


Fraud Prevention and Annual Assurance Process

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

5 February 2024


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Day 1

Fraud Prevention and Annual Assurance Process

- Audits of systems
- Audits of operations (including sampling)
- Irregularities and financial corrections



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Annual Assurance Process



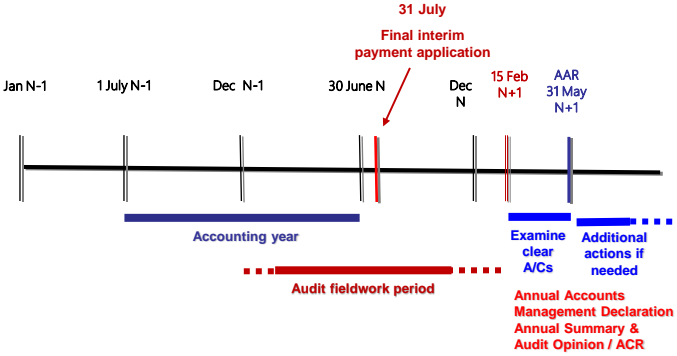

Contents



- Audit – audit cycle
- Audits of systems of Managing Authority
- Audits of operations (beneficiaries)
- Irregularities
- Interruptions, Suspensions
- Financial corrections



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Timing of Audits / ACR



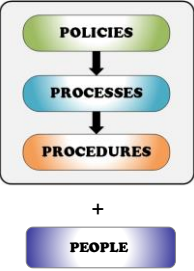
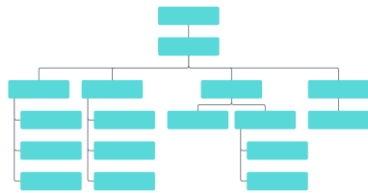


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Systems Audits - Approach




European Commission




POLICIES
↓
PROCESSES
↓
PROCEDURES
+
PEOPLE






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Internal Controls ... and Fraud




European Commission

Segregation	Supervision
Organisation	Personnel
Authorisation & approval	Accounting
Physical	Management




Kinds of Internal Control

- 1 Preventive Controls
- 2 Detective Controls
- 3 Corrective Controls



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Systems Audits Key Requirements



Systems Audits KRs - Managing Authority

AUTHORITY	KR NO.	KEY REQUIREMENT
MA/IB	1	<u>Adequate separation of functions</u> and adequate systems for reporting & monitoring where the responsible authority entrusts execution of tasks to another body.
MA/IB	2	<u>Appropriate selection of operations.</u>
MA/IB	3	<u>Adequate information to beneficiaries.</u>
MA/IB	4	<u>Adequate management verifications.</u>
MA/IB	5	Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an <u>adequate audit trail.</u>
MA/IB	6	<u>Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes.</u>
MA/IB	7	Effective implementation of anti-fraud measures (New)
MA/IB	8	Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out



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Key Requirement 7



Fraud risk assessment & anti-fraud measures 2014-20 (Key Requirement 7)

Managing Authorities must:


- put in place a minimum set of effective and proportionate anti-fraud measures
- carry out a fraud risk assessment

Audit authority must:

- verify that the MA's fraud risk assessment is credible
- provides a true and fair assessment of the risks and
- verify that adequate anti-fraud measures are in place to mitigate risks





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Systems Audits categories of opinion

Category	Assessment
Category 1	Works <u>well</u> , only minor, or no , improvements needed
Category 2	Works, but some improvements are needed
Category 3	Works partially, substantial improvements are needed
Category 4	Essentially does not work

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Audits of operations (1)

Examples of records examined













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Audits of operations (2)



(Art. 127(7) CPR; Article 27 (2.a,b) DA)

- *Project has not been physically completed before the beneficiary's grant application*
- *Project has been implemented in accordance with approval decision;*
- *the expenditure declared to the EC corresponds to:*
 - *accounting records;*
 - *supporting documentation required to demonstrate an adequate audit trail;*
- *outputs & results underpinning payments to the beneficiary have been delivered;*
- *Audits of operations shall include on-the-spot verification of the physical implementation of the operation.*



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Serious deficiency



Determination of serious deficiency

"Serious deficiency in effective functioning of management and control systems"

Legal definition Article 2(39) CPR:

- *deficiency for which substantial improvements in the system are required,*
- *which exposes the Funds and the EMFF to a significant risk of irregularities, and,*
- *the existence of which is incompatible with an unqualified audit opinion on the functioning of the management and control system.*



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Interruptions under Art.83 CPR



Payment deadline for interim payment claim may be interrupted for a max. of 6 months if:

- a) Information from a national or EU audit body - clear evidence suggesting a significant deficiency in the functioning of the management and control system.
- b) The Commission has to carry out additional verifications following information alerting that expenditure in a request for payment is linked to an irregularity having serious financial consequences.
- c) There is a failure to submit one of the documents required under Article 59(5) of the Financial Regulation (i.e. accounts, management declaration, annual summary, audit opinion, ACR).



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Suspensions Under Article 142 CPR



The Commission may suspend all or part of the interim payments

- at the level of priorities or operational programmes
- if one or more of the following conditions are met:
 - Serious deficiency in the MCS of the OP and corrective measures not taken
 - Serious irregularity in the statement of expenditure which has not been corrected
 - MS fails to remedy the situation leading to interruption under Art.83 CPR



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Types of financial corrections



Types of correction:

- Specifically quantified corrections
Quantifiable error for individual or several operations – exact amount (ineligible invoice)
- Extrapolated corrections
error recurs in other operations of same type / measure / organisation etc.
- Flat rate corrections
individual breaches or systemic failures that are not quantifiable (procurement, publicity etc.)

Note: In practice, it is preferable that MS applies corrections where detected.



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Flat rate corrections - scales



100%

Serious deficiency(ies) in MCS so **fundamental, frequent or widespread**
= **Complete failure** of system
=> puts at risk, legality and regularity of **all expenditure concerned**.

25%

Serious deficiency(ies) in MCS so **frequent and widespread**
= **extremely serious failure** of system
=> puts at risk, legality and regularity of a **very high proportion of expenditure**.

10%

Serious deficiency(ies) in MCS, system **not fully functioning or functioning so poorly/infrequently**
=> puts at risk, legality and regularity of **high proportion of expenditure concerned**.

5%

Serious deficiency(ies) in MCS, system **not functioning consistently**
=> puts at risk **significant proportion of expenditure** concerned.



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QUESTIONS?

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