 3 | Set up a long list of controllers; deliver training, together with MA & TESIM; support to controllers | 1 | 2 | 2 | 1 | CCP |

5.4. Project level by the programme

Programme success depends on the success of the projects. Therefore, ensuring an adequate monitoring and control, accompanied with appropriate risk assessment is of utmost importance.

Example #3: DG Near makes a regular risk assessment of the projects under direct management and includes the results of this assessment in the Management and Information System. It is part of the dashboard of the Project Officers.



The screenshot shows the MIS Risk Assessment dashboard. At the top, there are tabs for 'Summary Dashboard', 'Risk Assessment', and 'BIP Fund Management'. Below the tabs is the 'MIS Risk Assessment Management Information System' header, including the European Commission logo and the text 'Release 1.0.1 (PROD) refreshed on 4/10/2016 04:11:07'. The main content area displays a table with the following data:

| Type | Contract title | Short reference | Status | Full Reference | Allocated | Contracted | Paid | Is Risk Validated | Global Risk | Has payment |
|----------|---|-----------------|---------|------------------|--------------|--------------|-------------|-------------------|-------------|-------------|
| Contract | Support to organisation of IPA Multi-country Coordination Meetings in 2016 | 373118 | Ongoing | IPA/2016/373-118 | 118,530.00 € | 118,530.00 € | 71,118.00 € | No | | ✓ |
| Contract | Hosting and maintenance of the Management Information System for CBC programmes in the W... | 292737 | Ongoing | IPA/2012/292-737 | 6,728.00 € | 6,728.00 € | 6,728.00 € | No | | no |
| Contract | Support to organisation of IPA Multi-country Meetings in 2015 | 354042 | Ongoing | IPA/2015/354-042 | 105,702.00 € | 105,702.00 € | 65,421.00 € | Yes | 1 | ✓ |
| Contract | Support to organisation of IPA Multi-beneficiary Coordination Meetings in 2014 | 337590 | Ongoing | IPA/2014/337-590 | 79,746.00 € | 79,746.00 € | 75,058.00 € | No | | ✓ |

The Karelia Programme presented its experience in the Financial Network Event organised by TESIM in Brussels in June 2018.

Example #4: Karelia carries out detailed risk assessment for each awarded project during contracting and after receiving each report.

The **purpose** is:

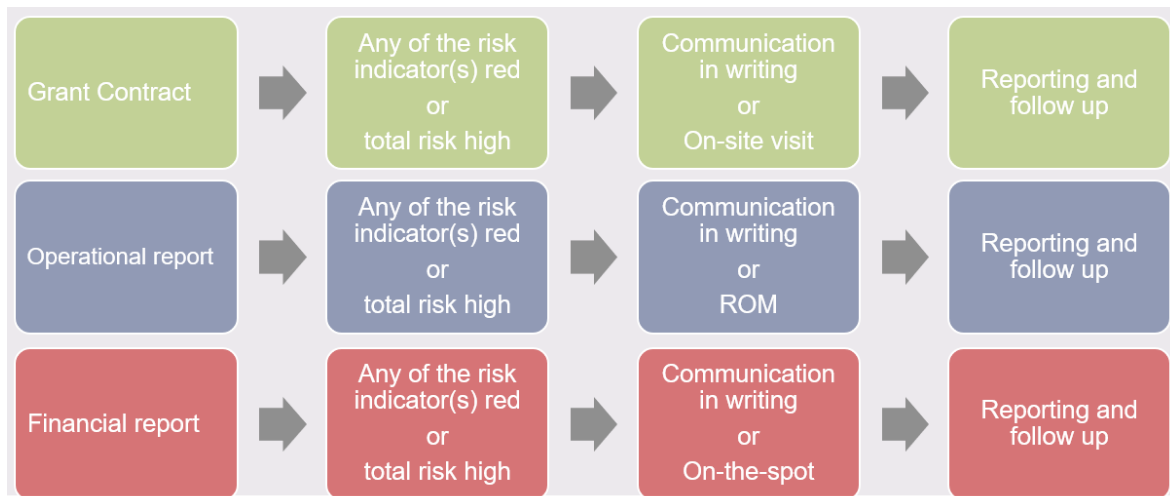
“To identify possible risks that may endanger the reaching of set objectives or the correct use of Programme funds and this way to ensure the effective and efficient implementation of projects and mitigate the misuse of funds.”

How?

“Observations are recorded, necessary actions are planned and implemented and follow-up arranged.”

The three layers foreseen so far by Karelia are shown in the following chart¹¹:

¹¹ The colours used are for presentation purposes only and do not represent any risk scale.



Tip #9: foresee individual risk assessment for projects, by using an *ad-hoc* risk matrix template:

- During contracting,
- When receiving reports from beneficiaries,
- After on-the-spot and Results Oriented Monitoring (ROM) visits,
- If receiving specific alerts (e.g. from national authorities),
- After results of audit reports by the AA

And do not forget to link the risks with the objectives set at the beginning of the risk management process.

Tool #5: you will find in annex 9 the tool used by Karelia for the project risk assessment.

| | Verification criteria | | | Project ID | | MA Contact person | |
|---|---|---|---|-------------|---|---|--|
| | LOW: 1 point | MEDIUM: 2 points | HIGH: 3 points | Contracting | MA's comments (in case of points 2 and 3) | MA's further actions and follow-up measures | Result and status of actions and follow-up |
| 1. MANAGEMENT CAPACITIES | | | | | | | |
| 1.1. Number of partners | 1-3 | 4-5 | >5 | | | | |
| 1.2. Human and organizational resources of the partner consortium | Good, qualified resources | Adequate level of qualified resources available | Overestimated or underestimated, not qualified | | | | |
| 1.3. Technical expertise (please note that expertise may be outsourced) | Good knowledge and sufficient expertise | Adequate knowledge / technical expertise | Do not have necessary knowledge / technical expertise | | | | |
| TOTAL POINTS: Headline 1 | | | | 0 | | | |

The **risk owners** of this individual assessment must be the programme Project Officers, in close coordination with the risk manager. These grids are a key source of information for the determination of the annual sample for the on-the-spot visits, as well as for the ROM.

Example #5: Estonia Russia carried out in March 2019 the first pilot exercise of risk assessment of the selected projects. For that purpose, the programme developed its own template, focused on the evaluation of pre-determined inherent risk factors, as shown below:

| INHERENT RISK FACTORS OF THE PROJECT | | |
|---|---|--|
| Project identification | | |
| Project Lead beneficiary | | |
| Inherent risks – risks associated with the project or the beneficiaries* | | |
| Inherent risk factors | Risk impact | Remarks of the PM |
| 1. Project design and partnership | | |
| Project end date is close to 31 December 2022 | Low | |
| Size of the partnership | High | |
| Changes in the partnership | Low | Change of partner due to administrative reform |
| Type of the partnership | Medium | NGOs as beneficiaries |
| Risks identified by the project | High | High risks identified in the AF by the project |
| 2. Finance | | |
| Lead Beneficiary from Russia | Low | |
| Availability of own financing | Medium | NGOs as beneficiaries |
| Size of the project budget | High | |
| Presence of State aid in the project | Medium | |
| Increase of infrastructure costs | Low | |
| 3. Activities and indicators | | |
| Significant contribution of the project towards programme indicators | Low | To be checked with the table of indicators |
| Seasonal character of works for investment and research | Low | |
| 4. Management, coordination and visibility | | |
| Exceeded deadlines set by the programme (reports, explanations, clarifications, additional documents, payment requests, etc.) | Low | |
| Communication with the JTS (including BOs/MA and other communication) | Low | No problems noticed, good communication |
| Relevant risks and level | | <i>Formulas to be decided after an initial assessments done by the JTS</i> |
| Overall risk profile | DEFAULT CONTROL MEASURES | |
| | Mandatory | |
| | <i>Day-to-day monitoring</i> | |
| | <i>Check of the progress reports</i> | |
| | <i>One mandatory on-spot (after the 1st PR)</i> | |
| | Additional | |
| <i>JTS participation in the project activities (until 1st reporting period)</i> | | |
| <i>All horizontal activities</i> | | |
| <i>Close communication with the auditors/public officers (EV)</i> | | |

Tool #6: you will find in annex 10 the tool used by Estonia-Russia for the project risk assessment, including objective scoring system for the risks. It includes the identification of some risks to be assessed during implementation and not included in the initial risk assessment.

Please see other examples of project risk assessment by programmes in the **TESIM Guide on the MA/JTS verifications**.

5.5. Risk management by the project beneficiaries

ENI CBC programmes have a rich variety of projects if we take into consideration their main features: size of the budget, number of beneficiaries, number of countries, type of activities, level of experience of beneficiaries, etc. Therefore, any approach to risk by project beneficiaries must comply with the **principle of proportionality** (e.g., a large infrastructure project of several million Euro will have a more sophisticated risk management system than a 50.000 € soft project).

Following this principle, any project (all beneficiaries) must have an effective internal control system, as part of the five keys for a solid financial management:



DG NEAR expects projects to perform risk management, as stipulated in the module on internal control of the [Europeaid's Financial Toolkit](#), published in 2010. The check-list annexed to this module includes the three following questions on risk:

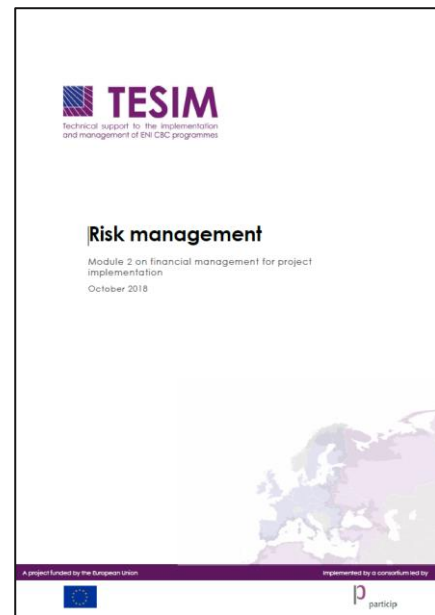
| C. RISK MANAGEMENT | | | | | |
|--------------------|---|--|--|--|--|
| C1 | Is there a process for identifying the major risks of the project (including financial risks), together with their likelihood of occurrence and their potential impact? | | | | |
| C2 | Is there a plan or process to alleviate/reduce/respond to these risks? | | | | |
| C3 | Is this plan documented in writing? | | | | |

For this purpose, TESIM developed a specific module on risk management for projects, which is part of the [written materials for financial management](#) of the e-platform GOFORNICBC.

The module includes two templates for risk matrix:

- Standard template
- Template for low-value grants¹² (below 60.000€)

We include these documents also as annexes to this guide.

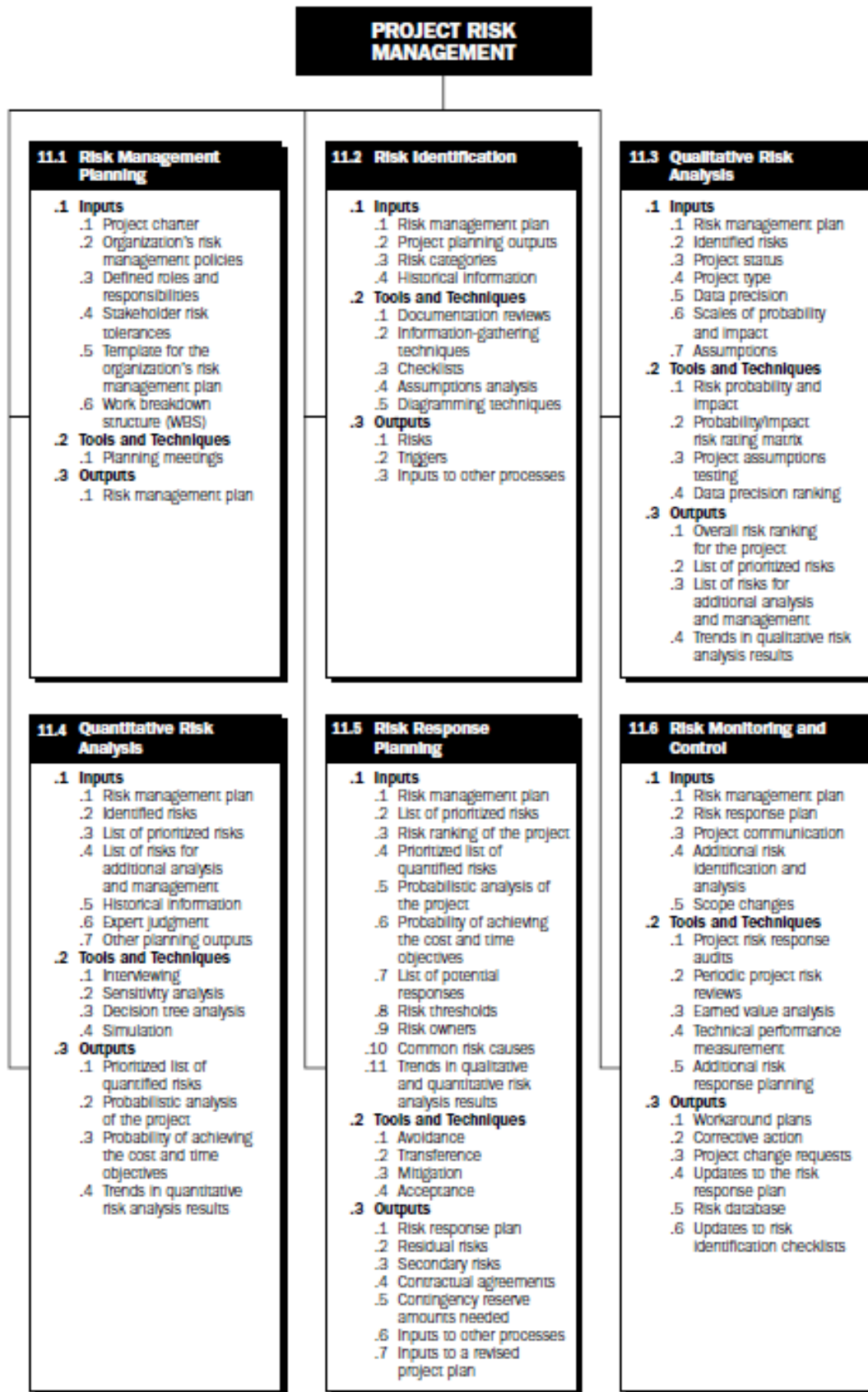


Tool #7: you will find in annexes 11 and 12 the risk matrix templates for the project beneficiaries.

In the case of high-value grants, we recommend that programme bodies encourage a fully-fledged risk management exercise. A good methodology for this exercise can be found in chapter 11 of “[A guide to the Project Management Body of Knowledge \(PMBOOK © Guide\)](#)”, mentioned in section 3.2.4 of the present guide.

The **overview of the process**, including, **inputs, tools** and **outputs** for each phase for **high-value grants** recommended by this guide, are clearly summarised in the following chart:

¹² 'Low value grants' means a grant lower than or equal to 60.000€ according to article 2(41) of Financial Regulation (REGULATION (EU, Euratom) 2018/1046)



6. Final wrap up

Informal risk assessment is natural to any programme and project manager, but we need to shift from assessment to **integral risk management**. Moreover, formalizing risk management may bring a significant **added value**, if there are the adequate conditions and clear ownership of the process and its goals by all concerned stakeholders.

Regardless of the formal legal obligations, ENI CBC have the advantage of designation criteria covering the whole internal control components described by the international standards and should try to take advantage of this opportunity to integrate good practices.

| Bad practice | | Good practice |
|---|-----|---|
| Risk management as an objective in itself | vs. | Risk management to help achieve objectives |
| Auditor/staff driven | vs. | Driven from the top |
| Rules based | vs. | Performance and principles based |
| Off-the-shelf system | vs. | Tailored to the organization |
| Focused on loss minimization only | vs. | Also focused on creation of value |
| Mainly hard controls | vs. | Recognizing influence of culture and attitude |
| Stand-alone | vs. | Integrated |
| Static, out of date | vs. | Dynamic, evolving |
| Seen as a costly obligation | vs. | Seen as a sound investment |

Tip #10 the importance of people: no matter how good the procedures or the templates, effective risk management relies on people. You must ensure:

- Tone from the top on the importance of risk management
- Good training
- Ownership
- Clear allocation of functions
- Link between the duties of each person and the outcome of the risk exercise

Some final conclusions:

Control activities have to be proportionate to risks and may be either preventive or detective

Control needs to provide reasonable assurance of confining loss within the risk appetite

Every control activity has a cost, so it must offer value in relation to the risk that it is addressing

Risk environment is constantly changing, so priorities, objective and importance of risks will shift and change

Risk management needs to be an ongoing, iterative process to identify changed conditions and take actions as necessary

Last tip: effective risk management is a **powerful tool**; **involve** all concerned stakeholders and **embed** it in your daily procedures!

List of annexes

- Annex 1.** Stakeholders' matrix template
- Annex 2.** Problem tree template
- Annex 3.** Objective tree template
- Annex 4.** Template of risk matrix
- Annex 5.** DG Near anti-fraud strategy 2016-2017
- Annex 6.** Anti-fraud grid DG Regio
- Annex 7.** Risk management procedure of Latvia-Russia Programme
- Annex 7 bis.** Risk matrix of Latvia-Russia Programme
- Annex 8.** Examples of risks identified in Armenia
- Annex 9.** Project risk tool of Karelia Programme
- Annex 10.** Project risk tool of Estonia-Russia Programme
- Annex 11.** Risk register for projects
- Annex 12.** Risk register for projects with low-value grant