STUDY

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Identifying Patterns of Fraud with EU Funds under Shared Management - Similarities and Differences between Member States

Policy Department for Budgetary Affairs
Directorate-General for Internal Policies
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Identifying Patterns of Fraud with EU Funds under Shared Management - Similarities and Differences between Member States

Final Report

Abstract
This study examines the extent and nature of fraud in EU funds under shared management. It then examines the measures currently being implemented at the EU level and by Member States to help tackle the problem. A number of good practices are identified. The study concludes with recommendations to help strengthen the effort to reduce fraud in EU funds under shared management. This document was prepared for the Policy Department at the request of the Budgetary Control Committee.

This document was requested by the European Parliament's Committee on Budgetary Control.

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LIST OF ABBREVIATIONS

AFCOS	Anti-Fraud Coordination Service
ANAC	National Anti-Corruption Authority
ARCHNE	ARACHNE (database of EU-funded projects)
BDU-IGRUE	Banca dati unica - Ispettorato Generale per i Rapporti finanziari con l'UE ("Single Database - Inspectorate-General for the financial relationships with the European Union")
BKMS	Monitoring System for Business Keeper
CAFS	Commission Anti-Fraud Strategy
CAP	Common Agricultural Policy
CBA	Central Anti-Corruption Bureau
CFP	Common Fisheries Policy
CF	Cohesion Fund
CNLF	National Committee against Fraud
CNRs	Common National Rules
DAISY	DAISY (database of EU-funded projects)
DG BUDG	Directorate-General for Budget
DG REGIO	Directorate-General for Regional and Urban Policy
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG MARE	Directorate-General for Maritime Affairs and Fisheries
DIGIWHIST	DIGIWHIST (database of EU-funded projects)
EDES	Early Detection and Exclusion System
ECA	European Court of Auditors
EC	European Commission
EDES	Early Detection and Exclusion System
EGESIF	Expert group on European Structural and Investment Funds
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
EPPO	European Public Prosecutor's Office
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EUROPOL	European Union Agency for Law Enforcement Cooperation
FEAD	Fund for European Aid to the Most Deprived
GDP	Gross Domestic Product
IBs	Intermediate bodies
ICT	Information and Communications Technology

IGRUE	Inspectorate General for Financial Relations with the European Union
IMS	Irregularity Management System
JAFS	Joint Anti-Fraud Strategy
JIT	Joint Investigation Team
LSPA	Latvia's School of Public Administration
MA	Managing Authorities
MEF	Ministry of Economy and Finance
MiBACT	Ministry of Cultural Heritage and Activities and Tourism (Italy)
MIT	Ministry of Infrastructure and Transport (Italy)
MoP	Manuals of Procedure
NAFS	National Anti-Fraud Strategy
NGO	Non-Governmental Organisation
NTA	National Transparency Authority
NMS	National Monitoring System
OECD	Organisation for Economic Co-operation and Development
OLAF	European Commission's Anti-Fraud Office
PIAF-IT	Integrated National Anti-Fraud Platform
PIF	Protection of the Financial Interests of the Union (Report)
PFIA	Public Financial Inspection Agency
PPO	Public Prosecutor's Office for Combatting Economic Crimes and Corruption
REGIO.EMPL.DAC	Joint Audit Directorate for Cohesion
RRF	Recovery and Resilience Facility
SEDIA	SEDIA (database of EU-funded projects)
SMEs	Small and mid-size enterprises
SNCA	Servicio Nacional de Coordinación Antifraude
STT	Special Investigation Service
VAT	Value Added Tax

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Executive Summary

1. Study Objectives

The objectives of this study as defined in the terms of reference were to:

- Identify and analyse the principal pattern of frauds perpetrated to the detriment of the EU Cohesion Policy funding in a variety of EU Member States.
- Check whether there are specific patterns in which fraud is committed and whether the management authorities can prevent this by identifying such patterns earlier.
- Select the good practices in this respect and the means the more successful Member States management authorities use to early identify these fraud patterns.
- Formulate recommendations that could be suggested to those EU Member States whose performances are less successful than others.

The ability of EU Member States, supported by the European Commission, to combat irregularities and fraud is self-evidently important to help protect the EU finances. This is especially so for the EU-funded programmes under shared management because it is primarily national authorities that control expenditure.

The EU funds under shared management covered by the study were: the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund. In terms of time periods, the focus of the research is on the programming period 2014-2020. Together these funds were allocated a total of EUR **366.9 billion (in 2014 prices)**for the 2014-20 period. In total there are some 180 Managing Authorities at the Member State level, and many more at the sub-national level, responsible for implementing ESIF programmes. Shared management funds account for some 70% of all EU expenditure programmes.

The study was carried out for the European Parliament's Committee on Budgetary Control by the Centre for Strategy & Evaluation Services (CSES) LLP in the second half of 2021 and involved desk research to examine existing material, an interview programme with the European Commission, the European Court of Auditors and other EU-level contacts, as well as with national authorities. A survey of Managing Authorities was also undertaken.

2. Scale of the problem

In assessing the main patterns of fraud in EU funds under shared management, an important distinction needs to be made between irregularities detected and fraudulent irregularities. Because fraud is in many respects a hidden phenomenon, irregularities and especially cases of fraud are very difficult to detect. As such, the estimates that exist of the scale of the problem are almost certainly underestimates.

The 2020 PIF report estimates that in 2019, EU expenditure under shared management was affected by an estimated 538 fraudulent irregularities amounting to some EUR 253.5 million for the EU-27. The PIF report statistics indicates that the fraud levels reported are higher in some countries than others but this may not be an indication of fraud patterns; it could be that some Member States are simply better at detecting irregularities and fraud. Fraud cases in EU spending under shared management are estimated to have accounted for an estimated 0.27% of total payments. These estimates are likely to be underestimates.

The most common forms of fraud in the 2014-2020 programming period involved the falsification of documentation, followed by infringement of contract provisions, fraud to

meet eligibility criteria, and infringement of public procurement rules. Our research has found that Cohesion Fund and other ERDF expenditure is where the most fraud cases occur, in part due to the large infrastructure projects that are supported; conversely, projects supported by the ESF projects tend to be of lower financial value and are less vulnerable to fraud. Agricultural policy expenditure is also vulnerable to fraud with cases involving falsification of documentation and misuse of investments.

3. EU and national approaches to tackling fraud

While several EU and national measures have been implemented to promote fraud detection, there are still many shortcomings in the Member States' practices. This can be seen in the divergence in the practices between Member States and at the EU fund-level which can mean good practice is not implemented across the EU (vulnerabilities are greatest in cross-border cases). As fraudsters are consistently developing their methods to evade detection, risks of fraud remain high, highlighting the need for harmonised approaches and good practices to be implemented.

The European Commission has provided support to Managing Authorities in the form of capacity building, IT tools, risk assessment analysis and guidance on good practices. Cooperation also occurs with the audit authorities to develop and share good practices in auditing and to ensure that good practices are applied across the Member States.

Many examples of good practices have been identified when it comes to Member States' approaches to tackling fraud. These involve IT systems and databases, 'Red Flags' identification tools, risk assessments, and capacity building. Key features of these good practices include combining data and tools into a single platform and making sure that information registries and risk analysis tools are available to all national authorities involved in the fight against fraud in the EU.

Nonetheless, there remain important shortcomings in Member States' practices. Not all Member States have implemented national anti-fraud strategies as required by the Commission. Furthermore, data tools such as Arachne and EDES developed by the Commission are not being used by all Member States and where they are used, this is often to only a limited extent. Efforts have been made by the EU and some Member States to increase the use of these tools as their effectiveness depends on the national authorities making their own national data available. Furthermore, this would help in cross-border cases of fraud as national criminal registries are often not accessible on a cross-border basis. Another important issue is the fact that coordination is often lacking between AFCOS and investigative bodies. This leads to inaccurate reporting as cases of irregularities are not updated once determined to be fraudulent and investigative bodies are often not notified of suspected fraud cases.

4. Recommendations

Recommendation 1: EU Member States need to increase efforts to ensure the reliability and accuracy of data reported to the Commission via IMS. There is widespread agreement that the data provided by national authorities on fraud in the funds under shared management are a significant underestimation of the extent of the problem. This is partly due the nature of fraud being an illegal activity – and hence a hidden phenomenon – as well as because of deficiencies with Member State's capacity to detect fraud and to report up-to-date information.

Recommendation 2: The EU Financial Regulation, as well as national regulations, should require reporting authorities to regularly validate data reported through IMS. At the moment this is not a widespread requirement. Our research suggests that there are few Member States that have laws that require the reporting authorities to validate information before it is reported to the EU level to ensure its accuracy (to the greatest extent possible).

Recommendation 3: Member States should be encouraged to make greater use of EU tools to help detect fraud. The use of data mining tools by Managing Authorities is essential to being able to effectively combat fraud in the EU funds under shared management. Such tools can process large amounts of information about (potential) beneficiaries and other aspects of the tendering process, thereby raising 'red flags' pointing to the risk of fraud. Thus, greater use of the Commission's tool ARACHNE and in particular the input of a larger volume of data from across the Member States, would make it easier for national authorities to tackle cross-border cases of fraud. The effectiveness of all data mining tools is dependent on them having a large archive of data. Currently, not all Member States make use of these tools, so there is consequently a lack of information from these countries. One of the impediments to universal adoption of ARACHNE highlighted in this report is national authorities' unfamiliarity with the system and its advantages.

Recommendation 4: Access to EDES and ARACHNE should be extended to all EU funds under shared management. In cooperation with national authorities, there should be a periodic assessment of the functioning of these systems so that improvements can be made as and when appropriate. Currently, ARACHNE is only available to Managing Authorities involved in implementing ERDF and the ESF programmes. Our research has found that while some Managing Authorities see the value in using ARACHNE, they do not have access to it because they manage other EU funds. Additionally, EDES is a good tool to use as a business exclusion registry for potential beneficiaries that have been convicted of fraud. Nevertheless, EDES is not available to the national authorities involved in implementing EU funds under shared management.

Recommendation 5: Steps should be taken to improve joint working between national authorities involved in monitoring fraud of EU funds. The AFCOS play an important role when it comes to ensuring a well-integrated system as they are tasked with coordinating their activities not only with OLAF, but with the other national legislative, administrative, and investigative authorities in their respective countries to help ensure the protection of the EU's budget from fraud. Nevertheless, our research has found that coordination and communication between different national authorities in the same country involved in the fight against fraud is lacking in some cases. Overall, cooperation within the AFCOS system between all the authorities involved in tackling fraud should be formalised rather than occur on an ad-hoc basis.

Recommendation 6: National authorities should ensure that information on fraud cases that is reported to IMS is kept up to date as cases develop. The lack of coordination between the different national authorities involved also leads to a situation in which cases of suspected fraud reported to IMS as irregularities are not updated following prosecutions determining fraudulent intent. Improving this coordination would help ensure that data reported to OLAF via the IMS is more reliable which in turn would allow for more informed anti-fraud strategies. IMS provides information on the detection, investigation, and final judgement, and it is important that cases be validated with updated information following detection.

Recommendation 7: Consideration might be given to requiring the AFCOS to house the authorities in their countries that have investigative powers in relation to fraud. More generally, the resources available to AFCOS need to be sufficient given their role. Our research also suggests that the most accurate reporting often comes from Member States where institutions with investigative authority perform the role of AFCOS. This is because the authorities involved in reporting cases through IMS are involved in the investigations themselves and therefore have a better understanding of the situation with regard to fraud cases in the Member State and are better able to provide updates. Member States need to ensure that the Managing Authorities and AFCOSs have sufficient resources with the right skills and competences to develop anti-fraud strategies, and to implement effective anti-fraud measures and practices.

Recommendation 8: More effort should be made to share good practices in combating fraud in EU funds under shared management. To support this, there is a need for capacity building. In our research we have found that the approach to tackling fraud in EU funds under shared

management varies significantly between Member States. This is seen first of all in the fact that not all Member States have developed NAFS and some that have done so have not closely (if at all) followed the Commission's guidelines. Differences also exist in approaches when it comes to the tools that national authorities use to detect fraud and assess procurement applications. There is now a substantial amount of guidance and good practice available, from the Commission's Anti-Fraud Knowledge Centre and other sources, but more needs to be done to share this and help apply it.

Recommendation 9: As the strategies of fraudsters are constantly evolving to evade detection, it is essential that regular analysis of the effectiveness of measures taken to combat fraud is done to ensure consistently high standards. Such evaluations at both the national and EU level can help revise practices implemented to ensure successful prevention, as well as inform the training programmes mentioned above. EU institutions such as OLAF, EPPO, the Commission and ECA should collaborate with Member States to create more training programmes on the use of e-tools and audit practices, as well as on how to improve them.

Recommendation 10: More emphasis should be placed on 'systems audits' in which national authorities regularly evaluate their audit practices and internal control systems for EU funds under shared management to ensure that they are effective and reliable. National authorities are responsible for setting up a management and control system which complies with the requirements of the EU's Financial Regulation, ensuring that this system functions effectively in preventing, detecting, and correcting irregularities. The Commission plays a supervisory role by checking that programme management control systems are compliant. Although there are various ex-post checks, there should be more emphasis on ex-ante checks to ensure that the different national entities that have a responsibility for managing and auditing EU funds under shared management have the capabilities and procedures needed to fulfil their roles efficiently and effectively.

Recommendation 11: Member States who have not joined the EPPO should be encouraged to do so to ensure that more cases of fraud are investigated and prosecuted. Only 22 Member States are fully participating in the EPPO. OLAF can investigate cases of fraud, but it cannot launch prosecutions and can only recommend national authorities to do so. For most Member States, if there is a failure on the part of national authorities to investigate and prosecute such cases, the EPPO can fill in this gap by performing these tasks itself. Therefore, if OLAF identifies cases that need to be prosecuted but national authorities do not do so, in the countries that are not participating in the EPPO, these cases can remain without prosecution.

1. Introduction

In this section we provide a summary of the study objectives and an overview of the methodological approach we adopted to the assignment. We also outline the report structure.

1.1 Resume of Study Objectives

To summarise, according to the European Parliament's terms of reference, the objectives of this study were to:

- Identify and analyse the principal pattern of frauds perpetrated to the detriment of the EU Cohesion Policy funding in a variety of EU Member States.
- Check whether there are specific patterns in which fraud is committed and whether the management authorities can prevent this by identifying such patterns earlier.
- Select the good practices in this respect and the means the more successful Member States management authorities use to early identify these fraud patterns.
- Formulate recommendations that could be suggested to those EU Member States whose performances are less successful than others.

The first part of the study is essentially descriptive, identifying patterns of fraud in EU Member States in relation to the Cohesion Policy funding. In the inception report for this study submitted by CSES, the scope in terms of funds under shared management was defined as being: the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund. In terms of time periods, the focus of the research is on the programming period 2014-2020.

Based on this research on the patterns of fraud, Section 3 of the report then assesses existing approaches to tackling fraud in the funds under shared management. As stipulated in the European Parliament's terms of reference, differences and common practices are analysed – as well as good practices. We also examine the link between the efforts of EU Member States to identify and prevent fraud and the results achieved in this respect between in the 2014-2020 period. Last but not least, recommendations are made to help improve practices in Member States with regard to combating fraud in the funds under shared management.

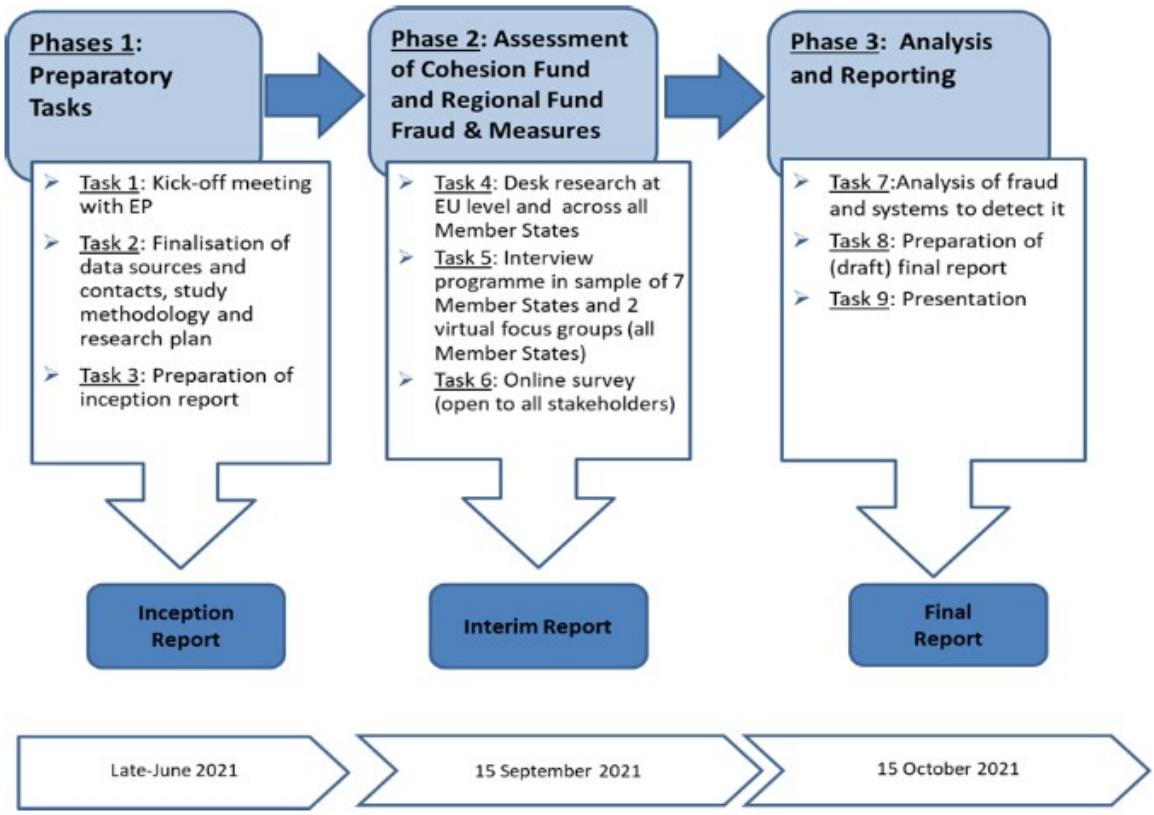
The ability of EU Member States, supported by the European Commission, to combat irregularities and fraud is self-evidently important to help protect the EU finances. This is especially so for the EU-funded programmes under shared management because it is primarily national authorities that control expenditure. More generally, the next 7-year EU budget involves expenditures of EUR 1.8 trillion. Alongside the budget, the EU is launching the 'Next Generation EU' funds in order to assist with the Member States' recovery following the Covid-19 pandemic. This very significant expansion of EU expenditures further emphasises the need to strengthen the mechanisms in place for detecting and preventing fraud.

1.2 Methodological Approach

The study was carried out during the second half of 2021. The work plan is set out below in Figure 1.1. The assignment started in late June 2021 when the contract was awarded to CSES and shortly afterwards a kick-off conference call took place with the European Parliament. The research involved a combination of desk research to examine information available from the European Commission (EC) and from EU Member States, an interview programme involving 46 contacts at the EU level and in the Member States, and a survey of national authorities that elicited a response from 50 individuals.

During the study, three reports were produced – an inception report, interim report and the final report.

Figure 1.1: Summary of the Research Plan



The **desk research** involved examining documents produced by OLAF and other European Commission DGs to extract information that is relevant to this assignment on the scale of the problem affecting EU funds under shared management. Examples of the relevant literature included: the Commission Anti-Fraud Strategy: enhanced action to protect the EU budget {COM(2019) 196 final}-{SWD(2019) 170 final}; the 2019 report commissioned by DG Regio 'Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States' by PWC; and The OLAF report 2020. We also made use of the Commission's Anti-Fraud Knowledge Centre's good practices analysis. A list of sources is provided in Appendix B.

At the EU level, the **interview programme** involved the European Court of Auditors and a number of Commission contacts (OLAF, the Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC). In addition, we interviewed various contacts in the Member States. The process of identifying contacts at the Member State level focused in the first instance on Managing Authorities but extended beyond this to include other stakeholders such as the AFCOs and ministry officials. The Parliament's terms of reference suggest the research focuses on a sample of six EU Member States, namely Denmark, Greece, Portugal, Romania, Lithuania and Poland. We added Italy and Spain to the list as they are major beneficiaries of EU programmes and have useful experience in seeking to tackle fraud. The report also provides coverage of many of the other 19 Member States through a combination of desk research and some interviews.

The third main component of the research involved a **survey**. This sought to gather opinions from the EU Member States that were not covered by the interview programme. There were 65 responses to the survey with 50 of them providing usable completed questionnaires. These responses were mainly from Managing Authorities (65%) with the remainder being mainly AFCOS and/or national ministries (11%),

audit authorities (5%) or other relevant stakeholders such as national anti-fraud coordination services, and public prosecutors (19%). The survey respondents came from 20 different EU Member States. Although the sample size was not a large enough for a statistically reliable analysis at the aggregate level, the responses were quite detailed and provided useful insights to the key issues that were investigated by the study, especially for EU Member States not covered by the more in-depth research.

The survey responses, desk research and feedback from the interviews were used to prepare **country factsheets** and well as contributing to other deliverables. The country factsheets are contained in an separate appendix.

1.3 Report structure

The report is structured as follows:

- **Section 2: Scale and Patterns of Fraud** – this section provides an assessment examining the scale of the problem of fraud in EU funds under shared management and patterns of fraud.
- **Section 3: EU and National Approaches to Tackling Fraud** – having examined the scale of the problem, here we examine the tools that have been developed at the EU level and by the Member States to tackle the problem of fraud in EU funds under shared management. We also identify good practices that could be replicated more widely.
- **Section 4**: **Summary and Recommendations** – summarises the main study findings and conclusions and presents a number of recommendations.

The report is supported by two appendices a bibliography (Appendix A) and the country factsheets (Appendix B – separate document).

2. Scale and Patterns of Fraud

In this section we first of all examine the background to the assignment and then review EU measures to combat fraud in relation to shared management funding and information on the scale and patterns of fraud.

2.1 Background - Fraud and Shared Management of EU Funds

The Commission and the Member States have a shared responsibility to protect the EU's financial interests against fraud and corruption.

2.1.1 Nature of fraud

Article 325 of TFEU states: "The Union and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Union through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States, and in all the Union's institutions, bodies, offices and agencies. Member States shall take the same measures to counter fraud affecting the financial interest of the Union as they take to counter fraud affecting their own financial interest. Without prejudice to other provisions of the Treaties, the Member States shall coordinate their actions aimed at protecting the financial interest of the Union against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between their competent authorities".

EU legislation defines fraud as a deliberate infringement that is, or could be, prejudicial to the EU budget. To understand the data reported by Member States to the Commission or detected by the Commission itself, it is essential to distinguish between fraud and other irregularities. An irregularity is any infringement of an EU provision by an economic operator which has, or would have, the effect of prejudicing the EU's financial interests. As such, irregularities can be unintentional and caused by, for example, not understanding the rules applying to EU funding correctly. Fraud on the other hand involves a deliberate criminal activity. The Member States are required to identify those reported irregularities in which they suspect fraud. Annex 4 to the Guidelines for the elaboration of a National Anti-Fraud Strategy (NAFS) also lists a number of fraud risks with regard to EU funds, their causes and potential consequences both at EU and national levels.

2.1.2 EU Funds under shared management

The EU funds under shared management largely fall under the European Structural and Investment Funds (ESIF) which had a total of EUR 366.9 billion (at 2014 prices) for the 2014-20 period (more than one third of the EU's budget). The five main funds that come under the umbrella of the European Structural and Investment Funds are: (i) the European Regional Development Fund (ERDF); (ii) European Social Fund (ESF); (ii) European Agricultural Fund for Rural Development (EAFRD); (iv) European Maritime and Fisheries Fund (EMFF); and (v) the Cohesion Fund (CF). This research focused on the ERDF and the CF.

The following table summarises the key features of the **shared management** funds that are of particular relevance to this study. In total there are some 180 Managing Authorities at the Member State level (and many more at the sub-national level). These are the main target group for the research.

Table 2.1: Summary of Shared Management Funds

Funds	Shared Management contacts	Budget (2014-20) and Coverage
European Regional Development Fund (ERDF)	DG REGIO has an online searchable directory of Managing Authorities (MAs). We have extracted contacts for both the 7 focus countries and the other EU27.	€187.4 billion (ERDF) and €86.4 billion (ESF). All regions can benefit from ERDF and ESF. Spain, Italy and Poland are major beneficiaries of the ERDF and ESF.
European Social Fund (ESF)	DG EMPL has a similar database of Managing Authorities (some are the same as for the ERDF)	
Cohesion Fund (CF)	DG REGIO manages a website with a map providing direct links to lists of beneficiaries provided by EU Member States, but the page does not make a clear distinction between the beneficiaries of spending under the CF or under the European Regional Development Fund. http://ec.europa.eu/regional_policy/en/atlas/beneficiaries	€63.3 billion. For the 2021-2027 period, the Cohesion Fund concerns Bulgaria, Czechia, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia and Slovenia
European Agricultural Fund for Rural Development	DG AGRI manages a website with links to Member States' websites providing information on beneficiaries of CAP payments (although there is no clear distinction between beneficiaries of the EAFRD and the EAGF). http://ec.europa.eu/agriculture/cap-funding/beneficiaries/shared/index_en.htm	€95.5 billion. All EU Member States are eligible to receive support from the European Agricultural Fund for Rural Development. France, Italy, Spain and Poland are major beneficiaries
European Maritime and Fisheries Fund	DG MARE maintains a website with links to the websites of Member States providing information on beneficiaries of EMFF payments.	€7.4 billion. All EU Member States apart from Luxembourg can benefit from the Fund.

The Commission currently delegates to the Member States the implementation of programmes under 'shared management' at the national level. 'Shared Management' funds account for some 70% of all EU expenditure programmes. Member States then allocate these funds to final beneficiaries (e.g. businesses, individuals, farmers, municipalities). The Member States are responsible for setting up a management and control system which complies with the requirements of the Regulation (EU) No. 1303/2013[1]ensuring that this system functions effectively and also preventing, detecting, and correcting irregularities. The Commission plays a supervisory role by checking that programme management control systems are compliant.

2.1.3 EU Policy framework to combat fraud in funds under shared management

The European Commission has taken various steps to combat fraud against the EU budget. In particular, it adopted the **'Commission Anti-fraud Strategy' (CAFS)** in 2011. Following a review in 2019, a priority agreed to equip the Commission with a stronger analytical capability and with a more centralised system of oversight to help identify, prevent and detect fraud against the EU's financial interests.

When it comes to fraud in shared management, DG REGIO, DG EMPL and DG MARE, produced a **Joint Anti-Fraud Strategy (JAFS)** in 2015 which was updated in December 2019 after an updated Risk Assessment. This strategy emphasized the importance of early detection and fraud prevention measures in the fight against fraud. In 2020, several initiatives were implemented on the basis of action

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1303

points set out in the JAFS. Furthermore, in reaction to the Covid-19 pandemic and the additional financial measures made available to the Member States' authorities, discussions on further updating this risk analysis has continued with other services of the Commission, as well as with other Member States' programming authorities.

An important source of information on fraud affecting EU funding programmes is the Commission's report, published annually, on the **'Protection of the Financial Interests of the Union' (the 'PIF report')** which is presented to the Council and the European Parliament. The most recent report was published in September 2021 and covers the financial year of 2020. The report details steps taken to tackle fraud in the EU budget and provides figures for the levels of fraud reported by Member States. Member States report irregularities and fraudulent irregularities in funds under shared management on a periodic basis to OLAF through the Irregularity Management System (IMS), which is also used for pre-accession and neighbourhood policy instruments which do not form part of shared management.

Considering other recent developments, the **European Public Prosecutor's Office (EPPO)** started operations on 1 June 2021. The EPPO has been given responsibility for investigating, prosecuting and bringing to judgment crimes against the financial interests of the EU (i.e. various types of fraud, VAT fraud with damages above EUR 10 million, money laundering, corruption). In the area of shared management, the activities of the EPPO should also be beneficial in helping to combat fraud.[2]

Despite these and other initiatives, the European Court of Auditors has argued that "the Commission lacks comprehensive information on the scale, nature and causes of fraud in EU spending." Furthermore, the court notes that when it comes to the identification of fraud, how to respond to them, and how to coordinate interventions from Member States, improvements can still be made. Stressed in particular is the need for a more proactive approach to identification of fraud.

2.2 Scale of the Problem

Although there are several estimates of the extent to which EU funds under shard management are affected by fraud, the data is not comprehensive and almost certainly underestimates the scale of the problem.

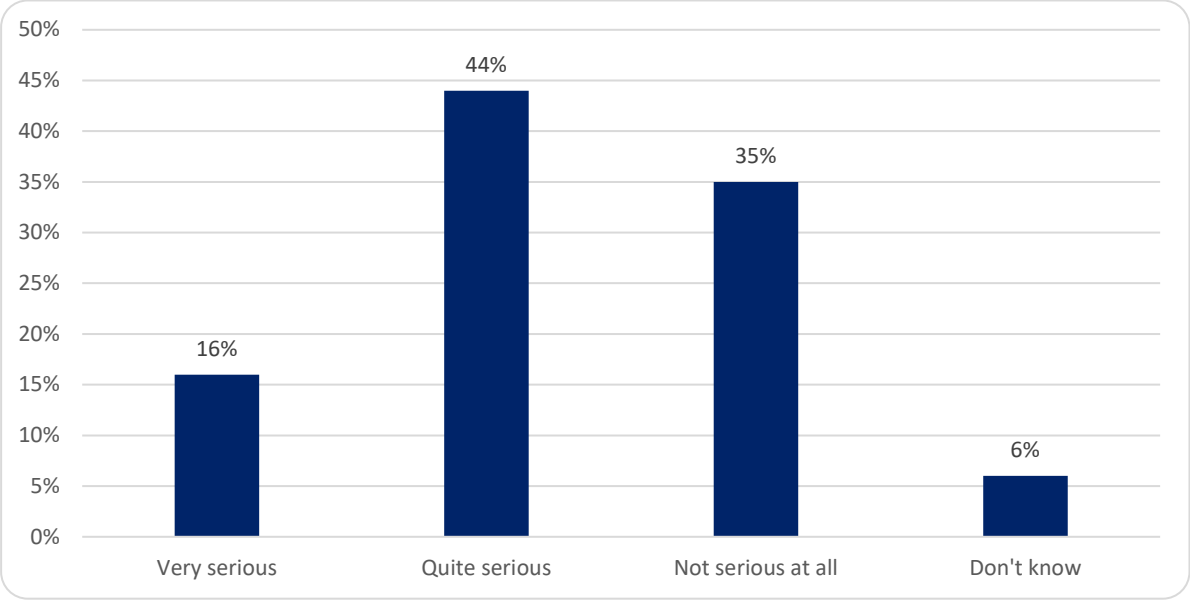
2.2.1 PIF Report estimates

Member States are legally required to report cases of irregularities to the Commission. As noted earlier, Member States report irregularities and fraudulent irregularities in expenditures through the IMS database managed by OLAF. The PIF report provides details on these figures. However, before analysing the PIF data, we first provide an overview of the online survey responses on the scale of the problem.

In the survey we asked for views on how serious the problem of fraud and other criminal activities is in relation to EU funding in the different Member States and regions. As can be seen from the chart below, well over half of the respondents (60%) consider the problem to be 'very' or 'quite' serious.

[2] https://www.europarl.europa.eu/committees/en/implementation-of-eu-funds/product-details/20200512CHE07321

Figure 2.1: How serious is the problem of fraud and other criminal activities in relation to EU funding in your country or region?



Source: Online survey (50 responses)

At the same time, **just over half (56%) of the respondents said that they could not quantify the extent of fraud** involving EU funds under shared management. There were several quite interesting comments. For example, one survey participant underlined the difficulty in estimating the extent of fraud: "The key question is whether the official values are the real values of fraud. The official figures are known for Portugal and are provided in the PIF report. I do not believe that they correspond to reality, even considering only the declared fraud. In short, I might not in fact be able to quantify the extent of fraud." In general, where the survey respondents stated that the extent of fraud could be estimated, it is clear that they were relying on the PIF report as a source.

Turning to the PIF report, fraud cases in EU spending under shared management accounted for an estimated 0.27% of total payments in the period 2013-17, according to the latest figures from the European Commission.[3] This figure, referred to as the "fraud detection rate", measures the financial impact of detected fraud as a proportion of total revenue or expenditure and indicates differences in fraud across spending areas. For example, the fraud detection rate is, within the overall area of "natural resources", higher in the field of rural development at 0.25% than in agriculture support where it accounts for 0.09%.[4]

When it comes to EU expenditure in shared management (therefore excluding pre-accession assistance and direct expenditure), the PIF report indicates that 538 fraudulent irregularities were detected in 2020 amounting to an estimated EUR 253.5 million for the EU-27. This compares with 5,367 non-fraudulent irregularities amounting to EUR 655.5 million in 2020. These expenditures related to agriculture, cohesion policy and fisheries, and other internal policies.

The EU has reported serious shortcomings in the disbursement and management of these funds primarily due to recurrent or one-off cases of fraud and other irregularities including corruption in some Member States. Beyond the direct consequence of diverting taxpayers' money away from their

[3] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52019SC0171
[4] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52019SC0171

foreseen use, these shortcomings have more severe negative implications. For instance, they can lead to the realisation of poor-quality infrastructures and services endangering the EU citizens' well-being and safety and eventually result in the long-term in a progressive erosion of the level of public trust towards the EU Institutions and funds in some Member States.

As noted earlier, an important distinction should be made between unintentional irregularities (which can involve for example unintended errors in documentation) and irregularities that can be considered fraudulent where there is a deliberate attempt to defraud EU funds. Nevertheless, fraud is to a great extent a hidden activity by its very nature of being an illegal activity that fraudsters undertake with the intention of doing so undetected. The proportion of the irregularities that are fraudulent is difficult to ascertain. Some irregularities are not identified as fraud due to the constraints on Member States' ability to detect them or because some cases have not been established as fraudulent in a court.

The risk of **new forms of fraud emerging as a result of COVID-19** was also emphasized because of modifications in the implementation of projects that could allow fraudulent activities to take place. OLAF's 2020 PIF report noted that EU institutions and EU Member States sought to adopt flexible measures to cope to the COVID-19. This included simplification of procedures which meant in some cases less competitive procurement procedures. The emergency also meant that some checks had to be rushed. In addition to these risks, the report noted that an example of a new form of fraud linked to COVID was the production of fake sanitary and medical equipment.[5]

There is no data available on estimates of undetected fraud. Periodic reviews and limited number of suspected fraud cases identified by the European Court of Auditors suggest that fraud under shared management is limited, however the actual extent of it remains unknown.[6] Likewise, none of the respondents to our online survey knew of any assessment of the extent of unreported or 'hidden' fraud affecting the EU funds under shared management having taken place in their country.

2.2.2 Fraud case leading to prosecutions and the retrieval of EU funds

The difficulties of estimating the **proportion of fraud cases that lead to prosecutions and the retrieval of funds** is highlighted by the results of the survey we carried out. As one survey participant argued: "We do not have exact figures. Compared to suspected fraud, fraud is difficult to prove in court proceedings, the investigative and judicial phases are also protracted, even lasting years, so the 12-month period is difficult to interpret and would not give a true picture." However, another person was able to give more precise numbers "About 200 cases investigated at our level, 100 prosecuted, 20 convicted."

Likewise with the Polish CBC programmes, it was thought that there had been 12 suspected fraud cases, "everyone was thoroughly examined, firstly by the controller, then by auditors specially appointed, police, prosecutors, and others specific bodies as the Voivodeship Environmental Protection Inspector or Central Office of Civil Aviation." It was estimated that of the 12 suspected cases, three had led so far to court proceedings. Taken together, this suggests that between 25% and 50% of detected cases lead to legal proceedings with 10% lading to a conviction. The sample is too small for a reliable estimate but does at least provide an indication. None of the survey respondents could estimate how much EU funding had been retrieved.

The survey feedback suggested that a wide range of **difficulties have been encountered in carrying out investigations and prosecutions** including: lack of expertise of advisors and consultants in the specialized area of the EU funds; the police and even the judicial authorities not having sufficient knowledge of EU funds under shared management and the complexity of the rules governing them; the transnationality of crimes and difficulties in having direct cooperation between Member States and

[5] Source: European Commission. (2021). 32nd Annual Report on the Protection of the European Union's financial interests.
[6] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52019SC0171

especially with third countries; and for the last year, the COVID pandemic has made it more difficult to carry out on-the-spot checks.

2.2.3 Fraud vulnerabilities

In the Commission's 2019 Anti-Fraud Strategy, possible vulnerabilities in the EU's management of fraud are explored.

In the survey for this study we asked for views on fraud risks and vulnerabilities. As one survey respondent pointed out, **the risk of fraud** is often associated with certain intermediate bodies, with projects involving 100% financing and with research and technological development projects which often have suppliers in a number of different countries. As another respondent argued, "Patterns differ depending on the type of final beneficiary. For state administration institutions most common are fraud cases in procurement and conflict of interest where most risky beneficiaries are local authorities. For private sector final beneficiaries more common types of fraud are falsified documents, inflated prices, fake and ineligible equipment, fictitious companies or their activities."

More generally, one of the areas of vulnerability is in the **coordination of fraud risk management across the EU**. As noted earlier, the coordination of fraud risk management is organised in a decentralised way across the spectrum of Commission services and executive agencies with the support of the Commission's Secretariat General and Directorate-General for Budget (DG BUDG) and OLAF. Coordination and monitoring of fraud risk by the Commission involves ensuring that approaches implemented across Commission services and executive agencies are consistent and largely homogenous and that resources needed to tackle fraud are deployed. While this coordination and monitoring exists for Commission services, the decentralisation means there is room for the services themselves to develop their own anti-fraud policies. Therefore, divergence can occur in service-level approaches or mitigation strategies when it comes to anti-fraud controls.[7]

Another area of vulnerability is in the (lack of) a coordinated approach between EU bodies and with Member States. Member States have some leeway in the implementation of shared management policies. Some of them have put in place a national anti-fraud strategy (as encouraged by OLAF) but there are several Member States that have not elaborated one (as explained later in the report). This lack of consistency in anti-fraud policies might expose the budget to substantial risks, according to the Commission Anti-Fraud Strategy.[8] Furthermore, it has been highlighted that in some countries such as **Portugal,** (and probably in other Member States), Managing Authorities delegate responsibility to Intermediary Bodies but the latter sometimes do not perform risk assessments.

In an article for *EU Observer*, former director-general at OLAF Nicholas Ilett was quoted as saying that shared management has an inherent risk of fraud because there are many different levels of decision-making involved and some management decisions can occur at the local level where there can be a higher risk of corruption and weaker control systems. This opinion was shared by Mihaly Fazekas of the academic NGO the Government Transparency Institute who added in the article that demanding administrative requirements intended to decrease corruption can make the situation worse. He is quoted as saying that the requirements can "make market entry harder – reduce the number of bidders, hence make corruption more likely." Other academics have pointed out an issue whereby funds under shared management come from the EU budget but efforts to prevent fraud are paid for by national governments. The countries experiencing high risk of fraud are often also those with less resources available to invest in anti-fraud measures.[9]

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7 Commission Anti-Fraud Strategy: enhanced action to protect the EU budget {COM(2019) 196 final}- {SWD(2019) 170 final}

8 Commission Anti-Fraud Strategy: enhanced action to protect the EU budget {COM(2019) 196 final}- {SWD(2019) 170 final}

9 Teffer, Peter. (2018). Fraudsters lured by EU structural funds. *EU Observer*

Despite the perception among EU institutions that the problem of fraud is significant, **Managing Authorities themselves do not always share the same perception**. In the case of Spain for example, several of those we spoke to did not consider fraud to be a serious problem, at least in agricultural funds under shared management. The limited number of cases identified referred to modification of certain conditions by individual applicants to meet eligibility criteria, such as the date of birth. This is also the case of Sweden, where the number of reports made to the national authorities regarding suspected fraud involving EU funds is considered to be very low compared to other EU Member States. In the case of Denmark, interviewees highlighted that fraud in EU structural funds is not a serious problem and only a very limited number of suspected cases were reported by the Managing Authorities during the 2014-2020 period. There are clearly different levels of fraud in different Member States (explored in more detail later in this section) but it is possible to state that in some cases the perception and reality of the scale of the problem may diverge. This study did not investigate fraud in national or regional schemes across the EU. However, Member States Authorities are required to ensure effective management, control and protection of the EU funds and - under Article 325 of the TFEU- they shall take the same measures to counter fraud affecting the financial interests of the Union as they take to counter fraud affecting their own financial interests. Therefore, it is possible to assume that Member States Authorities conduct controls and audits on programmes financed by the EU funds with the same level of rigour that applies to their own national and regional schemes. Divergence in the perception of the scale of the problem vis à vis the reality in some Member States is likely to be found also at the domestic level.

2.2.4 Fraud data issues

Shortcomings in current systems and procedures at the EU and Member State level make it difficult to estimate the extent of fraud in shared management funds accurately. Feedback from our interview programme suggests that some fraud risks might not be properly addressed or investigated when there is little likelihood that they might result in a case of fraud and their estimated financial impact on shared management funds is very limited. For instance, this is the case of some reputational risks or risks relating to potential links between project beneficiaries and individuals/entities in enforcement lists where there is no evidence of such relationships.

Several EU and national authorities that contributed to this study highlighted the **issue of a lack of reliable data**. This can be due to the hidden nature of the fraud, the difficulties in making distinctions between irregularities and fraudulent irregularities, and a lack of coordination between and follow-up with the reporting authorities and investigative bodies. When considering the last point, the research indicates that **there is currently no requirement for validating the data reported to IMS**. In several Member States, it is evident that the authorities reporting fraud are sometimes unaware of the research undertaken by other authorities engaged in investigations. For example, Managing Authorities inputting data about a case of fraud into IMS are sometimes unaware of updates to such cases by prosecution authorities. This means that cases that reporting authorities are unaware of are not being reported and cases that have been deemed as non-fraudulent are not being updated in the IMS database. In Portugal, for example, the research suggested that the central audit authority is relying on information from certification authorities when reporting fraud cases but that the latter are not subject to requirements to validate or cross-check the information provided. This is likely to be a problem also occurring in several other countries. Furthermore, some cases flagged as irregularities have been later determined to be fraudulent but have not been updated in the IMS database.[10]

[10] Another study also highlighted this issue with the IMS, arguing that the variation in fraud estimates reported by Member States is not an indication of different levels of fraud but rather points to a problem of underreporting. The report notes as an example that "For the ERDF, Italy, Portugal and Slovakia showed a more consistent practice to detect and report fraudulent cases with large financial amounts. In the case of Italy, the data infrastructure allows its authorities to systematically draw information from the IMS for detection purposes, interlinking it directly with national data systems". See Kuhl, L. Dr. (2020). *Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies*.

According to our research, one vulnerability found in Denmark is the insufficient exchange of information and data between the Managing Authorities. Despite the establishment of the AFCOS network, the MAs only meet three times per year (during the network meetings) and do not have a centralised database or information system collecting information about irregularities or cases or fraud. The interaction between the different MAs and also with other national bodies is left to the initiative of MAs staff members.

2.3 Types of Fraud involving EU Funds under Shared Management

There are a number of different types of fraud affecting EU funds under shared management. The OLAF 2020 report highlights major trends in fraud in 2020 and provides details on a number of cases that are illustrative of the patterns.

The types of fraud highlighted by OLAF's report include **false or inflated invoices, corruption, money laundering, conflicts of interest and collusion between beneficiaries and contractors, especially when it came to public procurement**. Considering the examples provided in the OLAF 2020 report, forms of fraud found frequently in Shared Management were seen particularly in the agricultural and rural development funds (EAGF and EAFRD). Outside of shared management, they were seen particularly in research funding (EU FP7, Horizon 2020, and Hercule III), and funds for environment and biodiversity projects (external aid).[11]

The table below provides a typology of the types of fraud affecting EU funds under shared management frequently encountered.

[11] OLAF Report 2020

Box 2.1: Typology of fraud affecting funds under shared management

- **Modification and artificial creation of conditions to meet eligibility criteria:** in the context of procurement in EU funds, applicants for EU funds can provide false information about their application in order to receive funding for which they should not qualify. This form of fraud is related to **falsification of documentation.**
- **Non-delivery of goods and services:** this form of fraud entails beneficiary making applications for funds but not delivering the goods or services for which these funds were supposed to pay for. In many cases the beneficiaries pocketed some or all of the funds provided instead of delivering the goods or services.
- **Falsification of documentation:** examples during project implementation include fake invoices, tampered invoices with false dates signatures and financial amounts. Such false documentation can be used to hide the non-delivery of goods and or services or overcharge for cost claims. Other examples include providing false documents to inaccurately justify one's application for funding. Examples of this type include applications for subsidies for farming that were requested by foreign nationals with no farmland in the Member State under which the application was made.
- **Intentionally claimed ineligible expenditure**[12]: in this case, declaration of costs to receiving funding after the project has been granted can be made on costs that do not meet the eligibility criteria in the procurement.
- **Conflict of interests:** undeclared or not properly addressed.
- **Collusive bidding:** examples include 'Single bidding' which involves procurement procedures in which there is only one bidder. Such characteristics of a procurement procedure is often seen as a red flag for fraudulent activity.[13] [14]
- **Irregular or fake subcontracting:**[15] similar to **collusive bidding**, this can involve subcontracting services to other beneficiaries intentionally breaking EU and national rules on the procedures. This can include subcontracting to individuals with which the beneficiary has **conflict of interests.**
- **Overcharging:** can involve **inflated invoices** whereby the beneficiary overcharges the EU for cost claims on goods or services acquired at lower costs.
- **Double funding:** OLAF defines type of fraud as deceit whereby a project receives funding from several donors for the same project without the donors being aware of the other funding being provided.[16]
- **Plagiarism:** in the context of EU funding, this can involve the copying of research performed by others in the project receiving funding.

To take some examples, a significant issue when it comes to the **eligibility of beneficiaries** involves beneficiaries declaring they are SMEs when their actual size mean they do not meet the eligibility criteria covering what defines an SME. A complicating factor in this form of fraud is the lack of comprehensive business ownership data in many Member States. When it comes to **conflicts of**

[12] Kuhl, L. Dr. (2020). *Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies*.

[13] https://ec.europa.eu/regional_policy/en/information/publications/reports/2019/single-bidding-and-non-competitive-tendering

[14] Kuhl, L. Dr. (2020). *Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies*.

[15] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52019SC0171

[16] https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/preventing_fraud_en.pdf

interest, one of the illustrative OLAF cases involved a project in Croatia receiving co-financing from the European Agricultural Guarantee Fund. This project received financing of over EUR 1.3 million for the construction of a winery. In this case, the beneficiary provided a contract to another company for the construction of the winery. Subsequent investigations found, however, that this second company had no employees and had subcontracted to another company owned by the son of the owner of the initial beneficiary company.[17]

The OLAF annual report of 2020 notes that as one of the largest areas of EU funding, the European Agricultural Fund for Rural Development is often targeted by individuals and entities attempting to commit fraud. The report notes in this context that funding provided to buy new machinery is frequently the target of fraud. OLAF investigations in this area encountered **inflated claims for reimbursements of expenditure** on new machinery or modernisation of infrastructure. An example of such a case was seen in Corsica where **false invoices** with inflated claims were submitted for the reimbursement of the costs of machinery as well as invoices with false dates, signatures and financial amounts claimed.[18]

Another example highlighted in the area of agricultural funds is a case involving an Italian organised crime group receiving funds from the EAGF in Romania. This fraud involved a number of Italian citizens receiving funds destined to Romanian farmers to help them grow tomatoes. The scheme included five **shell companies** with addresses in Romania but no operations in the country that received EU funds. False documentation of contracts and invoices for seeds had been submitted and all the funds obtained from the EAGF were transferred to Italian bank accounts and withdrawn in cash. In total, EUR 850,000 was defrauded, representing a quarter of the funds destined for farming support in Romania in 2017.[19]

Another common form of fraud investigated by OLAF in 2020 was the **non-delivery of goods and/or services** and the **falsification of documentation** to hide the lack of works or services provided. In the OLAF 2020 report, a case was highlighted of fraud occurring in the ESF in Croatia. In this case, a company was granted funds for rehabilitation services for mentally and physically disabled people in rural areas where social services are not easily accessible. False documentation was submitted to hide the fact that only 7% of the total costs of the services and work were provided. The scheme was uncovered by a Joint Investigation Team (JIT) as it involved cross-border investigations.[20] There are a number of differing estimates of which types of fraud are most serious.

According to feedback from the Commission's departments following risk assessments, the fraud patterns identified by the European Commission indicate **that overcharging is the most frequent type of fraud reported by services (50% of services reported having encountered this fraud), followed by falsification of invoices or other documentation (43%), double funding (38%) and plagiarism (33%)**.[21]

[17] OLAF Report 2020

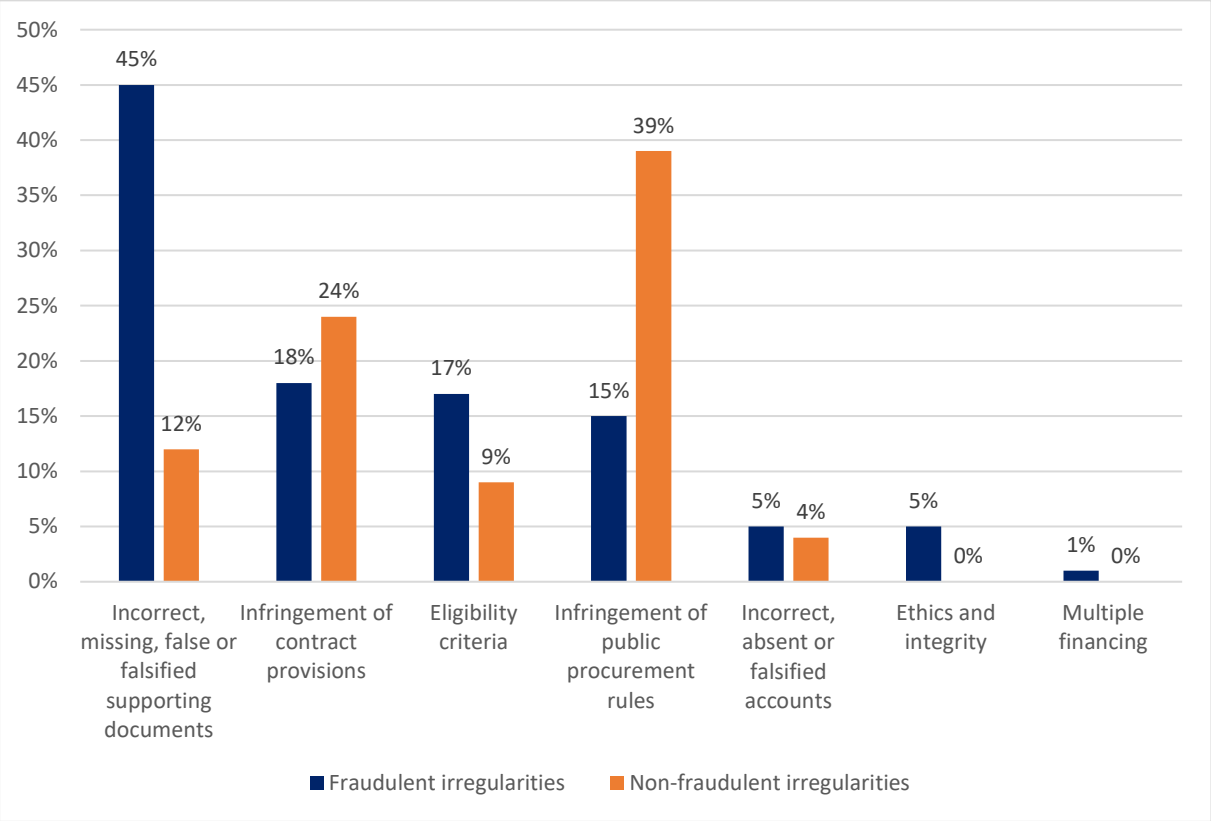
[18] OLAF Report 2020

[19] OLAF Report 2020

[20] OLAF Report 2020

[21] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52019SC0171 As for internal fraud committed by EU staff and staff of EU institutions, undeclared conflict of interest was cited by 60% of services, leakage of confidential information by 57% and fraudulent claims by 21%. Indeed, irregular or fake subcontracting, the use of offshore bank accounts and corruption are types of public procurement fraud often subject to OLAF's investigations.

Figure 2.2: Types of Irregularities detected in the 2014-20 Programming Period



Source: OLAF PIF report 2020

As can be seen above, the OLAF PIF report for 2020 indicated that in the programming period for 2014-2020, the most common forms of fraudulent irregularities were **falsified documentation (45%), infringement of contract provisions (18%), fraud to meet eligibility criteria (17%), infringement of public procurement rules (15%), incorrect, absent or falsified accounts (5%), ethics and integrity (5%) and multiple financing (1%).**

The above patterns reported in the PIF report are supported by the findings of our survey. According to the survey, 80% of the respondents ranked the **manipulation of tendering procedures and the falsification of documentation to obtain EU funding as the most serious type of fraud**. The other major types of fraud were: false or inflated invoices (53%) and conflicts of interest and collusion between beneficiaries and contractors (44%). Non-delivery of goods and/or services, and duplicate payments were also seen as significant. The European Regional Development Fund followed by the European Social Fund were seen as most affected by fraud, with the Cohesion Fund and European Maritime and Fisheries Fund being least affected. These findings were broadly supported by feedback from the authorities consulted as part of our interview programme.

More generally, there seems to be also a pattern involving **different types of projects**. Where projects tend to involve service delivery rather than infrastructure investments (e.g. with the ESF), the most common type of fraud involves false declarations of services provided rather than procurement fraud as seen in other funding programmes. Managing Authorities in the case of the CAP noted that funds involving several entities in the process of selecting and granting funding are considered to be at higher risk of fraud. In these cases, the research suggests that fraud is easier to go undetected and slip the controls in place, as no individual entity has a full oversight of the entire process. Conversely, there is seen to be a lower risk of fraud in cases where Managing Authority and Paying Authority are the same as this reduces complexity and allows for more rigorous controls.

The Government Transparency Institute highlights the significant role that infringement of public procurement rules plays in fraud in shared management funds. This is because of the large amount of funds that are distributed through public procurement procedures. With a budget of EUR 366.9 billion (2014 prices) for the 2014-20 period , around 48% of ESIF financing is spent through public procurement. The research indicates that managing authorities have difficulty applying public procurement rules, particularly due to the complexity of regulations covering tendering procedures, which leads to irregularities involving single bidding and non-competitive tendering.[22] In interviews, it has been highlighted that fraudulent cases, for example, can involve scoring criteria that reduce competition and opening application periods for very short periods of time that makes bidding more difficult. Additionally, studies by this NGO find that, as a result of the complexity of rules covering EU funds, the distribution of such funds in a country can also increase their corruption risk score.[23]

2.4 Types of EU Funds Susceptible to Fraud

The extent of fraud affecting different types of EU funds under shared management varies.

2.4.1 Cohesion policy

The ECA notes in its report that Cohesion policy is the area in which most fraud is seen. This represents the highest incidence of cases (39%) and the highest in terms of financial value (72% of all fraud in EU funding).[24] Our research suggests that this is likely to be due to the large concentration infrastructure projects in the CF area which involve complex procurement exercises with many different contractors and subcontractors. In addition to representing the most fraud, the large financial value of these procurement projects means that it is also the most likely target of organised crime groups.

OLAFs PIF report confirms this assessment. The PIF report indicates that 287 irregularities were reported as fraudulent in 2020 which accounted for EUR 225.1 million lost funds. In addition to representing more cases, the extent of fraud in these funds account for significantly higher financial values. Within the European Structural Investment Funds, the Cohesion Fund and the European Regional Development Fund represented 221 fraud cases (EUR 213.7 million) whilst for the European Social Fund there were 56 cases (EUR 8.7 million) and Fisheries four cases (EUR 2.7 million). The fraudulent irregularities compare to the 2,297 cases reported as non-fraudulent which amounted to EUR 490.3 million.

The PIF report notes that within the ESIF projects, **research and technological development, innovation and entrepreneurship were the areas which saw the most fraud.** Additionally, several areas are seeing an increasing amount of fraud. This is the case in measures to improve employability, as well as in infrastructure projects related to energy, environment and ICT, as well as social, health and educational infrastructure. In the fisheries area, according to the PIF report, 2020 saw fraud often in investments to increase productivity in aqua culture and investments for processing and marketing purposes. Projects involving technical assistance and campaigns to reach new markets were also at risk.

2.4.2 Common Agricultural Fund

OLAF's 2020 PIF report indicates that in the Common Agricultural Policy, a total of 255 cases of irregularities were reported as fraudulent in 2020 representing EUR 28.4 million which is a relatively

[22] Fazekas, M. (2019). Single bidding and non-competitive tendering procedures in EU co-funded projects. *European Commission Directorate-General for Regional and Urban Policy.*

[23] Fazekas, M. & King, Lawrence Peter. (2018). Perils of development funding? The tale of EU Funds and grand corruption in Central and Eastern Europe. *Regulation & Governance*

[24] European Court of Auditors. (2019). Special Report 06 Tackling fraud in EU cohesion spending: managing authorities need to strengthen detection, response and coordination

small amount compared with 3,016 irregularities reported as non-fraudulent and amounting to EUR 162.4 million. The report noted that the irregularities (particularly the fraudulent irregularities) were concentrated in a few Member States.[25] The report does, however, point out that this could be due to the difference between Member States in their ability to detect and prevent fraud, as well as how they report it.

The 2020 PIF report indicated that In EU funding there is often an issue of **falsification of documentation but** particularly in agricultural funds. As in the case with Latvia (detailed below), the report noted that false documentation can involve declarations of new and upgraded equipment purchases that conceal the fact that the equipment purchased is second-hand. Other false documentation relates to requests for aid which provide false information concerning compliance with the terms and conditions. Similarly, false documentation can also allow for the creation of artificial terms and conditions relating to funds. The example provided by the report indicated that beneficiaries split agricultural holdings and requested funds through different companies on each holding of the single plot of land. Other types of fraud affecting agricultural funds in particular are conflicts of interest and incomplete implementation of actions.

Fraud involving expenditure on machinery is especially common. In Latvia, for example, beneficiaries have been found to collude with third parties (sometimes across borders) to hike up prices. Another type of fraud in this area involves upgrading machinery to purchase machinery that is either second hand or is not state of the art. This type of fraud is hard to prevent. Another issue highlighted as being a particular to agricultural funds is the **continued use of paper documents** for procurement and other administrative processes covering investments. The Research suggests that projects relying on paper work instead of e-documentation is more liable to fraud. It has been argued that in agricultural funds, since there is more variety in the projects being implemented it is harder for administrative checks to be automated and to use e-documentation.

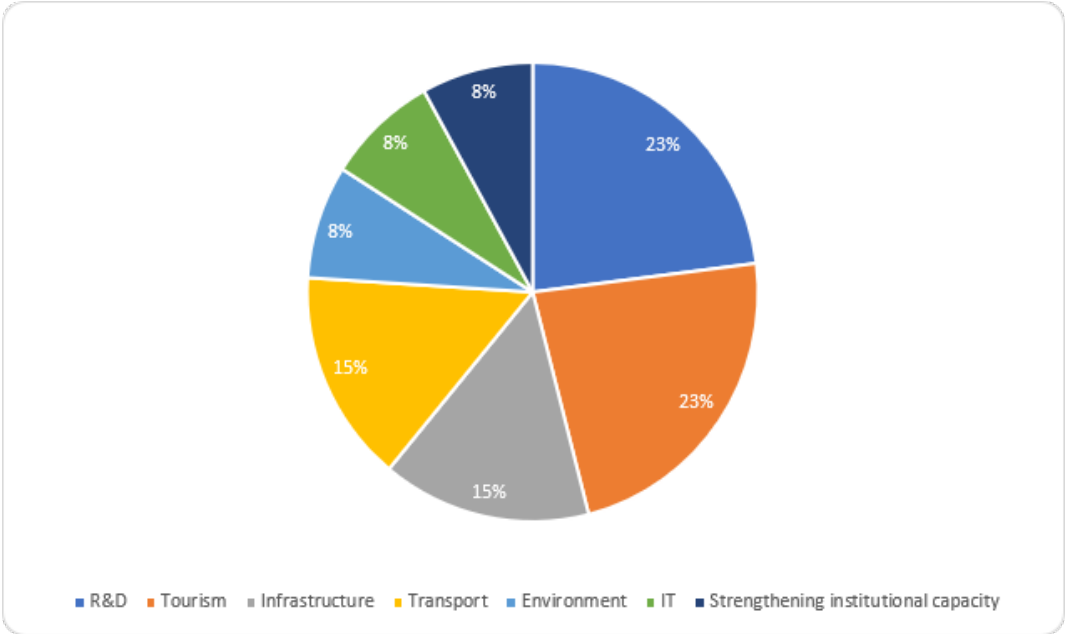
2.5 Types of Projects at Risk of Fraud

In the Cohesion Policy area, for the ERDF funding managed by DG REGIO, the most frequently affected areas where fraud occurs are Research and Development (23% of cases), Tourism (23%), Transport (15%), and Infrastructure (15%).[26]

[25] The Member States that did not detect fraud were Belgium, Ireland, Greece, Croatia, Cyprus, Luxembourg, Malta, Austria, Finland, and Sweden

[26] The Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC) responses

Figure 2.3: Areas in which fraud occurred in 2020 for all Programming Periods (cut-off date 18/12/2020)



Source: Data provided by the Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC)

A trend frequently highlighted is that projects of high financial value, face an increased risk of fraud. This was noted earlier in the case of **Cohesion Policy funding which sees the highest incidences of fraud likely because of the large amount of infrastructure projects** supported by these funds. Infrastructure programmes tend to involve financially large public procurement exercises that are attractive to fraudsters. Underlining this, OLAF investigations of the 2007-13 programming period for ERDF and Cohesion Fund projects, indicated that this pattern has long existed with fraud risk being highest in infrastructure projects (43% of cases during this earlier period).[27]

Conversely, projects with comparatively low financial values tend to be less vulnerable to fraud as there are not a lot of profits to be made and so are less attractive to fraudsters and organised crime. This has been highlighted as being situation with Cross-Border Cooperation Programmes as well as ESF projects.

The OLAF 2019 annual report indicates that within the Cohesion Fund infrastructure area, wastewater management projects were frequently targeted in by fraudsters in 2019. One illustrative case involved a project in Romania valued at EUR 102 million which uncovered a network of fraud and money-laundering. The case involved a public water supply company which had subcontracted to a Romanian company to perform the construction work. The company had included in its tender an experienced German company as a partner without this company knowing. Furthermore, the Romanian company had provided false details on its previous experience in wastewater infrastructure hiding its complete lack of previous involvement in this area. Ultimately, the company was awarded the contract and EU funding but abandoned the project before investigations by OLAF uncovered the fraud.[28]

Perhaps not surprisingly, **projects that are implemented by public authorities are less susceptible to fraud**. For example, in the case of ESF programmes in Sweden, it has been highlighted that most of

[27] Kuhl, L. Dr. (2020). Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies.

[28] OLAF. (2020). *The OLAF report 2019.*

the funds are paid to public authorities implementing programmes, while in previous programmes services tended to be delivered more by private sector contractors. The shift towards relying on public authorities rather than private sector entities apparently reduced incidence of fraud. Similarly, authorities in Poland managing cross-border cooperation programmes have indicated that since public institutions receive the funds and deliver the services and projects that receive EU funding, fraud is less likely. While these insights suggest the possibility that the involvement of public institutions reduces the possibility of fraud, this of course depends on the procedures and controls adopted by the institutions concerned. Furthermore, public beneficiaries are not immune to the risks of subcontracting as illustrated in the case detailed above in wastewater infrastructure.

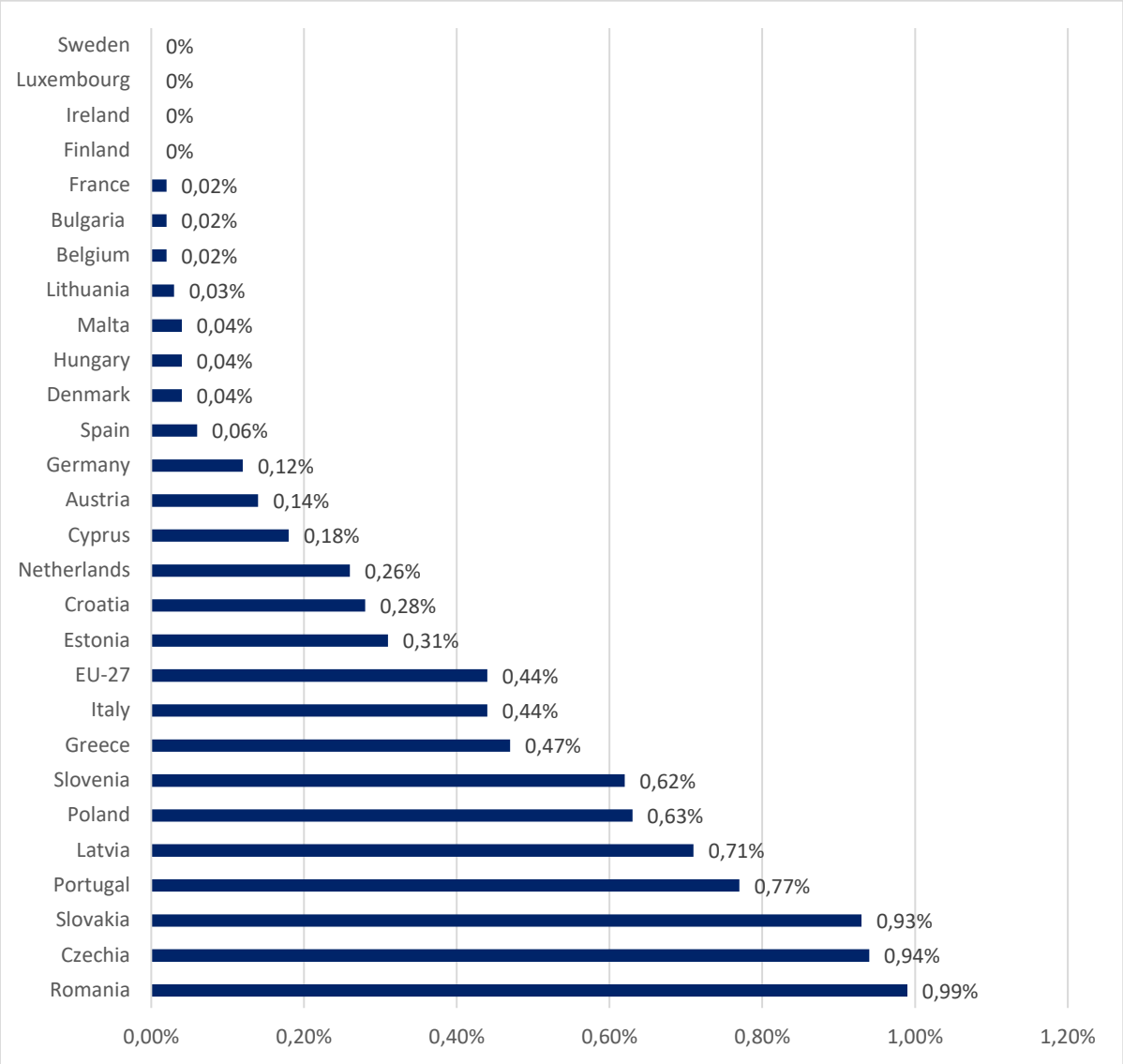
Differing views exist regarding the **complexity of funding mechanisms** and what this means for the risk of fraud. There seems to be a general perception that more complex funding mechanisms are at higher risk of fraud, as the coordination of different entities throughout different stages of the process reduces visibility and increases the chances for fraud to slip through existing controls. However, these complex funding mechanisms generally require applicants to submit a large volume of documentation, which can be used to verify that they meet all eligibility criteria. This is not possible in simple funding mechanisms such as grants to individuals for a specific purpose. In those cases, the lack of documentation limits opportunities for cross-reference and spot checking of applications, thereby increasing the risk of fraud.

2.6 Patterns across EU Member States

The chart below indicates the fraud detection rate, i.e. the percentage of funding detected as fraudulent, for the programming period of 2007-13 as reported in the PIF Report of 2020. The rates for the 2007-13 programming period are highlighted instead of the 2014-2020 programming period as the PIF report indicates that the rates for this period will likely change as implementation of the programme is still in progress.[29]

[29] European Commission. (2021). 32nd Annual Report on the Protection of the European Union's financial interests: Fight against fraud 2020.

Figure 2.4: Fraud Detection Rates (%) across EU Member States (2007-13)



Source: 2020 OLAF PIF report statistical annex (page 109)

While the levels of fraud detected across EU Member States vary, it is important to stress that these figures do not necessarily reflect the level of fraud in each country as this can be a reflection of the efforts they have put into countering fraud as well as their capabilities in detection. It has been highlighted by our research, for example, that in 2019 Slovakia had significant levels of fraud reported but that this is because the national authorities had increased efforts to tackle fraud. Furthermore, it has been argued that some countries with high detection rates such as Slovakia take a more conservative approach to determining whether an irregularity is non-fraudulent. Others have questioned the reporting in IMS and the low detection rates. In certain countries with low reporting rates, auditors are aware of cases that have not been reported in IMS. This has been pointed out to be the case in France but is likely a problem in other countries.

2.6 Conclusions – Patterns of Fraud

The 2020 PIF report indicates that there were an estimated 538 fraudulent irregularities affecting EU expenditure in shared management amounting to an estimated EUR 253.5 million for the EU-27. The PIF report statistics indicates that the fraud levels reported is higher in some countries than others, but this may not be an indication of fraud patterns but the way in which irregularities are reported and investigated, as well as the effectiveness of efforts to combat fraud. The PIF report, indicates that the largest source of fraud was that affecting Cohesion Fund and ERDF expenditure with 221 fraud cases amounting to EUR 213.7 million. The figures from the OLAF PIF report indicate that for Cohesion Fund, ERDF, ESF, and EMFF, the levels of fraud reported represented 0.44% of payments in the programming period 2007-2013 and 0.65% in the programming period 2014-2020, though the latter is likely to change as implementation has not finalised.

There are nonetheless significant concerns with the accuracy of the data reported to OLAF via IMS. This is due to various reasons such as the nature of fraud being an illegal activity and therefore a largely hidden problem. Other reasons include the lack of coordination between reporting authorities and investigative bodies, with the former being sometimes unaware of the most recent information concerning cases that the latter has knowledge of, while the latter are not notified of suspected cases of fraud they need to investigate.

Considering the different types of fraud, the OLAF PIF report for 2020 estimated that the most common type of fraud seen in EU funds was the falsification of documentation. This was followed by infringement of contract provisions, fraud to meet eligibility criteria, and infringement of public procurement rules. In 2019, the Commission noted that according to internal risk assessments, the type of fraud most reported to have been encountered by Commission services was overcharging with around half of services having encountered this type of fraud. Falsification of documentation including invoicing, double funding and plagiarism were the subsequent most encountered.

The relatively high amount of fraud in Cohesion Fund and ERDF expenditure (compared with other EU funding under shared management) is largely due to the concentration of large infrastructure projects. The large financial value of such projects makes them attractive to fraudsters and organised crime. In line with this finding, low value projects for example in ESF and Cross-Border Cooperation programmes appear to be less vulnerable. Agricultural funds appear to be another significant target with cases involving misuse of investment for upgrading of machinery, and false declarations of farming plots to obtain EU funds.

3. EU and National Approaches to Tackling Fraud

In this section we examine responses at the EU and Member State level to the problem of fraud in EU funds under shared management.

3.1 EU Framework for Tackling Fraud in Funds under Shared Management

The Directive (EU) 2017/1371 on the 'Fight Against Fraud to the Union's Financial Interests by Means of Criminal Law' (PIF Directive) was adopted as part of the Commission's Anti-Fraud Strategy to strengthen the protection of the EU budget. The Directive aims to increase the level of protection of the EU budget by establishing common definitions of criminal offences against the financial interests of the EU and introduces minimum rules for sanctions and limitation periods, thereby harmonising the prosecution of offenses.

Box 3.1: Directive (EU) 2017/1371 on the Fight Against Fraud to the Union's Financial Interests by Means of Criminal Law (PIF Directive)

In the Directive, the **definition of criminal offences covers active and passive fraud, as well as the misuse of funds.** The Directive lays down minimum penalties for natural persons and establishes limitation periods that make it possible for the law to apply over a sufficient time to ensure that infringements can be addressed in an effective way. The Directive also introduces an obligation for the Member States, the Commission, the agencies and the Court of Auditors to cooperate.

In addition, the **Directive supports** the new **European Public Prosecutor's Office (EPPO).** According to the Commission's Rule of Law report, the EPPO should play an important key role in harmonising the approach to fight fraud against the EU budget. Before the creation of the EPPO, the competence to investigate and prosecute fraud against the EU budget remained solely with the Member States. The EPPO has the competence to investigate, prosecute and bring to judgment in relation to crimes against the EU budget.

Further measures in the Directive are designed to ensure that national policies: (i) articulate the programme authorities' anti-fraud and anti-corruption objectives in relation to specific operational programmes; (ii) clearly define roles and responsibilities relating to the fraud and corruption risk management;(iii) set clear reporting and investigation procedures and steps; (iv) define how the fraud risk management framework will be monitored. Member States should also ensure that the programming authorities have the right set of **skills and experience** to conduct fraud risk assessment and are periodically provided with ad-hoc training. Finally, the use of all available **sources of information and databases** and the use of data analytics techniques might help reinforce the Member State capacity to anticipate fraud risks at the earliest stages of the project lifecycle.

The PIF Directive also requires Member States to **implement a limitation period of at least five years for the prosecution of serious criminal offences against the financial interests of the EU**, which trigger a maximum imprisonment of at least four years.

All EU Member States have now transposed the PIF Directive although there are some differences in the extent to which it has been implemented and in terms of the types of measures adopted in practice.

In addition, the Joint Anti-Fraud Strategy (JAFS) produced by DG REGIO, DG EMPL and DG MARE, early detection and fraud prevention measures are emphasized in particular as vital to tackling fraud. As part of efforts to promote the goals set out by the JAFS, the Commission provides awareness and training staff on OLAF cases, mandatory anti-fraud training sessions for new staff, and e-learning courses on

anti-fraud practices. In light of the Covid-19 crisis, the Commission is updating risk registries to take into account new health related and economic consequences of the crisis for funding programmes.[30]

Another important aspect of the framework for tackling fraud is the EPPO which launched its operations in June 2021. The EPPO is responsible for investigating and prosecuting crimes against the EU's finances. The scope of its activities includes VAT fraud with damages over EUR 10 million, organised crime, money laundering, corruption and fraud amongst others.

A total of 22 Member States are participating fully in the EPPO. Hungary, Poland and Sweden have not joined the EPPO, and Denmark and Ireland have opted out of the area of freedom, security and justice (AFSJ). NGOs interviewed for this study have pointed this out a potential prosecution 'loophole' that exists in the management of EU funds. OLAF can investigate cases of fraud but cannot prosecute; instead, it can only notify national prosecution authorities of the need to do so for certain cases.

For most Member States, if there is a failure of the national authorities to act on suspected fraud, the EPPO can step in to investigate and prosecute but not all Member States have agreed to join the EPPO. Therefore, in some Member States, there is a gap and if national authorities are unwilling to tackle cases of fraud, there is no EU authority that can step in to do so. One NGO consulted believed there was additional concern for the Next Generation EU Recovery Fund as there are less formalised systems of checks and audits then under shared management.

The European Commission has developed a number of tools to promote more effective prevention and detection measures. This includes measures to promote risk assessments, capacity building to help ensure that Managing Authorities have the necessary skills to tackle irregularities and fraud, specific tools such as the IMS system and initiatives to promote cooperation in this field. A useful summary is provided in a recent study "Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies". In this, the author outlines the ways in which the European Commission, specifically DGs REGIO, EMPL and MARE, have developed their approach to detecting and preventing fraud during the 2014-20 programming period. Five types of measures are highlighted.

[30] The Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC) responses

Box 3.2: Measure to combat fraud in EU funds under shared management

- **Risk assessments:** consistent fraud risk assessments and exploitation of audit and investigation results by the relevant Managing Authorities are imperative. These shared management audit services complement Member States' audit activities and help the DGs conduct their own fraud risk assessments. Indeed, "their audits are not suspicion-run but risk-based, targeting tendencies and weaknesses identified in the checked management and control systems that reveal risks of misuse and illegal spending."[31]
- **Capacity building:** was highlighted by the Commission services as important. This includes an e-learning platform for best practices on how to remedy continuous weaknesses in management and control systems, and technical assistance.
- **Use of dedicated tools:** such tools could be ARACHNE, the IMS, or the joint typology of irregularities and identified fraud.
- **Effective cooperation with other bodies:** maintaining communication and devising strategies with the European Anti-Fraud Office (OLAF) is frequently mentioned throughout the study. At present, "a periodic analysis of OLAF fundings is carried out in DG REGIO" and "the OLAF itself identifies in its investigations recurrent risk scenarios and modus operandi in cohesion policy fraud.
- **Use of integrity pacts:** these are agreements between a contracting authority and the companies bidding for public contracts and include a commitment to abide by standards of transparency, efficiency and integrity, as well as to abstain from corrupt practices. 18 pacts have been launched thus far and demonstrated some promising results, such as helping contract authorities handle public contracts, identifying risk scenarios, and signalling risks of harmful and illegal practices.

One of the key conclusions of the above-mentioned stock-taking study was that of **the 50 Operational Programmes across the EU Member States that were analysed, many measures had been taken to prevent irregularities but that there were still significant risks of double-financing, non-compliance with public procurement rules, and conflicts of interests that had not been effectively addressed.** As such, it was argued that there was still room for improvements in the measures. For example, the report highlighted how risk prevention efforts should be tailored to the specific features of each programme and project to be effective. While highlighting self-declarations of the absence of conflicts of interest, as well as criminal sanctions, as good practices, the report cautioned against accepting them as the sole means of detecting risks and preventing cases of fraudulent activity in public procurement. The report also argued that such measures had to be fully supported by Member State authorities to ensure a high degree of efficacy.[32] It is important to notice that this study was written before the entry into force of the rules for the 2021-2027 period. Therefore, it builds on Member States experiences in the previous framework.

3.2 EU Support for National Authorities

Within the overall framework to combat fraud in funds under shared management outlined above, Member States benefit from support and guidance from the Commission and OLAF. This includes guidance on good practice, self-assessment methodologies, IT tools and workshops for the sharing of information and good practices. In addition to Managing Authorities, national audit authorities are included this information sharing collaboration network.

[31] Ibid.

[32] Kuhl, L. Dr. (2020). *Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies*.

3.2.1 EU support to Managing Authorities

Support to Managing Authorities to help combat fraud in the funds under shared management includes guidance on tackling specific issues such as conflicts of interest. Recently, as part of efforts to implement new action points from the JAFS, the Commission provided a **Compendium of Good Practices** (adopted on 18 February 2020) for Member States to strengthen their administrative capacity. The compendium includes an e-learning module covering basic knowledge needed for staff training, and guidance together with an online toolbox with practical case examples and case studies.

In addition, since 2014, the Commission has provided **self-assessment tools** to help improve fraud risk assessment for programme authorities. In the programming period 2014-20, these tools have been accompanied by a **guidance note** containing recommendations and assistance to the MAs on the implementation of "effective and proportionate anti-fraud measures taking into account the risks identified", as stipulated in Article 125(4l) of the Common Provisions Regulation (Reg. (EU) No 1303/2013). [33] As stated in the note, the objective is for the funds to "be proactive and proportionate anti-fraud measures with cost-effective means".

The Commission has also sought to intensify the **cross-border cooperation between national authorities as well as with civil society**. This is promoted, for example, via participation in seminars and workshops providing technical support and training, most recently on preventing fraud and corruption in ESIF(September and December 2020) and on fraud risk management in Cohesion Policy (December 2020). The Commission has organised awareness-raising events and offers training to the competent authorities to support them with the **sharing of good practices**.[34]

3.2.2 Audit authorities

The Commission cooperates with **audit authorities and certification bodies** in order to share best practice and improve methods used for audits of programmes. This is critical given the 'Single Audit Approach'.

[33] https://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/fraud-risk-assessment-and-effective-and-proportionate-anti-fraud-measures

[34] The Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC) responses

Box 3.3: Legislative framework for anti-fraud activities in cohesion and CAP

Preventing and tackling fraud in cohesion expenditure (2014-2020)

The legislative framework for cohesion policy 2014-2020 includes specific provisions on Member States' authorities' responsibility in relation to fraud prevention and detection.

- Article 59.2(b) of Financial Regulation (FR) – Member States shall take all necessary measures, including legislative, regulatory and administrative measures, to protect the Union's financial interests, namely by preventing, detecting and correcting irregularities and fraud.
- Article 72 of the Regulation (EU) No 1303/2013 (CPR) - defines the general principles of management and control systems. These systems shall provide for, among others, "the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments".
- Article 125(4)(c) of the CPR – requires the managing authorities to put in place effective and proportionate anti-fraud measures taking into accounts the risks identified. The managing authorities have a key responsibility in preventing and managing potential fraud risks in the OPs.
- Article 127 (1) of the CPR - states that "the audit authority shall ensure that audits are carried out on the proper functioning of the management and control system of the operational programme and on an appropriate sample of operations on the basis of the declared expenditure." The audit authorities carry out 'system audits' to verify that the management and control systems function effectively and efficiently in order to prevent errors and irregularities – this includes verifying the effective implementation of the anti-fraud measures by the managing authorities.

Preventing and tackling in CAP expenditure (2014-2020)

The Commission has defined an anti-fraud policy framework in order to protect CAP expenditure against fraud, raise fraud awareness within in EU and ensure sound financial management and good governance. Member States have a key role to play in this framework.

- Article 58 of Regulation (EU) No 1306/2013 - Member States are required, within the framework of the CAP, to adopt all legislative, regulatory and administrative provisions and take any other measures necessary to ensure effective protection of the financial interests of the Union, in particular to […] (b) ensure effective prevention against fraud, especially in areas with a higher level of risk, and which will act as a deterrent, having regard to the costs and benefits as well as the proportionality of the measures; (c) prevent, detect and correct irregularities and fraud.
- EU Delegated Regulation 907/2014 supplementing EU Regulation 1306/2013 – (A) the paying agency shall authorise a claim for payment only after sufficient checks have been carried out to ensure compliance with Union rules including checks required pursuant to Article 58 of Regulation (EU) No 1306/2013 to prevent and detect fraud and irregularity with particular regard to the risks incurred.
- Article 1 of Commission Implementing Regulation (EU) No 908/2014 – The competent authority appoints an audit body to carry out an examination before the accreditation of the paying agency. This audit body is independent from the paying agency. The examination will assess, among the others, the extent to which the procedures and systems put in place are apt to safeguard the Union budget including risk-based anti-fraud measures.
- Articles 5 to 7 of the Regulation (EU) No 908/2014 define the framework for the certification bodies' audit work. The certification body is required to draw up a report of its findings which states whether: the paying agency complied with the accreditation criteria; the paying agency's procedures were such as to give reasonable assurance that the expenditure charged to the Funds was allocated in compliance with Union rules, thus ensuring that the underlying transactions were legal and regular; the statements of expenditure and of intervention operations were a materially true, complete and accurate; the financial interests of the Union were properly protected.

International standards

- ISA 240[35] clarifies the auditor's responsibilities in relation to fraud in an audit of financial statements. In particular, auditors should evaluate the risk of material misstatement due to fraud and respond appropriately to fraud or suspected fraud identified during the audit. The auditor should maintain 'professional scepticism' throughout the audit. The ISAs define professional scepticism as "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."[36]

EU support takes the form of training and guidance on EU tools, statistical methods and eligibility rules, and helps to develop better audit tools. Furthermore, **technical meetings take place between the Commission and audit authorities** to discuss methodological issues such as audit documentation and audit trails, and the adoption of **joint audit tools and checklists** used for auditing (including the audits on the implementation of anti-fraud measures). Such meetings also involve the joint development and sharing of **audit methodologies** (e.g. performance indicators and sampling techniques) as well as methods that can be used to assess and report on the functioning of systems, or for auditing financial instruments.

Good practices in auditing funds under shared management have been complied in a 2018 "**Charter on good practices promoted by the Audit Community under Cohesion policy, EMFF and FEAD**" providing insights relevant to both audit authorities and Commission officials. The Commission also encourages audit authorities to better share expertise and good practices through regular **multilateral meetings** and through the **Peer2Peer exchanges programme** co-financed by the Commission's technical assistance.[37] In 2019, the European Court of Auditors also proposed measures to help reduce fraud against the EU finances. This included:

Box 3.4: European Court of Auditors 2019 recommendations

- Putting in place robust reporting system based on the Irregularity Management System (IMS).
- Better coordination in tackling fraud based on fraud prevention and detection.
- The Commission should intensify its fraud prevention activities.
- Increased use of the early detection and exclusion system (EDES) by DGs and Member States.
- All Member States to make use of the Arachne database to prevent fraudulent and irregular use of EU funds.
- Reconsidering OLAF's role and responsibilities in combatting fraud in EU spending in light of the establishment of the EPPO, giving OLAF strategic oversight role in EU anti-fraud action.[38]

3.3 EU's Anti-fraud Tools

The EU has developed several tools to help Member States to combat fraud. As noted above, Member States report cases of fraud in expenditures through:

- **Irregularity Management System (IMS)** - a database Member States are required to use to report irregularities and fraudulent irregularities detected in the management of EU funds.
- **Early Detection and Exclusion Systems (EDES)** which allows the Commission services and other EU institutions and bodies to flag up financial risks posed by (potential) recipients of EU funds and to exclude unreliable ones from EU funding in direct and indirect management.[39]
- **Arachne Risk Scoring Tool** developed by the Commission and operational since 2013. This is

[35] Further information is available at: A012 2010 IAASB Handbook ISA 240 (ifac.org)

[36] ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph 13(l).

[37] The Joint Audit Directorate for Cohesion (REGIO.EMPL.DAC) responses

[38] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[39] Commission Anti-Fraud Strategy: enhanced action to protect the EU budget {COM(2019) 196 final}- {SWD(2019) 170 final}

a voluntary preventive detection tool used by some Member States in the area of the Structural Funds.

There are a number of other EU tools that national authorities can use to help assess risk profiles and for the analysis of big data for fraud prevention. This includes DAISY, ARACHNE, SEDIA, and DIGIWHIST. However, the risk scoring tools are not used by all Member States for the funds under shared management and are only available for some Commission services and funding programmes as explained below.

3.3.1 ARACHNE

Arachne serves as an integrated IT tool for data mining and data enrichment for data on projects implemented with the support of the Structural Funds.[40] In order to identify exposure to risks of fraud, **conflicts of interests, double financing, corruption or other irregularities in projects, beneficiaries and contracts and contractors**, the system alerts the MAs if and when the data suggests there could be risks.[41] This enables the authorities to focus their controls on the projects considered at risk, and to run the necessary verifications to prevent, detect and correct irregularities or fraud, and to notify OLAF via the IMS database. Arachne is provided free of charge to MAs.[42] [43] This research suggests that universal use of Arachne is essential for effectively tackling fraud, for example because projects of large financial value will often involve beneficiaries in several Member States. Also, a (potential) beneficiary that is suspected of fraud in one country might attempt similar activities in another unless information is shared. It is therefore important to have a data mining tool that can identify red flags by processing data from across more than one EU Member States.

Despite its merits, the uptake of Arachne by MAs varies. By September 2019, **20 Member States used Arachne, out of which 16 had integrated it into their management and verification processes for at least one operational programme**.[44] According to the Commission's figures, Member States used Arachne for 165 operational programmes in 2018, which accounts for 54% of all EU Cohesion Policy funding for 2014-20, with the exclusion of the European Territorial Co-operation objective of the European Regional Development Fund.[45] DG REGIO's Joint Audit Directorate for Cohesion Policy has indicated that as at June 2021, a coverage of 56% has been achieved of the Operational Programmes for the 242 programmes supported by DGs EMPL and REGIO for the period of 2014-20.[46]

Another study commissioned by DG REGIO found that the majority of MAs do not use Arachne (only a third of the MAs were using Arachne as a risk scoring or fraud detection tool). Arachne is often used by authorities in combination with other IT tools, most frequently national IT tools and databases but these have a narrower geographic scope[47]. In those countries where Arachne is not used, national and regional IT systems or other similar tools and databases are generally in place, which offer similar

[40] Over 100 risk indicators linked to 7 risk categories help identify high-risk projects, contractors, contracts and beneficiaries. Risk categories include procurement, contract management, eligibility, performance, concentration, reasonability and reputational, and fraud alerts.

[41] https://ec.europa.eu/social/main.jsp?catId=325&intPageId=3587&langId=en#:~:text=ARACHNE%20is%20an%20integrated%20IT,and%20European%20Regional%20Development%20Fund

[42] https://ec.europa.eu/social/main.jsp?catId=325&intPageId=3587&langId=en

[43] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[44] https://eucrim.eu/articles/implementation-effective-measures-against-fraud-and-illegal-activities-cohesion-policies/#docx-to-html-fn39

[45] https://www.oecd-ilibrary.org/sites/d4c5cea4-en/index.html?itemId=/content/component/d4c5cea4-en

[46] Written responses from DG REGIO Joint Audit Directorate for Cohesion Policy

[47] https://ec.europa.eu/sfc/sites/default/files/study-_implem_article125_en-final.pdf

functionalities.[48] Nevertheless, the majority of MAs that were using the tool considered it provided added value.[49] The **most active Arachne users seem to be Bulgaria, Czechia, France, Italy, Latvia, Romania and Slovakia.**

To take some examples, in **Italy**, according to our research, ARACHNE is regarded as a useful tool to support the work of the MAs in specific phases of the programme management cycle. In particular, ARACHNE is mainly used to identify projects and interventions characterised by high fraud risk scores and where the authorities need to perform specific checks (also using programme-specific risk indicators defined at national level). The Italian MAs also use ARACHNE to monitor the level of fraud risk associated with projects supported by their Operational Programmes and conduct transversal analysis to identify possible trends in irregularities and factors that might increase the risk of fraud. According to the research, this tool could be used in conjunction with national databases and IT systems to better investigate potential cases of fraud. However, more needs to be done to enhance the tool to make this feasible.

Other Member States (**Austria, Denmark, Finland, Germany and Sweden**) had not implemented ARACHNE while **Cyprus and Poland** were still undecided. The reasons for this situation include stricter national rules on data confidentiality and protection, for example in Germany, and plans to develop alternative national systems, as in Poland.[50] [51] In interviews performed for this study, the Danish authorities indicated that they did not use ARACHNE as they did not find it to be well developed. Having cross checked between different projects for which there was information, the authorities found that there was misreporting across funds including false positives. In other cases, national authorities do not use ARACHNE as they have not been trained to use it.

Earlier research highlighted **other issues preventing adoption including: the lack of functionality, the risk indicators not being relevant for certain types of projects** (often smaller projects) given their various specificities, concerns over additional **audit procedures and the administrative burden**. In **Portugal**, for example, the use of ARACHNE would appear to be rather limited. According to our research, a possible reason for not using the tool or for the sporadic use by the few entities that do use it, is the administrative burden. The effectiveness of ARACHNE depends on a continuous supply of information from MAs and other intermediate bodies, and some authorities are concerned about the additional administrative responsibilities for them and the beneficiaries. Another consideration is that **ARACHNE is only available for the ERDF and the ESF, and therefore, some Managing Authorities in other funding areas such as agriculture, who see the benefit and would like to make use of the tool, are unable to.**[52] In Poland, concerns regarding ARACHNE have led to development of a national tool, the Cross-Check IT Management System.[53]

Some NGOs interviewed for this study suggested that there is a possible reluctance to use Arachne because it enhances transparency in the disbursement of EU funds and therefore increases the chance of undercovering corruption. The reliance on business exclusion registries has been argued to be insufficient as new businesses operated by previously indicted fraudsters can bypass such registries, an issue that Arachne could detect.

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48 https://www.eprc-strath.eu/public/dam/jcr:dbcbcfde-e024-44a0-a11b-b12456ffe0c5/EPRP%20121%20-%20IQ_Net_Thematic%20paper%2047(2).pdf

49 ' Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States' by PwC (2019).

50 https://eucrim.eu/articles/implementation-effective-measures-against-fraud-and-illegal-activities-cohesion-policies/#docx-to-html-fnref38

51 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

52 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

53 Anti-Fraud Knowledge Centre. (n.d.). Cross-Check IT Mechanism. European Commission. [online] Available at: https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/cross-check-it-mechanism_en

A study by the European Policies Research Centre assessed the perceived effectiveness of anti-fraud measures in Cohesion Policy.[54] **Among the fraud detection measures, the Arachne risk-scoring tool was perceived to be the least effective** (with a score of 5.4 points out of 10); those with the highest effectiveness rating were: on-the-spot checks and audit (9.0/10), internal fraud reporting mechanisms (8.4/10) and fraud risk assessment for applicants/ beneficiaries (7.7/10). These findings suggest very mixed views amongst MAs in relation to the benefits of Arachne. Nevertheless, a study commissioned by DG REGIO in 2018 established that, although about two-thirds of the MAs did not use ARACHNE, the majority of those that had done so saw it as being effective with regard to the assessment of potential conflicts of interest and identifying red flags, given the otherwise resource-intensive nature of the task.[55] However, only some MAs used its full functionalities with half of them reporting the use of functionalities for the identification of conflict of interest or fraud 'red flags'."[56]

The research for this study underlines the fact that the success of tools such as ARACHNE (as well as EDES) depends on sufficient take up and use of the tool. In particular, more data has to be included in the tool to produce higher quality, effectiveness and therefore relevance for Member States. It has been suggested that a requirement should be introduced for compulsory use of ARACHNE, as this would increase the uptake of the tool and lead to more complete information being inserted, thereby further increase its quality. Moreover, **a key way of increasing the usage of these tools would be improving data interoperability**, so that data in the IMS would correspond with data in ARACHNE, in OLAF's systems, and other Member State databases, as well as EDES and other national procurement databases, company registers. [57] [58] [59] Furthermore, in cases where identified risks reoccur, control systems in Arachne should be reinforced to identify trends. This would then further strengthen the usefulness of the tool in preventing fraud thereby also increasing its effectiveness.[60] [61] On this issue, some authorities we interviewed indicated that they do not find ARACHNE to be as useful as it could be because the information is only on public contracts that have already been awarded.

To take several examples of steps being taken to improve the system, **Spain** is currently carrying out a pilot project together with the European Commission to further automatize Arachne and adapt its functionalities to make it useful also for the EARDF. Although the research for this study indicates that progress is slow, the authorities expressed confidence in the potential of such initiative in terms of an increasing uptake of Arachne both due to the higher level of automation and the possibility of being used for other EU funds.

Similarly, the Paying Authority in **Croatia** overseeing the agricultural funds are also piloting the use of ARACHNE, focusing initially on how to use it to identify conflicts of interest. The authorities intend to publish guidelines and develop training courses on how to use the tool once they are familiar with it themselves. In **Italy**, the authorities argued that there are several features of ARACHNE that could be improved. This includes define criteria and procedures to assess the quality and completeness of the data that is put into the system. Secondly, it is argued that the risk indicators used by ARACHNE seem to focus more on reputation and the possibilities of corruption rather than on fraud. Such indicators should also be tailored to more closely the work of the MAs (e.g. during the procurement and application phases).

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54 https://www.eprc-strath.eu/public/dam/jcr:dbcbcfde-e024-44a0-a11b-b12456ffe0c5/EPRP%20121%20-%20IQ_Net_Thematic%20paper%2047(2).pdf

55 https://ec.europa.eu/sfc/sites/default/files/study-_implem_article125_en-final.pdf

56 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

57 https://www.oecd-ilibrary.org/sites/d4c5cea4-en/index.html?itemId=/content/component/d4c5cea4-en

58 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

59 Ibid.

60 https://ec.europa.eu/social/BlobServlet?docId=14836&langId=en

61 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

Previous studies and internal audits suggest that **increasing awareness among authorities using these tools, the sharing of best practices, and training and workshops could increase their effectiveness**. The potential mandatory use of Arachne by Member States could also contribute to addressing data gaps and thereby improving data management and quality of results of the tool. The direct impact the use of these tools is likely to have on detecting and tackling fraud compared with the administrative burden they might entail remains uncertain."[62]

3.3.2 Early Detection and Exclusion System (EDES)

EDES has not yet been extended for use by authorities involved in funds under shared management. It is currently used for direct and indirect EU expenditure (e.g. by EU-agencies and EU-public banks).[63] Nonetheless, the evidence from our research suggests that the tool would be effective in tackling fraud in EU funds under shared management. More specifically, increased use of EDES would contribute to excluding unreliable entities from accessing EU funds in the first place. However, MAs consulted for this study have indicated that there is little awareness of the existence of EDES.

To take an example, in **Portugal**, the MA indicated to us that they would find it useful to have a database of cases of fraud with details on the individuals involved and company names. In this case, it is possible to obtain information for individual court cases that have been finalised but there is no comprehensive database. This problem would be resolved if EDES could be used. Furthermore, in several Member States, national criminal registers are not publicly available, restricting access to national authorities as well as authorities in other Member States. In the latter case, this further compounds the issue of a lack of an EU wide integrated data system being used for exclusion of economic actors which would help tackle cross-border fraud. Potential constraints on the use of EDES include the fact that since national authorities use their own systems already, it would be administratively burdensome to have to input their data twice.[64]

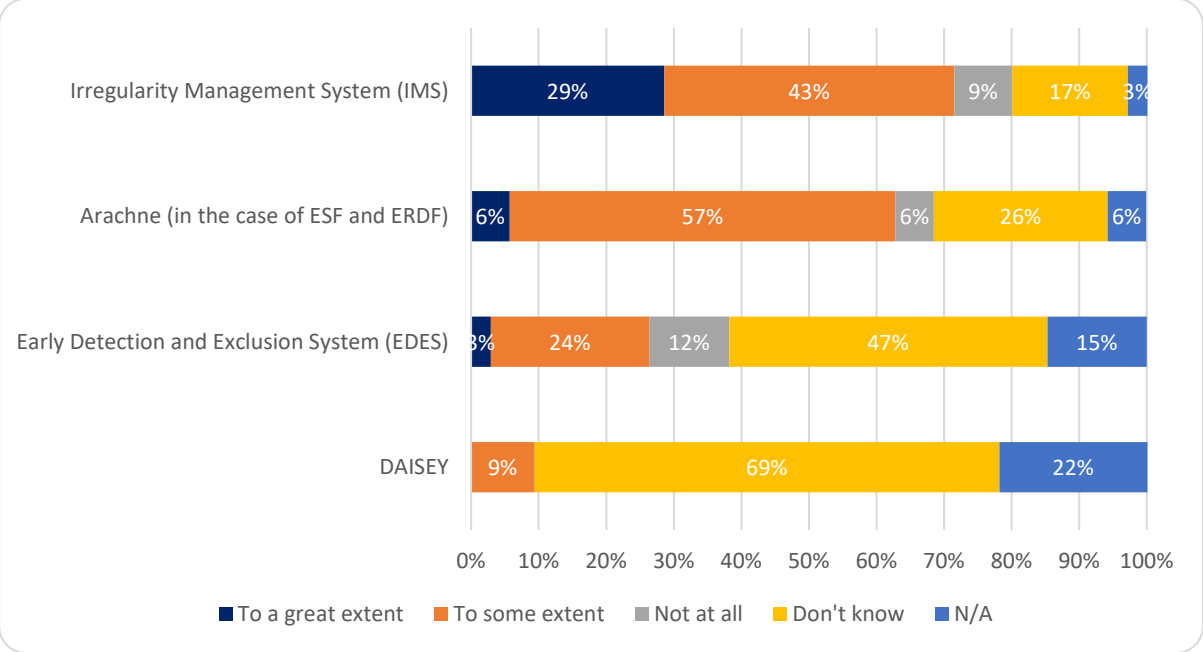
In the survey for this study, we asked how useful the tools developed at the EU level are in helping to tackle fraud in the EU funds under shared management. The Irregularity Management System (IMS) stood out as being positively regarded in this respect with more mixed feedback on the other systems. A relatively high proportion of the survey respondents were not aware of the other system (especially EDES and DAISEY). This underlines a finding (see Section 3.5) on the need for awareness-raising and improved interoperability.

[62] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[63] Kuhl, L. Dr. (2020). Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies.

[64] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

Figure 3.1: To what extent are the tools developed at the EU level effective in helping to tackle fraud in the EU funds under shared management?



Source: CSES Online survey

3.3.3 Anti-Fraud Knowledge Centre

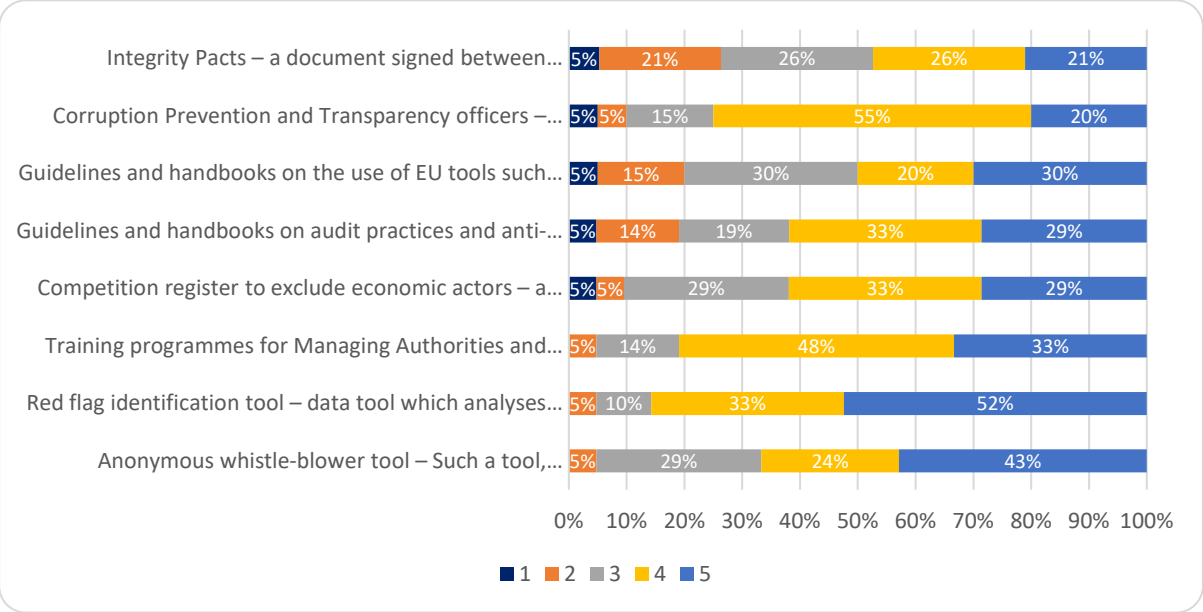
Amongst the initiatives that OLAF supports is the **Anti-Fraud Knowledge Centre**.[65] This online facility provides access to a wider range of materials (a library, definitions and glossary, guidance and legislation, etc) and includes a section on best practices.

The Commission's Anti-Fraud Knowledge Centre lists 37 good practices under a number of headings - whistleblowing schemes, systems and tools, cooperation mechanisms, red flags, sanctions, training and guidance. In each case there is a short description, an explanation of key success factors, and indication of the scope for replication elsewhere. Some good practices focus specifically on EU funds under shared management while others have a broader role in relation to combating fraud in relation to public expenditure generally. We examine and add to the Anti-Fraud Knowledge Centre's good practices later in this section.

In the survey for this study, we asked respondents to rank the different good practices identified by the European Commission's Anti-Fraud Knowledge Centre (this was done on a scale of 1 to 5 with 1 meaning that practice is not useful for preventing fraud and 5 meaning that the practice is very useful). As can be seen from the chart below, whistleblowing schemes, 'Red Flag' identification tools and training programmes were relatively highly ranked although the picture is not clear-cut.

[65] https://ec.europa.eu/antifraud-knowledge-centre/index_en

Figure 3.2: Ranking of the good practices identified by the Anti-Fraud Knowledge Centre



Source: CSES Online survey

3.4 National Strategies for Tackling Fraud in Shared Management Funds

In this section we examine the measures taken by EU Member States to tackling fraud in the funds under shared management.

3.4.1 National Anti-Fraud Strategy (NAFS)

The European Commission has encouraged Member States to develop a **National Anti-Fraud Strategy (NAFS),** a measure designed to embed anti-fraud actions for the management of EU Funds to ensure coordinated practices at national level.[66] The NAFS can also include actions to protect both the EU and national budgets.[67] The model for the NAFS proposed by the Commission consists of five main sections, namely: an introduction covering the governing legal framework and methodology of the strategy, a state of play and fraud risk assessment; objectives and performance indicators; an action plan including measures to be implemented; and defining how the strategy will be evaluated and implemented.[68]

As noted earlier, **not all Member States have developed NAFS as requested by the Commission. The OLAF PIF report for 2020 indicates that only 13 Member States have adopted and reported NAFS as can be seen in the table below.** The identified NAFSs had as their main focus prevention and coordination measures. Regarding prevention measures, three main aspects were the most salient: capacity building of the administration via training and workshop, increasing public awareness through communication, and increasing transparency, for example via publishing online reports on selected projects. The review of the NAFSs revealed that none of the 13 Member States with NAFSs had used the Commission guidance when developing their own strategies. This is because the national

[66] See Guidelines for the elaboration of a national anti-fraud strategy (NAFS) (europa.eu)

[67] European Commission (2019). Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States.

[68] Ibid.

authorities had started preparing and implementing NAFSs before the Commission released its guidance. However, certain elements found in the guidance were also found in the NAFSs of some Member States, for instance, an assessment of the state of play of the anti-fraud landscape at the national level. The NAFSs all provided concrete measures for the fight against fraud and corruption. Almost all NAFSs that were reviewed by the PwC study made mention of EU funds and had specific mitigation measures for these types of funds.[69]

The fact that not all Member States have developed NAFS allows for the possibility of fraud risks to emerge. This issue is compounded by the fact that it is not clear that all of the NAFSs follow the guidance when it comes to their design, allowing for a situation in which approaches to tackling fraud (often a cross-border issue) are not uniform across Member States and are not implementing what has been identified as good practice. However, there are ongoing efforts by Member States to develop such strategies. Some examples are provided below,

Thus, **Spain** is currently developing its National Anti-Fraud Strategy with the technical assistance from the OECD. The expected benefit according to the research for this study is mainly to enhance the coherence of different actions to fight against fraud and corruption across all authorities involved. As highlighted in CSES' previous study, as part of their NAFs some countries have developed formal channels through which to engage the wider public in the fight against fraud through the reporting of irregularities. This is the case, for example, with the National Anti-fraud Coordination Service in **Spain** which opened an online communication channel in 2017 in relation to projects or operations financed with EU funds. This channel aims to serve as additional means of identifying irregularities and to allow the public authorities to carry out investigations.[70]

In 2016, **France** adopted a national anti-fraud strategy.[71] This strategy was adopted by the National Committee against Fraud (CNLF) and provides a roadmap aimed at combating fraud affecting national and EU funds, and as such provides a comprehensive national strategy.

Italy provides a good example of how a NAFS is monitored. Here, the results of the NAFS are presented in the Annual Report submitted by the AFCOS to the national parliament in accordance with Article 54 of Law 234/2012.[72] This Report provides an overview of the strategic priorities of the anti-fraud action, the scale of the problem and statistical data, the specific measures adopted by the AFCOS and other national authorities as well as the results achieved and possible improvements in the future. A pivotal point in **Poland's** NAFS is its Central Anti-Corruption Bureau (CBA), which has both policing and monitoring powers. Alongside enabling citizens to report irregularities and incidents via an online form, the CBA also established an e-learning platform on anti-corruption.73 To adapt to digital access and regulation, there is an ongoing updating of materials to reflect new challenges and GDPR requirements, as well as the use of social media to update the public.

[69] 'Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States' by PwC (2019).

[70] https://www.igae.pap.hacienda.gob.es/sitios/igae/es-ES/snca/Paginas/ComunicacionSNCA.aspx

[71] http://www.senat.fr/rap/r18-674/r18-674_mono.html%23toc71

[72] 2019 COLAF Annual Report, page 12.

[73] Central Anti-Corruption Bureau. (n.d.). Welcome to the e-learning platform. CBA. [online] Available at: https://szkolenia-antykorupcyjne.edu.pl/

Table 2.1: Status of NAFS across the EU

NAFS status	Member States	Total
NAFS adopted and reported	Italy, Malta, Greece, Bulgaria, Croatia, Hungary, Slovakia, Austria, France, Luxembourg, Lithuania, Latvia, Sweden	13
NAFS adopted but not transmitted to EC	Portugal, Czechia	2
Adoption procedure ongoing	Belgium, Poland, Estonia, Romania	4
No NAFS	Spain, Slovenia, Germany, Netherlands, Denmark, Ireland, Finland, Cyprus	8

Source: OLAF PIF Report 2020

3.4.2 Role of the AFCOS

In accordance with Article 12a of Regulation 883/2013, Member States are required to designate an **Anti-Fraud Coordination Service ('AFCO')** to "facilitate effective cooperation and exchange of information, including information of an operational nature" with OLAF.

The EU legislation provides a high-level description of the mandate and tasks of the AFCOS. As a minimum, AFCOs should ensure co-operation with OLAF pursuant Article 325 of the Treaty on the Functioning of the EU. In particular, upon the request of the Office, the AFCOS are expected to "provide or coordinate the necessary assistance for the Office to carry out its tasks effectively"[74] throughout the course of an investigation. Furthermore, the national anti-fraud coordination services should have the mandate to coordinate the legislative, administrative and investigative activities related to the protection of the EU's financial interests, as appropriate.[75]

Member States may choose which body or authority is best placed to fulfil the role of AFCOS and this can have a significant impact on the extent to which the body is aware of the problem of fraud and the accuracy of reporting via IMS. In many cases, an office within the Ministry of Finance or the Ministry of Interior is designated for this role. Several interviewees for this study indicated that the best organisation of the AFCOS system in a Member State involves having this function situated in a national body that plays a role in the investigation of fraud. For example, this is the case in **Latvia** where the AFCOS is the central audit authority and has investigative powers, and **Romania** where the anti-fraud office also has investigative powers. This ensures that the AFCOS have a better understanding of the overall fraud situation in a Member State, in particular on the status of certain cases. As noted below, an alternative is to have regulations stipulating regular follow up (e.g. quarterly) between reporting authorities and prosecutors.

In other countries, audit authorities are aware of cases that are being investigated but are not being reported to OLAF via IMS by the AFCOS. With this in mind, it has been suggested that EU regulations or guidance should stipulate that, in addition to housing national investigative units, the AFCOS should be involved in validating the reliability of data being reported to IMS. Since the IMS provides information on the detection, investigation, and final judgement, it is important that cases are

[74] Article 12a (2) Regulation 883/2013.

[75] Anti-fraud coordination service (AFCOS) | European Anti-Fraud Office (europa.eu)

validated with updated information following detection. This has been stressed considering that there is currently no control mechanisms to ensure that reports are accurate and validated.

AFCOs may also support OLAF in conducting **horizontal cooperation activities** and exchange of information between anti-fraud coordination services.[76] In practice, the mandate and activities carried out by the AFCOs vary depending on the country-specific needs, anti-fraud strategy and other circumstances. These activities might include: cooperation on investigations with OLAF, performing on-the-spot checks, facilitating cooperation between national administrations and OLAF, developing and implementing national strategies to protect EU's financial interests.[77]

3.4.3 Institutional frameworks, fraud data collection and cooperation mechanisms

The wider institutional frameworks, and the effectiveness of the communication and coordination with the EU as well as between the different authorities, is an essential component that affects Member States' ability to tackle fraud.

The National Transparency Authority (NTA) in **Greece** is noted by the Anti-Fraud Knowledge Centre as a good example of an integrated approach to tackling fraud. Established in 2019, the NTA operates as the country's AFCOS and as a Complaint Management and Control System. In 2019, a Greek Law (4622/2019) created the NTA by merging five audit bodies and one coordination body. This in turn greatly improved coordination processes in the fight against fraud as previously the different audit authorities meant a fragmented approach and overlapping responsibilities. The Greek AFCOS has a section dedicated to statistical data and is an enabler for regular platform dialogue and raising public awareness on corruption and fraud. The section in charge of statistical data can be consulted by citizens for updates on complaints (for example if they have been subject to review, if complaints are pending, or if a case has been forwarded to prosecutors). The practice permits the citizens to make public complaints if they identify suspicious irregularities, and through the platform closer cooperation is encouraged between the AFCOS and other relevant anti-corruption bodies.[78]

Similarly, the **Bulgarian** Anti-Fraud Service (AFS) has put in place a 10-step model for performing investigations on behalf of OLAF. After Bulgaria's EU accession, amendments were introduced to the Law on the Public Financial Inspection Agency (PFIA). The amendments sought to increase procedures to safeguard funds and collect digital evidence on potentially fraudulent activities. The AFS promotes cooperation between the different authorities responsible for regulating and fighting fraud and corruption and supports this by improving their access to data. The digitalisation of anti-fraud processes and the digital forensic operations is at the heart of the AFS. [79]

In **Lithuania**, the Special Investigation Service (STT) is another example of an integrated approach to tackling fraud in EU funds under shared management. The STT is the main Lithuanian anti-corruption body. In 2018, the STT established three new divisions: a strategic analysis division, a tactical analysis division and an operative analysis division. The STT's main role is to provide operational support for criminal investigations and data gathering, but has shifted recently to focus more on prevention as the most efficient way to tackle fraud. This independent anti-corruption body works in close cooperation with law enforcement agencies in implementing fraud and corruption prevention activities. The STT has also been involved with developing a large data analytics model that can identify risks for fraud prevention.[80]

Feedback from our research suggests that the MAs in **Denmark** have adopted effective approaches to fraud prevention and to develop fraud risk assessment capacity. Denmark´s AFCOS network has helped

[76] Article 12a (3) Regulation 883/2013.

[77] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[78] https://ec.europa.eu/antifraud-knowledge-centre/index_en

[79] https://ec.europa.eu/antifraud-knowledge-centre/index_en

[80] https://ec.europa.eu/antifraud-knowledge-centre/index_en

to formalize informal cooperation and communication mechanisms between the Danish MAs and other institutions such as the Danish State Prosecutor for Serious Economic and International Crime. The network was set up to fight fraud more effectively and help MAs improve their fraud risk assessment. The Ministry of Finance (the AFCOS) acts as coordinator of this network and provides a single point of entry for information exchanges from and to OLAF. In particular, the Ministry of Finance disseminates requests from OLAF to the network, facilitates the exchange of information and good practices among MAs and shares information with OLAF (although MAs and other bodies such as the Danish State Prosecutor for Serious Economic and International Crime may interact directly with OLAF with regard to specific cases or on-the-spot checks). In addition to being a single point of entry, the AFCOS collaborates with national MAs in the fight against fraud.

Furthermore, we have found that in **Italy**, the Ministry of Economy and Finance (MEF) plays a key role in promoting cooperation between different MAs. In particular, the Inspectorate General for Financial Relations with the European Union (IGRUE) within the MEF manages the National Monitoring System (NMS). This system collects information and data on the implementation of programmes co-financed through the EU funds at a central level. All national and regional administrations transfer data and information about their programmes to the NMS periodically using common rules and templates. The NMS also aggregates data from other national databases (e.g. the National Anti-Corruption Agency database). The system allows for a central authority to have a good oversight of the situation of fraud across EU funds implemented in Italy.

When it comes to regular evaluation of audit practices, the Italian MAs incorporate regular fraud risk evaluation in their system. In particular, several MAs have set up specific fraud risk evaluation groups to assess the risk of fraud within their Operational Programmes and to provide self-assessment tools to continuously assess fraud risks and adopt the appropriate preventive and corrective measures.

Our research suggests that in Member States with decentralised political systems (e.g. Germany and Spain) the role of national agencies in combating fraud in EU funds is especially important. In the case of **Spain**, the Network of Anti-Fraud Offices and Agencies of Spain ('Red de Oficinas y Agencias Anti fraude de España') was established in 2018. The network consists of 10 agencies at the local and national level. At one of its latest meetings, the network adopted a declaration in which it urges the competent authorities to transpose the Whistleblower Directive into Spain's legal system and encourages competent authorities and entities to protect whistleblowers and to undertake supporting dissemination, training and awareness-raising actions.

When it comes to the accuracy of the fraud statistics reported to the IMS, an issue that has been highlighted by our research is the lack of coordination between authorities reporting to IMS and national agencies involved in investigating cases. This leads to a situation in which statistics on irregularities are not updated and cases being investigated are not reported. Nevertheless, having accurate data on the situation with regard to fraud is clearly important for informing appropriate strategies to tackle the problem. One suggestion made to us is that under the EU's Financial Regulation, there should be a requirement for audit authorities to validate the data reported to them. Similarly, ensuring the use of robust data analysis tools by the authorities is essential.

Additionally, conversations with NGOs and investigative journalists have highlighted concerns that the fight against fraud in some countries has been hampered due to the weakening of control mechanisms intended to safeguard EU funds on the part of some national politicians. This includes the deteriorating independence of national prosecution bodies and audit authorities. This is an issue also raised by the European Commission which has expressed concern that the EU's financial interests could be affected by these problems in some countries.[81]

[81] Bayer, Lili. & Wanat, Zosia. (2021). Commission questions Hungary and Poland on corruption and judiciary. *Politico*.

Conclusions - Institutional frameworks, fraud data collection and cooperation mechanisms

Our research highlights several key features of Member States' institutional frameworks that make them effective in combating fraud in EU funds under shared management.

This involves first of all having a single coordination body acting as the national AFCOS to support networking between different authorities with a role in combating fraud. In particular, this means either formally established cooperation mechanisms between audit authorities that identify fraud, on the one hand, and the authorities that undertake the investigation of cases, on the other, or alternatively that the AFCOS body consists of an entity that has investigative powers itself. Furthermore, audit authorities should ideally be required to validate information reported to the EU level.

A single coordination body at the national level also allows good practices to be shared more easily. Moreover, regular evaluation of audit practices and anti-fraud measures is an important way to ensure that the approaches implemented to combating fraud in EU funds under shared management are consistent with high standards so that weaknesses in national systems be quickly identified and remedied.

Box 3.5: Example of the EEA/Norway approach to minimizing risk in procurement

Conversations with NGOs as well as desk research to examine news reports highlights an interesting example of how the EEA/Norway Grants minimize the risk of fraud in its grants.

If the EEA/Norway Grants perceive a high risk of fraud or corruption in the procurement processes that will be used to distribute the funds within a country receiving grants, the EEA/Norway Grants will suggest that an NGO of their choice perform the procurement rather than the local MA. This NGO would be chosen through an open call in which competence, expertise, and capacity to manage funds would be assessed.

If the beneficiary country does not agree on the EEA/Norway Grant's choice of an NGO, the latter can choose to not give out the grants.[82] While it has been highlighted that this would greatly reduce the cases of fraud and risk of corruption, the political sensitivities of not providing funds to a Member State could make such a practice difficult to implement. Others have highlighted that the EEA/Norway Grants funding programmes are significantly smaller than the EU funds under shared management. This makes implementing such a scheme more problematical in the case of EU funds under shared management.

3.5 Main Tools used by the Member States

In this section we review the tools used by the EU Member States to help combat fraud and other irregularities in the EU funds under shared management. The emphasis is on highlighting good practices that are potentially transferable.

In addition to the Commission's tools, there are a number of tools that are used by national authorises to help their fight against corruption and fraud in the funds under shared management. These tools include: company registers to detect potential conflicts of interest and fraud in procurement procedures; procurement databases to identify collusive bidding and fraud in procurement procedures; fund monitoring systems that are also used by some national authorities to

[82] Bayer, Lili. (2021). Hungary loses Norwegian funds as rule-of-law concerns intensify. *Politico*.

detect double funding and manipulation of project costs during project implementation; whistleblowing schemes, red flags, sanctions, and various forms of training and guidance.

Many of these tools tend, however, to operate only within particular EU Member States and do not allow for any cross-border information flow. In addition, most Member States use more than one IT system, which also contributed to the high level of fragmentation as well as inter-operability complications.

3.5.1 Whistleblower schemes

Whistleblower schemes are one of the most important tools used by national authorities to combat fraud in EU Funds under shared management. They have a key role to play as a source of detection of most cases of fraud.

An example of such schemes (highlighted by the Commission's Anti-Fraud Knowledge Centre as a good practice) is the whistleblowing schemes in **Austria.** This scheme highlights the importance of confidentiality in encouraging individuals to come forward with information on (potential) fraud. The Public Prosecutor's Office for Combatting Economic Crimes and Corruption (PPO) launched the whistleblower tool in 2013. The tool can be accessed through the BKMS ('Monitoring System for Business Keeper') includes unique features to ensure the safety and anonymity of the whistleblower, as well as increased communications capacities between the individual and the relevant authorities. To ensure the anonymity of the whistleblower the system provides encrypted communications, IP addresses are not stored, and there are several reminders to not provide any personal information in the case where the whistleblower would like to remain anonymous. The tool also includes a mailbox for communication with the whistle-blower to ask for further clarification. Access to the system is reserved to a dedicated team in the PPO to ensure that no other employees can have insights on the information submitted. Finally, the system is available 24/7 worldwide, which permits anyone at any time to submit sensitive information.

Also highlighted by the Commission's Anti-Fraud Knowledge Centre is **France's** ELIOS system which allows all whistleblowers with suspicions of fraud, or of a conflict of interest regarding the implementation of ESF programs, to file a report via a form on the ELIOS platform. ELIOS is a website that provides information about fraud and conflicts of interests, as well as allowing whistle-blowers to file non-anonymous reports on these topics. Among the unique features that this platform has is the centralisation of complaints, tracing of the complaints, transfer of claims to relevant managers and checking of the details of the case with the whistle blower. The integrated and to some extent automated nature of the ELIOS system makes it different to many other schemes.

Our research found that **Denmark** passed a new Whistleblower Act in June 2021 to fully transpose the Whistleblower Protection Directive. The scope of the Act is broad as it covers reports relating to fraud, embezzlement, bribery etc. Several national authorities offer specific channels for whistleblowing. However, these are usually in the form of an email address to report suspected cases and their actual usage by citizens is still limited. An ad-hoc approach appears to be the case in several other countries such as **Poland** and **Croatia**.

Similarly, in **Italy**, there are several whistleblowing mechanisms that public officials and citizens can use to report suspected cases of fraud, corruption or any other illegal activity in public procurement. In particular, according to the Anti-corruption Law of 2012 and subsequent amendments, a public official may report offenses of which he has become aware in the context of his employment relationship to either the person in charge of corruption prevention and transparency, the National Anti-Corruption Authority (ANAC) or the competent judicial or accounting authority.[83] The law offers protection to the whistleblower against any retaliatory or detrimental measure. Specific whistleblowing measures and tools are defined by each public administration in its Three-Year Corruption and Transparency

[83] Article 54 bis of Legislative Decree 165/2001 and Article 7 of Legislative Decree 14/2017 relating to the "Code of Conduct and Protection of Dignity and Ethics".

Prevention Programs. In addition, citizens can use specific forms provided by several national authorities (e.g. ANAC, Agency for Territorial Cohesion, Puglia Region) to report cases of suspected fraud and irregularities in public procurement. The ANAC periodically monitors and assesses the effectiveness of whistleblowing and its application in Italy.

In **Spain**, in order to maximise the opportunities to engage citizens in the reporting of irregularities to the relevant authorities, the National Anti-fraud Coordination Service ('Servicio Nacional de Coordinación Antifraude - SNCA) opened a central online communication channel in 2017 in relation to projects or operations financed with EU funds. Interviewees noted that the channel is not anonymous to all but the officials of the SNCA dealing with the cases. It aims to serve as additional means of identifying irregularities and to allow public authorities to carry out the necessary investigations. We understand that the system is currently being updated and adjusted to serve also as the main channel for complaints regarding suspected cases of fraud in the Recovery and Resilience Facility (RRF). [84]

Conclusions – Whistleblowing schemes

Overall, our research indicates that while most Member States have a whistleblower scheme, key features of the good practices highlighted by the Commission are not always present. Several Member States have whistleblowing channels specific to particular EU funds and programmes that are merely an email address or a postbox. Furthermore, coordination with other authorities with a (potential) interest in a case is often ad-hoc (in the case of Denmark, Poland, Croatia and Italy for example) or non-existent. Ideally, a centralized system is needed for all of the EU funds under shared management. Furthermore, channels should allow for the correspondence with the whistleblower to be able to gather more information on cases while ensuring anonymity. Part of ensuring anonymity can involve encrypted communications, together with no storage of IP addresses.

3.5.2 Voluntary transparency initiatives

In addition to being an innovative solution to tackle fraud, transparency initiatives such as the 'Integrity Pacts' are highlighted as good practices in helping to prevent fraud as they typically involve impartial third parties (e.g. NGOs) in the monitoring of programmes. Two examples illustrate how these initiatives work.

The Riga Tram Integrity Pact in **Latvia** is one example highlighted by the Commission. The main aim of the initiative is to help achieve broader and deeper scrutiny of public contracts than was previously possible. This project was included in the 2016 DG REGIO Civil Control Mechanism for Safeguarding EU Funds programme. The pact involves an agreement being signed between the contracting authority, potential contractors, and an independent monitor (Transparency International Latvia) committing all the parties to comply with anti-corruption practices and setting out the role of the independent monitors. The pact is legally binding.[85]

Another example from the Anti-Fraud Knowledge Centre is a scheme in **Lithuania** called Jonvabaliai ("Fireflies") which is the first voluntary initiative anywhere to encourage project promoters to be more open to the public and to encourage transparency. The Jonvabaliai scheme is an anti-fraud initiative launched in Lithuania by eight different local entities and the Lithuanian Ministry of Finance. The initiative encourages project promoters to share information on their use of EU funds. The unique feature of this scheme is its approach which involves a reward system for promoters - the more transparent promoters are about their activities the higher the ranking that is awarded. By getting

[84] https://www.igae.pap.hacienda.gob.es/sitios/igae/es-ES/snca/Paginas/ComunicacionSNCA.aspx

[85] https://ec.europa.eu/antifraud-knowledge-centre/index_en

involved in the Jonvabaliai scheme, promoters gain publicity in exchange for transparency, while the authorities can obtain data for their purposes.[86]

Our research has found that joint initiatives in **Germany** between the federal authorities, civil society and the private sector have contributed to effective action against corruption risks, also in third countries. For example, the 'Alliance for Integrity'[87] is a platform that helps to strengthen the compliance capacities of companies, fosters dialogue between public and private sectors and creates a system of incentives for companies to increase their efforts against corruption in their own business environments.[88]

Conclusions - Voluntary transparency initiatives

While such initiatives are currently not a mainstay of anti-fraud programmes, they include some measures which can be useful to authorities. These include the use of external organisations to perform audits and other monitoring activities as well as legally binding commitments to ensure a level of transparency in the implementation of projects.

3.5.3 Business exclusion registries

A key tool in Member States' fight against fraud in EU funds under shared management are electronic data registries and risk analysis tools, supported by systems for manual checks to ensure fraudulent practices are prevented or detected.

Business exclusion registries are often cited as important tools for combating fraud in EU funds under shared management. **They allow for recognised fraudsters and perpetrators of other economic crimes to be excluded from public procurement processes and access to funding**. As noted earlier, our research has indicated that some authorities face issues that would be solved if public authorities involved in implementing EU funds had access to business exclusion registries similar to EDES. The research indicates that some MAs make use of such registries but that they are restricted to potential beneficiaries of the funds they manage. As discussed earlier, some Member States have national criminal registers that are consulted to tackle fraud but these are not publicly or widely available (e.g. restricted access for national authorities and authorities from other Member States).

In **Germany**, the Competition Register for Public Procurement (established by the 29 July 2017 Act) is highlighted as a good practice by our research as well as the EU's Anti-Fraud Knowledge Centre. The system's purpose is to prevent companies that have committed serious economic offences from benefiting from public procurement. The Competition Register allows authorities' contracting services to check a single nationwide database for companies that have committed relevant economic and competition law crimes. Entities can be listed on the register for various reasons including bribery, human trafficking, formation of a criminal organisation, terrorist financing, money laundering, withholding of social security contributions, and tax evasion. Information from the registry can only be requested for specific reasons such as decisions relating to the award of procurement contracts.

An entity listed to be excluded is removed from the Competition Register for Public Procurement after a specified period of time (between 3 and 5 years). Companies listed can request to be removed if they demonstrate that they have addressed issues which had put the company on the list in the first place. Entities are notified before they are listed on the registry, allowing them to contest the decision. If this request is rejected, the entity can appeal to a regional court.[89] [90],[91]

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86 https://ec.europa.eu/antifraud-knowledge-centre/index_en

87 https://www.allianceforintegrity.org/

88 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

89 https://www.bmwi.de/Redaktion/DE/Artikel/Wirtschaft/wettbewerbsregister.html

90 https://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2017/23_10_2017_Wettbewerbsregister.html?nn=4548788

91 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

In **Italy**, the National Committee to combat fraud against the European Union (the Italian AFCOS) developed in partnership with the Ministry of Economy and Finance (MEF) an integrated National Anti-Fraud Platform (PIAF-IT). The tool focuses on four regions in southern Italy (Puglia, Campania, Calabria and Sicily). The tool allows the authorities to process data taken from different archives to improve analysis and reporting. The platform was co-financed by the EU with resources from the Hercule III programme. PIAF-IT is a business intelligence platform that centralises, in a single database, data from different EU and national sources including, for instance, the database of the MEF (BDU-IGRUE) containing information about the interventions supported by the EU Structural Funds, the database of the Ministry of Justice, and data provided by the Court of Auditors and Chamber of Commerce. The platform also provides relevant information relating to beneficiaries of EU funds. The purpose is to make these data available to all national MAs and other competent bodies to help strengthen their anti-fraud prevention capacity.

Malta also has a system for the 'Exclusion and Blacklisting of Economic Operators'. The public procurement regulations adopted in Malta in 2016 set out grounds for the exclusion and blacklisting of economic operators from procurement procedures. The regulation covers the exclusion, selection and shortlisting stage of public procurement processes undertaken by contracting authorities. Key features of the system are the exclusion and blacklisting of economic operators that have convicted economic offences, the centralised management of most public procurement (thus allowing better oversight of procurement activities) and two separate bodies to enforce the regulations.[92]

Conclusions – Business Exclusion Registries

Similar to other data tools, our research indicates that data sets for business exclusion registries need to be unified into one portal to ensure that all national authorities have access to the most comprehensive data so no beneficiaries convicted of fraud within the legal time limit are included in procurement. Furthermore, it is essential that such registries be available to all the authorities involved in tackling fraud across the EU. Currently several criminal registries are not accessible by all authorities preventing some from being able to exclude convicted beneficiaries.

3.5.4 Risk analysis and self-assessment tools

The use of risk analysis tools, including data mining has often been cited as essential to tackling fraud. It has been suggested on several occasions that the Commission's data mining tool Arachne be made compulsory for Member States (as discussed in a previous section). These tools, using state of the art risk analysis mechanisms allow for automated detection of risks that can prevent or retrospectively identify cases of fraud. In the absence of universal use of Arachne, our research has identified some tools that represent good practices by Member States.

In **Lithuania**, the Special Investigation Service (SST) analytical anti-corruption intelligence department is an example of good practice. The overall objective of the initiative is to strengthen data-driven corruption risk management by developing a data analytics model that provides a more effective and timely identification and analysis of corruption risks in order to prevent corruption-related offences. It enables the analysis of a large amount of data available to the STT in a more efficient way as well as various types of analyses, including visualization of data in different formats.[93]

A similar tool is being developed by the authorities in **Spain** which, together with **Hungary, Poland, Romania, and the Ukraine,** collaborated on the RECORD project (Reducing Corruption Risks with Data) which created an e-tool called the Tenders GURU to reduce corruption risk. The system does this by analysing EU and national public procurement processes.[94] The project is funded by the EU and is

[92] https://ec.europa.eu/antifraud-knowledge-centre/index_en

[93] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[94] Anti-fraud coordination service (AFCOS) | European Anti-Fraud Office (europa.eu)

developing a toolkit that can be used by policymakers, civil society organizations, and journalists to monitor public procurement activities and to identify corruption risks. The tool will be based on open-source code and be free of charge to use allowing other national authorities and NGOs to use the tool's algorithms and codes to complement their own public procurement data.[95]

Another system in **Spain** is the SALER Rapid Alert system which analyses digitised files and data from the Generalitat of Valencia in order to identify potential risks of fraud in EU funds under shared management. This system helps to prevent corruption by detecting any possible irregularities, malpractice or risks of fraud which can subsequently be investigated. To do so, the system aggregates information from public and non-public databases, administrative databases and information fed into the system manually (e.g. information on direct payments and subsidies, records of contracts, bidder details). Based on a set of indicators predefined by the General Inspection of Services, and focusing on previously detected fraud patterns, the system triggers when a risk is suspected. The SALER system is based on the electronic public procurement processes in Valencia and will be fed with additional data once the public procurement process is entirely digitized.[96]

Poland's 'Cross Check IT Mechanism' cross checks financial instruments used by the beneficiaries of EU Funds under shared management. The goal is to check if there are irregularities. This is accomplished via three types of cross checks: programme, horizontal and inter-periodic. Depending on the type of irregularity and specific beneficiary activity, one of these checks will be performed. The mechanism has a tool, which allows the authorities to generate reports that determine whether there is the possibility of double financing. If identified as intentional, the situation is investigated and reported to OLAF. This particular IT system can be considered as a good practice *inter alia* because inspectors using the tool are well trained to identify risks and are proficient in designing analytical and algorithmic assessment models.[97]

Self-risk assessment tools

Self-risk assessment tools assist MAs with the task of checking procurement processes for indications of fraud when assessing bids. The European Commission has provided guidance for authorities on what to include in their national assessment tools.

According to our research, the self-risk assessment provided by the European Commission for the period 2014-20 was extensively used in many countries including Germany, Portugal and Spain. The recommendations contained in the Commission's guidance are meant to assist MAs implement the Common Provisions Regulation Article 125(4)(c), which stipulates that effective and proportionate anti-fraud measures should be put in place taking into account the risks identified.98 For that purpose, Annex 1 contains an assessment of exposure to specific fraud risks concerning the selection of applications using a traffic light system, whereas Annex 2 contains practical guidance on how to use the self-assessment tool.

In **Portugal**, the risk-assessment measures are extensively used by MAs because they are encouraged to do so by the audit authorities. However, according to our research, there are some MAs that are not using the self-risk assessment measures due to factors such as a lack of human resources, lack of coordination between MAs and intermediate bodies, and the non-existence of a systematized internal methodology.

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95 Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

96 https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

97 Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

98 https://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/fraud-risk-assessment-and-effective-and-proportionate-anti-fraud-measures

Our research has found that in **Italy** authorities have developed anti-fraud self-assessment checklists in line with the principles set out in the European Commission's Expert Group on Structural and Investment Funds (EGESIF) guidance note. For instance, Sicily developed a set of checklists to support the risk monitoring and evaluation carried out by control units performing the first level checks in the OP Sicily 2014-20. These checklists contain questions on specific aspects to consider in the selection of beneficiaries (e.g. conflicts of interest, beneficiaries' declarations), bidding process (e.g. bid rigging, connection between bidders) and payment claims (e.g. ghost services, inflated/incorrect invoices, payments to offshore companies).

Conclusions - Risk analysis and self-assessment tools

Overall, when it comes to risk identification tools, it is preferable that Member States be either using Arachne or have their systems based on Arachne's design. Regardless which approach is adopted, it would be helpful if such tools be based on open-source code where applicable or other methods that allow for the information to be accessed by all national authorities across Member States. With self-risk assessment tools, it is preferable that Member States include indicators highlighted by the Commission but also adapt them to the national context.

3.5.5 Integrated national IT systems for the management of EU funds

The importance of having unified national data systems on public procurement is highlighted by this and other research as essential in the effort to combat fraud in EU funds under shared management. This is especially so in the absence of the universal use of Arachne and EDES (see Section 3.3).

Attempts to unify data systems have taken place in several countries. In **Croatia,** for example, the MAs have tried to create a system which connects all national registries so as to reduce the administrative burden on different authorities and to increase the quality of information, thereby increasing the effectiveness of fraud prevention. This initiative is still at an early stage as MAs are currently using their own data systems dedicated to the funds they are responsible for managing.

A similar process is taking place in **Hungary** which has a unified IT system called FAIR (Database and Information System for Development Policy in Hungarian) for the management of EU funds. It integrates all data and information from the EU funds into one system. Furthermore, potential beneficiaries of EU funding all make their applications through this one system. Therefore, funding contracts and payments are all registered in one place and checked automatically for irregularities. Moreover, as noted in an earlier study, the FAIR system is connected to a company register, the central database containing accounting reports, the database with the economic data of local governments, the land registry database, and the public debt and online account system of the tax authorities.[99]

An example of an integrated national system which is operational is **Finland**'s EURA 2014 which can be used to store and manage documents relating to EU-funded projects. It was created in 2007 and plays a key role in fraud prevention and detection. In addition to documents being stored on the system, all contracting procedures take place online. This paperless solution reduces the administrative burden for MAs and simplifies the assessment procedure. Each authority (managing, intermediate, contracting and audit) have different access portals and therefore only manage information within their remit. EURA 2014 is regarded as effective in detecting irregularities such as double financing, excessive and/or fraudulent labour costs, and irregularities in procurement.[100]

Having single procurement platform at which potential beneficiaries make their applications for funds has been highlighted as effective as deterring fraudulent activities as it allows for the centralisation of

[99] https://www.europarl.europa.eu/RegData/etudes/STUD/2021/697019/IPOL_STU(2021)697019_EN.pdf

[100] Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

information across all funds in one portal. This allows such platforms to store more information than separate platforms, providing audit authorities with a larger set of data to tackle and identify fraud.

An example of this is the BASE Portal in **Portugal** which is a virtual space where all elements relating to public contracts can be publicised, thus enabling their follow-up and monitoring on a centralised platform. It contains all relevant information on public procurement extracted from different sources such as the Public Works Observatory, an information system that monitors public procurement in Portugal (Obervatório das Obras Públicas), the national electronic official journal, electronic public procurement platforms and contracting entities. The BASE portal centralises all the information on current, upcoming, and concluded public contracts to serve as a forum for dialogue with the stakeholder involved in public procurement and with citizens, who can monitor public spending[101].

Conclusions - Integrated national systems for the management of EU funds

Overall, the research indicates that good practice with regard to systems and tools to tackle fraud should include several key features. One of these features is that the data systems should be unified so that single portals are able to gather all the relevant data involved in EU funding programmes. This would make it easier for risk identification tools to have more of the information they need to inform algorithms and to minimize the chances that the authorities miss indicators that suggest that certain beneficiaries should be excluded from procurement processes.

3.5.6 Red flags and sanctions

Red flags provide a warning that there is or could be a danger of fraud in relation to the EU funds under shared management. In effect, they form the basis of an early warning system so that timely action can be taken. There are a number of examples of good practice in this field.

In **Croatia**, the Ministry of Regional Development and the Ministry of Labour and Pensions have integrated EC-recommended 'Red Flag' indicators into their management systems for several EU-funded programme (the OP Competitiveness and Cohesion and the OP Efficient Human Resources). The 'Manuals of Procedure' (MoP) and the 'Common National Rules' (CNRs) governing these OPs indicate 'red flags' that the authorities need to use. Additionally, Croatia uses the Arachne IT tool for the identification of 'red flags.'

These 'Common National Rules' outline the anti-fraud and anti-corruption measures that MAs and Intermediate bodies (IBs) must take into account in EU programme implementation. The list of 'red flags' outlined by the Croatian authorities are transposed from the EC's guidelines on fraud risk assessment.[102] In addition to the guidelines, the MAs in Croatia have identified additional fraud risk indicators based on an analysis performed of their systems and activities that was specific to programmes implemented in Croatia. Moreover, the MAs and IBs meet on a regular basis to discuss emerging fraud risks, and risk coordinators are assigned for the follow-up on the implementation of anti-fraud measures and monitoring of fraud risks. These coordinators also meet regularly (at least twice a year) to share knowledge and good practices.

The main objective of PREVENT, which has been operational in **Romania** since 2017, is to monitor and discourage potential conflicts of interest in public procurement contracts. The system compares the information on public procurement provided by contracting authorities and tenderers with the information from other national databases (for example, the Trade Register Office). The system works as an ex-ante verification mechanism and incorporates 'Red Flags'. The check is done from the perspective of situations that may generate conflicts of interest in the initiated procedures through the electronic public procurement system, so these types of situations are removed. The innovative element of the PREVENT system is that it can automatically identify the presumed relationships that

[101] http://www.base.gov.pt/Base/en/Portal/Base

[102] Note on Fraud Indicators for ERDF, ESF, and CF (COCOF 09/0003/00-EN).

may exist between persons from the side of the contracting authority and persons within the economic operators, who have the quality of bidders in the procurement procedures.

As noted earlier, the RECORD project (Reducing Corruption Risks with data) aims to reduce corruption by also using 'Red flags'. It is coordinated by five NGO's based in **Hungary, Poland, Romania, and Spain**. This project aims to analyse public procurement data in countries that have different regulatory and fraud environments. The unique feature of this project is that it is based on cleaned and updated data, which in turn allows for trustworthy and reliable filters for the data. The open-source code permits the project team in the country to provide the results free of charge in order to allow other authorities or NGOs from other countries to use the algorithm and codes for their public procurement data.

Conclusions – Red flags and sanctions

Similar to other e-tools involving the analysis of data, it is important that such tools be centralised into one platform at the national level (in the absence of universal use of ARACHNE). Furthermore, Member States should integrate indicators identified by EU authorities into their red flag identification systems while ensuring they are adapted to the local context.

3.5.7 Awareness-raising, training and guidance

Awareness-raising and training activities, as well as guidance for MAs, audit authorities, prosecutors and other authorities also have an important role in the fight against fraud. There are a number of good practice examples.

Our research indicates that there is a quite widespread lack of awareness amongst national authorities of good practices which can prevent them from taking effective actions to combat fraud in EU funds under shared management. This was highlighted earlier in relation to ARACHNE. Our research also highlights specific instances in which having well trained staff who are aware of fraud risks and 'Red Flags is essential for preventing fraud.

Examples of good practice include **Latvia**'s School of Public Administration (LSPA) which provides e-learning courses on fraud prevention. Latvia developed these training programmes in 2016 for civil servants and public administrations employees. Through this training the authorities expected to significantly reduce corruption and to increase the understanding of the shadow economy. The innovative aspect of the training courses is that they are implemented online, but they aim to be as interactive as possible for users. The course participants practice making decisions in "real life" situations. The use of online teaching permits the authorities to train employees in larger numbers and more rapidly. More generally, in Latvia, the '#FraudOff!' is an anti-fraud movement created in 2017 which raises awareness about fraud via a social information campaign.[103]

Poland has also launched a free and public e-learning platform via its Central Anti-Corruption Bureau (CBA) to provide anti-corruption training courses. The e-learning system is designed for public officials and entrepreneurs but is available to anyone who is interested. While the platform was launched in 2014, it has continuously been upgraded to take into account changing regulations, technological developments for both governments and potential criminals, etc. An English-language version of the platform has been promoted among other European anti-corruption authorities. After the course, a certificate of completion is provided and this is widely recognized (e.g. some organisations require the certificate as part of the hiring process).[104]

[103] Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

[104] Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

The **Netherlands** has implemented an anti-fraud game which aims to develop the capacity of the ESI Fund Authorities to prevent, detect and combat fraud. In addition to a training course that covers EU regulations with a set of ready-to-use anti-fraud measures, the training game or course is designed to encourage and motivate participants to develop their ability to recognize 'Red Flags' to prevent fraud. The training programme uses tokens which are awarded at the end of the online training.[105]

The 'Blue Book' that has been developed in **Spain** is a comprehensive manual of procedures developed by the MA together with the Certifying Authority (CA) for ERDF funds in Spain. It describes the functions and procedures relating to the management and control system for ERDF. This is seen as crucial in ensuring there is a common approach to managing programmes given the very decentralized ERDF management in Spain and the different organisations involved; moreover, the fraud-prevention legislation at national level is fragmented because of the multiple regulations. As such, the 'Blue Book' performs an important function in encouraging a common national approach to combating fraud in the EU funds under shared management across the different regions. The Spanish AFCOS (SNCA) provides training to MAs in relation to the entire anti-fraud cycle. The training takes place online and is for staff involved in the management of EU funds within the autonomous communities as well as the general state administration. These sessions last about 70 hours (10 hours per week) and are delivered to groups of about 50-60 participants.

Our research has also found several other examples of such good practices. **Italy** was the first Member State that developed and published national guidelines in 2019 on the use of the anti-fraud system ARACHNE. The guidelines provided the regional authorities with an overview of the ARACHNE system, its features and potential applications in the EU Structural Funds. The document also explained the procedures and measures for audits, risk monitoring and score analysis using ARACHNE and outlined the responsibilities of different types of authorities (Managing Authorities, Certifying Authority, Audit Authorities). Following the publication of these national guidelines, other national MAs developed similar guidance documents to support the use of ARACHNE and procedures to evaluate fraud in their Operational Programmes. A similar guidance document and training programmes are being developed by the authorities in **Croatia**.

Conclusions - Awareness-raising, training and guidance

Awareness-raising, training and guidance is an important aspect of the fight against fraud in the EU funds under shared management. Good practices involve having such training available online and free to use. Furthermore, the guidance and training should have 'real-life' practical examples that auditors and MAs can make use of. It is also key that Member States include training for the use of e-tools highlighted as good practice by the Commission and the European Court of Auditors such as Arachne. Innovative aspects can include gamification and reward systems integrated into these training programmes.

Finally, in the survey for this study we asked for views on possible actions to address the difficulties in combating fraud affecting EU funds under shared management (putting aside the question of whether the actions can be considered as good practices). The box below provides examples of the feedback.

[105] Anti-Fraud Knowledge Centre. (n.d.). E-learning platform of the Central Anti-corruption Bureau. European Commission. [online] Available at:https://ec.europa.eu/antifraud-knowledge-centre/library-good-practices-and-case-studies/good-practices/e-learning-platform-central-anti-corruption_en

Box 3.5: Examples of Survey Feedback - Possible Actions to Address Difficulties in Tackling Fraud affecting EU Funds under Shared Management (Direct Quotes)

- Simplifying managing rules and processes.
- More emphasis should be put on prevention. In the future, data analysis is expected to play a more important role in detection.
- Specialised human resources in the area of European funds and financial economic crime; IT resources; adequate training.
- Response times and transmission of documents by the financing authorities and controls that are carried out heavily by the control authorities
- Interconnection of existing databases from which relevant information can be extracted.
- There is no fast connection between national or international authorities.
- It is important to raise awareness and give training regarding offences and crimes in this matter to all the stakeholders.
- Some types of fraud, relating for example to staff costs, is impossible to devise control to prevent and detect them. The system relies of whistleblowers and the relevant legislation has not yet been enacted.
- More transparency and accountability in fund management is the best way to prevent fraud.
- A very good understanding of the responsibilities that a beneficiary has, clear rules and procedures, law enforcement and a good and proactive communication between the MA and beneficiary is needed.
- Whistleblowing (anonymous tips given online on our dedicated webpage) remains one of the most effective ways to detect fraud and/or corruption.
- Ex ante controls work best as prevention and detection mechanisms. Assessing high risk areas in advance.
- More cooperation is needed between the institutions involved in combatting fraud to share of best practices.

3.6 Conclusions – EU and National Approaches to Tackling Fraud

The need to put in place early detection and fraud prevention measures has been identified as a high priority by the Commission and a number of initiatives have been developed at the EU and Member State levels. This includes several measures on IT systems and databases, 'Red Flags' identification tools, risk assessments, and capacity building, and other initiatives such whistleblowing schemes, and integrity pacts. Key features of these good practices tend to involve a centralisation of data and tools into one platform and that fraud data and risk analysis tools be available through on open-source code or other methods that allow free public access.

Furthermore, the Commission has provided Managing Authorities and audit authorities with guidance and handbooks on good practices and has hosted workshops and other forms of networking to share experience. For audit authorities specifically, extensive cooperation occurs to co-develop and share good practices in auditing.

However, shortcomings remain at the Member State level in the systems and procedures for shared management funds which increase the likelihood of fraud vulnerabilities. When it comes to Member State practices, not all of them have developed National Anti-Fraud Strategies as requested by the Commission. According to the OLAF PIF report 2020, only 13 Member States had NAFS. Furthermore, as guidance on the NAFS has only recently been issued, there is a divergence across the Member States in terms of what is included in the strategies. Furthermore, there is a divergence across Member States when it comes to the set up of AFCOS. Good practices seem to indicate that the AFCOS should involve a single central coordination body situated in a national body that plays a role in the investigation of fraud, as this improves the knowledge of the fraud situation in the Member State and reporting to IMS. Alternatively, regulations can be introduced that require regular follow up (e.g. quarterly) between reporting authorities and prosecutors. Furthermore, to improve reporting, EU regulations should require the AFCOS to validate information reported to the EU via IMS on irregularities and fraud cases.

Several data tools have been developed at the EU level to help combat irregularities but so far uptake of these tools by national authorities has been limited which in turn affects the effectiveness of these tools. The lack of use of ARACHNE has been stressed in particular as this has been highlighted as essential for combatting fraud in the EU. Several issues have been highlighted including the lack of interoperability, lack of up-to-date information, a preference and greater familiarity with national tools, and national laws on data protection. In addition, Member States have also developed good practices to help reduce irregularities in shared management funds. Most Member States have developed their institutional capacity to detect, investigate and take action to combat fraud in relation to shared management funds. However, the effectiveness of these national initiatives varies, as does the scope for transferability.

4. Conclusions & Recommendations

Below we summarise the main conclusions of this study and make a number of recommendations for the European Parliament and others to consider.

4.1 Overall Conclusions

The first part of this study examined patterns of fraud in EU Member States in relation to the Cohesion Policy funds. Based on this research on the patterns of fraud, the study has then identified and assessed good practices with regard to combating fraud. Differences and common practices have been highlighted.

The EU funds under shared management (as defined in Table 2.1) allocated a total of EUR 366.9 billion for the 2014-20 period. In total there are some 180 Managing Authorities at the Member State level, and many more at the sub-national level, responsible for implementing EU-funded programmes. 'Shared Management' funds account for some 70% of all EU expenditure programmes. The ability of EU Member States, supported by the European Commission, to combat irregularities and fraud is self-evidently important to help protect the EU finances. This is especially so for the EU-funded programmes under shared management because it is primarily national authorities that control expenditure.

4.1.1 Scale of the problem

In assessing the main patterns of fraud in EU funds under shared management, an important distinction needs to be made between irregularities detected and fraudulent irregularities. Because fraud is in many respects a hidden phenomenon, irregularities and especially cases of fraud are very difficult to detect. As such, the estimates that exist of the scale of the problem are almost certainly underestimates.

The 2020 PIF report estimates that in 2019, EU expenditure under shared management was affected by an estimated 538 fraudulent irregularities amounting to some EUR 253.5 million for the EU-27. The PIF report statistics indicates that the fraud levels reported are higher in some countries than others but this may not be an indication of fraud patterns; it could be that some Member States simply have especially robust systems in place to detect and investigate irregularities as well as more proactive approaches to tackling fraud. According to the 2020 PIF report, fraud cases in EU spending under shared management is thought to have accounted for an estimated 0.27% of total payments in 2019. It should be emphasised that these estimates are likely to be underestimates for the reasons given earlier.

4.1.2 Patterns of fraud

The most common forms of fraud in the 2014-2020 programming period involved the falsification of documentation, followed by infringement of contract provisions, fraud to meet eligibility criteria and infringement of public procurement rules. In 2019, the Commission noted that the type of fraud most commonly reported to have been encountered by Commission services was overcharging with around half of services having encountered this type of fraud. This was followed by falsification of documentation including invoicing, double funding and plagiarism.

Our research has found that Cohesion Fund and other ERDF expenditure is where the most fraud cases occur, in part due to the large infrastructure projects that are supported; conversely, projects supported by the ESF tend to be of lower financial value and are less vulnerable to fraud. Agricultural policy expenditure is also vulnerable to fraud with cases involving falsification of documentation and misuse of investments. The use of e-documentation, the involvement of public authorities as beneficiaries and the less complex funding mechanisms were affected.

4.1.3 EU and national approaches to tackling fraud

While several EU and national measures have been implemented to promote fraud detection, there are still many shortcomings in the Member States' practices. This can be seen in the divergence in the practices between Member States and at the EU fund-level which can mean good practice is not implemented across the EU (vulnerabilities are greatest in cross-border cases). As fraudsters are consistently developing their methods to evade detection, risks of fraud remain high, highlighting the need for harmonised approaches and good practices to be implemented.

The European Commission has provided support to Managing Authorities in the form of capacity building, IT tools, risk assessment analysis and guidance on good practices. Cooperation also occurs with the audit authorities to develop and share good practices in auditing and to ensure that good practices are applied across the Member States.

Many examples of good practices have been identified when it comes to Member States' approaches to tackling fraud. These involve IT systems and databases, 'Red Flags' identification tools, risk assessments, and capacity building. Key features of these good practices include combining data and tools into a single platform and making sure that information registries and risk analysis tools are available to all national authorities involved in the fight against fraud in the EU.

Nonetheless, there remain important shortcomings in Member States' practices. Not all Member States have implemented national anti-fraud strategies as required by the Commission. Furthermore, data tools such as Arachne and EDES developed by the Commission are not being used by all Member States and where they are used, this is often to only a limited extent. Efforts have been made by the EU and some Member States to increase the use of these tools as their effectiveness depends on the national authorities making their own national data available. Furthermore, this would help in cross-border cases of fraud as national criminal registries are often not accessible on a cross-border basis. Another important issue is the fact that coordination is often lacking between AFCOS and investigative bodies. This leads to inaccurate reporting to IMS as cases of irregularities are not updated once determined to be fraudulent and investigative bodies are often not notified of suspected fraud cases.

4.2 Recommendations

Recommendation 1: EU Member States need to increase efforts to ensure the reliability and accuracy of data reported to the Commission via IMS. There is widespread agreement that the data provided by national authorities on fraud in the funds under shared management are a significant underestimation of the extent of the problem. This is partly due the nature of fraud being an illegal activity – and hence a hidden phenomenon – as well as because of deficiencies with Member State's capacity to detect fraud and to report up-to-date information. For example, national authorities sometimes do not update information reported to the EU level to reflect the prosecution of cases.

Recommendation 2: The EU Financial Regulation, as well as national regulations, should require reporting authorities to regularly validate data reported through IMS. At the moment this is not a widespread requirement. Our research suggests that there are few Member States that have laws that require the reporting authorities to validate information before it is reported to the EU level to ensure its accuracy (to the greatest extent possible). Systems checks are also needed.

Recommendation 3: Member States should be encouraged to make greater use of EU tools to help detect fraud. The use of data mining tools by Managing Authorities is essential to being able to effectively combat fraud in the EU funds under shared management. Such tools can process large amounts of information about (potential) beneficiaries and other aspects of the tendering process, thereby raising 'red flags' pointing to the risk of fraud. Thus, greater use of the Commission's tool ARACHNE, and in particular the input of a larger volume of data from across the Member States, would make it easier for national authorities to tackle cross-border cases of fraud. The effectiveness of all data mining tools is dependent on them having a large archive of data. Currently, not all Member States

make use of these tools; there is consequently a lack of information from these countries. Universal adoption of these data tools by all Member States would increase the amount of information stored as well as allow these tools to assess EU wide patterns. .

One of the impediments to universal adoption of ARACHNE highlighted in this report is national authorities' unfamiliarity with the system and its advantages. This leads to many authorities preferring to use their own national systems which have data sets restricted to information collected within their country and prevents the use of data mining for cross-border fraud. To promote ARACHNE's use, some Member States have issued guidelines on how to use these tools and others have been piloting the use of ARACHNE in specific fields (e.g. focusing first on identifying conflicts of interest and corruption) to ease the understanding of the system. The support of the EU institutions is needed to accelerate this process of uptake.

Recommendation 4: Access to EDES and ARACHNE should be extended to all EU funds under shared management. In cooperation with national authorities, there should be a periodic assessment of the functioning of these systems so that improvements can be made as and when appropriate. Currently, ARACHNE is only available to Managing Authorities involved in implementing ERDF and the ESF programmes. Our research has found that while some Managing Authorities see the value in using ARACHNE, they do not have access to it because they manage other EU funds. Additionally, EDES is a good tool to use as a business exclusion registry for potential beneficiaries that have been convicted of fraud. Nevertheless, EDES is not available to the national authorities involved in implementing EU funds under shared management.

Recommendation 5: Steps should be taken to improve joint working between national authorities involved in monitoring fraud of EU funds. The AFCOS play an important role when it comes to ensuring a well-integrated system as they are tasked with coordinating their activities not only with OLAF, but with the other national legislative, administrative, and investigative authorities in their respective countries to help ensure the protection of the EU's budget from fraud. Nevertheless, our research has found that coordination and communication between different national authorities in the same country involved in the fight against fraud is lacking in some cases. This can include *inter alia* the office performing the role of AFCOS, Paying Authorities, Managing Authorities and national prosecutors. This can even lead to a situation in which cases of suspected fraud detected are not being reported to the authorities that can investigate and prosecute cases. Overall, cooperation within the AFCOS system between all the authorities involved in tackling fraud should be formalised rather than occur on an ad-hoc basis.

Recommendation 6: National authorities should ensure that information on fraud cases that is reported to IMS is kept up to date as cases develop. The lack of coordination between the different national authorities involved also leads to a situation in which cases of suspected fraud reported to IMS as irregularities are not updated following prosecutions determining fraudulent intent. Improving this coordination would help ensure that data reported to OLAF via the IMS is more reliable which in turn would allow for more informed anti-fraud strategies. IMS provides information on the detection, investigation, and final judgement, and it is important that cases be validated with updated information following detection. Our research has found that some Member States have laws requiring regular follow up between entities in charge of reporting to IMS and prosecution authorities and this improves the accuracy of data reported.

Recommendation 7: Consideration might be given to requiring the AFCOS to house the authorities in their countries that have investigative powers in relation to fraud. More generally, the resources available to AFCOS need to be sufficient given their role. Our research also suggests that the most accurate reporting often comes from Member States where institutions with investigative authority perform the role of AFCOS. This is because the authorities involved in reporting cases through IMS are involved in the investigations themselves and therefore have a better understanding of the situation with regard to fraud cases in the Member State and are better able to provide updates.

Member States need to ensure that the Managing Authorities and AFCOSs have sufficient resources with the right skills and competences to develop anti-fraud strategies, and to implement effective anti-fraud measures and practices.

Recommendation 8: More effort should be made to share good practices in combating fraud in EU funds under shared management. To support this, there is a need for capacity building In our research we have found that the approach to tackling fraud in EU funds under shared management varies significantly between Member States. This is seen first of all in the fact that not all Member States have developed NAFS and some that have done so have not closely (if at all) followed the Commission's guidelines. Differences also exist in approaches when it comes to the tools that national authorities use to detect fraud and assess procurement applications. Similarly, institutional structures (e.g. in relation to the AFCOS) vary. There is now a substantial amount of guidance and good practice available, from the Commission's Anti-Fraud Knowledge Centre and other sources, but more needs to be done to share this and help apply it. The EU should provide support to national authorities to implement capacity building measures and ensure that enough resources are deployed to tackle fraud.

Recommendation 9: As the strategies of fraudsters are constantly evolving to evade detection, it is essential that regular analysis of the effectiveness of measures taken to combat fraud is done to ensure consistently high standards. Such evaluations at both the national and EU level can help revise practices implemented to ensure successful prevention, as well as inform the training programmes mentioned above. EU institutions such as OLAF, EPPO, the Commission and ECA should collaborate with Member States to create more training programmes on the use of e-tools and audit practices, as well as on how to improve them.

Recommendation 10: More emphasis should be placed on 'systems audits' in which national authorities regularly evaluate their audit practices and internal control systems for EU funds under shared management to ensure that they are effective and reliable. National authorities are responsible for setting up a management and control system which complies with the requirements of the EU's Financial Regulation, ensuring that this system functions effectively in preventing, detecting, and correcting irregularities. The Commission plays a supervisory role by checking that programme management control systems are compliant. Although there are various ex-post checks, there should be more emphasis on ex-ante checks to ensure that the different national entities that have a responsibility for managing and auditing EU funds under shared management have the capabilities and procedures needed to fulfil their roles efficiently and effectively.

Recommendation 11: Member States who have not joined the EPPO should be encouraged to do so to ensure that more cases of fraud are investigated and prosecuted. OLAF can investigate cases of fraud but it cannot launch prosecutions; instead, it can only recommend national authorities to do so. For most Member States, if there is a failure on the part of national authorities to investigate and prosecute such highlighted cases, the EPPO can fill in this gap by performing these tasks itself. Therefore, if OLAF identifies cases that need to be prosecuted but national authorities do not do so, in the countries that are not participating in the EPPO, these cases can remain without prosecution.

Appendix A: Bibliography

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Appendix B: Country Factsheets (Separate Document)

This study examines the extent and nature of fraud in EU funds under shared management. It then examines the measures currently being implemented at the EU level and by Member States to help tackle the problem. A number of good practices are identified. The study concludes with recommendations to help strengthen the effort to reduce fraud in EU funds under shared management. This document was prepared for the Policy Department at the request of the Budgetary Control Committee

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