






# Introduction to identifying and preventing fraud; fraud indicators

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The training has been organised by EIPA and CPVA under the Framework Contract Nr 2023CE160AT004.

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## Day 1

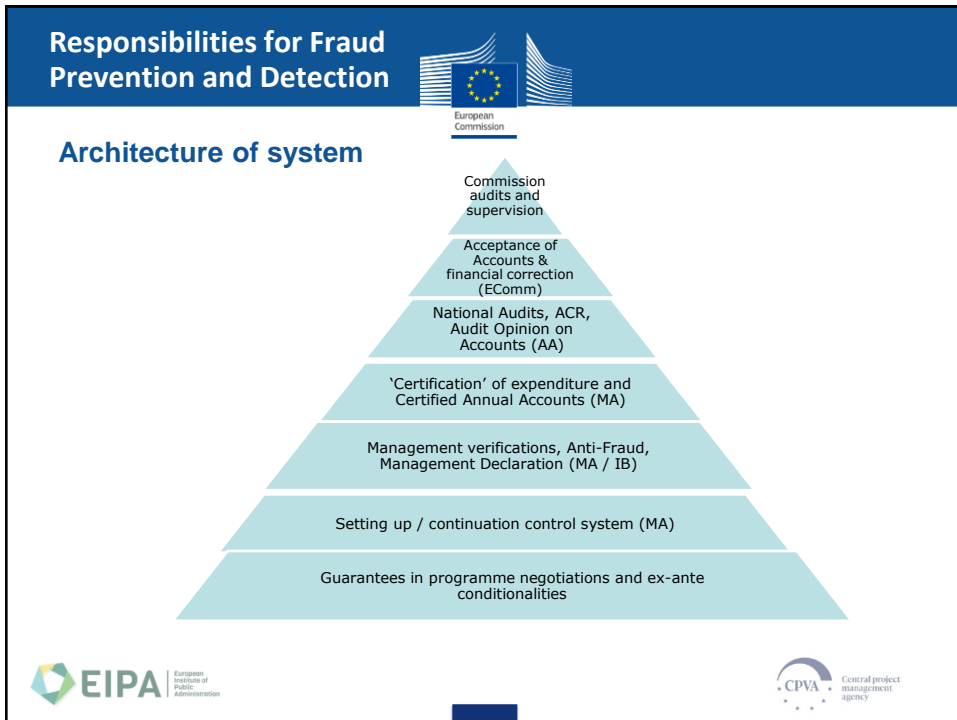
### Introduction to Identifying and Preventing Fraud; Fraud Indicators

- Architecture of systems
- Rules and definitions
- Fraud types & indicators
- Fraud triangle
- Overview of fraud schemes

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## Definitions: Irregularity



European Commission


### Definition of Irregularity

*'Any infringement of a provision of Community law resulting from ...*


- *an act or omission by an economic operator,*
- *which has, or would have, the effect of*
- *prejudicing the general budget of the Communities or budgets managed by them,*
- *either by reducing or losing revenue accruing from own resources collected on behalf of the Communities,*
- *or by an unjustified item of expenditure'*

### Article 122.2 of CPR : MS responsibilities for irregularities in 2014-2020

- MS shall prevent, detect and correct irregularities and shall recover amounts unduly paid together with interest on late payments. (general principles)
- MS shall notify the Commission (OLAF) of irregularities > €10,000 (co-funded element) and advise OLAF of progress to recover and of any legal proceedings.



EIPA  
European Institute of Public Administration



CPVA  
Central project management agency

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## When is an Irregularity recognised?



### Article 27(b) of 1828/2006

- “...first written assessment by a competent authority”
- Irregularities only arise on expenditure that has been declared to EC
- Process of identifying irregularities should be mainly driven by the AA (after the contradictory process)
- To a lesser extend by MAs and CAs
- Irregularities can also be discovered on audits by the EC/ECA

### When you do NOT formally report ? (Derogations) Art 122.2 of CPR

- If the irregularity consists solely in the failure to execute, in whole or in part, an operation included in the OP owing to the bankruptcy of the beneficiary
- Cases voluntarily brought to the attention of the MA or CA by the beneficiary before detection by either of them
- Cases which are detected and corrected by the MA or CA before inclusion of the expenditure concerned in a statement of expenditure submitted to the Commission.



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## Definitions: Fraud and Corruption



### Definition of Fraud

- *The use or presentation of ...*
  - false, incorrect or incomplete statements or documents,
  - which has as its effect the misappropriation or wrongful retention of funds
  - from the general budget of the European Communities or
  - budgets managed by, or on behalf of, the European Communities.
- **Non-disclosure of information** in violation of a specific obligation, with same effect.
- **Misapplication of such funds** for purposes other than those for which granted.

### Definition of Corruption

*‘The abuse of (public) position for private gain’.*

*Note:*

- Corrupt payments facilitate other frauds e.g. false invoices, phantom expenditure, failure to meet contract specifications etc.
- The most common form of corruption is a receiver (passive corruption) accepting a bribe from a giver (active corruption).

**Note:**

It is the element of intention which distinguishes fraud/corruption from irregularity.



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## Fraud Indicators



### Information Note on Fraud Indicators for ERDF, ESF and CF COCOF 09/0003/00 - EN

#### 3 Fraud Types:

- **Intentional manipulation of financial statements**  
(e.g. inappropriately reported revenues)
- **Any type of misappropriation of tangible / intangible assets**  
(e.g. fraudulent expenses)
- **Corruption**  
(e.g. bribery, bid rigging, undisclosed conflict of interest, embezzlement)



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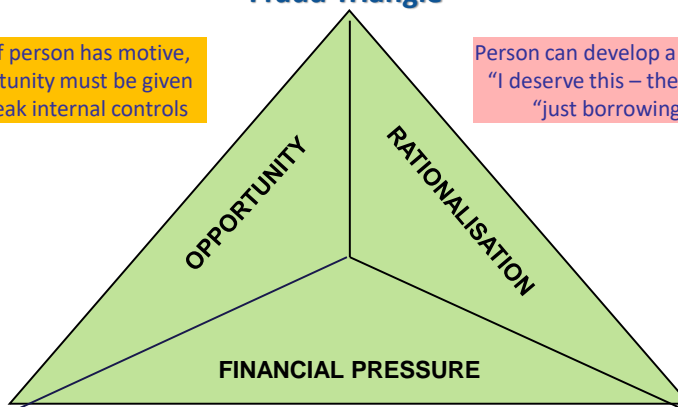
## Reasons behind fraud



### Fraud Triangle

Even if person has motive,  
Opportunity must be given  
eg, weak internal controls

Person can develop a justification  
"I deserve this – they owe me"  
"just borrowing money"



The "need or greed" factor  
Financial problems, gambling, addictions




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Contract/Public Procurement Fraud Types (16)	Indicators
 <ol style="list-style-type: none"> <li>1. <b>Corruption – bribes and kickbacks:</b> Corrupt payments or influence; give, receive a thing of value.</li> <li>2. <b>Undisclosed conflict of interest:</b> Employee has <u>undisclosed</u> financial interest in contract(or); employee sets up shell company; undisclosed interest in property sales or leases.</li> <li>3. <b>Collusive Bidding:</b> Cooperating bidders submit high prices or agree not to bid; Complementary (shadow) bids; bid suppression; bid rotation; market division.</li> <li>4. <b>Unbalanced bidding:</b> Inside information to favoured bidder; vague information to other bidders; very effective bid rigging scheme.</li> <li>5. <b>Rigged specifications:</b> Specs' tailored to meet favoured bidder; Common in IT &amp; technical contracts</li> <li>6. <b>Leaking bid data:</b> Preferred solution; details of competing bids.</li> <li>7. <b>Manipulation of bids:</b> Changing bids; losing bids; voiding bids for alleged errors.</li> <li>8. <b>Unjustified single source awards:</b> Splitting purchases; drafting narrow specs; extending previous contracts.</li> </ol>	<ol style="list-style-type: none"> <li>1. - Favoured treatment of contractor; socialising; increased wealth of employee; declines promotion</li> <li>2. - Unexplained success of supplier; accepting high priced work; failure to complete Col Declaration; employee declines promotion etc.</li> <li>3. - Winning bid above estimates; bid prices drop if new bidder enters; losing bidder hired for sub-contracts; companies never bid against each other.</li> <li>4. - Single source awards; bid just below estimate; split purchases to avoid threshold; some info only sent to 1 bidder</li> <li>5. - only one or few bidders; similar specs to bidder product; unusual specs'; brand name requested.</li> <li>6. - Some bids opened early; accept late bid; late bid wins; winning bid just under next lowest bid.</li> <li>7. - complaints from bidders; changes to bids after receipt; bids voided for petty reason(s).</li> <li>8. - single source awards just above/below threshold; split purchases to avoid thresholds;</li> </ol>

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Contract/Public Procurement Fraud Types (16)	Indicators
 <ol style="list-style-type: none"> <li>9. <b>Split purchases:</b> Contract personnel avoid exceeding competition threshold; extend rather than re-bid.</li> <li>10. <b>Co-mingling of contracts:</b> Contractor charging same costs to several orders/contracts.</li> <li>11. <b>Cost mischarging:</b> Charging costs which are not allowable; manipulated labour costs with fictitious timesheets.</li> <li>12. <b>Defective Pricing :</b> Failure to disclose current, complete and accurate costs data in bid resulting in increased price.</li> <li>13. <b>Failure to meet contract specifications:</b> Misrepresent ability to meet specifications; sub-standard materials/parts etc.</li> <li>14. <b>False, inflated or duplicate invoices:</b> Contractor submits invoices; perhaps in collusion with contracting personnel.</li> <li>15. <b>Phantom service providers:</b> Employee or contractor sets up fictitious company to generate invoices.</li> <li>16. <b>Product substitution:</b> Inferior quality items to replace those specified in contract.</li> </ol>	<ol style="list-style-type: none"> <li>9. - repeat contracts just under competitive thresholds; 'salami slicing' to avoid bidding by other contractors.</li> <li>10. - similar invoices presented for different contracts/jobs.</li> <li>11. - excessive or unusual labour charges; apparent changes to timesheets; timesheets mislaid; charging indirect as direct costs.</li> <li>12. - contractor refuses/delays/unable to provide supporting documentation for costs; inadequate or incomplete documentation.</li> <li>13. - discrepancy between test and inspection results; absence of test or inspection documents or certs; low quality, poor specs.</li> <li>14. - invoiced goods cannot be located in inventory; no purchase orders for invoiced goods/services; multiple similar invoices.</li> <li>15. - service provider not found in directories or internet; no service provider address or incorrect address.</li> <li>16. - unusual packaging; discrepancy in appearance; above average failures; serial no's not consistent.</li> </ol>

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<b>Labour &amp; Consultancy Services Fraud (4 types)</b> 	<b>Indicators</b>
<ol style="list-style-type: none"> <li>1) <b>Incurred labour cost</b> Labour is very vulnerable to manipulation; Claims of false labour (direct &amp; indirect).</li> <li>2) <b>Uncompensated overtime</b> Claiming false overtime; contracts worked on during overtime hours.</li> <li>3) <b>Consulting / professional service</b> No formal agreement; vague as to services rendered; no supporting documentation re hours/rates/expenses.</li> <li>4) <b>Labour categories</b> Qualifications of contractor staff does not match requirement; key employees not working on contract or work at lower rate.</li> </ol>	<ol style="list-style-type: none"> <li>1) - significant shifts in charging; decrease in charges to projects reaching overrun; journals shifting costs between contracts</li> <li>2) - pattern of management directed unpaid on a variety of projects; overrun projects worked on during unpaid hours.</li> <li>3) - No formal signed agreement; vague as to services rendered; no detailed invoices; no resumés (CV's) for employees used.</li> <li>4) - differences between proposed and actual costs / key employees 'not available' / massive new hires needed</li> </ol>

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<b>Concluding comments</b> 
<div style="text-align: center; margin-bottom: 20px;"> <b>Perspectives on fraud in Ireland</b>  </div> <div style="background-color: #d4edda; padding: 10px; margin: 10px 0;"> <ul style="list-style-type: none"> <li>Fraud awareness?</li> <li>Culture of corruption?</li> <li>Developed anti-fraud policies?</li> <li>Reported irregularities to OLAF?</li> <li>Culture / tone at the top?</li> <li>Challenges for the 2021-2027 Programmes?</li> </ul> </div>




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# QUESTIONS?

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**EIPA** European  
Institute of  
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