European Platform Undeclared Work

Risk Assessments for More Efficient Inspections

Ruslan Stefanov, Daniela Mineva and Stefan Karaboev

Vitosha Research EOOD (Center for the Study of Democracy Group)

A Learning resource from the Thematic Review Workshop:

'Risk Assessments for More Efficient Inspections'

14 - 15 June 2018, Madrid, Spain

This publication has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult:

http://ec.europa.eu/social/easi

Table of Contents

Abbreviations

AEAT	Agencia Tributaria/Tax agency (Spain)
CSD	Center for the Study of Democracy (Bulgaria)
Dimona	Déclaration IMmédiate/ONmiddellijke Aangifte (Belgium)
DSN	Déclaration Sociale Nominative/Nominal Social Declaration (France)
ELA	European Labour Authority
ERGANI	System for registration of working hours of employees (used in Greece, Cyprus and Belgium)
ESCORT	Software, part of the risk assessment systems of Greece, Ireland and Sweden
FOGASA	Fondo de Garantia Salarial/Wage Guarantee Fund (Spain)
GDPR	General Data Protection Regulation
GPLA	Gemeinsame Prüfung lohnabhängiger Abgaben/Joint examination of all wage-related levies (Austria)
HMRC	Her Majesty Revenue and Customs (UK)
IMI	Internal Market Information System
INSS (Spain)	Instituto Nacional do Seguro Social/National Institute for Social Security
INTEGRA	A system for evaluation of effectiveness of inspections
LIMOSA	Landenoverschrijdend Informatiesysteem Migratie Onderzoek Sociaal Administratief (Belgium)
MEYSS	Ministry of Employment and Social Security (Spain)
MSs	Member States
OASIS	Social Inspection Services Anti-Fraud Organization (Belgium)
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay as You Earn tool (UK)
RED.ES	A public body which aim is to digitise public services (Spain)
SEPE	Servicio Público de Empleo Estatal/ Public State Employment Service (Spain)
TGSS	Tesorería General de la Seguridad Social/General Treasury of Social Security (Spain)
VAT	Value Added Tax
UDW	Undeclared work

1. CURRENT STATE OF THE RISK ASSESSMENT SYSTEMS IN THE EU

Using risk assessment systems for better-targeted enforcement, education and prevention is of key importance. The current learning paper is based on the main conclusions from the Thematic Review Workshop on Risk Assessments for More Efficient Inspections, held on 14-15 June 2018 in Madrid. It also builds upon the findings from the 2017 data-mining thematic review.[1] The workshop revealed that Member States (MSs) are at different stages of developing effective and efficient undeclared work (UDW) risk assessment tools and methods. With the exception of few, most MSs are at the early stages in the development of effective risk assessment systems. Many MSs are still relying on simple indicators and databases which are not always appropriate to the risk assessment task. Some MSs rely on 'rule of thumb' indicators based on practice when assessing risk and have databases, which are not always appropriate to the task of assessing risk. The conducted thematic review workshop allowed for both advanced and currently developing risk assessment systems MSs to cooperate and learn from each other on how to improve their tools.

The participants in the Madrid workshop, underlined that the risk assessment systems in the Member States are currently more **sector-specific** than phenomenon (UDW) specific. In addition, most of them utilize the **pragmatic approach** of identifying what type of data is available in the databases of the public institutions and deciding on the best methods for how to use it. Typically, the labour inspectorates use or try to connect their in-house resources with the databases of the tax authorities and look for opportunities to link to the systems of more risk-assessment-advanced MSs. However, no Member State seems to have taken a **strategic approach**, i.e. start from the type of UDW that it has set as a strategic objective to tackle (e.g. envelope wages, bogus self-employment, etc.), and then define the type of data needed, and possible sources of information to collect it. The current model of risk assessment, based on the pragmatic approach, starts with the identification of the generic data available to the responsible body and then engages a business analyst to work on a risk sector (e.g. home-care, agriculture, retail, hospitality, tourism, etc.) to add specifics for further analysis. The analyst performs quality assessment of the sector and figures out what data might be available, and how it can be used as a proxy for UDW or crossed with the existing generic data. The use of a sector approach is beneficial, as it allows authorities to build a real-life business profile of the sector, follow any new developments and better respond to any emerging UDW schemes. For example, if a hotel has a certain number of rooms, then the authorities would also know the number of employees necessary to service them and extrapolate their wages, income tax and social security that should be due. These predictions of the business profile can then be compared with the officially declared data, as well as the information coming from inspections.

2. USING RISK ASSESSMENT FOR MORE EFFICIENT INSPECTIONS, PREVENTION AND AWARENESS

A key finding of the TRW was that risk assessment systems allow moving from a purely reactive, to a more active approach in tackling UDW. Participants agreed that a good risk assessment system should let authorities have a more and **better targeted prevention and not just enforcement measures**. The workshop discussions suggested that MSs should foresee as a best practice a separate prevention strand in their risk assessment systems.

[1] For more information see: Executive Summary - Thematic Review Workshop on Data Mining for More Efficient Enforcement, 2017 and Learning Resource Paper - Data Mining for More Efficient Enforcement, 2017.

Example

In **Belgium** the introduction of an advanced IT-based risk assessment system ensured that 90% of the top 5% ranked companies by the risk assessment system give results when inspected. Altogether the system has allowed for the success rate of inspections to rise from 35% to 75-80% of all checks.

The thematic review workshop showed that most MSs still use risk assessment systems primarily for detection and enforcement. But as the practices from the MSs with more advanced risk assessment systems have exemplified (~~UK, the Nordic countries, Spain~~), **future risk assessment systems should move also towards active prevention approaches to tackling undeclared work**. Through the use of preventative approaches, there will be a stronger stimulus for businesses to move from undeclared to declared practices with less resources.

Participants in the workshop noted that **prevention needs to be a realized political priority** at the highest level, and to be done in systematic way. For example, it is usually the case with any risk assessment system that the amount of output (high risk identified) data is so large that it is impossible for the authorities to follow up with inspections. In such instances of high number of risk cases detected by the risk assessment systems, it is more efficient to stimulate risky cases to regularize through preventative measures. Educational measures and other behaviour changing approaches, have proven more effective in increasing the cases of voluntary compliance. There are plenty of education partners in all member states, which can provide further education on tackling UDW. As a result, authorities could turn to the uninspected companies with an education effect, seeking voluntary compliance.

Example

In **Spain**, the labour inspection authorities sent 14,000 notification letters to businesses it considered risky (all or most workers had moved to part-time employment) but did not have the resources to inspect immediately, and some 15% of them revised their statements to the labour office[2]. This is an example of achieving very high return (turning undeclared into declared work) with limited resource.

The workshop discussions revealed that in **many MSs risk assessment systems rely significantly on whistleblower hotlines/complaint reporting tools** for selection of inspections. As it became evident some MSs investigate all reported complaints, without the use of any filtering mechanism which to direct towards a complaint that poses higher risk of UDW. One of the issues of reliance only on complaints is that specific sectors and businesses are prone to less complaints in compression to others. Thus, using complaints might result in the targeting not of the most UDW risky areas but the ones that produce the most active complaints. The development and application of risk assessment systems allows for more efficient prevention and enforcement process with higher likelihood for detection and prosecution of UDW, regardless of the sector.

Another consideration is the quality and relevance of the received complaints. Complaints are usually received from workers, trade unions, and anonymous (often sent by ex-workers and ex-business partners). However, the experts at the workshop agreed that there should not be a rule that inspection is needed for every complaint. They noted that complaints are useful to detect latest trends in new or most predominant evasion schemes. The ones that present a risk (especially if the firm is seen as risky when combined with the rest of the red flags), can be followed up by comparing the complaint information (e.g. that a worker has not received a salary) with the official data from registers/databases (e.g. monthly declaration in the tax authority of salaries being paid).

[2] (European Platform Tackling Undeclared Work, 14-15 June 2018)

Example

The signals (including anonymous) system, on which the inspectorates in many countries still primarily rely, provide good success results. For example, in **Cyprus**, following signals provides UDW uncovering in 99% of the cases. But the question arises whether these are the most problematic or priority cases. In the **UK** HMRC relies 50:50% on complaints vs. risk assessment, as the issue with the complaints driven system is that there are low-complaint (or complaint silent) areas of business or geographic regions.

According to the examples presented at the workshop, the key result (output) of the work of a risk assessment system, is usually a **ranking of the companies** ranging from more risky to less risky (e.g. Belgium), a ranking marking the "no-risk-medium-risk-high risk" companies in "green-yellow-red" (Lithuania), or predictive patterns based on business rules, and "heatmaps" with UDW/fraud probabilities in firms and sectors, not inspected beforehand (Spain).

Most MS employ a **sector approach** as it allows to understand the business specifics and develop enforcement and prevention approaches in the course of time. Authorities typically build a business profile of the sector, which allows them to follow any new developments and act better prepared. Once they know the sector, they know what records it keeps and what records authorities need to acquire in addition to build a more effective risk assessment system.

Example

The experience of **UK** and **Belgium** in developing advanced risk assessment systems has demonstrated that partnerships with the business sector and the social partners are critical to improve the understanding of the authorities of the functioning of a certain industry. This better understanding is a critical node in building an effective risk assessment model. Partners help provide insights into business processes, and at the same time ensure early warning and compliance/prevention of UDW.

The experts discussed the need to apply the most appropriate **treatment** for each type and level of risk. They agreed that it is not obligatory for all triggers/indicators/red flags to automatically entail further investigation, or result in automatic inspection, as other approaches can also be considered. The full range of possible treatments includes:

- Use of education, awareness and information tools in the risk sector/companies
- Use of other prevention or behavioural change approaches (e.g. warning one month before inspection; notification letters/messages requesting change of behaviour or the declared information)
- Better targeted inspections
- Additional investigation on a case-by-case basis
- Political / legislative changes

  Systemic interventions (e.g. establishment of new collaborations between relevant authorities).

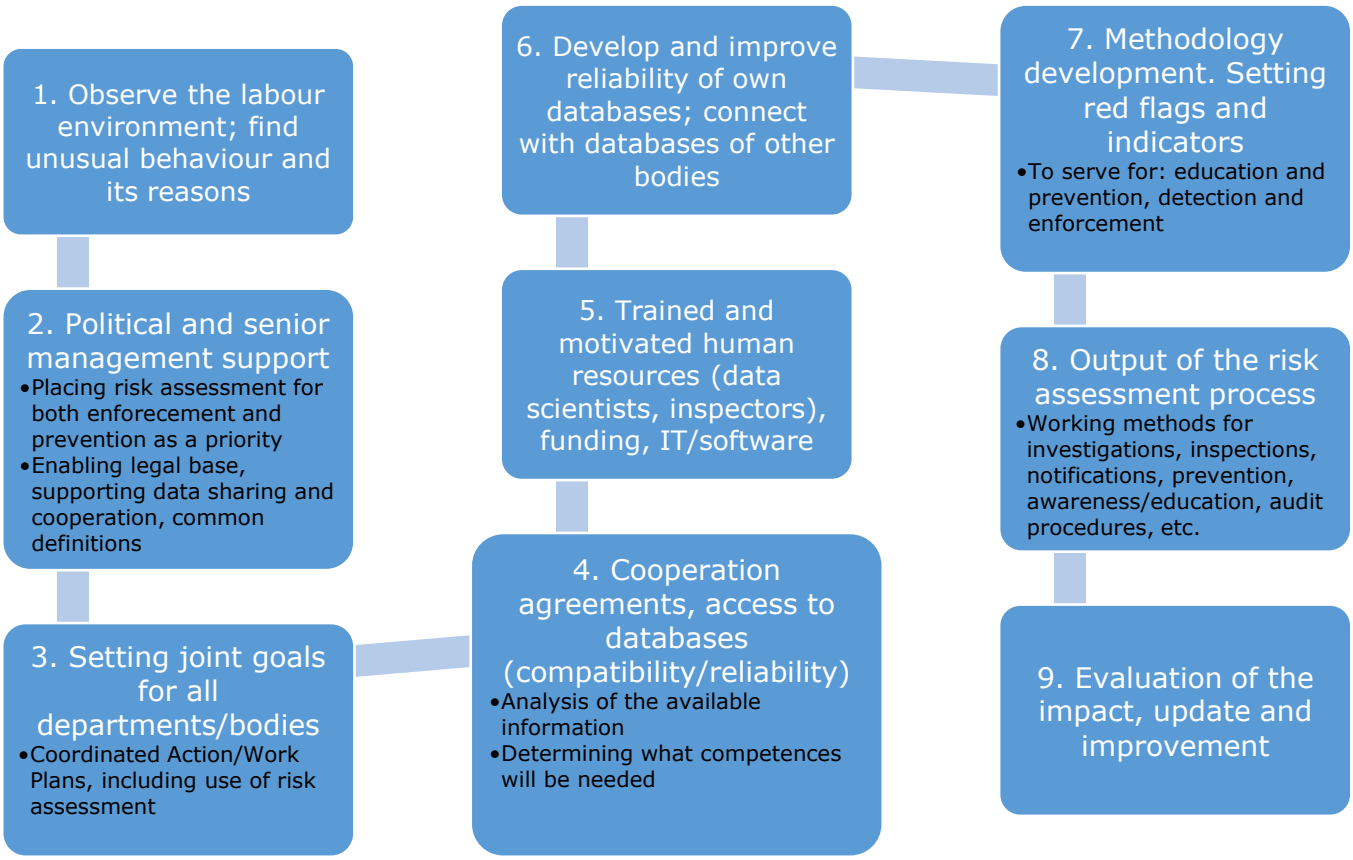
3. THE RISK ASSESSMENT PROCESS: KEY PREREQUISITES

3.1. The risk assessment as part of the strategic planning

The experts underlined that it is important to include risk assessment into the overall strategic planning not only at an institutional level but ideally in the joint/coordinated planning of all relevant authorities. Thus, the evaluation of the impact of risk assessment would inform the overall evaluation of the performance of the respective institution. For example, the Croatian

Labour Inspectorate shared that it prepares weekly and monthly Work Plans with names of risky employers, based on the risk assessment used. The Spanish Labour Inspection and Social Security has adopted a new Strategic Plan 2018-2020, which includes the use of data mining by the Antifraud Tool Unit, improved digitalization and use of IT tools, training, signing of collaboration agreements for data-sharing[3].

Figure 1. The risk assessment process and its integration in the strategic planning



Source: CSD/ICF.

3.2. Stages and levels of complexity in the development of risk assessment systems

The Belgium participant presented one of the most advanced electronic risk assessment systems in the EU,[4] which shows that there can be various stages and levels of complexity in the development of risk assessment systems:

1. **Approaches based on business rules and alarms** by existing databases (useful but slow). Spain also uses a tool of predictive patterns based on business rules and inspection experience, which resulted in increased efficiency of inspections from 17-18% to more than 30% in a year and a half.

2. **Novel automated approaches** - predictive modelling, combining network analytics and datamining algorithms (faster and providing visualized context to inspectors).

[3] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[4] (European Platform Tackling Undeclared Work, 14-15 June 2018)

3. **Analytics/risk models embedded in integrated work environment** (currently being developed in Belgium).

Similarly, Spain has also set up and utilises a powerful database (set up in 2007), later extended based on a number of collaboration agreements between different national authorities. Currently, the database can provide information on unregistered workers (based on data from the labour ministry and the unemployment service), who is receiving benefits (unemployment, retirement, etc.) without being entitled to them (based on data from salary guarantee fund), etc.

3.3. Ensuring political and senior management support

All experts agreed that risk assessment systems require political commitment, support by senior management and common goals shared by all ministries, agencies, and inspectorates to be efficient[5].

Several examples provided at the workshop demonstrate the importance of political leadership and national coordination. Two years ago in **Croatia**, UDW was not a political issue. However, since 2017, it was placed on the policy agenda and a working group was formed. More than ten ministries and agencies gathered together and for the first time expressed commitment to collaborate, share information and data. It is worth noting that only due to this political backing did the different public bodies become aware of the type of information available in their counterparts, and how it can be integrated. In **Spain**, the Government passed a series of laws to combat fraud in various areas, including tax, employment and Social Security in September-December 2012. New administrative offences and higher, more flexible sanctions were introduced in the Labour Offences and Penalties Law, specialized working groups were set up, and collaborative agreements between various authorities were signed. The National Anti-Fraud Office was established in 2015, with an enhanced role since April 2018. According to its 2018-2020 plan, the Office aims to combat UDW (including in collaborative platforms, e-commerce, interns) and survey the quality of services. As a result of these measures, half a million UDW workers were detected in 2012-2017; employment was regularized. A total of 346 065 temporary work contracts were converted to open–end (permanent work) contracts. After they performed about 100 000 inspections, 82 000 registered employees were discovered not to perform any service, and their social security registrations were cancelled. The objectives and focus of the activities are listed in annual Action Plans at a national level, which are sent to the regional offices for local level adaptation. The **Belgium** risk assessment system, which allowed for the success rate of inspections to rise from 35 % to 75-80 % has benefited from the understanding of a former Prime Minister who became the first Crossroads bank administrator, and who strongly promoted administrative simplification. As suggested by Belgium experts, the bottom-up process should also not be ignored – it is important for labour inspectorates to present to the policy-makers the possibilities and advantages of building a risk assessment system, in order to get support and funding.

3.4. Success factors and challenges

In addition to political support, there are other key prerequisites for the development and implementation of efficient and effective risk assessment systems[6].

[5] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[6] (European Platform Tackling Undeclared Work, 14-15 June 2018)

Figure 2. Key prerequisites for setting up a risk assessment system

Minimum requirements

- Organizational culture and structure, where the risk assessment process is not isolated but considered a core element to organizational reporting, decision-making and governance
- Sustained political understanding and support and enabling legislation
- Partners from (i) other government agencies; (ii) business; (iii) social partners
- Experience and feedback from the ground (inspectors to act as the bottomline)
- Common definitions across administrations
- Human and technological capabilities and integrator to bring them all together
- Demonstrated success (to the policy-makers and the society)

Time and resources

- 10 years and millions of euro (e.g. the case of Belgium)
- Training of inspectors

Transferability

- The necessary software could already be in use somewhere else in the EU (e.g. Belgium – Cyprus – Greece; Spain – Romania)
- Ensuring privacy
- Common legal base
- Resources
- EU dimension: common identification numbers (e.g. VAT, Social Security Number).

Source: CSD/ICF.

Spain provided a good example of building **organizational structures** and achieving political support and collaboration with other bodies. The Spanish experts explained that after the adaptation of a new Law on the labour and social security inspection in 2015, an independent agency (Spanish Anti-fraud Office) was created to carry out the fight against UDW. The Spanish regional governance units also coordinate with each other and with the social partners[7]. The risk management of the Belgian National Social Security Office is supported by a central team of 12 business analysts and data scientists (Masters of engineering, sciences, criminology or PhDs); and a terrain or on the ground team of 400 inspectors and 100 administrative workers. They are responsible for a) detection of risks from large databases (predictions, ranking, visualizations, report elements, simulations, monitoring of over 50 UDW phenomena) and b) investigations, case treatment and policy evaluation and preparation. The experts mine characteristics and behaviour typical of parties associated with identified risks and scenarios and quantify risks and aggregate scores on one or more entity type identifiers: by social security identification number, employer, foreign enterprise, work site, etc. In Spain the Action Plans are drawn up together with the Tax Office and other relevant bodies, resulting in joint activities (e.g. inspections, investigations) [8].

[7] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[8] (European Platform Tackling Undeclared Work, 14-15 June 2018)

The main success factors for developing an effective and efficient risk assessment system identified during the workshop, include[9]**:**

- Having common goals and targets for all ministries, agencies, inspectorates
- Having a reliable database, and ensuring interoperability/compatibility with all databases
- Cooperation agreements or good working partnerships between authorities
- Learning by doing (political, functional, operational involvement when explaining to technicians/programmers/IT specialists what is needed)
- Involving inspectors in the field when developing and testing the system
- Engaging data scientists, who can make the link between the databases and the experience from the field
- Learning by doing (political, functional, operational involvement when explaining to technicians/programmers/IT specialists what is needed)
- Looking for indicators in other areas (non-compliance in one area leads to non-compliance in other areas)
- Testing first on the ground the new risk assessment system (proof of concept)
- Working with business and social partners and applying sectoral approach (using their knowledge of the sector, when identifying how a fraud scheme works)
- Being patient (building of a system can take 1-3 years)
- Introducing uniform definitions across administrations
- Legislation changes and improvements (e.g. abolishing the rules that every complaint needs investigation; adopting a law to enable the receiving of monthly information updates by the tax administration on which employers do not pay salaries, or from the company register/commercial courts with data on profits and turnovers, etc.)[10]

The UDW phenomenon is dynamic and adaptive to the labour market and socioeconomic trends, hindering the universal validity of identified "red flags" or risk indicators across time and geography.[11] The workshop participants also noted the **challenges** that they face when developing an appropriate risk assessment system in a public authority. Among them are data quality/reliability, data protection issues, lack of methodology/clear red flags, lack of interconnected databases/registers, etc[12].

1. Data availability and data creation. There has not been any effort among the Member States to create the information needed for tackling the UDW they have prioritized. Ranking and prioritisation of risks are crucial as the risks differ from each other in several ways, for example financially, in terms of the appropriate treatment or the desired effect[13].

2. Legal barriers and obligations (e.g. privacy laws; rules requiring all anonymous signals/complaints to be checked, which is inefficient and time-consuming, etc.).

3. Lack of inspectors, lack of person who will deal with statistics and risk management (e.g. only law degree needed to become a labour inspector); lack of funding; a large number of companies; large number of complaints (which stops the other types of inspections, while complaints are mostly irrelevant and false (e.g. in Croatia 60% of efforts go to investigate

[9] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[10] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[11] (European Commission, DG Employment, Social Affairs and Inclusion 2017)
[12] (European Platform Tackling Undeclared Work, 14-15 June 2018)
[13] (European Platform Undeclared Work s.d.)

complaints, most anonymous false or bad ones, but they need to figure out how to use these complaints to make risk assessment system and be more efficient; in Latvia, if the person is identifiable, the Labour Inspectorate has to respond to the complaint in one month).

4. Privacy issues. In terms of sharing of information between authorities, there are a number of differences in the EU countries:

- In the UK the authorities have a well-established practice of performing joint inspections, including HMRC, police, labour and other authorities. Both Norway and UK publish data more freely, e.g. blacklists.
- In Germany, there are legal provisions instructing authorities to share information. However, the strict privacy laws of the country require that each authority seeks information from the others on a strict case by case basis. There are no joint or shared databases.
- Latvia is also restrictive to publishing data and sharing the risk ranking with courts and prosecution.
- In Ireland, the labour authorities share information with the police.
- Baltic States have a good track record of information exchange.

General Data Protection Regulation (GDPR)

Many of the workshop participants expressed their concerns in sharing data between institutions, and noted the general lack of clarity of the legal secrecy and privacy procedures involved, even before the General Data Protection Regulation (GDPR)[14] came into force. The proposed solution for this issue was an update of the current national legislations/regulations to include obligations for data exchange. The participants also underlined the need for further practical guidelines on the application of the GDPR, ideally based on the assumption that the labour authorities almost always "re-purpose", "process for lawful obligation purposes", and "safeguard" the gathered information, which is allowed for research purposes by the Regulation.

4. BUILDING A RISK ASSESSMENT SYSTEM: CHOOSING INDICATORS

4.1. Methodology development and sources of information

The workshop participants highlighted that the development of risk assessment methodology strongly depends on the desired strategic focus of the system (type of UDW, sector, etc.), as well as on the availability and access to data. Thus, they distinguished several **types** of indicators:

- Policy-driven or inspection driven (based on identified problems on the ground);
- Sector-focused;
- Confidential or non-confidential;
- Based on existing data (databases, feedback from inspectors, signals/complaints, etc.) or based on newly created data[15].

[14] (European Parliament and European Council, 27 April 2016)

[15] (European Platform Tackling Undeclared Work, 14-15 June 2018)

The experts noted that, typically, labour authorities rely on exchange or download of data from the tax authorities, which contains information on revenues, and sector-specific characteristics. Then they interlink the data with further outside sources, such as GPS tracking information of the fishing fleet, migration data, etc.

The identified **sources of information** at the event included: databases, registers, inspectors and other experts working "on the ground", signals/complaints received by hotlines and whistle-blower reports (by trade unions, employees, anonymous signals by citizens), penal prosecutions/administrative fines, as well as private (paid) databases. The workshop participants shared their considerations regarding the use of these sources[16].

Much of the **degree of reliability** of the implemented risk assessment processes, as well as of the success of chosen organizational strategies, depends on information access, sources and completeness of data and timely fetching of information, related to aspects such as company and economic sector profiles, workers, previous inspection visits, imposed sanctions and interventions from other authorities, etc[17]. The experts concluded that when running risk assessment systems, it is important to account for those companies that are completely unregistered, and hence there is no way their workers can be encompassed through the primary or initial labour authority database.

4.2. Lists of indicators/red flags

It is crucial for the responsible authorities to **prepare feasible risk assessment indicators**, which are easy to measure, and do not raise privacy and secrecy issues. Below is presented a non-exhaustive list of possible indicators / red flags, which can serve as a basis for the development of the risk assessment methodology. It should be underlined, however, that this list can be expanded if necessary for the individual public institution needs.

Furthermore, due to changes in the patterns of undeclared work within sectors, the risk assessment indicators need to evolve over time and adapt to these changes. This requires inclusion of new databases and removal of old ones as the risk assessment system adapts. Without such adaptation, the risk assessment system might direct towards complaints and sectors where UDW might not be occurring. When building indicators, and thinking about using other administrations' databases as sources of indicators, a critical consideration should be that **non-compliance in one area usually means non-compliance in another**.

During the brainstorming sessions of the workshop, the experts stressed that these indicators should consider any **exceptions from the rules** or mitigating circumstances. For example, students and people under 25 years of age typically work part-time, and this should not be considered as a risk factor, or it should have a smaller weight. When considering part-timers as a risk group of workers, the data should be cross-checked with labour databases by the name of the person, since it is possible he/she works 4 hours a day at two different employers.

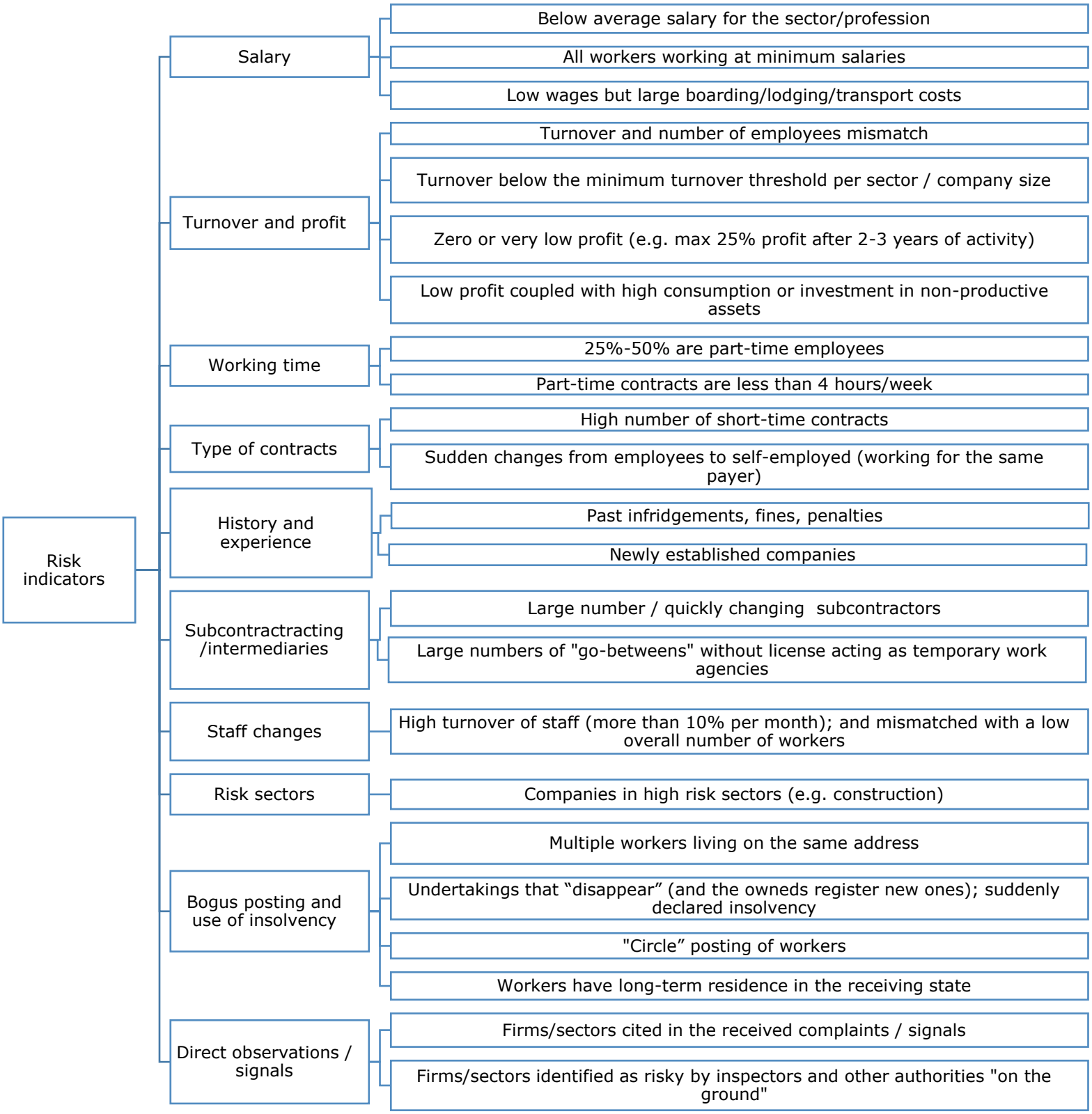
Example

On the issue of **confidentiality** there seems to be an agreement among risk assessment practitioners that while some of the UDW risk assessment indicators are well known and can be public (including to serve as deterrence and prevention), others, which are more complex or rely on alternative sources of collection (e.g. coming from a different administration) should be kept confidential.

[16] (European Platform Tackling Undeclared Work, 14-15 June 2018)

[17] (European Platform Tackling Undeclared Work, 14-15 June 2018)

Figure 3. Red flags and indicators for effective risk assessment



Source: CSD/ICF, based on presentations by workshop participants.

5. EVALUATING THE RISK ASSESSMENT SYSTEMS

All workshop participants stressed the importance of setting up methods of collecting feedback by the main users (incl. the labour inspectors) and assessing the efficiency of the risk assessment system, as part of the efficiency of the public institution. Such evaluation can provide useful information on the need for improvement in the system, changes the overall methodology and approaches, as well as the list of red flags. The experts who gathered in Madrid[18] underlined that the evaluation of the risk assessment systems should be treated cautiously, taking into account not only the number of inspections and financial results but also its appropriateness and wider social, labour and economic impact. For example, the return on investment should not be the key indicator, but the impact on labour rights, turning UDW into declared, achieved prevention (firms that did not turn to UDW), etc. It is clear that one should differentiate between tax and labour issues when developing the evaluation model. The tax aspect can provide data on the cost of labour estimates but it will not be able to tell the whole labour-related story.

Another consideration noted during the discussion was whether the system provides a better policy targeting of efforts. It is easy to achieve a 100% hit and success rate of inspections even with a simple signal system but this would not provide representativeness of the whole group of employers or the line of business. The experts pointed out that the evaluation of the risk model should provide information if the selected cases are indeed the riskiest and most urgent ones. It was recommended to use **benchmark indicators,** in order to show that using the risk assessment system is much more effective than not using one. This can be shown by both observing progress of the indicators over time (achievements before and after its implementation), as well as by making a comparison with other sectors or geographical territories with similar problems, where the system was not implemented.

Examples

The **Greek** expert explained that Greece is one of the countries which recently introduced a risk assessment system on a wide scale, using readily available and tested software products, e.g. ESCORT (run on Oracle) for the purpose. The ESCORT system has been developed a decade ago by the Swedish tax inspectorate. It is adaptable to any country, and many countries continue to use it. The **Spanish** expert noted that after an inspection is carried out, the results are entered into the INTEGRA system where the efficiency is assessed. The INTEGRA system allows the experts to see the results from each activity (per firm, per measure, per region), and evaluate the effectiveness (if their work will be more or less successful without the risk analysis tool). In 2018 the inspections are at 30% efficiency rate (probability of success during inspections) due to the easier methods developed to find non-compliance. In **Belgium**, the risk assessment system based on online e-platforms has allowed the labour service to treat cases much faster than before. The Belgian expert at the workshop noted that 90% of the top 5% ranked companies by the risk assessment system provide results when inspected. Altogether the system has allowed for the success rate of all checks to rise from 35% to 75-80%. Similar to Belgium, the labour authority in **Greece** relies the most on the ERGANI system, which registers the number of working hours for every employee; it tracks any changes made to individual files of employees. The labour authorities try to link this data to social security data and other similar databases. The Greek expert saw the most value added for the future in linking the ERGANI system with the tax authorities' database. The **Romanian** expert highlighted that the country is missing a systematic and organized system of feedback by partners during joint campaigns, which hinders the evaluation of the efficiency of the system.

[18] (European Platform Tackling Undeclared Work, 14-15 June 2018)

6. POLICY RECOMMENDATIONS

The discussion at the workshop in Madrid revealed a number of areas, where improvements are needed, including with the support of the EU and the future European Labour Authority (ELA):

- Risk assessment should not be implemented as a stand-alone procedure, but be part of the national e-Government Strategies (e.g. Netherlands, Belgium). A potential important topic for the Platform to consider for the future is to discuss IT/software landscape and needs of the MSs' labour authorities.
- There is a need to develop databases and risk analysis systems first at national, and then at cross-border level.
- It is important to share experience across public administrations within a Member State and between Member States so that everyone can get early warning on emerging trends, as they are first noticed on the ground.
- There is a need for synchronizing the risk assessment systems and creating a common EU model for risk assessment and management. Some MS administrations highlighted that they do not have the necessary methodological knowledge, nor access to private consultancy and they rely on their own limited experience. This is also a relevant issue for the future European Labour Authority as ideally the venue of inspection will be decided based on joint risk assessment systems. Using different risk assessment systems by the involved countries is not optimal and may result in discrepancies (one and the same legal entity may appear as a high risk in one system, and as low-risk in another).
- Inspectors need to be better trained in the use of IT tools and risk assessment methods. This will also allow them to participate in the risk assessment design (bottom-up approach).
- Although the use of databases and data mining for performing risk assessment on a large number of entities is crucial, additional methods applied "on the ground" by labour inspectors, despite being time-consuming, should not be ignored. The team experts with local knowledge can better identify the real-life problems and latest schemes.
- For risk assessment systems to be effective, authorities should seek to link to as many internal and external, cross-border similar databases or systems as possible.
- Legislation should not hinder but support the data sharing (privacy issues), and the efficient concentration of efforts where most needed (e.g. no need to have obligation to check all anonymous signals). There is also a need for national legislation to enable police officers / civil guards to accompany inspectors.
- Countries need to learn from the identified most common schemes and apply good practices from other countries. For example, they can adopt them for part-time employees to pay 100% of the income taxes and social security for the minimum wage – a practice applied by Estonia, Lithuania, Romania, etc. In that way, workers employed in several jobs cannot avoid paying social security contributions[19].

[19] (European Platform Tackling Undeclared Work, 14-15 June 2018)

BIBLIOGRAPHY

Eurofound. (2009, October). *OASIS, Belgium*. Retrieved from https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database/oasis-belgium

Eurofound. (2013). *Tackling undeclared work in 27 European Union Member States and Norway: Approaches and measures since 2008*. Retrieved from https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1324en3.pdf

Eurofound. (n.d.). *Tackling undeclared work database, Country : Austria*. Retrieved from https://www.eurofound.europa.eu/data/tackling-undeclared-work-in-europe/database?title_field_value=&field_country_case_study_term_tid_selective%5B%5D=13816

European Commission, DG Employment, Social Affairs and Inclusion. (2014, March). *Undeclared Work in the European Union*. Retrieved from http://ec.europa.eu/commfrontoffice/publicopinion/archives/ebs/ebs_402_en.pdf

European Commission, DG Employment, Social Affairs and Inclusion. (2016, November). *European Platform tackling undeclared work, Member States Factsheets and Synthesis Report*. Retrieved from http://www.uiltucs.it/wp-content/uploads/2016/11/Study-UDW-in-MS-Factsheets-and-synthesis.pdf

European Commission, DG Employment, Social Affairs and Inclusion. (2017). *European Semester Thematic Factsheet : Undeclared Work*. Retrieved from https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_undeclared-work_en.pdf

European Commission, DG Taxation and Customs Union. (February 2006). *Risk Management Guide for Tax Administrations*. Retrieved from https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/tax_cooperation/gen_overview/risk_management_guide_for_tax_administrations_en.pdf

European Platform Tackling Undeclared Work. (14-15 June 2018). Thematic Review Workshop: Risk Assessment for More Efficient Inspections. Madrid, Spain.

European Platform Undeclared Work. (2017, October). *2017 Platform Survey Report: organisational characteristics of enforcement bodies, measures adopted to tackle undeclared work, and the use of databases and digital tools*. Retrieved from http://ec.europa.eu/social/BlobServlet?docId=18747&langId=en

European Platform Undeclared Work. (n.d.). *Data Mining for more efficient enforcement : A practitioner toolkit from the thematic workshop of the European Platform Undeclared Work*. Retrieved from http://ec.europa.eu/social/BlobServlet?docId=18826&langId=en

International Labour Organization. (2013). *Labour Inspection and Undeclared Work in the EU (LAB/ADMIN Working Document No.29)*. Retrieved from https://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?referer=https://www.google.bg/&httpsredir=1&article=1280&context=intl

OECD. (2004, October). *Compliance Risk Management : Managing and Improving Tax Compliance*. Retrieved from https://www.oecd.org/tax/administration/33818656.pdf

Popescu, Cristescu, Stanila, & Vasilescu. (2016). *Determinants of Undeclared Work in the EU Members States*. Retrieved from https://www.sciencedirect.com/science/article/pii/S2212567116302945

Revenue, Irish Tax and Customs. (2016). *Annual Report*. Retrieved from https://www.revenue.ie/en/corporate/press-office/annual-report/2016/ar-2016.pdf