

Role of Member States Auditors in Fraud prevention and detection: OLAF handbook

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Day 2



Role of Member States Auditors in Fraud prevention and detection

- Role of MS auditors
- OLAF Handbook



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Introduction - Background



Objective?

- Experts from 11 Member States
- Improve auditors' awareness of their role in FPD for 2014-20
- Exchange experience and good practice in different MS's
- **Identified two key roles of Auditors:**
 - **Audit role:** As independent bodies, they give assurance on the regularity and legality of operations and accounts of audited bodies and proper functioning of their control systems.
 - **Advisory role:** Auditors may make recommendations to improve or correct weaknesses or failures in operations, accounts and systems.



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Legal Framework - ESIF



EU legal framework

- Articles 310, 325 of Treaty – CION and MS's must counter fraud/illegality
- Article 59.2(b) Financial Regulation (FR) – MS primary responsibility for preventing, detecting and correcting irregularities and fraud.
- Article 74.1.c. CPR – effective and proportionate AFM's ...
- A59 of FR provides for audits of (i) systems, (ii) operations, (iii) accounts & MD

International framework

- Standards of the International Auditing & Assurance Standards Board (IAASB) of IFAC (International Federation of Accountants)
- International standards of Supreme Audit Institutions (ISSAI)
- Standards of the Institute of Internal Auditors (IIA) – 'audit and advisory'



National framework

- Some (not all) MS's have provisions in national legislation re audit procedures.
- Examples include Estonia (follow IIA) and Netherlands (IFAC transposed).



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Systems Audits - Prevention



A System audit aims to seek assurance that MCS functions effectively and efficiently, in order to prevent errors and irregularities (including fraud)

- Effective and proportionate anti-fraud measures is a Key Requirement for ESIF
- **ISA 240 – auditors should:**
 - evaluate risk of misstatements in financial statements arising from fraud
 - Report suspected fraud cases to those charged with governance/management
 - Professional skepticism – *‘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’*
- AA Audit Strategy (A127 of CPR) must prioritise systems audits based on risk
- KR7 is specific thematic area



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Systems Audits – KR 7



List of 7 assessment criteria under Key Requirement 7 (Annex 2 of Handbook)

1. Before Programme implementation, carry out fraud risk assessment – repeat every year/2 years.
2. Anti-fraud measures must be structured around four key elements:
Prevention – Detection – Correction – Prosecution
3. Adequate/proportionate preventive measures (mission, code of conduct, tone/top, training etc).
4. Appropriate detective measures – red flags – are in place and implemented
5. Adequate measures if a suspected fraud is detected
6. Adequate procedures for follow-up recoveries of EU funds spent fraudulently
7. Adequate follow-up to review processes, procedures and controls connected to a potential or actual fraud



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Systems Audits - Detection



Primary responsibility for detection lies with management of audited body

- However, if auditor identifies suspected fraud during systems audit, it needs to react immediately to protect EU & National budget.
- May decide to perform supplementary tests or extend segment audited.
- Notify the MA or CA which is responsible.
- Inform national authority which will notify OLAF (In Ireland, Certifying Authority)
- **Annex 3** to the Handbook contains a **Fraud Response Plan** (Ireland)



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Audits of operations – Detection



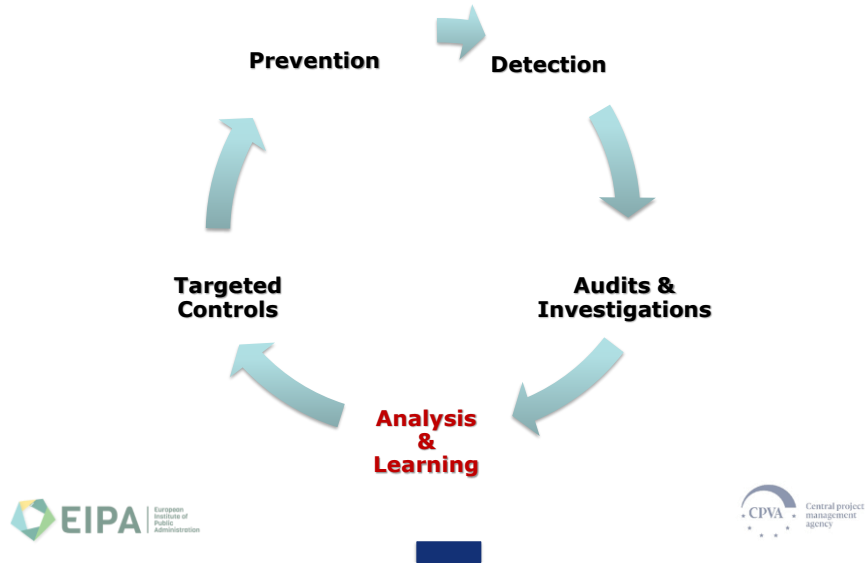
Auditors conduct administrative audits ... not criminal investigations.
Scope of auditor's power and authority is limited – examples of areas of focus:

- During on-the-spot visit, confirm no misappropriation of assets
- Be particularly vigilant when a project raises income, particularly cash
- Be vigilant to any signs of collusion or conflict of interest in award of contracts
- Check for favouritism in evaluation of tenders
- Be vigilant to false labour claims or other falsified documents
- Carry out cross checks for potential double funding.
- In general – be aware of **Information note on fraud indicators**



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Training Prevention & Detection



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Training Prevention & Detection



- Initial fraud awareness training – regular refreshers
- Induction training for new auditors
 - definition of fraud
 - International Auditing Standards (ISA's)
 - EU regulations and guidance on fraud
 - Role of OLAF
 - Examples of fraud in EU co-funded projects
- Continuous training will be desirable given:
 - the new measures being implemented for 2014-20
 - Developing experience in implementation of these new measures



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