

Day 2: Dermot Byrne, Head of ERDF AA, Ireland

Model for Assessing Risk of Fraud

- Model for Fraud Risk Assessment
- Mitigating Controls
- Guidance Note Fraud Risk Assessment and Annex II
- **Break out rooms on Fraud Risks**

Assessing risk of fraud

EGESIF guidance note 14-0021-00 (2014)

- Assistance and recommendations to MA's
- How to implement Article 125(4)(c) of CPR – effective and proportionate anti-fraud measures
- Also includes guidance for AA as to how to verify MA compliance
- Approach of MA should be
 - Proactive
 - Structured
 - Targeted
- Adoption of right “tone from the top”

Fraud Risk Self-Assessment

EC recommend MA use the tools described in **4 Annexes**:

Annex 1: Risk Assessment Tool

To be carried out by a self-assessment team set up by MA

Annex 2: Recommended mitigating controls

Non-binding further controls in response to any remaining risks.

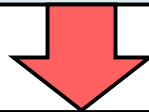
Annex 3: Template for Anti-Fraud Policy Statement (tone at the top).

Annex 4: Guidance for Audit Authority verification work

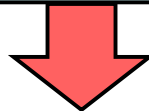
Checklists to be used in systems audits of AFM's

Annex 1 - Fraud risk self-assessment

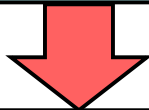
Quantify the likelihood & impact of the specific fraud risk (gross)



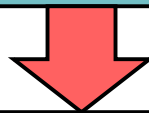
Assess the effectiveness of the current controls to mitigate the (gross) risk



Assess the net risk after taking into account the effectiveness of current controls (residual risk)



Assess the effect of planned additional controls on the net (residual) risk



Define the target risk i.e. the risk level considered tolerable by the MA

Annex 1 - Fraud risk self-assessment

There are 3 key control processes exposed to fraud:

1. Selection of applicants



2. Implementation and verification of operations



3. Certification and payment



Annex 1 – Self Assessment Tool

Risk Likelihood

From a drop down menu the risk assessment team should select a risk likelihood score from 1 – 4 based on likelihood of risk occurring in the seven year programming period.

See Criteria below:

Score	Likelihood
1	Will almost never happen
2	Will rarely occur
3	Will sometimes occur
4	Will often occur

Annex 1 – Self Assessment Tool

Risk Impact

	Reputation	On Objectives
1	Limited impact	Additional work delayed other processes
2	Minor impact	Achievement of operational objective delayed
3	Major impact e.g. nature of fraud is particularly serious or several beneficiaries are involved.	Achievement of operational objective endangered or strategic objective delayed
4	Formal enquire from stakeholders, e.g. Parliament and/or negative press	Strategic objective endangered

Annex 1 – Self Assessment Tool

Total Risk Score (Gross)

The inputs into risk impact and risk likelihood will result in a range of scores from 1 (1x1) to 16 (4x4).

The Rankings are outline below.

Score	Ranking	Colour
1 - 3	Tolerable	Green
4 - 6	Significant	Yellow
8 - 16	Critical	Red

The EIPA Risk Matrix is a 4x4 grid used to assess risk levels based on Likelihood and Impact. The grid is color-coded: Green for Tolerable, Yellow for Significant, and Red for Critical. Arrows indicate the direction of increasing Likelihood (up) and Impact (right).

LIKELIHOOD		IMPACT			
		LOW	MEDIUM	HIGH	
HIGH	4	SIGNIFICANT	CRITICAL	CRITICAL	CRITICAL
	3	TOLERABLE	SIGNIFICANT	CRITICAL	CRITICAL
	2	TOLERABLE	SIGNIFICANT	SIGNIFICANT	CRITICAL
	1	TOLERABLE	TOLERABLE	TOLERABLE	SIGNIFICANT

EIPA

- **BREAK OUT ROOMS**

- **RISKS ?**

Annex 2 - mitigating controls; Fraud prevention



Annex 2

Annex 2 to Guidance suggest controls under the following headings:

- Selection of applicants
- Implementation and verification of operations
- Certification and payments
- Direct procurement by MA (if applicable)

FRAUD PREVENTION

If MA ...

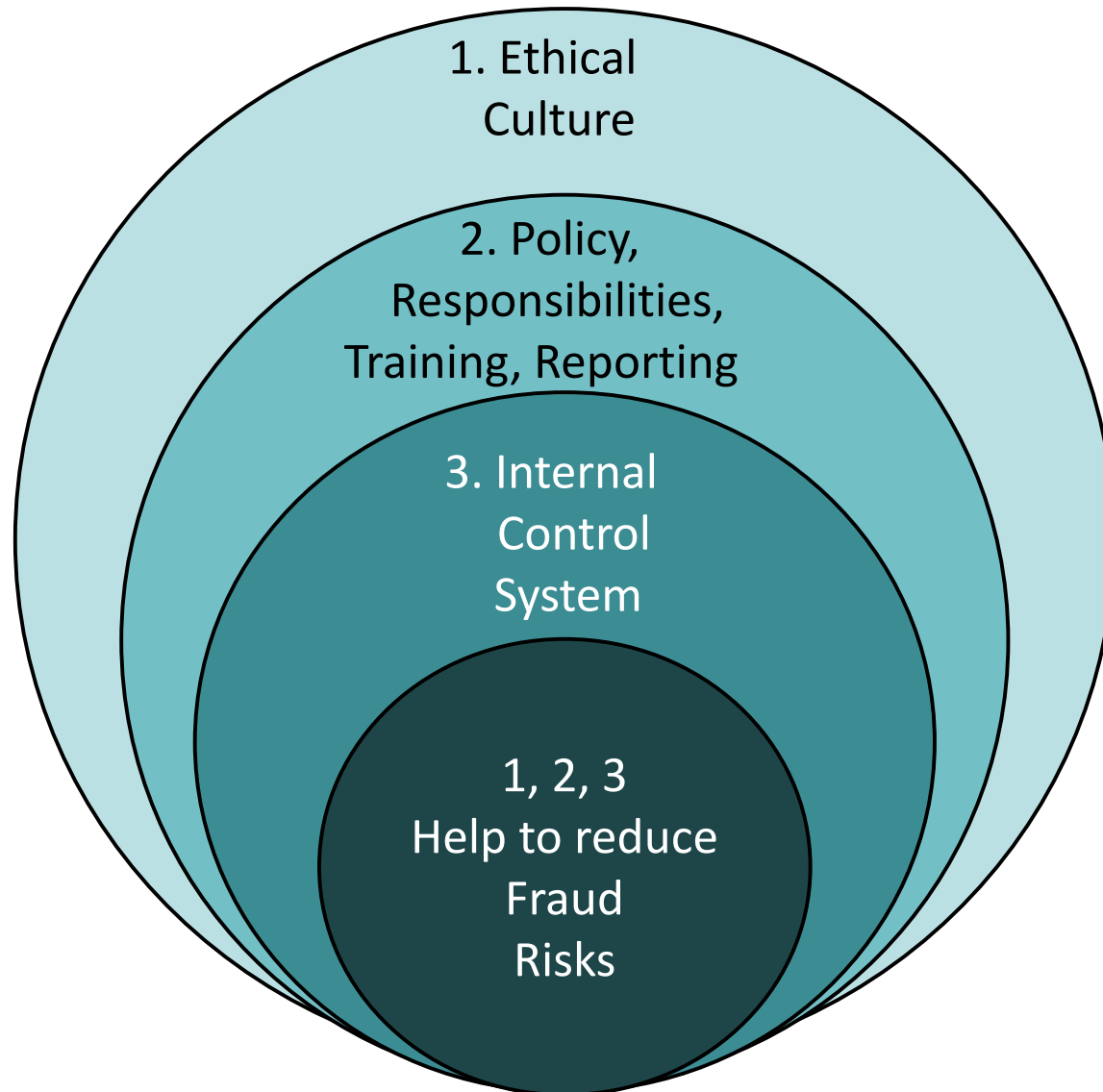
- Demonstrates a clear commitment to combat fraud and corruption
- Raises awareness about its preventative and detective controls
- Is determined to transmit cases to competent authorities for investigation and sanctions

It will send a clear message to potential perpetrators

May change behaviours and attitudes towards fraud



Fraud Prevention





1. Review the process for fraud risk assessment

- Composition of assessment team
- Time and resources spent on exercise
- Sources of information were adequate (audit reports, fraud reports, other self assessments)
- Exercised clearly documented
- Adequate oversight by senior management

2. Gross risks

- Review selection of the scores for IMPACT (explanations & supporting evidence)
- Review selection of the scores for LIKELIHOOD (explanations & supporting evidence)
- Has the GROSS risk been calculated and graded (T,S,C) correctly?

3. Existing controls and Net Risk

- Select a sample of controls and verify
- Do the controls actually exist?
- Are they adequately documented?
- Review scores for effect of controls on the Gross Risk (Impact & Likelihood)
- Has net risk been calculated and graded (T, S, C) correctly?

4. Action Plan and Target Risk

- Select a sample of risks from fraud risk assessment (cover all processes)
- Review score given for effect of new controls (on Impact and Likelihood)
- Is score consistent with AA knowledge of effectiveness of control?
- Has Target Risk be calculated and graded correctly?
- Do additional controls appear to be optimal and well-considered?