

Recommended mitigating controls

1. SELECTION OF APPLICANTS

Overarching controls

- Secondary panel could review individual decisions or a sample of decisions made by the evaluation panel.
- Adequate training courses on ethics and integrity, covering individual responsibilities, as appropriate.
- Use of data mining tools, such as **ARACHNE**
- Regular independent audits (e.g. by internal audit or by AA)
- Whistle-blowing mechanism could be put in place for suspected fraudulent behaviour.

Specific Fraud Risk	Control description	Recommended mitigating controls
Conflicts of interest within the evaluation board	Selection of applicants <ul style="list-style-type: none"> • All calls for application are published • All applications are recorded • All applications are evaluated in accordance with applicable criteria • All decisions on the acceptance / rejection of applications are communicated to the applicants 	<ul style="list-style-type: none"> • The evaluation board is comprised of several senior management personnel who could be rotated, with some level of randomness in their selection for participation in each evaluation board. • Conflict of interest policy, with an annual declaration and register.
False declarations by applicants		<ul style="list-style-type: none"> • Cross-checking of supporting documents to independent sources of evidence • Use of prior knowledge of the beneficiary to make informed decisions as to the veracity of declarations and information submitted.
Double funding	Audit trails <ul style="list-style-type: none"> • Procedures should be in place to ensure that all documents required to ensure an adequate audit trail are held Accounting, monitoring and financial reporting systems <ul style="list-style-type: none"> • A computerised system capable of providing reliable and relevant information works effectively 	<ul style="list-style-type: none"> • Cross checks with the national authorities administering other EU funds, and also other relevant Member States, whenever this is feasible, and whenever this risk is assessed as relevant and likely to occur.

Recommended mitigating controls

2. IMPLEMENTATION AND VERIFICATION OF OPERATIONS		
Overarching controls		
<ul style="list-style-type: none"> • Requirement for beneficiaries to have conflict of interest policies, with annual declaration and register • Provision of training for beneficiaries on the detection of fraudulent behaviour • Use of data mining tools, such as ARACHNE • Whistle-blowing mechanism could be put in place for suspected fraudulent behaviour • Effective management verifications • Compliance with national requirements for independent audit of project costs by beneficiaries 		
Specific Fraud Risk	Control description	Recommended mitigating controls
Split purchases	Guidance to beneficiaries <ul style="list-style-type: none"> • Effective communication to beneficiaries of their rights and obligations in particular the national eligibility rules laid down from the programme, the applicable Community rules on eligibility, the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time-limit for execution, the requirements concerning separate accounting or adequate accounting codes, the information to be kept and communicated • The existence of clear and unambiguous national eligibility rules laid down for the programme • The existence of a strategy to ensure that beneficiaries have access to the necessary information and receive an appropriate level of guidance 	<ul style="list-style-type: none"> • As appropriate, review by MA of list of proposed contracts prior to implementation of programmes for contracts just under threshold values
Unjustified single source awards to avoid tendering		<ul style="list-style-type: none"> • Review by the MA of a sample of beneficiaries' single source awards. • Prior MA approval for all single source awards.
Lack of tendering process for favoured suppliers		<ul style="list-style-type: none"> • Review by MA of a sample of significant size contracts prior to payment of any invoices for evidence of tendering.
Extension of existing contracts to avoid retendering		<ul style="list-style-type: none"> • Prior approval by MA for contract amendments that extend an original agreement above a pre-defined significant threshold.
Rigged specifications to favour certain bidders		<ul style="list-style-type: none"> • Requirement by MA for beneficiaries to have a secondary mechanism other than e.g. the procuring department to verify that bid specifications are not too narrow. Review of the operation of this control by the MA for a sample of beneficiaries.
Leaking bid data		<ul style="list-style-type: none"> • Requirement by MA for beneficiaries to have a secondary mechanism that conducts a review of a sample of winning bids against competition for any indications of prior knowledge of bid

Annex 2

Recommended mitigating controls

	Management verifications <ul style="list-style-type: none"> The existence of written procedures and comprehensive checklists for management verifications Management verifications to be completed before certification All applications for reimbursement to be subject to administrative verification, including review of claim and supporting documentation On-the-spot verifications to be undertaken when the project is well under way Evidence is kept for the work done and results obtained and follow up of findings Sampling to be based on adequate risk assessment Existence of procedures to ensure that certifying authority receives all necessary information 	<p>information. Review of the operation of this control by the MA for a sample of beneficiaries.</p> <ul style="list-style-type: none"> Requirement by MA for a high level of transparency in the award of contracts, such as the publication of all contract information that is not publically sensitive. Review of the operation of this control by the MA for a sample of beneficiaries. Review by MA of a sample of winning bids against competition for any indications of prior knowledge of bid information.
Undisclosed conflict of interest		<ul style="list-style-type: none"> Conflict of interest policy, with an annual declaration and register.
Bribes and kickbacks		<ul style="list-style-type: none"> Requirement by MA for beneficiaries to have strong controls on bidding procedures, e.g. enforcing submission deadlines. Review of the operation of this control by the MA for a sample of beneficiaries. Requirement by MA for beneficiaries to review all contract awards with a secondary mechanism for indications such as winning bids being very close to the next lowest bid, late bids winning, and / or evidence of the winning bidder communicating privately with contracting personnel. Review of the operation of this control by the MA for a sample of beneficiaries. Review by MA of a sample of winning tenders for indications such as winning bids being very close to the next lowest bid, late bids winning, and / or evidence of the winning bidder communicating privately with contracting personnel, for any indications of fraudulent behaviour.
Collusive bidding	Audit trails <ul style="list-style-type: none"> Accounting records should be kept by the MA that provide detailed information on expenditure actually incurred in each co-financed operation by beneficiary Technical specifications and financial plan of the operation, progress and monitoring reports, documents concerning application, evaluation, selection, grant approval and tendering and contracting procedures and reports on inspections of the products and services co-financed should be kept at an appropriate management level The MA should verify whether the beneficiaries maintain either a separate 	<ul style="list-style-type: none"> Requirement by MA for beneficiaries to have controls in place to detect persistently high or unusual bid data (such as bid evaluators that have a knowledge of the marketplace) and to unusual relationships between third parties (e.g. rotation of contracts). Review of the operation of this control by the MA for a sample of beneficiaries. Requirement by MA that beneficiaries 'benchmark' price comparators for standard goods or services. Review of the operation of this control by the MA for a sample of beneficiaries.
Manipulation of bids		<ul style="list-style-type: none"> Requirement by MA for beneficiaries to have a tender process that includes a transparent bid opening process, and adequate security arrangements for unopened tenders. Review of the operation of this control by the MA for a sample of beneficiaries.
Defective pricing		<ul style="list-style-type: none"> Requirement by MA that beneficiaries have controls in place to

Annex 2

Recommended mitigating controls

	<p>accounting system or separate accounting code for all transactions</p> <ul style="list-style-type: none"> Procedures should be in place to ensure that all documents required to ensure an adequate audit trail are held 	<p>corroborate prices quoted by the third parties to other independent sources. Review of the operation of this control by the MA for a sample of beneficiaries.</p> <ul style="list-style-type: none"> Requirement by MA for the use of standard unit costs by the beneficiaries for regularly purchased supplies.
'Phantom' service providers	<p>Accounting, monitoring and financial reporting systems</p> <p>A computerised system capable of providing reliable and relevant information works effectively</p>	<ul style="list-style-type: none"> Requirement by the MA for beneficiaries to complete background checks on all third parties. This can include general website checks, companies location and contact information etc. Review of the operation of this control by the MA for a sample of beneficiaries.
Single contractor double claims costs		<ul style="list-style-type: none"> Requirement by MA that beneficiaries review activity reports and contract outputs for evidence of costs (e.g. staff names) and are contractually permitted to request additional evidence in support (e.g. time recording systems). Review of the operation of this control by the MA for a sample of beneficiaries.
Product substitution		<ul style="list-style-type: none"> Requirement by MA for beneficiaries to review products / services purchased against contract specifications, using relevant experts. Review of the operation of this control by the MA for a sample of beneficiaries. Review by MA of a sample of activity reports and specific products / services purchased against contract specifications.
Non-existence of products or operation not carried out in line with grant agreement		<ul style="list-style-type: none"> Requirement by MA for beneficiaries to request works certificates or other forms of verification certificates, awarded by an independent third party, on the completion of the contract. Review of the operation of this control by the MA for a sample of beneficiaries. Review by MA of a sample of works certificates or other forms of verification certificates.
False, inflated or duplicate invoices		<ul style="list-style-type: none"> Requirement by MA for beneficiaries to perform a review of invoices submitted for duplication (i.e. multiple invoices with the same amount, invoice no, etc.) or falsification. Review of the operation of this control by the MA for a sample of beneficiaries. Requirement by MA for beneficiaries to compare the final price of products / services against budget and generally accepted prices for similar contracts. Review of the operation of this control by the MA for a sample of beneficiaries. Review by MA of a sample of project outputs against costs for any evidence that the work was not completed or that the necessary costs were incurred.

Recommended mitigating controls

Recommended mitigating controls

2. IMPLEMENTATION AND VERIFICATION OF OPERATIONS		
Overarching controls		
<ul style="list-style-type: none"> • Whistle-blowing mechanism could be put in place for suspected fraudulent behaviour • Use of data mining tools, such as ARACHNE • Effective management verifications • Compliance with national requirements for independent audit of project costs by beneficiaries 		
Specific Fraud Risk	Control description	Recommended mitigating controls (or specific checks to be included in the management verifications)
Costs claimed for inadequately qualified labour	Guidance to beneficiaries <ul style="list-style-type: none"> • Effective communication to beneficiaries of their rights and obligations in particular the national eligibility rules laid down from the programme, the applicable Community rules on eligibility, the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time-limit for execution, the requirements concerning separate accounting or adequate accounting codes, the information to be kept and communicated 	<ul style="list-style-type: none"> • Review of final activity and financial reports for any discrepancies between planned against actual personnel. • Request of additional evidence (e.g. certificates of qualification) to confirming the suitability of any significant substitutes. • Prior authorisation for significant changes in key personnel. • Requirement for beneficiaries to review key third party personnel involved within the implementation of a contract in comparison to those proposed in tenders and request evidence confirming the suitability of significant substitutes. Reviews of operation of this control by the MA in a sample of beneficiaries. • Requirement for beneficiaries to give prior authorisation to third parties for significant changes in personnel. Reviews of operation of this control by the MA in a sample of beneficiaries.
False labour costs	<ul style="list-style-type: none"> • The existence of clear and unambiguous national eligibility rules laid down for the programme • The existence of a strategy to ensure that beneficiaries have access to the necessary information and receive an appropriate level of guidance Management verifications <ul style="list-style-type: none"> • The existence of written procedures and 	<ul style="list-style-type: none"> • Verification of evidence from beneficiaries for completion of project activities e.g. attendance registers, time recording systems. • Review of final activity and financial reports received from beneficiaries for any discrepancies between planned and actual activities. • Requirement for beneficiaries to verify evidence supplied by third parties in support of the completion of activities e.g. attendance registers, timekeeping records. Review of the operation of this control by the MA for a sample of beneficiaries. • Requirement for beneficiaries to review final activity and financial

Annex 2

Recommended mitigating controls

	comprehensive checklists for management verifications	reports for any discrepancies between planned and actual activities. Review of the operation of this control by the MA for a sample of beneficiaries.
Uncompensated overtime claimed as actual cost	<ul style="list-style-type: none"> Management verifications to be completed before certification All applications for reimbursement to be subject to administrative verification, including review of claim and supporting documentation On-the-spot verifications to be undertaken when the project is well under way Evidence is kept for the work done and results obtained and follow up of findings 	<ul style="list-style-type: none"> Review of final financial and activity reports and supporting documentation for indications that overtime is being claimed (excessive numbers of working hours for project staff, fewer number of implementing staff than planned but all activities achieved). Requirement for beneficiaries to review invoices from suppliers against supporting documentation for indications that overtime is being claimed (excessive numbers of working hours for project staff, fewer number of implementing staff than planned) Review of the operation of this control by the MA in a sample of beneficiaries.
Incorrect time rates claimed	<ul style="list-style-type: none"> Sampling to be based on adequate risk assessment Existence of procedures to ensure that certifying authority receives all necessary information 	<ul style="list-style-type: none"> Review of final financial reports against evidence supporting actual salary costs incurred (e.g. contracts, payroll data) and time spent on project activities (e.g. time recording systems, attendance records). For labour costs of third parties - the MA requires that beneficiaries review invoices for labour costs against evidence supporting actual salary costs incurred (e.g. contracts, payroll data) and time spent on project activities (e.g. time recording systems, attendance records). All evidence is scrutinised with appropriate scepticism. The MA reviews the operation of this control in a sample of beneficiaries.
Labour costs are apportioned incorrectly between projects	<p>Audit trails</p> <ul style="list-style-type: none"> Accounting records should be kept by the MA that provide detailed information on expenditure actually incurred in each co-financed operation by beneficiary 	<ul style="list-style-type: none"> Review of evidence from beneficiaries to independently verify the apportionment of staff costs for project activities e.g. attendance registers, time recording systems, data from accounting ledgers.
Inaccurate descriptions of activities completed by personnel	<ul style="list-style-type: none"> Technical specifications and financial plan of the operation, progress and monitoring reports, documents concerning application, evaluation, selection, grant approval and tendering and contracting procedures and reports on inspections of the products and services co-financed should be kept at an appropriate management level The MA should verify whether the beneficiaries maintain either a separate accounting system or separate accounting code for all transactions Procedures should be in place to ensure that all documents required to ensure an adequate audit trail are held 	<ul style="list-style-type: none"> Review of evidence from beneficiaries to independently verify the completion of project activities e.g. attendance registers, time recording systems. Review of final activity and financial reports for discrepancies between planned and actual activities. Requirement for beneficiaries to review evidence from third parties to independently support the completion of activities e.g. attendance registers, timekeeping records. Reviews of the operation of this control by the MA for a sample of beneficiaries. Requirement for beneficiaries to review final activity and financial reports for any discrepancies between planned and actual activities. Review of the operation of this control by the MA for a sample of beneficiaries.
Staff costs claimed for personnel that do not		<ul style="list-style-type: none"> Review of evidence from beneficiaries to independently verify the

Annex 2

Recommended mitigating controls

exist	Accounting, monitoring and financial reporting systems A computerised system capable of providing reliable and relevant information works effectively	existence of staff e.g. contracts, social security details. <ul style="list-style-type: none"> Requirement for beneficiaries to review evidence from third parties that can independently verify the existence of staff e.g. contracts, social security details. Review of the operation of this control by the MA for a sample of beneficiaries.
Staff costs claimed for activities that took place outside of the implementation period		<ul style="list-style-type: none"> Review of evidence from beneficiaries that can independently verify that costs were incurred within project deadlines e.g. original invoices, bank statements. Requirement for beneficiaries to review evidence from third parties that can independently verify that costs were incurred within project deadlines e.g. original invoices, bank statements. Review of the operation of this control by the MA for a sample of beneficiaries.

Recommended mitigating controls

3. CERTIFICATION AND PAYMENTS		
Overarching controls		
<ul style="list-style-type: none"> • Conflict of interest policy, with an annual declaration and register • Effective management verifications • Whistle-blowing mechanism could be put in place for suspected fraudulent behaviour • Regular adequate training courses on ethics and integrity, covering individual responsibilities. 		
Specific Fraud Risk	Control description	Recommended mitigating controls
Incomplete / inadequate management verification process that does not give adequate assurance against fraud	Allocation of roles in MA and CA <ul style="list-style-type: none"> • Clear definition and allocation of functions 	<ul style="list-style-type: none"> • Detailed secondary review by MA of a sample of management verifications, ensuring they have been performed in line with relevant guidelines and standards.
Incomplete / inadequate certification process that does not give adequate assurance against fraud	Management verifications <ul style="list-style-type: none"> • The existence of written procedures and comprehensive checklists for management verifications • Management verifications to be completed before certification • All applications for reimbursement to be subject to administrative verification, including review of claim and supporting documentation • On-the-spot verifications to be undertaken when the project is well under way • Evidence is kept for the work done and results obtained and follow up of findings • Sampling to be based on adequate risk assessment • Existence of procedures to ensure that certifying authority receives all necessary information 	<ul style="list-style-type: none"> • Staff carrying out expenditure certifications are adequately qualified and trained, with up to date refresher training on fraud awareness. The MA reviews the adequacy of these training programmes. • Review by the AA of expenditure certifications performed by the CA, ensuring they have been performed in line with relevant guidelines and standards.
Conflicts of interest within the MA has undue influence on the approval of payments		<ul style="list-style-type: none"> • The payment process has several segregated stages of approval, where evidence for the validity of expenditure is required (e.g. independent audit opinions) before approval can be given
Conflicts of interest within the CA has undue influence on the certification	Certifications <ul style="list-style-type: none"> • Adequate accounting records should be maintained in 	<ul style="list-style-type: none"> • The certification process has several segregated stages of approval before confirmation can be given for the validity of the expenditure

Recommended mitigating controls

3. CERTIFICATION AND PAYMENTS		
	<p>computerised form by the CA</p> <ul style="list-style-type: none">• Audit trail within the CA should allow reconciliation of the expenditure declared to the Commission with the statements received from MA• CA has specified the information that it requires on the procedures operated by the MA for the verification of expenditure and has put into place procedures to ensure that it receives it on a timely basis• CA reviews the reports reviews the reports drawn up by the MA• CA reviews the results of all audits• CA ensures that the results of these examinations are properly taken into account• CA reconciles and does an arithmetic check of the payment requests	

Recommended mitigating controls

4. DIRECT PROCUREMENT BY MANAGING AUTHORITIES (only if applicable)		
Overarching controls		
<ul style="list-style-type: none"> • Review of tender awards by a secondary mechanism other than the selection panel (e.g. senior level personnel within the MA) • Regular independent audits • Conflict of interest policy, with an annual declaration and register • Whistle-blowing mechanism could be put in place for suspected fraudulent behaviour • Regular adequate training courses on ethics and integrity, covering individual responsibilities and consequences for non-adherence. 		
Specific Fraud Risk	Control description	Additional recommended controls
Unjustified single source awards to avoid tendering or select favoured suppliers	Audit trails <ul style="list-style-type: none"> • Procedures should be in place to ensure that all documents required to ensure an adequate audit trail are held Accounting, monitoring and financial reporting systems <ul style="list-style-type: none"> • A computerised system capable of providing reliable and relevant information works effectively 	<ul style="list-style-type: none"> • Prior approval for all single source awards are given by secondary mechanism other than the procuring department (e.g. senior level personnel within the MA).
Lack of tendering process for favoured suppliers		<ul style="list-style-type: none"> • Independent review of significant size contracts for evidence of tendering prior to payment of any invoices.
Extension / extension of existing contracts to avoid retendering		<ul style="list-style-type: none"> • Prior approval for all contract extensions are given by secondary mechanism other than the procuring department (e.g. senior level personnel within the MA).
Rigged specifications to favour certain bidders		<ul style="list-style-type: none"> • All contract notices are reviewed by a secondary mechanism than the procuring department prior to publication (e.g. senior level personnel within the MA), who each verify that bid specifications are not too narrow.
Leaking bid data		<ul style="list-style-type: none"> • A secondary panel conducts a review of a sample of winning bids against competition for any indications of prior knowledge of bid information. • High level of transparency in the award of contracts , such as the publication of all contract information that is not publically sensitive.
Undisclosed conflict of interest		<ul style="list-style-type: none"> • Conflict of interest policy, with an annual declaration and register
Bribes and kickbacks		<ul style="list-style-type: none"> • Enforced submission deadlines. • Review of a sample of winning bids for indications such as winning bids being very close to the next lowest bid, late bids winning, and /

Recommended mitigating controls

4. DIRECT PROCUREMENT BY MANAGING AUTHORITIES (only if applicable)		
		or evidence of the winning bidder communicating privately with contracting personnel.