METHODOLOGY FOR RISK-BASED ASSESSMENT

The following document represents the Programme Operator’s approach to risk assessment and random sampling methodology for projects to be included in the Annual site visit plan.

Risk management is a process, which includes identification, assessment, planning, implementation and control of all potential and uncertain events that may have a negative effect and impede the achievement of the (project) objectives. Risks may have an impact on almost all variables in a project such as timescale, budget, personnel, scope and objectives, etc.

A definition for risk is “An uncertain event that affects the achievement of project objectives and results”.

Those uncertain instances and situations are usually perceived to have negative impact on the achievement of project objectives. However, some of them may have a positive one, i.e. savings in the budget may allow for the inclusion of additional activities (soft measures) in the project plan or the supply of extra equipment.

For the purposes of the current analysis, only negative risks will be considered.

According to art. 5.6.1(i) of the Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021 (the Regulation) the Programme Operator (PO) shall conduct “annual monitoring of a sample of projects, selected based on risk assessment and including random samples”. Another requirement stipulated in art. 5.7.2 is that the PO shall submit to the National Focal Point a monitoring system.

In addition, the Results Guideline (the Guideline) recommends that POs conduct monitoring based on the following approaches – results-based, risk-based and compliance-based. The on-site monitoring visits implemented by the PO shall be included in the (annual) monitoring plan – annex 5 to the Guideline.

Annual monitoring plan (Annex 5 to the Guideline)

In order to manage risks the PO needs to develop a procedure to be able to capture and follow up risks throughout the lifecycle of the projects. The PO shall establish a management approach where the basic principles for the elaboration of the monitoring plan are stipulated.

The risk management procedure includes the following steps (phases) – identification, assessment, planning and communication.

Risk identification is the first phase of the risk management process. The phase consists of analysis of all instances, which are most likely to occur, jeopardise and therefore potentially affect the achievement of the project objectives and Programme outcomes.

Identification of risk factors based on distinguishing whether they are external or internal to the Programme, the PO and promotors respectively, as well as the interrelation between their likelihood of occurrence and impact and the risk response has already been done in Annex 4 to the Guideline “Mandatory risk assessment and mitigation analysis template”.

The risk-based assessment for the purposes of the annual monitoring plan concerns those events that affect the project implementation. The development of the annual monitoring plan aims to set the minimum requirements for the PO’s management strategy to follow project implementation.

Therefore, the PO, based on its previous experience and the requirements set out in the Regulation, defines a number of pre known risk factors (tools) which will be used to assess projects and include the ones with the highest risk in the plan. Recommended tools to be used together with other criteria are listed in the Results Guideline and further included in the Management and Control Systems (MCSs) due to the fact that the PO has used the same approach for the preparation of monitoring plans under the Norwegian Financial Mechanism 2007-2014 and other financial instruments. The risk criteria are:

1. Projects which have a significant impact on the overall objective of the programme;
2. Projects considered of interest to multiple stakeholders or innovative projects;
3. Projects exceeding a certain pre-established euro value;
4. Expired time as of the start date of the contract;
5. Project promoter’s experience.

Having identified the risk criteria PO defines also the weight that each of them has in the calculation of the risk analysis for each project. The tables below show how PO assesses each project based on their weight:

Table 1

|  |  |
| --- | --- |
|  | Weight |
| Risk criteria | % |
| 1. Value of the project | 25 % |
| 2. Project promotor’s experience – historical data for similar previous projects such as complexity, value) | 15 % |
| 3. Elapsed time as of the start date of the contract | 20 % |
| 4. Projects which have a significant impact on the overall objective of the programme | 20 % |
| 5. Projects considered of interest to multiple stakeholders or innovative projects | 20 % |
|  | 100% |

Table 2

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Value from … euro to … euro** | | | | | | | | | | |
|  | Very Low |  | Low |  | Medium |  | High |  | Very High |  |
| Projects | 1 - 25 000 | 1 | 25 001-50 000 | 2 | 50 001-100 000 | 3 | 100 001-500 000 | 4 | 500 001 - | 5 |

Table 3

|  |  |
| --- | --- |
| Elapsed time | Value |
| Up to 10% of the project duration | 1 |
| From 10% to 25% of the project duration | 2 |
| From 25% to 50% of the project duration | 3 |
| From 50% to 75% of the project duration | 4 |
| From 75% to 100% of the project duration | 5 |

Table 4

|  |  |
| --- | --- |
| Project promoter’s experience | Value |
| The Project promotor has successfully implemented 5 projects | 1 |
| The Project promotor has successfully implemented 4 projects | 2 |
| The Project promotor has successfully implemented 3 projects | 3 |
| The Project promotor has successfully implemented 2 projects | 4 |
| The Project promotor has successfully implemented 1 project or has no experience | 5 |

Table 5

|  |  |
| --- | --- |
| Projects considered of interest to multiple stakeholders or innovative projects | Value |
| Not an innovative project or a project considered of interest to more than one stakeholder | 1 |
| Project considered of interest to more than one stakeholder | 2 |
| Innovative project | 3 |
| Innovative project and a project considered of interest to more than one stakeholder (Bulgarian or donor project partner) | 4 |
| Innovative project and a project considered of interest to more than one stakeholder (Bulgarian and donor project partner) | 5 |

Table 6

|  |  |
| --- | --- |
| Projects which have a significant impact on the overall objective of the programme | Value |
| All project in Programme “Home Affairs” are considered to be of significant impact on the overall objective of the programme | 5 |

PO shall use Annex 1 to the Risk analysis to assess projects. Having calculated the total score, PO selects the projects with the highest risk to include them in the Annual plan. As for the purposes of random selection, PO shall use Excel tables. The minimum number of projects included in the Annual plan shall cover at least 20% (incl. 10% randomly selected) of the projects in implementation phase for the concrete calendar year (art. 14.1.1.1 of the MCSs). The monitoring plan shall be updated each year before its submission to the NFP together with the Annual progress report. When found necessary, the monitoring plan will be updated more than once a year (i.e. when new contracts have to be included).

PO also engages to monitor all projects at least once during the life of their implementation regardless of the fact that they may have failed to be selected through the use of risk analysis.