

# Arachne

## Frequently asked questions



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## SOURCE, STRUCTURE AND CREDIBILITY OF DATA

1. Which data fields do the managing authorities have to send to the Commission in order to get results of the risk calculations displayed on the dashboards of Arachne?

The managing authorities are responsible to collect and extract data out of their local computerised systems set up according to Article 72 of the Commission Regulation (EC) 1303/013 and to send this data in xml-format to the Commission.

The list of Arachne data fields is based on the data to be transmitted to the Commission in accordance with the provisions of Regulations (EU) No 1303/2013 (Annex III), No 1304/2013 (ESF, Annex I) and No 1301/2013 (ERDF, Annex I). Apart from these basic data, it is possible on a voluntary basis to enrich the Arachne base using additional data such as expenses, in order to make it a more successful, effective and accurate tool.

About fifty five of the data fields listed in the Annex III of the Commission Delegated Act 480/2013 can be sent in the xml-format to the Commission. With these fifty five data fields not all risk indicators can be calculated, notably for the risks related to expenditures (e.g. double payments, payments before eligibility period started). Arachne can only calculate a risk indicator if all information necessary for its calculation is available. If not all data are sent, not all risk indicators can be calculated in Arachne. Hence it is recommended to include in the national computerized systems all data fields that can be processed by Arachne in order to fully benefit from the results of the risk calculation and the potential of Arachne.

After the calculation of the risks and based on data provided by the managing authority, Arachne will display the results and the managing authority or designated intermediate bodies can assess the risks on projects, beneficiaries, contracts, contractors and expenses data in Arachne.

At the request of managing authorities the Commission will provide documentation about:

- All data fields which can be processed to calculate the risks displayed in Arachne.
- A table that shows a comparison between the data fields according to Annex III of the Commission Delegated Act (EC) 480/2013 and the data fields that can be provided by managing authorities to calculate the full range of risks.
- The link between the data used for the calculation and the related risk indicator, displayed in Arachne as a result of the risk calculation.
- A technical explanation and guidance to create the specific XML data file which must be used to upload the data from the Member States into Arachne.

2. Which databases are used as data sources?

Arachne uses data from the internal (operational) databases of Member States and from 2 external databases.

Generally the internal database used to extract data from, is the computerised system according to Article 72 of the Commission Regulation (EC) 1303/2013. However in some cases it might well be that some data not included in the computerised system are stored and processed in other systems. It is advisable that the managing authorities are working very

closely together with the local IT departments/services to see which other sources of data are available in local data systems and how it can be technically solved that data from other systems can be merged with data extracted from the computerised system. The aim should be to source all data needed to calculate all the risks in order to benefit most from the result of the risk calculation displayed in Arachne, as explained in question 1.

Arachne uses also 2 external databases during the enrichment and risk calculation process.

- Orbis database :

Information of more than 200 million companies worldwide like:

- financial data of the company (turnover, cash flow, profit margin, ...),
- shareholders / subsidiaries,
- address information,
- sector, type, size,
- related people (directors, contact people, ...),
- indicators like credibility and bankruptcy.

- World Compliance:

Aggregated and centralized information about:

- PEP lists (politically exposed persons),
- sanctions lists (EU Terrorism List, ICE List, CBI List, ...),
- enforcement list (narcotic & human traffickers, money launderers, fraudsters and other criminals, ...),
- adverse media list (companies or persons that have been linked to illicit activities by news sources).

3. Is it possible to send several xml-files for one operational programme with different data sources in addition to the ones extracted from the computerised system?

The data to send to the Commission may be collected from different data sources if it is necessary and if the completeness of data fields can be enhanced. However, the data must be provided to Arachne in coherent xml-files and can only contain data linked to one operational programme (technical information and documentation is available on request). It's not possible to send separate pieces of data to Arachne or to enter and modify data in Arachne.

4. Who is responsible for providing data for the risk calculation? Is the central coordination unit responsible for that or do managing authorities have to provide data necessary to calculate the risks?

According to Article 125 (4)(c) the managing authorities have to put in place effective anti-fraud measure appropriate to the risk identified and hence they are responsible for the organization of the collection, the extraction, the creation and the upload of the data files.

5. Will Arachne use data from the systems of the Commission, particularly the Irregularity Management System (IMS), the Anti-Fraud Information Services (AFIS) or the Tenders Electronic Daily (TED)?

The only other systems of the Commission used by Arachne are the following:

- VIES: The VAT Information Exchange System of DG TAXUD, to check the validity of VAT numbers used by beneficiaries, contractors and subcontractors (see [http://ec.europa.eu/taxation\\_customs/vies](http://ec.europa.eu/taxation_customs/vies)).
- INFOEURO: The currency rate published by DG BUDG in the beginning of each month (see [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/infoeuro\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/infoeuro_en.cfm)).

6. The financial statements do not always provide data for the turnover and the number of employees of companies, how does Arachne handle this?

This data is taken from the Orbis database if the concerned companies have published these figures. If not, the managing authorities can provide these figures to Arachne if they have the information available in their local IT system.

7. How long the data will be retained?

As regards the retention of the data, these are kept for three years following the closure of an operational programme and in accordance with the requirements of Article 90 of Regulation 1083/2006. According to the privacy statement, data will not be maintained for statistical purposes.

8. Are all the amounts VAT included?

Yes, if VAT is an eligible expense item.

9. For data sourced in another currency than EUR, which exchange rate is used by Arachne?

Arachne uses the exchange rate applicable to the conversion of the expenses according to the regulatory requirements. This rate is published by DG BUDG in the beginning of each month (see [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/infoeuro\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/infoeuro_en.cfm)).

10. How to ensure the matching between the external database Orbis and the data sent by the managing authority?

The name given by the project partners at the application stage can be different from the one with which they are registered in the Orbis database. In such a case, even if a 'fuzzy matching' mechanism is applied, the name may not be matched with the Orbis database and there is no possibility to see the Orbis data of this project partner. It is recommended to provide to Arachne the national business registry number of project partners to solve the problem. This is linked to the way the managing authority is managing their data when matching companies. It is advisable that the managing authority aligns the identification number of the entity in its computerized system with the BvD id (the Bureau van Dijk identification number that can be retrieved in Arachne) of the identified company and to link it to the project.

11. Is it necessary to send data for all the projects and contracts or can a selection be made?

Arachne calculates peer group averages for the whole programme. If not all projects and contracts are provided, the peer group averages will not be precise enough which may lead to "false positives".

12. How are the results of the risk calculation for Arachne stored?

The result of the risk calculation of Arachne is stored electronically in a database. This database can be retrieved via the interface of the Arachne application. Designated users have the possibility to assess the risks related to the operational programme for which they have access via dashboards for projects, contracts, contractors and beneficiaries. They can also export selected data or they can save printable reports.

13. Are data provided by the external service providers Orbis and World Compliance credible?

The data providers Bureau Van Dijk for Orbis and LexisNexis for World Compliance have been selected after an intensive market study performed by the Commission. One of the main principles to select the service provider was that they provide only data that are publicly available and that they do not use information from sources that are not official or unreliable. The companies are also ensuring the quality of their data through internal quality checks.

Incorrect information can only be corrected by companies by correcting their data in the respective national company register.

14. Who will check the coherency and the correctness of the data to be sent in an xml-format to the Commission?

It is the responsibility of the managing authority to check the coherency and the correctness of the data. The Commission supports the managing authorities in the setup and test phase by checking the quality and the quantity of the data sourced.

## UPDATING OF DATA

15. Is the data in Arachne updated continuously, or on predefined dates?

Once the managing authorities decide that Arachne forms an element of the effective anti-fraud measure appropriate to the risk identified according to Article 125 (4)(c) of the Regulation (EC) 1303/2013, it becomes their responsibility to send data to the Commission. If the managing authorities are not sending data on a regular and timely basis (ideally once a month and at least every 3 months) there is a risk that the effectiveness of the anti-fraud measures is compromised.

All files uploaded by the Member States into Arachne before Sunday 08:00 AM central Europe time are included in the weekly risk calculation. The enrichment and risk calculation process of Arachne runs every week and starts each Monday. On the following Monday the updated results of the enrichments and the risk calculations are visible in Arachne.

16. How does Arachne process updating of its source databases?

The two external databases (Orbis and World Compliance) used by Arachne in the enrichment and risk calculation process are refreshed every 3 months. It is the responsibility of the Commission to guarantee that the refresh is done as planned.

17. Do the managing authorities have any responsibility as regards updating Arachne source databases (timing, set of data provided)?

Managing authorities have the responsibility to update their data in Arachne by sending new data files on a regular basis ideally once a month and with a minimum set of data, as described in the answers 1 and 1515.

## ACCESS TO ARACHNE, USER ROLES

18. Is it mandatory to use Arachne?

No, the use of Arachne is voluntary. For the purpose of the requirement for the managing authority to have put in place "effective and proportional anti-fraud measures" in the programming period 2014-2020, Arachne is the Commission's benchmark.

19. Can the managing authority decide to use Arachne after the Member State notified the Commission about the date and form of the designations under Article 124(1) of the Regulation (EU) 1303/2013?

Arachne is offered to all managing authorities and it is not mandatory to integrate Arachne in the management and control system and to use it. The managing authority can at any moment supplement and potentially improve its anti-fraud measures already in place by integrating Arachne in the management and control system.

The audit authority and probably the Commission auditors will assess in the framework of system audits if the anti-fraud measures put in place are proportionate and effective according to Article 125 (4)(c) of the Regulation (EU) 1303/2013. The assessment criteria are set out in the 'Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States' (EGESIF\_14-0010, key requirement 7 – effective implementation of proportionate anti-fraud measures).

20. If a managing authority opts for Arachne, will there be a possibility to adapt Arachne to specific needs?

No, Arachne and its way of calculating risks are uniform for all designated users throughout Europe. However, the Commission is encouraging managing authorities and their designated users to give feedback to the Commission about the usefulness or the calculation of risk indicators. If it is in the common interest of all Member States, future versions of Arachne could be designed taking into account these comments.

21. Is Arachne available in different languages?

Yes, the Arachne interface and the user manual are, or will be soon, available in all official EU languages.

22. Will a Member State have access to aggregated data from other Member States (such as the total amount of financial support)?

Designated Arachne users will have access to the data of the operational programmes for which they have been granted access rights from the concerned managing authority. Normally these access rights are limited within an operational programme or within a Member State. Managing authorities can however grant access to users outside of their country. This may be particularly interesting for the Interreg programmes.

In the risk calculation of one of the indicators, the total amount of financial support is calculated cross-country. The total amount is visible in this specific risk indicator but the details

are only visible for the projects or contracts linked to the operational programmes for which the user has access rights.

23. What data is visible for a managing authority? Is it possible to see relationships and links to other operational programmes?

Designated Arachne users have access to the data of the operational programmes for which they have been granted access rights from the concerned managing authorities. The managing authority can decide to limit the access rights of designated users for a particular operational programme in its country.

Managing authorities can also grant access to the result of the risk calculation for one or more of its operational programmes to designated users of other Member States. This might be particularly interesting for Interreg programmes where designated bodies for one operational programme are located in different Member States. Only if access rights are given by the respective managing authority, the user can see risk indicators for the operational programme of another Member State.

Without having specific access rights all managing authorities using Arachne can see whether beneficiaries, partners, consortium members, contractors, sub-contractors and related people are involved in other operational programmes, even in other Member States. The only information displayed is the “CCI-number” of the operational programme from the other Member State. The “CCI-number” is a unique identifier that is granted by the Commission for each operational programme, major project and global grant upon request by the competent Member State authority.

24. Is a managing authority allowed to modify or update data in Arachne?

Data sourced by the managing authority cannot be changed. The only option for the managing authority to change or correct data that is already used in risk calculations is by sending a new data file in the xml-format. The prerequisite is that the data need to be corrected in the local computerised system. The updated xml-file with the corrected data is the basis of the new risk calculation. The service provider contracted by the Commission is calculating once a week the risks based on the data provided by the managing authority. Consequently it takes up to one week to correct wrong data.

The only exception of data that can be altered without sending a new data file are data in the case management system when a case is created by designated users in Arachne. Creating and updating a case is possible for the users having the necessary roles in Arachne. Information about the case management system is available in the user manual.

25. Can the Commission confirm that only the managing authority can authorise the certifying authority and the audit authority to access information concerning its programme?

It is the responsibility of the managing authority to grant access rights and monitor them by respecting the conditions set out in the charter.

Certain conditions need to be respected when the managing authority is granting access rights. For example access rights can only be granted to designated users that are working for a body that is part of the management and control system.

26. How does a managing authority decide to whom it grants which user role?

Arachne gives a managing authority the possibility to define specific user roles such as supervisor or guest. The different roles are defining different rights to work with the case management system of Arachne. The case management is designed to assist the user of Arachne in managing the proper follow-up of projects or contracts that require additional review.

A managing authority has to assign each Arachne user account with one of the following user roles with regards to the case management module:

- None: Can only see the cases which are created for the project or contract linked to an OP to which he has access.
- Guest: Can see cases, can create cases and can add comments to existing cases linked to the OP's to which he has access.  
When the guest is also the user to which the case is assigned to, he can add additional information, he can propose a case status change, he can refuse a case but he cannot re-assign the case to another user.
- Supervisor: He has the same privileges as the Guest and he can (re-)assign the cases to specific users, he can accept or decline case status change proposals.

After the managing authority's official decision to use Arachne for the programming period 2014-2020, the Commission gives administrators' rights to a local administrator that is designated by the managing authority. The administrator will have the rights to grant access, for the operational programme for which they are administrator, to local users from managing authorities and, if decided by the managing authority, also to designated users in the intermediate bodies, the certifying authority and the audit authority.

27. Can authorities who are not directly involved in the implementation of European Social and Investment Fund (ESIF), but are participating in the control or audit of ESIF (for ex. law enforcement authorities, Supreme Audit Office) be granted access to Arachne?

The managing authority can only grant users access rights to Arachne that are working in a body that is part of the management and control system for (a) specific operational programme(s). This is also clearly mentioned in the charter of Arachne that lines out basic principles to respect to use Arachne.

28. Will the tool also be used by the certifying authorities, the court of auditors, the Commission, OLAF, ...?

It is not foreseen that other authorities than the Commission will have access to Arachne.

29. In accordance with the opinion concerning the "risk analysis for the prevention and detection of fraud" – Arachne of 17 February 2014 (2013-0340), the European Data Protection Supervisor (EDPS) states that OLAF and the European Court of Auditors can request access to information on a case-by-case basis. Has the Commission provided for a precise mechanism to meet these

exceptional requests? Is it familiar with the framework for use envisaged by the European Court of Auditors and OLAF? Is the Commission planning to inform the managing authority of these requests?

The OLAF may submit formal requests to the Commission on a case-by-case basis for access to the information held in Arachne, for individual cases. These requests are examined by the DG to whom the request is addressed and, where appropriate, OLAF may obtain access to information held in Arachne, allowing it to perform ad hoc research only for the case in question. The use of Arachne by OLAF will be subject to the regulatory framework for OLAF investigations. The research must therefore be legal, proportionate and linked to investigation. The European Court of Auditors does not have access to Arachne, which in any case cannot be used to establish samples of operations to be examined in DAS (statement of assurance) audits. A sample based on Arachne would produce results which could not be considered as representative. The Court could be led in specific cases to ask the Commission to consult Arachne for operations already selected or in the event of suspected fraud. These requests should be analysed on a case-by-case basis.

30. How many free licences are given to a particular Member State and/or managing authority?

Currently there are 30 concurrent licenses available for external data usage. This means that there can be up to 30 users connected at the same time and retrieve data coming from external sources (Orbis, World Compliance). There is a monitoring system in place that handles these licenses in order not to block users. If no licenses are free at a certain moment, people just have to wait some minutes before licenses will become (automatically) free. The use of Arachne in terms of number of concurrent users is followed and if needed, the number of licences will be modified.

31. Can the Commission confirm that the Arachne licenses are made available free of charge to the managing authorities and to the certifying authority and audit authority for the entire duration of the programme?

The Commission has concluded a framework contract to cover the Arachne licenses which runs until the closure of the period 2014-2020. Towards the end of this framework contract, it plans to assess the use and impact of the tool. Subject to the results of this evaluation and depending on the available budget, the Commission plans to renew the contract upon completion of the current framework contract, with Commission funding and free licences for the national authorities.

## FUNCTIONALITIES AND POSSIBILITIES OF USE

### 32. What are the experiences of other programmes with Arachne?

The feedback of managing authorities and respective designated users is generally positive since Arachne is helping them to improve its verification capacity during all steps of the project cycle and even before project approval. E.g. in some cases Arachne helped to identify applicants that had not the financial capacity for the project.

### 33. Which functionalities does Arachne offer?

Arachne is offering a very wide range of functionalities for the assessment of risks related to projects, contracts, contractors and beneficiaries. Additionally Arachne provides the unique possibility for a managing authority to assess all officially registered data from companies in company databases throughout the world via the Orbis database.

### 34. Is it possible to use Arachne on an ex-ante basis before a grant agreement or a contract is signed?

A managing authority has the possibility to carry out ex-ante checks with data of Orbis, before a grant agreement or a contract is signed. Two cases can be distinguished:

#### 1) The applicant hasn't been a beneficiary before:

In this case no data apart from the data provided by Orbis are available concerning any project linked to the beneficiary. The managing authority has access to the information displayed in the detailed report accessible via the search functionality of the entity. General and financial information and information on the bankruptcy score as well as information about shareholders, subsidiaries; relations between involved companies ; owners/managers and links between them are available if officially registered.

#### 2) The applicant was already a beneficiary and data were provided to the Commission:

In this case Arachne displays risks that are related to the projects for a certain beneficiary that can be used for the assessment before a contract or a grant agreement is signed.

It is planned to put in place a system for systemic ex-ante checks of candidates and/or applicants before a contract or a grant agreement will be signed. This will enable managing authorities and the respective intermediate bodies to identify risks such as potential conflict of interest or the financial capacity and potential involvement in other projects.

As the possibility to check risks before a contract or a grant agreement is signed might be misused each time a request of an ex-ante check will be sent to the Commission the person, the date of the request and all other related information will be logged and saved.

### 35. Can Arachne display information about successful and unsuccessful candidates or applicants?

In principle all information that is officially registered in company registers around the world can be displayed in Arachne via the Orbis database. For all candidates or applicants information

may be available in Orbis. Depending on the respective national law the detail of information that has to be registered may vary. Notably for small entities financial data are not always available.

### 36. What is the added value for a managing authority to use Arachne?

1. According to Article 125 (4)(c) of the Commission Regulation (EU) No 1303/2013 the managing authorities have to "put in place effective and proportionate anti-fraud measures taking into account the risks identified". Introducing Arachne in the management and control system is optional and can represent one of the detective and preventive anti-fraud measure to be put in place.
2. Arachne systematically assists managing authorities and intermediate bodies to increase the effectiveness and efficiency of their management verifications to be carried out according to article 125 (5) of the Commission Regulation (EU) No 1303/2013. Thereby, error rates and irregularities could be reduced. Limited administrative capacity can better be geared towards prevention and detection of irregularities, fraud and corruption.
3. Prevention and detection is better than any correction of an irregularity. Managing authorities and the respective intermediate bodies can use Arachne in each step of the project cycle and notably before project approval and before a grant agreement or a contract is signed. With these possibilities managing authorities are enabled to perform ex-ante checks with increased effectiveness and efficiency compared to one not using Arachne.
4. 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.
5. Financial and other information about more than 200 million companies around the world that are officially registered in the countries according to its company registration law are accessible with Arachne via the company database of Orbis.
6. Managing authorities can adopt an operational cutting-edge risk scoring tool free of charge. Once managing authorities have decided to use Arachne, the Commission can provide technical support for the implementation and further training for users.
7. Feedback from managing authorities is being used for the development of Arachne. The Commission welcomes the managing authorities to give further feedback to improve Arachne for the benefit of all managing authorities.

### 37. Which risks are analysed by Arachne?

Arachne can calculate and display up to 102 risks indicators classified in 7 main risk categories such as procurement, contract management, eligibility, performance, concentration, reasonability and reputational and fraud alerts. Details such as a description, data needed to calculate the risk and other information are available in the risk pop-up windows and in the user manual.

38. Does Arachne include data on entities which are facing recovery of funds based on a Commission decision, in which the financial assistance was marked as ineligible and incompatible with the single market?

Arachne is not linked to any other system in the Commission, except for the VAT Information Exchange System (VIES) of the Directorate General of Taxation and Customs Union (TAXUD) which is used to validate VAT numbers.

Managing authorities include information in the data file to be sent to the Commission on beneficiaries affected by financial corrections in the past. This information is used in the procurement risk indicator category.

39. Is Arachne able to detect collusive behaviour?

No, Arachne is not able to detect collusive behaviour.

40. Is Arachne able to detect accumulation of state aid and de minimis?

No, Arachne is not able to detect the accumulation of state aid.

41. Can I identify if an applicant / enterprise can be classified as an SME?

Arachne indicates in the 'search for companies' dashboard and in the interactive report the 'BvD size' (Bureau van Dijk size) such as the company size categories: very large, large, medium sized and small. This is a categorisation of Bureau van Dijk and can give a first indication for the classification of a company.

Managing authorities should in any case follow the EU recommendation 2003/361 and can get more detailed information via the web page <http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition> where a revised User Guide to the SME definitions is available in all EU languages.

Orbis has following criteria to classify the companies:

#### Very large Companies

Companies on Orbis are considered to be very large when they match at least one of the following conditions:

- Operating Revenue  $\geq$  100 million EUR
- Total assets  $\geq$  200 million EUR
- Employees  $\geq$  1,000
- Listed

Notes:

Companies with ratios Operating Revenue per Employee or Total Assets per Employee below 100 EUR are excluded from this category.

Companies for which Operating Revenue, Total Assets and Employees are unknown but have a level of Capital over 5 million EUR are also included in the category.

#### Large Companies

Companies on Orbis are considered to be large when they match at least one of the following conditions:

- Operating Revenue  $\geq$  10 million EUR
- Total assets  $\geq$  20 million EUR
- Employees  $\geq$  150
- Not Very Large

Notes:

Companies with ratios Operating Revenue per Employee or Total Assets per Employee below 100 EUR are excluded from this category.

Companies for which Operating Revenue, Total Assets and Employees are unknown but have a level of Capital comprised between 500 thousand EUR and 5 million EUR are also included in the category.

#### Medium sized Companies

Companies on Orbis are considered to be medium sized when they match at least one of the following conditions:

- Operating Revenue  $\geq$  1 million EUR
- Total assets  $\geq$  2 million EUR
- Employees  $\geq$  15
- Not Very Large or Large

Notes:

Companies with ratios Operating Revenue per Employee or Total Assets per Employee below 100 EUR are excluded from this category.

Companies for which Operating Revenue, Total Assets and Employees are unknown but have a level of Capital comprised between 50 thousand EUR and 500 thousand EUR are also included in the category.

#### Small Companies

Companies on Orbis are considered to be small when they are not included in another category.

42. Will Arachne provide an assessment of financial health of a company, e.g. on the basis of Altman Z score, or other methods of financial analysis?

Arachne provides an assessment of the financial health of a company via two indicators built on predictive modelling techniques. These indicators, called Vadis Predictive Indicators or VPI (Vadis is the company who calculates these indicators and is the service provider contracted by the Commission), are only available for companies.

The two indicators are:

- **VADIS Predictive Indicator to Propensity-to-become bankrupt (VPI P2B bankruptcy):**  
Measures the propensity for a company to become bankrupt within the next 18 months. The indicator scores (from 1 to 20) and ranks companies from A to F (F being assigned to companies with the highest propensity to become bankrupt) for all companies for which

a score could be computed when recent detailed financial data is available located in one of the fifty main industrialized countries.

- **VADIS Predictive Indicator to Propensity-to-be sold (VPI P2Bsold):**

Measures the propensity for a company to be sold within the next 18 months.

The indicator ranks from 1 to 5 for the top 10% of companies for which a score could be computed when recent detailed financial data is available for each of the main fifty industrialized countries that display the highest probability to be sold. Each ranking value therefore represents 2% of the 10% of the population of each country with 5 being the 2% of the companies being the most probable to be sold in that country.

#### 43. Will Arachne be able to detect a possible conflict of interest?

Arachne is able to display information about a link between companies and/or persons based on the information of Orbis and the data provided by a managing authority. Types of links that can be displayed (if sufficient information is available):

- links between beneficiaries and project partners
- links between beneficiaries/project partners and contractors/consortium members
- links between beneficiaries/project partners and sub-contractors
- links between contractors and consortium members
- links between contractors/consortium members and sub-contractors

The information displayed in Arachne is about legal links. Whether a specific link displayed by Arachne constitutes a conflict of interest or not must be duly verified in every case by the managing authority in light of national laws.

It must be noted that the search for 'private links' means a link between a person and a company due to its role in the companies that are registered officially in the company register of a country. This does not represent a link between family members or anything like that.

#### 44. Will Arachne provide data on any publicity of a company or a person?

Arachne will check whether companies involved in projects and contracts of the respective operational programme appear on the enforcement, sanction or adverse media lists available in the World Compliance database. This database contains only 'negative' information. People registered as an official representative of companies involved in a project co-financed with ERDF or ESF funds are also checked on these lists.

#### 45. What are risk categories, risk indicators and the overall risk?

Arachne can display 102 individual risk indicators. Each individual risk indicator has its own calculation rule which can be displayed in a pop-up window. Arachne can only display a risk indicator if all data for its calculation are sent by the managing authority. All of them are grouped into the 7 risk categories procurement, contract management, eligibility, performance, concentration, reasonability and reputational and fraud alerts. The numbers of risks indications in each risk category varies. Whereas the risk category procurement comprises 6 risk indicators, the risk category reputational and fraud alerts comprises 30 risk indicators.

The maximum score of an individual risk varies between 5 and 20 depending on the type of the individual risk indicator. A score equal to 0 means that Arachne didn't detect any risk for the

specific indicator. A score equal to the maximum score (5, 10, 15 or 20) means that Arachne identified a potential risk. A general score is also calculated for each category (with maximum score 50).

Arachne gives the managing authority the possibility to identify easily the most risky projects, contracts, contractors and beneficiaries with the help of the “overall risk”, which is the average of the seven risk categories.

46. What is the content of risk category “reputational fraud alerts overall score“?

In the “reputational and fraud alert category” Arachne provides 30 different risk indicators. All risk indicators are calculated if enough data are available.

This risk category includes following risk indicators:

- financial risks: Overall financial performance of beneficiaries, project partners, contractors, sub-contractors and consortium members, based on financial reporting data
- relationship risks : Existence of relationships between beneficiaries, project partners, contractors, sub-contractors and consortium members and their official representatives
- reputational risks: Involvement in activities (such as bankruptcies) that could possibly result in reputational damages
- sanction risks: Identification of beneficiaries, project partners, contractors, sub-contractors and consortium members or their official representatives , blacklisted or appearing in any type of sanction list
- change risks: Any type of changes to the company structure

The overall score of the “reputational and fraud alert category” is the average of the top 10 individual scores in this category.

47. Who will update the risk status within the system in case the risk decreases due to implementation of certain measures?

The risks in Arachne are calculated automatically every week. New data sent to Arachne by a managing authority or a refresh of the external databases Orbis and World Compliance can influence the values of the risk calculations.

Also data received from other managing authorities, even from other Member States, can influence the risks linked to operational programmes for which no new or updated data was sourced (concentration risks, financial risks, ...). This would be the case where beneficiaries, contractors or subcontractors have obtained a subvention or contract in a different Member State.

48. Is it possible to see the history of officially registered financial data of any given company?

Principally not all companies have to publish their financial data in company registers. The kind of information to be registered depends on national law and might differ from one state to another. The current version of Arachne provides officially published financial data via the consultation of the Orbis data base that companies have published the last three years. Arachne uses the most relevant financial information which is or was available at that time. The details about the financial data can be seen in the detailed report. Additionally they are

linked to specific risk indicators and details about their calculation can be retrieved via pop-up windows.

49. How does Arachne keep track of changes in the overall risk assessment over time?

The complete history of all the potential risks which were identified by Arachne for projects, contracts, contractors and beneficiaries is kept in Arachne. Different functionalities and screens allow looking into this historic data. Please find more detailed information about these functionalities in the Arachne user manual.

50. Does Arachne give the possibility to see the risk level at any given moment in the past?

Arachne offers the possibility to see the risk levels at any given moment (starting from the moment the operational programme data was sent to Arachne the first time). With the functionality to display the evolution of the risks over time the managing authority can document the reduction of risk levels as a result of increased effectiveness and efficiency of management verification.

51. In case a designated Arachne user identifies an irregularity, is he able to record this information in Arachne?

The only possibility to add information to a project or a contract is the case management system. In this case management system comments can be added. Please find more detailed information about the case management system in the manual of Arachne.

52. Are persons working in one of the bodies of the management and control system such as the managing authority, intermediate body, the certifying authority or the audit authority included in the Arachne system?

Designated users of Arachne have the possibility to search in the external data base Orbis for a person having an official role in a company or a legal link to a company and which is officially registered. Employees of any company or a person involved in the management and control system are not included in Arachne.

Arachne however provides the managing authority the possibility to add for each individual project 'related people'. This data field could contain names of the persons who are involved in the evaluation process. If the names of these persons are provided to Arachne their reputation and eventual political involvement are checked. However if the managing authority considers to provide names of individuals it should follow strictly the national rules for data protection and maybe the individual may need to give his/her consent.

53. Are audit authorities allowed to use Arachne to select the operations to be audited in the framework of the annual control report instead of using statistical sampling?

This is not possible. The audit authority has to audit the declared expenditures based on a representative sample and, as a general rule on statistical sampling methods. Statistical sampling methods allow for the selection of a sample that is representing the population and the final goal is to project (extrapolate or estimate) to the population the value of a parameter

(the "variable") observed in the sample, allowing to conclude whether a population is materially misstated or not and if so, by how much (an error amount).

54. Will the Commission base the selection of projects to be audited on the results of the risk calculation of Arachne?

The system audits of the Commission are conducted using a sample of operations selected on the basis of an own risk assessment methodology that is based on different criteria such as previous results of audits, thematic objectives, amounts, type of operation, value, own findings, findings from the European Court of Auditors or strategic criteria such as horizontal aspects. The risks displayed on the dashboards in Arachne will therefore not be used to select the operations to be audited.

Only after the selection of the operations, the auditors may consult Arachne in the preparatory phase of the audit to detect any related risks, so as to cover them during on-the-spot checks.

Additionally there is also a possibility that the auditors re-perform the audit work done by the audit authority. In that case the operations were already selected and subject to an audit by the audit authority.

Furthermore, in accordance with Article 148(4) of Regulation (EU) No 1303/2013, the Commission could perform ad hoc audits, specifically on risk operations, selected after consulting Arachne. In such cases, the results could be considered as being representative only of part of the programme potentially affected by the same risks (perimeter to be defined according to risks, potentially linked to certain operational features).

The Commission may also perform system audits relating to key requirement No 7 – adequate anti-fraud procedures. In the context of such audits, the usage of Arachne might be consulted.

55. Can Arachne outputs be used in legal steps/legal acts, for termination of a contract, or termination of a grant agreement?

The information used in Arachne comes from managing authorities and from official sources (publicly available information and officially published) via the external databases Orbis and World Compliance. But the risks displayed are based on predefined arithmetical formulas and do not establish a fact.

The risk indicators displayed in Arachne are helping managing authorities to identify potential risks related to projects, contracts, contractors and beneficiary. Risks displayed in Arachne cannot be seen as solid evidence for an irregularity as such. The identified risks can only be established as an irregularity if further documentation and verification is corroborated that finally proves by evidence that the risk identified is in fact an irregularity.

56. Is it possible to fine tune a risk indicator calculation for a specific Member State of managing authority?

No, the risk indicators are unique for all operational programmes. If however the experience shows that risk indicator calculations need to be refined, this can be envisaged if it is in the common interest of all Member States.

57. What would be the level of risk of each individual group of indicators to decide to take further steps for verification?

It is advisable for managing authorities to establish upfront a strategy based on a risk assessment on when and in which cases there have to be taken further steps for verification or investigation.

## TIME SCHEDULE, TRAININGS, SUPPORT

58. Will managing authorities have to use Arachne on an obligatory basis, or will it be voluntary?

Arachne is not mandatory and thus optional. Managing authorities have to put in place effective and proportionate anti-fraud measures according to Article 125 (4) (c) of the Regulation (EC) 1303/2013 and Arachne can represent one complementary element of these measures. Arachne is seen as a good practice by the Commission.

59. What are the necessary steps to take before the managing authority can use Arachne?

Generally, the following steps needs to be taken to start working with Arachne:

1. A first general presentation of Arachne with test data will give the managing authority the possibility to see the analytical strength and vast possibilities of Arachne for its management verifications and the indications of red flags. The presentation will include some explanations about technical requirements and the xml-format of the data file to be sent.
2. Once the managing authority wants to test Arachne it will have to extract data from the computerised system. Sometimes data are stored in different systems. In this case the data might be collected. The creation of one data file in xml-format for each operational programme is mandatory. The data file needs to be sent to the Commission. The Commission will check the data on its coherence and the right format of the data before the data is sent to the service provider Vadis for the calculation of risks.
3. The Commission will come back to the managing authority and will present the result of the risk calculation. Ideally this is combined with a first training session for designated users who will test Arachne. The Commission will grant access to them and show the managing authority how to install the Arachne tool. The installation can only be provided if the managing authority provides a minimum set of data that have a minimum quality.
4. The managing authority can already decide at that stage if they want to grant access to intermediate bodies, the certifying authority or the audit authority in order to get their feedback of the usefulness of Arachne, if Arachne is helpful for management verifications and how Arachne can be integrated in the management and control system as a part of the requirement defined in Article 125(4) (c) of the Commission Regulation (EU) 1303/2013. The managing authority can at any stage rely on the support of the Commission.
5. Advanced training sessions for designated users that are working in a body that is part of the management and control system can be organized on request of the managing authority in order to deepen the effective and efficient use of Arachne.
6. Article 125(4)(c) of the Commission Regulation (EU) 1303/2013 requires that the managing authority puts in place effective and proportionate anti-fraud measures according to the risk identified. The Commission has issued guidance (\*) to assist Member States in that respect.

Although it is not required for the fraud risk assessment to be carried out prior to the designation of the managing authority, the Commission recommends that the procedures set out the timing for carrying out the initial risk assessment and the expected frequency for updating the risk assessment. Anti-fraud measures are structured around four key elements in the anti-fraud cycle: prevention, detection, correction and prosecution. Arachne can be one of the measures covering part of the key elements prevention and detection.

A managing authority must decide whether it will continue to use Arachne and if it will include Arachne in their management and control system. If yes it should include Arachne in the description of the functions and procedures in place of the designated bodies according to Article 124 of the Commission Regulation (EU) 1303/2013.

Once the managing authority definitively decides to use Arachne it will switch to the production environment which means that as of that moment the managing authorities or a delegated person(s) will manage all the user accounts, permissions and roles and will upload directly the xml data files in Arachne.

(\*) Guidance on fraud-risk assessment and effective and proportionate anti-fraud measures (EGESIF\_14-0021-00 of 16/06/2014)

#### 60. How will Arachne users be trained?

In general, the following trainings can be provided by the Commission:

- A one day training session in combination with a presentation of the first results in Arachne as a first step.
- Advanced and in-depth training sessions (1 or 2 days) for designated users as a second step on request of a managing authority.

Due to the high number of managing authorities and intermediate bodies throughout Europe the Commission has to follow the 'train the trainer' principle. Training sessions are organized to train key users of each managing authority. The Commission is also ready to provide trainings to designated users of intermediate bodies, the certifying authority or the audit authority if the managing authority wants to grant access to them. Following the intensive training, the key users should be able to train other designated users.

The cost for the organization of the training session such as IT-equipment and a training facility must be covered by the Member State. The Commission will cover the travel costs of the representatives of the Commission.

#### 61. Who will give methodological guidance for Arachne users (the Commission, the managing authority, the body responsible for the coordination or the audit authority)?

The Commission can help the managing authorities to setup the integration of Arachne in their daily management verifications. On the initiative of managing authorities the Commission can help organising meetings together with managing authorities of other Member States to exchange experience and to share best practices.

62. Who will provide technical support to Arachne users?

Technical documentation is available from the Commission for all technical and administrative aspects about Arachne. The Commission also provides technical support to the Arachne user by phone, on the spot or via the functional mailbox (EC-ARACHNE-INFO@ec.europa.eu).

## SECURITY AND DATA PROTECTION

63. Will the managing authority need to adopt specific measures in order to protect data of any information/result of the risk calculation that can be displayed with Arachne?

The 'outputs' of Arachne are the calculated risk indicators. This information is stored in the Arachne database which is only accessible by Arachne users, people who are designated by a managing authority.

It's the responsibility of the managing authority to verify whether the users to be designated:

- are part of the management and control system,
- received the necessary documentation and training to use the system,
- do not extract, print or spread the Arachne information to persons or bodies outside of the management and control system. Once a suspected case of fraud is detected it should be reported via the established clear reporting mechanism to the competent investigative bodies in the respective Member State, to the Commission and to OLAF.

64. Data security – what are the technical specifications for computers on which the designated users will access Arachne?

The following elements are required in order to install the Arachne client:

- Windows operating system greater than Windows XP (Windows Vista, Windows 7, Windows 2003, Windows 2008 in 32 or 64 bits, Windows 10)
- Microsoft .NET framework 3.5 (or greater) installed
- Screen resolution of at least 1024 x 768 (ideally 1680 x 1050 or greater)

65. Are there specific requirements for persons who are designated by the managing authority to work with Arachne and/or have access to Arachne such as security clearance?

People who are designated by the managing authority to work with Arachne or have access to Arachne do not have to sign for the Commission specific security clearance documents. The management of the Arachne user accesses is the responsibility of the management authority. It may designate an administrator to administer access rights for Arachne. The managing authority is responsible to manage user rights in line with the local security guidelines and in line with the general principles lined out in the charter of Arachne.

66. How is the consent of data subject ensured as regards the processing and provision of personal data which is made accessible to the third persons?

Data is only accessible via the Arachne tool but can be extracted and /or printed and shared with people who cannot access the application. It's the responsibility of the managing authority to ensure that designated users are trustworthy and integer and do not share information obtained by Arachne with third persons that are not belonging to one of the bodies of the

management and control system. Managing authorities are also responsible to comply with national data protection regulations. In this respect, the data subject should be made aware that their data may be used for the identification of risk indicators as described in the Arachne manual.

67. Following the transfer of data by the managing authority, can the Commission confirm that it becomes the de facto owner of the data?

No, the Commission will not be the owner of the data. The managing authorities will retain ownership of their data. The responsibility of the Commission goes no further than the in-depth analysis and enrichment of the data.

68. Can the Commission describe the system set in place to meet any requests from individuals to exercise their rights to access and rectify data held on the legal entity which they represent or their own personal data in an information system?

The Member States retain ownership of the data which they have entered in Arachne. It is therefore up to the national authorities to establish procedures to deal with any requests from natural persons concerning access to, and rectification of, the data shared in Arachne. At Commission level, all personal data are processed in accordance with Regulation (EC) No 45/2001 of 18 December 2000 on the protection of individuals with regard to the processing of personal data by the Community institutions and bodies and on the free movement of such data. Any request from natural persons to access and rectify personal data, is handled in accordance with the provisions of this Regulation. This Regulation does not cover data concerning legal persons.

## SPECIFIC QUESTIONS RELATED TO INTERREG PROGRAMS

69. Can the Commission indicate whether Arachne is suited to the Interreg programmes associating partners from a number of Member States or third countries?

Arachne is also adapted in the context of the European territorial cooperation programmes. The designated managing authorities will have access to and must manage the data relating to their programme. All the data available in Arachne concerning operators, partners and programme operations are accessible to the managing authority of a programme.

70. Can the managing authority use the information of the eMS system (computerised system developed in close cooperation by INTERACT for Interreg programs) to download the data and send them as a xml-file to the Commission services?

Yes, extraction scripts have been made by some pilot managing authorities. These scripts are available for distribution towards other managing authorities if needed where they can be modified according to the specific implementation of eMS.

71. What to do if partner countries do not want to use Arachne?

Arachne can be one element of effective and proportionate anti-fraud measures to be put in place by the managing authority. It should seek a common understanding with the partner country in that respect.

72. What risk indicators are most useful for Interreg programmes?

There is a wide range of risk indicators that are helping the managing authorities or the respective controllers to increase the effectiveness and efficiency of the verifications. In-depth trainings provided by the Commission for free to designated users are showing how the risk indicators can be interpreted and which ones are used from other managing authorities or the respective controllers.

For example: one programme is using Arachne in all stages of the project cycle. It is checking systematically before project approval all private economic operators to identify any risk of financial insolvency. In case of a high risk detected by Arachne the joint secretariat informs the relevant Member State before the meeting of the monitoring committee takes place in order to leave national representatives sufficient time for investigation and to confirm the financial viability of the applicant concerned. Additionally all economic operators who are declaring to be a small and medium enterprise (SME) and whose budget is framed under state aid rules applicable to SME only are assessed via Arachne (e.g. the enterprise is part of a bigger group/economic operator) to identify any possible risk of false declaration.

After project approval the financial capacity of all beneficiaries that are private entities are assessed at least once a year to identify any risk of financial insolvency. Another example would be to check the risk of a conflict of interest between the project beneficiary and the external contractor if costs being incurred under the provisions of the public procurement directives (2004/17/EC; 2004/18/EC or 2014/23EC).

73. How can I see, if a beneficiary or a project partner or a contractor is involved in more than one project or operational programme?

The information is accessible via the risk category 'concentration' and the respective details of the risks. The managing authority is even capable to see if the beneficiary or the partners or the contractor is involved in more than one operational programme. Normally only risks from national operational programmes can be assessed. But managing authorities can see the identification number (CCI) of the operational programme in which the beneficiary or the partners or the contractor is involved. To find out more details, the managing authority can approach the managing authority of the Member State responsible for the other operational programme in which the beneficiary or the partners or the contractor is also involved.

74. Is it acceptable that Arachne is only used for certain risks that are of relevance for an operational programme of Interreg and other indicators are not taken into account even though they are indicating a high risk?

In the regulation it is foreseen that Member States are obliged to put in place "effective and proportional" anti-fraud measures taking into account the risk identified. Arachne is a "one size fits all" tool that identifies potential risks based on a list of over 100 indicators. In terms of verifying the projects showing alerts, we of course understand that there may be situations

whereby the managing authority has insufficient capacity to check all highlighted projects or alerts. This would need to be explained of course e.g. by showing a human resource allocation calculation. If this would be the case, our recommendation would be to act on two levels, i.e. (i) to start verifying the projects with the highest risks and working your way down, and (ii) see, in parallel, which systemic modifications might be required in order to make the system more robust so that gradually the number of risky projects drops. It's recommended, if the managing authority would be in a situation whereby too many projects are highlighted in red/orange, to communicate with the audit and geodesk counterparts in the Commission in order to discuss an acceptable course of action and also, to give a "heads-up" at an early stage. This would also help a better understanding in case a later audit may raise issues/questions.

## GUIDANCE

75. How to interpret the bankruptcy indicator displayed under the category 'reputational fraud'? Should a maximum acceptable threshold be defined?

The predictive indicators inform if a company has a higher chance to become bankrupt or to be sold in the coming 18 months compared to other companies of the same sector in the same country. The indicators 'propensity to bankruptcy' and 'to be sold' are calculated by a service provider and are based on complex mathematical models using more than 100 variables, including historical data and data published by the companies. The mathematical model is fine-tuned and predicted risks are verified once a year against real data from the past to keep a certain quality standard and a minimum level of probability of the prediction. A maximum acceptable threshold of this predictive indicator cannot be defined and needs to be assessed on a case by case basis by the managing authority or the respective intermediate bodies according to the pre-defined risk strategy.

76. How should 'negative' information be handled from the media lists?

The negative information needs to be handled like any other. The information provided consists of risk indicators and should therefore be used with due care for further checks.

77. What needs to be done if Arachne identifies a company having a high risk to become bankrupt?

The alert provided should be used with due care for further checks either in the selection phase and before the grant agreement or the contract is signed or during the implementation phase of the project. In the latter case the managing authority might verify in certain cases more in detail this alert before certifying any amounts to the certifying authority.

78. Can the Commission indicate the obligations and consequences for the managing authority of a "high risk indication" after consulting Arachne, and the method to be used by the managing authority in the event that the consultation has revealed a recurring risk?

Article 72(h) of the Regulation (EU) No 1303/2013 states that "management and control systems shall (...) provide for the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments". For instance, where the managing authority considers, on the basis of an analysis

of the indications of high risks of irregularity or fraud from the system, that projects whose expenses have been declared to the Commission may be affected, it is required to run all the necessary and appropriate procedures, as provided for in the management and control systems, to prevent, detect and correct irregularities or cases of fraud, and to make the necessary notifications to OLAF via the IMS database, in accordance with the rules in force. Where the analysis by the managing authority leads to recurring risks being identified, management systems should be reinforced in order to prevent the risk from continuing and, in the case of operations which are already scheduled, the limits of those which are potentially concerned by the identified risk should be defined and the necessary corrective measures taken.

79. Arachne might indicate a number of alerts (red bullets) and the managing authority might face the situation where it cannot act on one or the other alert. There is the risk that the audit authority might conclude that the management verification does not work properly.

The Commission services acknowledge that it is the Member States' authorities' responsibility to define the sample or the population of projects which will be further investigated, based on the risk indicators and risk scores calculated by the Arachne tool and possibly on their fraud risk assessment. Member States are however strongly recommended to define upfront their risk score analysis strategy which will lead to the identification of the projects selected for investigation.

The Commission acknowledges also that professional judgment and resource limitations may be taken into account to determine the sample of projects withheld for verification. In order to be able to demonstrate the actions taken on the individual cases investigated, Member States authorities' should keep track of the activities, corrections or dismissal of cases. For the latter category, the Member States authorities' should clearly record their motivation for not engaging in verifications on the "high-risk scoring projects" resulting from the strategy. In order to do so, the Member States' authorities are offered the possibility to use the case management system which allows a simplified extraction of the various actions taken for the assigned projects. Alternatively, Member States' authorities can use other systems, provided that these offer similar functionalities and information.

80. Does the use of Arachne based on the transmission of only the data indicated in Annex III to Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 meets the requirements of Article 125(4) of Regulation (EU) No 1303/2013, "effective and proportionate anti-fraud measures taking into account the risks identified"?

Arachne supports the compliance of the management and control systems with Article 125(4) of Regulation (EU) No 1303/2013 and constitutes a tool which must be incorporated into a series of measures for the prevention and detection of cases of fraud (the allocation of responsibilities, training for management and control agents, analysis of information sources such as audit reports, etc.) established on the basis of an assessment of fraud risks. The Commission also wishes to draw the attention to the steering note addressed to the managing authorities (ref. EGESIF\_14-0021-00 of 16 June 2014) for the implementation of Article 125(4)(c) CPR, which provides that the managing authority should take effective and proportionate measures against fraud, taking into account the risks identified. In this steering

note, the Commission also provides advice to audit authorities on verifying that the managing authority complies with the provisions of this Article.

The data necessary to be sent to Arachne for identifying the operations likely to present a fraud risk depend on the prior risk assessment. In some cases, depending on the risks identified, the data indicated in Annex III to Regulation (EU) No 480/2014 alone are not enough to detect them. For instance, where the fraud risk analysis identifies specific risks concerning sub-contracting to associated companies, with no tendering procedure, and in the absence of other controls which might sufficiently compensate for these risks, the data in Annex III will not suffice for the performance of adequate checks.

The data which should be available in the Arachne tool for other verification procedures are therefore conditioned by the fraud risk analysis, taking account of the other checks which might compensate for these risks.

In addition to Arachne, in the above-mentioned steering note, the Commission provides a self-assessment tool for fraud risks as well as detailed instructions which it recommends using to assess the impact and probability of fraud risks. The note indicates additional controls to be put in place which could help to further reduce residual risks after the existing controls have been run. The operational aim for the managing authority should be to provide responses which are proportionate to the identified risks and appropriate to the specific situations linked to the funds in a given programme or region.

In conclusion, it is up to each Member State to develop its own strategy to analyse fraud risk and to provide effective and proportionate responses by using the most suitable tools in order to lessen the risks – either the tools offered by the Commission, or those created by the Member States.