



The 2014-2020 Interreg Programme Management Handbook is composed of fact sheets. Each theme is covered by one fact sheet so that the reader can easily and quickly choose the relevant fact sheet.

Fact Sheet; **Anti-fraud measures**

1. What is it? What is the definition of the term / theme of this fact sheet?

Fraud: The Convention drawn up on the basis of the Treaty on European Union on the protection of the European Communities' financial interests defines fraud as: any intentional act or omission relating to (i) the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities; (ii) non-disclosure of information in violation of a specific obligation, with the same effect; (iii) the misapplication of such funds for purposes other than those for which they were originally granted.

Irregularity: Article 1(2) of Regulation (EC) No 2988/955 defines irregularity as: any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.

→ Fraud always involves an intentional act, while errors or irregularities are unintentional misstatements.

Corruption: A broad definition of corruption used by the Commission is the abuse of (public) position for private gain. Corrupt payments facilitate many other types of fraud, such as false invoicing, phantom expenditure or failure to meet contract specifications. The most common form of corruption is corrupt payments or other advantages; a recipient (passive corruption) accepts a bribe from a giver (active corruption) in exchange for a favour.

Risk: in the context of Interreg programmes risk means a potential source or errors or irregularities. Risks are usually quantified or described in qualitative terms. They can be ranked in relation to each other; for example, as low-, medium- and high risks to the programme.

Risk assessment: refers to the estimation of quantitative or qualitative risk related to a concrete situation. For example, it could be an analysis of potential error sources for the project's financial report.

Quantitative risk assessments normally require the calculation of (i) the probability that a harmful situation occurs, and (ii) the magnitude of potential loss should the situation occur. This means that a risk is high if either the probability of occurring or the magnitude of loss, or both, are high compared to other risks.

2. Why we are discussing it?

Corruption and fraud in general and in the specific context of the management of the European Structural and Investment Funds (ESIF) receive increasing public and political attention. During the 2014-2020 programming period, the authorities in charge of the programmes are being asked to put more emphasis and resources on effective and proportionate anti-fraud measures taking into account the risks identified. It is the first time that Managing Authorities (MAs) are obliged to develop and



implement an anti-fraud strategy for their programmes. Many programmes have doubts about how to tackle this and how to comply with the requirements.

3. Reference to the regulations and what is new in the 2014-2020 programming period compared with the 2007-2013 programming period

Legal framework:

- *Financial Regulation Article 59 (2):* Member States shall take all necessary measures, including legislative, regulatory and administrative measures, to protect the EU's financial interests, namely by preventing, detecting and correcting irregularities and fraud.
- *Common Provisions Regulation Article 72 (h):* Management and control systems shall, in accordance with provide for the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments.
- *Common Provisions Regulation Article 125(4) (c):* MA shall put in place effective and proportionate anti-fraud measures taking into account the risks identified.

Guidance of the European Commission:

- *Guidance on Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures:* provides assistance and recommendation to managing authorities for the implementation of Article 125(4) (c) CPR.
- *Annexes to the Guidance on anti-fraud* providing tools to implement anti-fraud measures:
 - Annex 1: Fraud risk assessment tool (MA)
 - Annex 2: List of recommended mitigating controls (MA)
 - Annex 3: Template for an anti-fraud policy statement (MA)
 - Annex 4: Checklist for AA's verification of anti-fraud measures (AA)

4. Challenges and frequently-asked questions

- Which measures are sufficient to fulfil the requirements? How to keep anti-fraud measures proportionate to Interreg programmes?
- Are Interreg programmes obliged to use ARACHNE, the specific risk-scoring tool proposed by the Commission? Some Member States are not using it; should a similar tool be used in those cases?

5. How they are addressed and how does it work in practise?

The European Commission developed a set of **anti-fraud tools** which it highly recommends programmes use. The tools will help programmes in the development of an anti-fraud policy. Central to the methodology of the European Commission is the self-assessment of the fraud risks within the programme, done by the MA. Based on the results of this assessment, programmes could decide to put in place extra mitigating controls (a list of recommended controls is indicated in annex II to the EC guidance document). The MA can draft an anti-fraud policy statement setting out the measures they will take; a template for that is provided in annex III.

In addition to these tools, the EC offers a data mining tool called ARACHNE to MAs in order to identify areas which might be susceptible to risks of fraud, conflict of interest and irregularities. It can be used as a risk-scoring tool which can increase the efficiency of processes within the programme. *The MS can decide if they want to work with this tool. Interreg programmes are not obliged to use it, but if they do not use it then they should propose an alternative tool*



As mentioned above, the **fraud risk self-assessment** is central to the Commission's proposal. The assessment follows five steps:

- I. quantification of the risk
- II. assessment of the effectiveness of the current controls
- III. assessment of the net risk
- IV. assessment of the effect of the planned mitigating controls
- V. defining the target risk

The tool targets the main situations where key processes in the implementation of the programmes could be most open to manipulation by fraudulent individuals or organisations, including organised crime, the assessment of how likely and how serious these situations could be, and what is currently being done by the MA to tackle them. Three selected key processes considered to be most exposed to specific fraud risks are targeted: selection of applicants, implementation and verification of operations, and certification and payments. This helps MAs to design anti-fraud measures that tackle specific fraud risks.

Based on the risk-assessment tool of the European Commission, INTERACT is working on a **template for risk self-assessment** which aims at containing all common controls and risks to Interreg programmes. Besides this harmonised version, there is another list of many controls performed by different Interreg programmes. The aim of this list is to share experiences among programmes so that they can also get some ideas about extra controls they could perform. The template and the list have been developed in collaboration with an **anti-fraud working group** that consists of different Interreg programmes. They are still in draft versions and will be considered "dynamic" documents in the sense that any programme is welcome to share their ideas that could be included.

Depending on questions and input from programmes, INTERACT might develop other instruments or guides to assist programmes with their anti-fraud policy.

Furthermore, INTERACT facilitates exchange of views on this topic via the management of a '**Basecamp**' platform. This online platform allows programmes to discuss certain aspects related to anti-fraud measures, or exchange good practices.

6. Good practice examples

Familiarity with the notion of risks and risk assessments can help programmes better target controls and effectively reduce the administrative burden while -at the same time- reduce errors, irregularities and fraud. Risk assessments have to be revised at least every two years, as more experience becomes available. It is important to note that inherent risks are programme-specific; they depend on the programme area as well as programme rules and the professional judgement applied by the people developing the risk assessment. In order to identify risks and develop appropriate measures to address these risks, programmes can find it useful to consult with different level of controls, including national controllers, MA/JS and audit authorities.

7. Reference to other, more-detailed papers

Risk assessment and control

- International Standards on Auditing (ISA) are professional standards for the performance of audit of financial information. These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). They contain useful information about risks and risk assessments
- Compendium of First Level Control Procedures in Territorial Cooperation (INTERACT, 2010) available at: <http://admin.interact->



[eu.net/downloads/1994/Compendium_of_First_Level_Control_Procedures_in_Territorial_Cooperation.pdf](http://www.interact-eu.net/downloads/1994/Compendium_of_First_Level_Control_Procedures_in_Territorial_Cooperation.pdf)

- HIT tools: FLC checklist, report and certificate. FLC risk assessment and sampling methodology available at: http://www.interact-eu.net/tools_for_financial_control_and_audit/tools_for_financial_control_and_audit/592/17413
- Fact sheet: Risk assessment
- Fact sheet: Audit and Control bodies
- Fact sheet: First Level Control
- Fact Sheet: Financial Corrections

EU anti-fraud policy

- European Anti-fraud Office (OLAF): EU fraud in figures
http://ec.europa.eu/anti_fraud/investigations/fraud-in-figures/index_en.htm
- Transparency International: EU Integrity System Report:
<http://www.transparencyinternational.eu/european-union-integrity-system-study/the-euis-report-latest-news/>