



# Arachne

Be distinctive



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# Arachne

Be distinctive



# Prevent

# Detect

errors  
irregularities  
corruption  
fraud

*'Since cohesion policy accounts for roughly a third of the EU budget, I will pay close attention to all measures necessary to ensure that the funds are properly managed in line with the financial regulation and the principles of sound financial management. I will have zero tolerance of fraud.'*

*European Commission President Jean-Claude Juncker —  
November 2014*

**Be**  
vigilant  
efficient  
compliant  
ready  
preventive  
targeted  
responsive  
alert  
effective

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Dear reader,

This brochure will give you some initial indications about the vast possibilities of the Arachne risk-scoring tool and how to profit from its innovative and sophisticated features.

For the first time in the context of EU cohesion policy, the common provisions regulation <sup>(1)</sup> for 2014-2020 contains an explicit legal requirement for managing authorities to put in place effective and proportionate anti-fraud measures taking into account the risks identified <sup>(2)</sup>. In an attempt to help Member States to fulfil this legal requirement and to enable the managing authorities to gear their administrative efforts towards monitoring the most risky projects, the European Commission has developed Arachne in cooperation with some Member States and with the help of external specialists. By facilitating the identification of up-to-date risks through more than 100 indicators with just a few clicks, it will give managing authorities an efficient tool to prevent and detect errors and irregularities and to identify risk of fraud.

Errors and irregularities represent large amounts of financial resources that may have a potential negative impact on the European Union's financial interests. When an irregularity is detected, the undue payments are taken back from the project or country at fault. In the area of shared management (cohesion, agriculture, pre-accession, etc.), the competent authorities in Member States are responsible for recovering the funds from the beneficiary and initiating any administrative or judicial follow-up.

An irregularity is when a beneficiary does not comply with the EU rules and requirements linked to the spending of EU funds, with a potentially negative impact on EU financial interests. Irregularities are often the result of genuine errors such as not filling out a form correctly or not respecting the proper tendering procedure.

Fraud is a deliberately committed irregularity constituting a criminal offence. When reporting an irregularity to the Commission, Member States must indicate whether any fraud is suspected or established in each case.

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<sup>(1)</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013.

<sup>(2)</sup> Further guidance for Member States on the implementation of the legal requirements under Article 125(4)(c) of the common provisions regulation can be found here:

[http://ec.europa.eu/regional\\_policy/en/information/legislation/guidance](http://ec.europa.eu/regional_policy/en/information/legislation/guidance)

The European Commission is convinced that managing authorities can substantially improve their current risk analysis by adopting and systematically using Arachne. The outcome of pilot tests in some Member States has already proved the efficiency and effectiveness of this tool in the prevention and detection of irregularities and identification of the risk of fraud. The European Commission offers Arachne free of charge to managing authorities, and guarantees technical assistance and training in Member States.

We invite Member States to seize this unique opportunity and benefit from a cutting-edge tool that contributes to reducing error rates and preventing the potential interruption or even suspension of payments.

# Introduction

## What is Arachne?

Arachne is an integrated IT tool for data mining and data enrichment that has been developed by the European Commission since 2009, aimed at supporting managing authorities and intermediate bodies in their administrative controls and management checks on European Regional Development Fund, Cohesion Fund and European Social Fund projects.

Considered by the European Commission as a good tool amongst anti-fraud measures, this powerful risk-scoring tool generates more than 100 risk indicators sorted into specific risk categories to help managing authorities and intermediate bodies to prevent and detect errors and irregularities among projects, beneficiaries, contracts and contractors.

Arachne is already operational and as of September 2015 was being used/tested by 21 Member States, but any input and feedback from users on functional improvements can continuously enrich its development for the benefit of all users.

## A user-friendly tool for managing authorities

According to Article 125(4)(c) of Regulation (EU) No 1303/2013, the common provisions regulation, managing authorities have to 'put in place effective and proportionate anti-fraud measures taking into account the risks identified'. Applying Arachne in the management and control system is optional for the managing authorities but it is recommended that it becomes a part of effective and proportionate anti-fraud measures.

Arachne systematically assists managing authorities and intermediate bodies to increase the effectiveness and efficiency of their management verifications. Thereby, error rates and irregularities could be reduced. The costs and administrative capacity of the management verifications can subsequently be better geared towards prevention and detection of irregularities, and possibly help in the identification of risks of fraud and corruption.

The evolution of risk indicators in Arachne facilitates the recording and presentation of the results of increased effectiveness and efficiency of management verifications over time. Indeed, the case management system, when applied correctly, offers the user the means to demonstrate actions taken on risky projects and contracts. The prevention and detection of risks will also decrease the operational programme(s)' overall risk score.

Managing authorities and intermediate bodies can perform improved ex ante checks before the signature of grant agreements or contracts based on the calculated risk indicators and affinity diagrams provided by Arachne.

Member States can adopt an operational cutting-edge risk-scoring tool free of charge. Once managing authorities decide to use Arachne, the European Commission can provide technical support for the implementation and further training for users.



## Supportive of management verifications

This brochure outlines the vast potential of Arachne for assisting managing authorities and designated intermediate bodies for their management verification processes.

The Arachne tool systematically provides highly valuable risk-based information on project beneficiaries, contractors and subcontractors during the phases of selection, approval and implementation of operations.

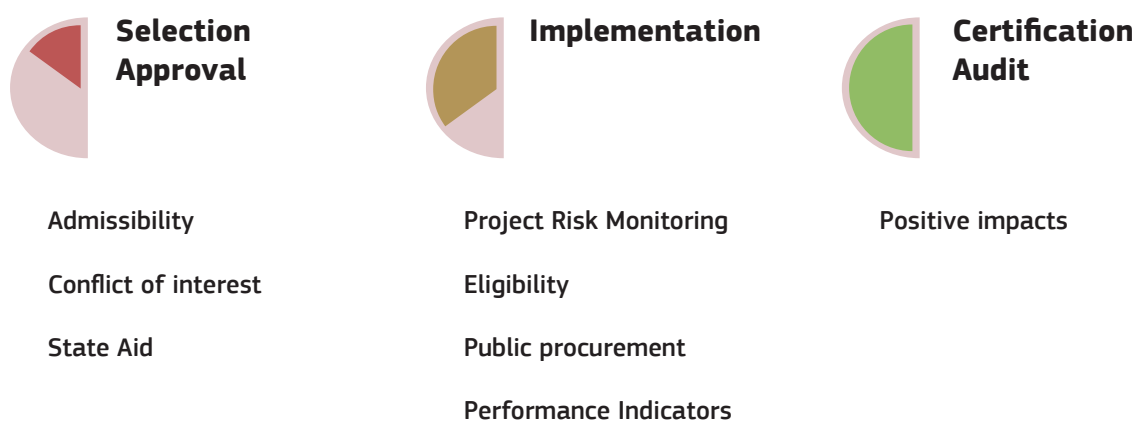
During selection and approval Arachne helps managing authorities and intermediate bodies to identify risks related to conflict of interest, to non-compliance with State aid rules or to the operational, administrative and financial capacity of companies to undertake operations co-financed by the European Union.

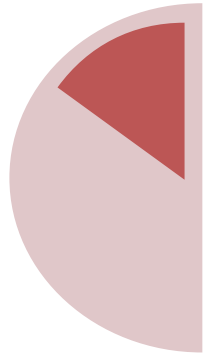
In the same vein, verifications during the implementation of operations can be remarkably enriched with the information provided by Arachne. Several risk indicators provide valuable alerts on potential errors or irregularities for verification areas such as public procurement, eligibility of operations, concentration of projects and stakeholders or performance indicators. Certification and audit may also benefit from the opportunities provided by Arachne.

Throughout the whole cycle of project management, Arachne also offers a means for systematic monitoring of indicators and accessing information on the most risky projects and contracts over time. On an aggregated level, the tool can also display the historical evolution of risks of an operational programme, facilitating the registration and communication of positive results on the improvement of the effectiveness and efficiency of management verifications.

This brochure does not aim however at explaining the functioning of Arachne or at offering a comprehensive overview of all technical possibilities (this information can be found in the 'Arachne client user manual'). Only some of all the possible checks that could be undertaken by managing authorities are displayed. Furthermore, the Arachne tool does not supply any evidence of error, irregularity or fraud. The professional judgement of the Arachne user during management verifications and other checks is essential to establish the actual evidence. Nevertheless, Arachne provides a valuable orientation for better targeting and prioritising your resources for management verifications.

### Project cycle phases and management verification processes





# **Selection Approval**

**Admissibility**

**Conflict of interest**

**State Aid**



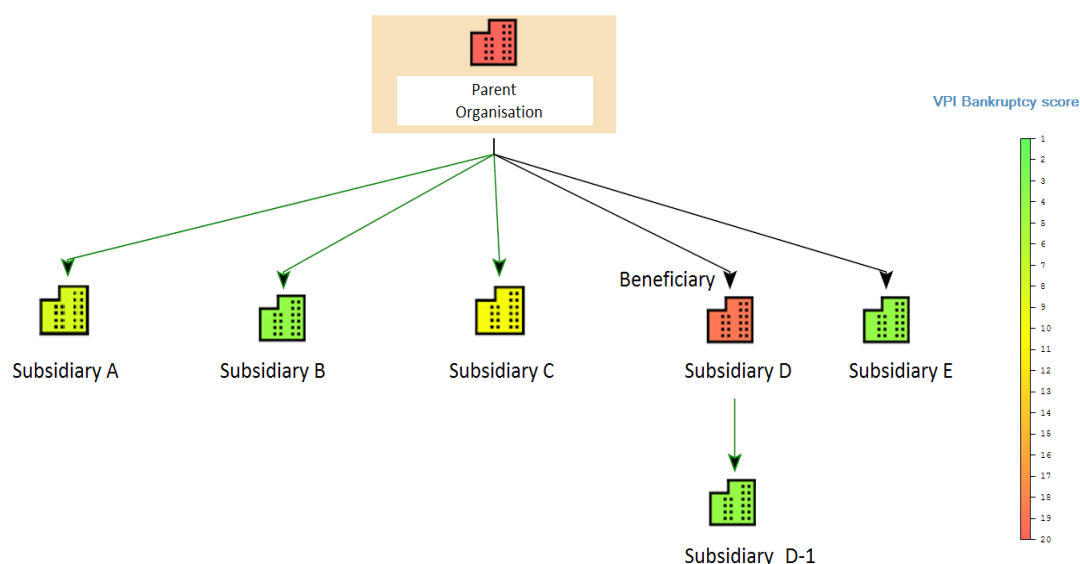
## Admissibility

### Economic operators in serious financial distress

Managing authorities or designated intermediate bodies have the responsibility to satisfy themselves that the beneficiary has the financial capacity before the approval of the operation <sup>(3)</sup>.

Moreover, during the selection and approval of operations, managing authorities or designated intermediate bodies shall check if, according to their national procurement law, a beneficiary/contracting authority excluded an economic operator from participation in a procurement procedure, where:

- 'The economic operator is bankrupt or is the subject of insolvency or winding-up proceedings, where its assets are being administered by a liquidator or by the court, where it is in an arrangement with creditors, where its business activities are suspended or it is in any analogous situation arising from a similar procedure under national laws and regulations' <sup>(4)</sup>.



In the data extraction shown above, Arachne displays the risk of an economic operator going bankrupt — in this case, the project beneficiary has a high risk of going bankrupt within the next 12 to 18 months. This risk indicator is calculated on the basis of the evolution of the publicly available financial data available for close to 180 million companies from some 60 countries. Furthermore, the graph representing the overview of the beneficiary's related companies makes it easier to understand the financial situation of the entire undertaking.

<sup>(3)</sup> Article 125(3) of Commission Regulation (EU) No 1303/2013.

<sup>(4)</sup> Article 57 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC.

## Economic operators convicted for crimes

During the selection and approval of operations, managing authorities or designated intermediate bodies should verify in the light of national procurement laws if a beneficiary/contracting authority is excluding an economic operator from participation in a procurement procedure where:

- The economic operator or any member of the administrative, management or supervisory body of that economic operator has been the subject of a conviction by final judgment for participation in a criminal organisation, corruption, fraud, terrorist offences, offences linked to terrorist activities, money laundering, terrorist financing, child labour or other forms of human trafficking <sup>(5)</sup>.

Arachne risk indicators contain information on the involvement of economic operators and their staff in sanctions, enforcement and adverse media lists, together with links to the original sources. Entities and individuals are associated with different — suspected — crimes, such as money laundering, fraud, organised crime, bribery, embezzlement or tax evasion, and a summary of the case is provided.

The screenshot displays a 'World Compliance entry #3677649' window. The 'Name' field is 'Contractor Involved', 'Source' is 'Website', 'Category' is 'AdverseMedia', 'Sub-category' is 'OrganizedCrime', and 'Position(s)' is 'Accused of organized crime'. The 'Remarks' field contains text from a Romanian news source (adevarul.ro) dated December XX XXXX, stating that 'Contractor Involved' is accused of organized crime and was a member of a criminal organization that threatened and forced local businessmen to pay protection fees. The group is also accused of extortion, tax evasion, and abuse of office. The overall damage is estimated at EUR 1mln. A 'Media links' section at the bottom provides a URL: <http://www.gds.ro/Eveniment/Evenimenten/Afacerile+lui+%E2%80%9ETatutu%E2%80%9C>.

The example above shows a case where a contractor has been accused of organised crime, and the links of the media source. The existence of a conviction by final judgement for such a crime is worth verifying. You can then use information on Arachne to more effectively and efficiently target verifications.

<sup>(5)</sup> Article 57 of Directive 2014/24/EU.

## Economic operators convicted for tax evasion

Managing authorities or designated intermediate bodies should verify in the light of national procurement laws if a beneficiary/contracting authority has excluded an economic operator from participation in a procurement procedure where:

- 'The economic operator is in breach of its obligations relating to the payment of taxes or social security contributions and where this has been established by a judicial or administrative decision having final and binding effect' <sup>(6)</sup>.



By using the Arachne risk indicator 'involvement in adverse media list', you can also find relations between economic operators (beneficiaries, contractors, subcontractors) and tax evasion cases, together with links to the original sources and a summary of the cases.

**World Compliance entry #5328713** ✕

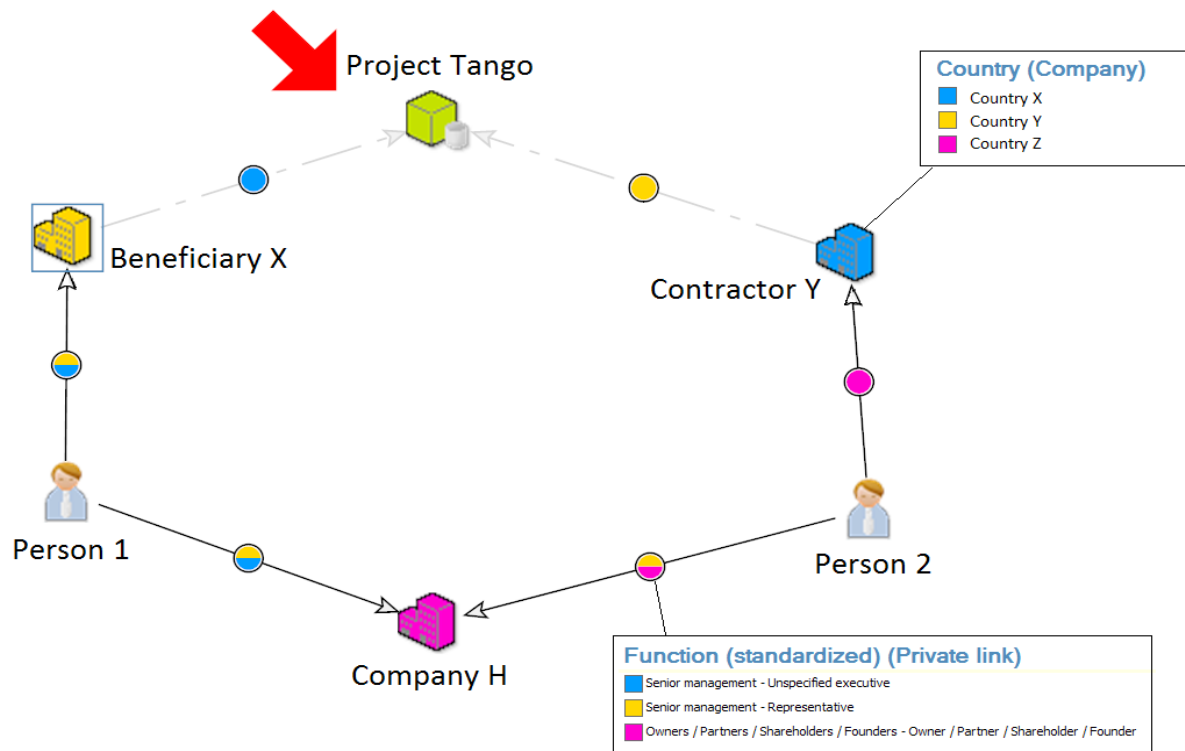
<b>Name</b>	Beneficiary involved		
Source	Website		
Category	AdverseMedia	Sub-category	Bribery
Position(s)	Charged with bribery - October 2013		2015-11-11
<b>Remarks</b>	<p>According to zpravy.ihned.cz; October 08, 2013: in October 2013, XXXXXXXX a.s., the biggest YYYYYYY construction firm, was charged with bribery and scheming in public tender. According to the prosecution, the XXXXXXXX company's senior officials provided bribes to obtain for XXXXXXXX a.s. public contract for the planned reconstruction of the pavilion of the ENT department of the Regional Hospital in YYYY, that should be co-financed from EU funds.</p>		
<b>Media links</b>	<p><a href="http://rejistrik.penize.cz/0001">http://rejistrik.penize.cz/0001</a></p>		

The example above shows a case where a beneficiary has been charged with bribery, and the links of the media source. The existence of a conviction by final judgement for such a crime is worth verifying. You can then use information on Arachne to more effectively and efficiently target verifications.

<sup>(6)</sup> Article 57 of Directive 2014/24/EU.

## Conflict of interest

For the purpose of selection and approval of operations, managing authorities or intermediate bodies should verify according to their national procurement law if the beneficiaries/contracting authorities 'take appropriate measures to effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators' <sup>(7)</sup>. The European Commission considers the use of Arachne to be an appropriate such measure.



Conflict of interest relates to 'any situation where staff members of [...] a procurement service provider acting on behalf of the contracting authority who are involved in the conduct of the procurement procedure or may influence the outcome of that procedure have, directly or indirectly, a financial, economic or other personal interest which might be perceived to compromise their impartiality and independence in the context of the procurement procedure' <sup>(8)</sup>. In such cases, managing authorities or designated intermediate bodies should verify according to their national procurement law if the beneficiary/contracting authority has excluded economic operators from a procurement procedure.

In order to detect such situations of undisclosed conflict of interest, Arachne can reveal legal links between potential and actual project stakeholders taking into account external data from official company registers throughout the world via Orbis and internal data submitted

<sup>(7)</sup> Article 24 of Directive 2014/24/EU.

<sup>(8)</sup> Article 57 of Directive 2014/24/EU.

by the managing authority (for more details please see ‘Project risk monitoring’ in the ‘Implementation’ section). While some national databases already show these links, Arachne has in fact a larger European scope. In the Tango project example on the previous page, a direct legal link between person 1 (project beneficiary) and person 2 (project contractor) is found through company H, which is located in another country than that of the beneficiary. The existence of a conflict of interest in this example is worth verifying. You can then use information in Arachne to more effectively and efficiently target verifications.

## State aid

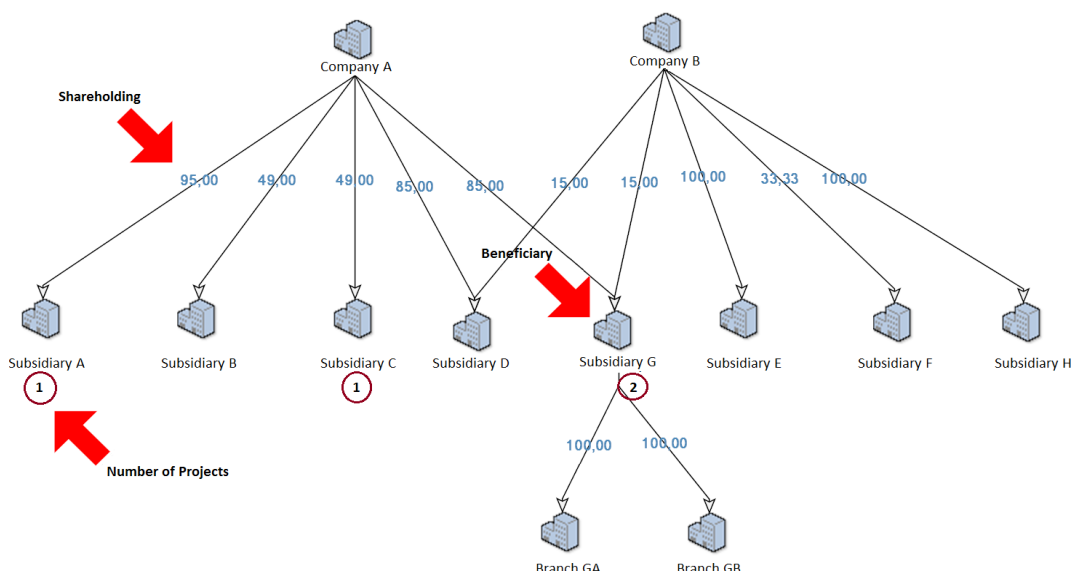
### Compliance with de minimis rules

According to the Treaty on the Functioning of the European Union (TFEU) <sup>(9)</sup>, competition in the internal market cannot be distorted through public investment by favouring certain undertakings (enterprises) or the production of certain goods, except in some compatible cases put forward in Article 107 of the TFEU for which national and EU State aid rules shall apply.

Single undertakings are defined in Regulation (EU) No 1407/2013 as ‘all enterprises having [among others] [...] a majority of the shareholders’ or members’ voting rights in another enterprise’ <sup>(10)</sup>.

In the example below, the local view of subsidiary G shows it belongs to a larger group constituting a single undertaking that has been awarded two more projects through subsidiary A and subsidiary C. Arachne does not allow identification of the amounts of national funding granted to the enterprises but the graphical information allows managing authorities to identify the actual single undertakings and the projects they implement.

#### Local View Branch G : Number of projects & shareholding



<sup>(9)</sup> Consolidated version 2012.

<sup>(10)</sup> Article 2(2) of Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid.

## Compliance with specific State aid provisions on the size of undertakings

Managing authorities are responsible for verifying the cases where State aid can favour some undertakings without disrupting competition in the internal market. These cases are laid down in Regulation (EU) No 651/2014, establishing 13 aid categories and detailing their specific provisions <sup>(11)</sup>. Within these categories, the intensity of aid (percentage over eligible cost) that can be allocated to an undertaking may vary according to its size, i.e. whether it is a micro, small, medium or large enterprise.

In the past, the European Commission has identified the recurrence of excesses in allowed aid ceilings due to the fact that a company does not qualify as a small or medium-sized enterprise (SME) and therefore is not entitled to an SME bonus <sup>(12)</sup>. Arachne contains relevant information on some 180 million companies worldwide, including their size, that is just a few clicks away.

*Disclaimer: Data on companies is updated quarterly, therefore a small time gap may disturb information.*

### Search for companies

Name   ASC/DESC

Company name (E.C.)

Country

Country (E.C.)

Company city

City (E.C.)

Unique identification number

VAT Number (E.C.)

Sort Field 1

Sort Field 2

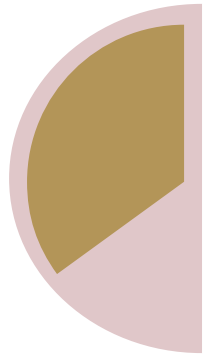
Sort Field 3

Company	Unique identification number	BvD Size	Country	Company city	VPI Bankruptcy score (1-20)
Empresa H	DE1234568	VL - Very large	GERMANY	KÖLN	1
Empresa H	AT1000-100	VL - Very large	AUSTRIA	SPITTAL/DRAU	
Empresa HSA	SE256987445	SM - Small	SWEDEN	KUMLA	14
Empresa H	DK999-987444	SM - Small	DENMARK	TRIGE	18
Empresa H	SE10101010	SM - Small	SWEDEN		
Empresa Haster	RSTR555	ME - Medium	SERBIA	BEOGRAD (NOVI BEOGRAD)	18
SA Empresa H	PL9876543210	ME - Medium	POLAND	WARSZAWA	
Empresa H	RSXYZ000000	ME - Medium	SERBIA	BEOGRAD-NOVI BEOGRAD	18

<sup>(11)</sup> Chapter III of Commission Regulation (EU) 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

<sup>(12)</sup> Guidance for Member States and programme authorities. Management verifications to be carried out by Member States on operations co-financed by the Structural Funds, the Cohesion Fund and the European Maritime and Fisheries Fund (EMFF) for the 2014-2020 programming period. EGESIF 14-0012.





# Implementation

Project Risk Monitoring

Eligibility

Public procurement

Performance Indicators

Concentration



## Project risk monitoring

During the implementation phase, managing authorities have critical responsibilities regarding the financial management and control of the operational programme. Among them, they 'shall verify that the co-financed products and services have been delivered and that expenditure declared by the beneficiaries [...] complies with applicable law, the operational programme and the conditions for support of the operation' <sup>(13)</sup>. They shall also 'put in place effective and proportionate anti-fraud measures taking into account the risks identified' <sup>(14)</sup>. The applicable law concerns EU and national rules related to chapters such as eligibility of operations and operators, public procurement and State aid rules, or the fulfilment of performance indicators.

Arachne is a valuable management tool displaying more than 100 risk indicators grouped in the seven aggregated risk categories shown in the example: public procurement, contract management, eligibility, performance, concentration, other (reasonability) risks and reputational and fraud alerts.

**Projects (global) - Risk indicators dashboard**

	Name (generic)	Overall Score	Procurement Overall Score	Contract Management Overall Score	Eligibility Overall Score	Performance Overall Score	Concentration Overall Score	Reasonability Overall Score	Reputational Fraud Alerts Overall Score	Project type
+	Green Project	45	50	50	40	50	50	26	50	ESF
+	Black Project	45	50	50	40	50	50	26	50	ESF
+	Yellow Project	45	50	50	40	50	50	26	50	Road
+	White Project	43	50	40	40	50	48	23	50	Road
+	Orange Project	42	50	50	40	50	50	6	50	SME
+	Red Project	42	50	50	40	50	50	5	50	Solid waste
+	Brown Project	40	50	50	40	33	50	9	50	SME
+	Indigo Project	28	30	45	21	16	40	13	35	Solid waste
+	Violet Project	20	25	12	21	25	25	6	26	ESF
+	Pink Project	16	25	7	16	23	5	20	21	Water waste / supply
+	Gray Project	13	18	16	16	15	6	3	20	Water waste / supply

This information is based on a synthesis of sources that is frequently refreshed. These sources include two external databases (Orbis and World Compliance) on public reputational, financial and person-related information for economic operators that are refreshed quarterly, and the internal Arachne database, which is constantly fed by managing authorities with data on projects and contracts. These sources are combined weekly to refresh risk scores. Projects are listed and ranked by risk score, and users can filter them by their name, country (as in the example), programme, cost and type of beneficiary or type of project, among other possibilities.

This information may help to orient the verification efforts of managing authorities towards the most risky elements in projects. With a click, aggregated risk categories can be broken down and specific information provided on what triggered the risk alert.

<sup>(13)</sup> Article 125(4)(a) and 5(1) of Commission Regulation (EU) No 1303/2013.

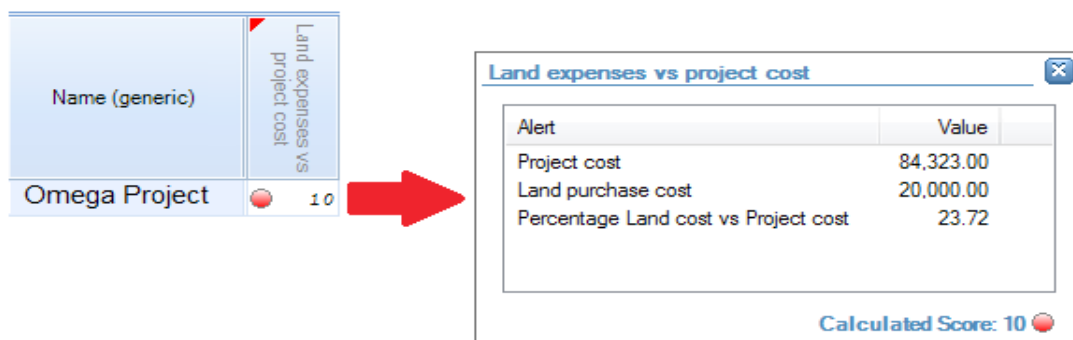
<sup>(14)</sup> Article 125(4)(c) of Commission Regulation (EU) No 1303/2013.

## Eligibility

Managing authorities are responsible for 'verifying that [...] expenditure declared by the beneficiaries [...] complies with applicable law, the operational programme and the conditions for support of operation' <sup>(15)</sup>. These requirements concern among other things the eligibility of expenditure for operations under the Structural Funds. National rules on eligibility are diverse, although they are complemented by some specific rules laid down in the common provisions regulation <sup>(16)</sup> and fund-specific regulations.

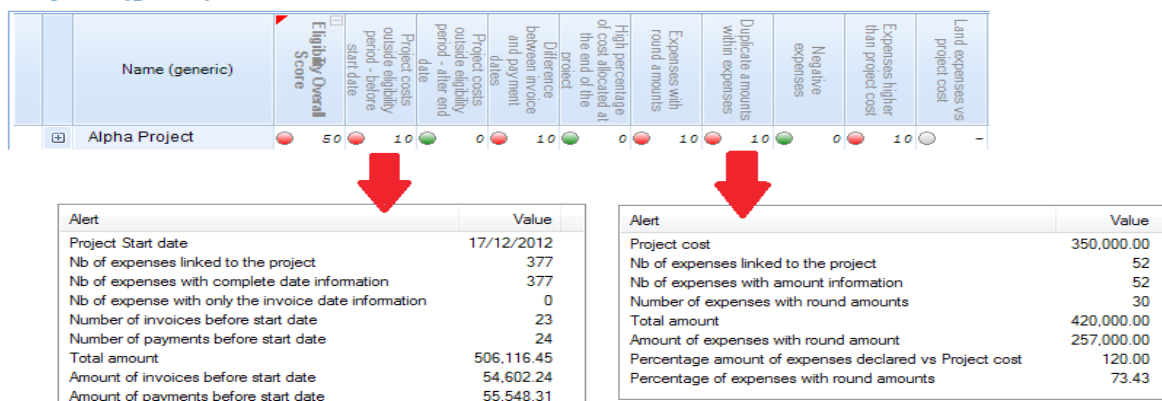
Focusing on a specific rule with a European dimension, non-eligible expenditures include 'the purchase of land [...] in the amount exceeding 10 % of the total eligible expenditure for the operation concerned. For derelict sites and for those formerly in industrial use which comprise buildings, that limit shall be increased to 15 %' <sup>(17)</sup>.

In the example below, Arachne provides information on the ratio of expenditure paid for the purchase of the land per project to the total cost of the project. This risk indicator can help managing authorities to spot threshold overspending.



In addition, Arachne offers several indicators linked to eligibility, as shown below, that could alert managing authorities about irregularities or signs of fraud within the different legal frameworks of the Member States.

### Projects (global)



<sup>(15)</sup> Article 125(4)(a) and 5(1) of Commission Regulation (EU) No 1303/2013.

<sup>(16)</sup> Article 125(1) of Commission Regulation (EU) No 1303/2013.

<sup>(17)</sup> Article 69(3)(b) of Commission Regulation (EU) No 1303/2013.

## Public procurement

Managing authorities are responsible for ‘verifying that [...] expenditure declared by the beneficiaries [...] complies with applicable law’ <sup>(18)</sup>, including EU and national rules on public procurement guaranteeing an equal, non-discriminatory, transparent and proportionate treatment to all economic operators. Arachne can inform managing authorities of a variety of risky situations that may better drive their verifications on public procurement rules.

The example below focuses on the legislation on procurement common to the whole EU. Directive 2014/24 sets the conditions under which the use of negotiated procedures is allowed. Negotiated procedures are limited to a few cases, such as regarding ‘works, supplies or services where, in response to an open or a restricted procedure, only irregular or unacceptable tenders are submitted’ <sup>(19)</sup>, or ‘for reasons of extreme urgency brought about by events unforeseeable by the contracting authority’ <sup>(20)</sup> preventing compliance with time limits.

Projects (global)		Contracts procured via negotiated, restricted procedure or direct award							
	Name (generic)	Procurement Overall Score	Lead time between publication and contract...	Percentage disqualified tender offers vs received	Number of valid tenderers	Contracted amounts via restricted procedures /...	Number of contract addenda compared to...	Financial correction	
→	Gamma Project	33	-	-	10	10	-	0	

Values	
Alert	Value
Total amount of contracts procured via negotiated or restricted procedure	6,986,638.19
Project cost	11,942,582.30
Ratio contracted amounts and project cost	0.59
Average of the ratio in the peer group	0.03

Arachne can raise alerts on an abnormally large number of contracts procured via negotiated procedure (restricted procedure and direct award) per total project cost, in relation to a peer group of projects within an operational programme and a sector. Managing authorities could therefore find it appropriate to concentrate their verification resources on these elements.

<sup>(18)</sup> Article 125(4)(a) of Commission Regulation (EU) No 1303/2013.

<sup>(19)</sup> Article 26(4) of Directive 2014/24/EU.

<sup>(20)</sup> Article 32(2) of Directive 2014/24/EU.

## Performance indicators

Performance also constitutes a central aspect of managing authorities' functions, since they 'shall verify that the co-financed products and services have been delivered' <sup>(21)</sup> and that they are 'in accordance with the principle of sound financial management' <sup>(22)</sup>.

Verifying project performance during implementation is essential to prevent suspension or financial corrections to the programme from being applied by the European Commission. Indeed, 'where there is evidence, resulting from the performance review in 2019 for a priority, that there has been a serious failure in achieving that priority's milestones relating only to the financial and output indicators and key implementation steps set out in the performance framework and that failure is due to clearly identified implementation weaknesses, which the Commission had previously communicated [...] the Commission may [...] suspend all or part of an interim payment of a priority of a programme' <sup>(23)</sup>. Similarly, at the end of the period, following serious failure to achieve the targets after examination of the final implementation report, the Commission may also apply financial corrections <sup>(24)</sup>.

### Projects (global) Number of people trained vs to be trained

Name (generic)	Performance Overall Score	Number of people trained vs to be trained
Delta Project	0	0

Alert	Value
Number of people trained	38
Number of people to be trained	38
Percentage of people trained	100.00
Project progress	80.74
Difference between project progress and number of people trained	-19

### Projects (global) Project total cost / Energy decrease in housing sector

Name (generic)	Performance Overall Score	Project cost / Energy decrease
Epsilon Project	10	10

Alert	Value
Project cost	158,000.00
Energy decrease (kWh/year)	2
Ratio project cost and energy decrease	79,000.00
Average of the ratio in the peer group	34,253.97

Arachne includes specific performance risk indicators applied to different programme priorities. These alerts can inform managing authorities at a glance about unusually large performance deficiencies that projects might have across the whole programme in real time, so that action can be taken before arriving at a scenario of suspension or financial corrections. The examples shown above concern a project supported by the European Regional Development Fund and one supported by the European Social Fund.

<sup>(21)</sup> Article 125(4)(a) of Commission Regulation (EU) No 1303/2013.

<sup>(22)</sup> Article 125(1) of Commission Regulation (EU) No 1303/2013.

<sup>(23)</sup> Article 22 of Commission Regulation (EU) No 1303/2013.

<sup>(24)</sup> Article 22 of Commission Regulation (EU) No 1303/2013.

## Concentration

During the implementation phase of a project cycle, managing authorities can also have access to concentration alerts that can direct officers' attention to hotspots during their verifications. These alerts refer, among other points, to the concentration of economic operators in projects or programmes.

Indeed, as stated in Directive 2014/24/EU, 'there is a strong trend emerging across public procurement markets towards the aggregation of demand by public purchasers, with a view to obtaining economies of scale, including lower prices and transaction costs, and to improving and professionalising procurement management. This can be achieved by concentrating purchases either by the number of contracting authorities involved or by volume and value over time. However, the aggregation and centralisation of purchases should be carefully monitored in order to avoid excessive concentration of purchasing power and collusion, and to preserve transparency and competition, as well as market access opportunities for SMEs' <sup>(25)</sup>.

Name (generic)	Concentration Overall Score	Beneficiaries involved in multiple projects	Beneficiaries involved in multiple OPs	Partners involved in multiple projects	Partners involved in multiple OPs	Contractors involved in multiple projects	Contractors involved in multiple projects of th...	Contractors involved in multiple OPs
Project ABC	50	10	10	10	10	-	-	-
Project MNO	37	10	10	10	0	-	-	-
Project XYZ	25	0	0	10	10	-	-	-

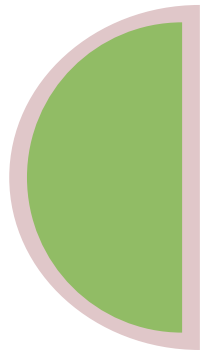
Values	Tables
List of projects	List of Operational Programs
1 Technical Assistance - Phase 1	2007XX161PO001
2 Project 1000	2007XX161PO001
3 Project 1250	2007XX161PO002
4 Technical Assistance - Phase 2	2007XX161PO002

Name	Value	Description
Concentration Overall Score	50	Concentration Overall Score
Beneficiaries involved in multiple...	10	Beneficiaries involved in multiple projects
Beneficiaries involved in multiple...	10	Beneficiaries involved in multiple OPs
Partners involved in multiple proje...	10	Partners involved in multiple projects

Arachne can detect whether an entity is acting as a beneficiary, contractor or project partner for multiple projects, within the same or in several operational programmes, in addition to the involvement in multiple projects of staff or management of the entity. These alerts allow managing authorities to focus the resources on projects presenting, for instance, the risk of double financing.

<sup>(25)</sup> Directive 2014/24/EU.



# Certification Audit

Positive impacts



## Positive impact

Checks undertaken by managing authorities and their intermediate bodies throughout the selection, approval and implementation phases of a project cycle with Arachne may have a very positive impact on the findings of certifying and audit authorities concerning the verification of programme operations and the functioning of managing authorities.

More specifically, certifying authorities are more likely to certify to the European Commission that payment applications submitted 'have been subject to verifications by the managing authority' <sup>(26)</sup> and audit authorities may endorse the 'proper functioning of the management and control system of the operational programme' to the European Commission <sup>(27)</sup>.

Managing authorities have the duty to 'put in place effective and proportionate anti-fraud measures taking into account the risks identified' according to the common provision regulation for the 2014-2020 period. Arachne is a good example of such a measure, allowing managing authorities to easily access rich and targeted information on economic operators involved in projects.

In this respect, the tool enables managing authorities to identify risks during the selection and approval phase concerning 'the administrative, financial and operational capacity to fulfil the conditions [...] before the approval of the operation' <sup>(28)</sup>, scan possible scenarios where national public procurement rules on public procurement may exclude economic operators from participating in programme operations or clearly detect previously concealed information that may conflict with State aid rules.

Furthermore, during the implementation phase of a project cycle, managing authorities can access a useful set of risk alerts that can direct officers' attention to hotspots during their verifications. These alerts refer to different issues in public procurement, the eligibility of operations and operators, output performance, the concentration of economic operators in projects or programmes, deviations from the average type of cost shares or the deteriorating financial and legal reputation of economic operators. Beyond the static picture, the constantly updated databases allow for verification of the evolution of risk at project and programme level.

Overall, the integration of Arachne in the management and control system and its systematic and consequent use by managing authorities, intermediate bodies and possibly certifying and audit authorities can make a remarkable contribution to reducing error rates. Therefore Arachne provides a substantial contribution to the functioning of the whole management and control system.

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<sup>(26)</sup> Article 126 of Commission Regulation (EU) No 1303/2013.

<sup>(27)</sup> Article 127 of Commission Regulation (EU) No 1303/2013.

<sup>(28)</sup> Article 125(3)(d) of Commission Regulation (EU) No 1303/2013.



## Future developments

### Main new functionalities

Arachne is being developed further and the participation of Member States in this process by adding functions or risk indicators is welcome.

#### **Historical data — audit trail**

Arachne will keep a log of the risk evolution (overall, main categories, individual risk indicators), with all the details used to calculate the risk scores and the data deliveries since records were kept.

The new functionalities will allow retrieval of the evolution of the risk scores (global and individual) of a project, contract or beneficiary, the risk indicator scores and details applicable on a specific date, the statistics/evolution at programme level and the export of the historical data to .xls or .txt files.

#### **Ex ante risk calculations**

Ex ante risk calculations will allow managing authorities to calculate potential risks in the pre-selection process before the contract or the grant agreement is signed in order to know in advance what risk(s) could be linked to a candidate or applicant following a publication. The calculations focus on reputational and fraud risks, on the validation of the turnover of the beneficiary and the project amount and on the concentration on beneficiary and candidates (role as contractor/subcontractor).

#### **Arachne's migration towards a web application**

The local client interface of Arachne will be replaced with a web application taking into account all the security and implementation rules defined by the European Commission.

### Enhancement of current functionalities

The case management system will allow every user to create cases and to add comments although only a user assigned to a case will be able to propose its closure. In addition, an unlimited number of supervisors (with a fallback mechanism) could exist for an operational programme or group.

The interface and documentation of Arachne will be made available in other languages, through a flexible solution which will allow a new language to be added at very short notice.

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The European Commission has developed Arachne, a risk-scoring tool addressed to the managing authorities and intermediate bodies for projects funded by the European Social Fund, European Regional Development Fund and Cohesion Fund that is seen as one of the tools for 'effective and proportionate anti-fraud measures' according to Regulation (EU) No 1303/2013. In addition, Arachne can boost the effectiveness and efficiency of management verifications and help to reduce the error rate and detect and prevent potential irregularities in projects or contracts.

More than 100 adapted risk indicators and a wide network of linkages between individuals and organisations generate alerts about irregularities and risks of fraud during the selection and approval of operations, as well as during their implementation. Managing authorities and intermediate bodies can use these alerts to better target their administrative efforts to guarantee sound financial management of European Union funds.

Although different tools can constitute an 'effective and proportionate anti-fraud measure', the adoption of Arachne presents remarkable advantages for Member States. As a result of its investment in world-class technical capacity since 2009, the European Commission has already produced a final product. It can also provide technical assistance in supplying data from your own database to Arachne, come and install the system on the spot and offer training at your request.

The European Commission is convinced of the positive legal and financial impacts that the implementation of this tool will represent for the first-level control of the programmes. Therefore, we warmly encourage all managing authorities and intermediate bodies implementing these projects to adopt Arachne.