

*THE EGESIF NOTE 14-0021-00
AND
ADRION FRAUD RISK SELF-ASSESSMENT TEAM*

**Tackling Fraud and Corruption in the European Territorial Cooperation
Bologna, 14 November 2019**

LEGAL PROVISIONS ON THE NECESSITY OF PROTECTION AGAINST FRAUD

- Regulation (EU) no. 1303/2013, art.125 (4) (c) : MA shall put in place effective and proportionate anti-fraud measures taking into account the risks identified;
- Regulation (EU) no. 1303/2013, art. 72: the management and control systems shall provide for prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments;
- Article 63(2) of the Financial Regulation (EU, Euratom) 2018/1046 : Member States shall take all necessary measures, including legislative, regulatory and administrative measures, to protect the EU's financial interests, namely by preventing, detecting and correcting irregularities and fraud
- Guidelines for national anti-fraud strategies for European Structural and Investment Funds (ESIF)

WHAT DOES EGESIF 14-0021-00 REPRESENT?

- **NATURE:** It's a working document prepared by the Commission services, providing technical guidance for public authorities, practitioners, beneficiaries or potential beneficiaries, and other bodies involved in the monitoring, control or implementation of the European Structural and Investment Funds on how to interpret and apply EU rules in this area;
- **AIM:** provide Commission services' explanations and interpretations of the mentioned rules in order to facilitate programme implementation and to encourage good practice(s)
- The guidance is, however, without prejudice to the interpretation of the Court of Justice and the General Court or decisions of the Commission."

IDENTIFYING THE FRAUD RISKS – EGESIF 14-0021-00

The Commission recommends the MAs:

- to carry out a **risk analysis** in order to identify the areas and activities that may be subject to an increased risk of fraud;
- to adopt a **proactive, structured and targeted approach to managing the risk of fraud.**

For the Funds, the objective should be **proactive** and **proportionate** anti-fraud measures with **cost-effective means**.

PRINCIPLE OF PROPORTIONALITY:



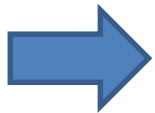
The overall benefit of any additional anti-fraud measures **should exceed their overall** costs (the principle of proportionality), taking also into account the high reputational cost linked to fraud and corruption.

The overall objective of the regulatory provisions is cost-effective fraud risk management and the implementation of effective and proportionate anti-fraud measures, which in practice means **a targeted and differentiated approach for each programme and situation.**

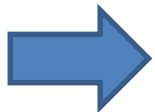
THE ASSESSMENT TOOL

In order to make this analysis and assessment process easier, the Guidance has provided a **fraud risk assessment tool** which is included in **Annex 1**.

MAIN TASKS:



to **assess the probability of corrupt practices** rather than to detect them, and, therefore, to make the programme institutions prepared for their occurrence;



is assumed that it will be used by the **self –assessment team** set up by the Managing Authority.

THE ASSESSMENT TARGET

The main purpose of the fraud risk assessment tool at **Annex 1** is the facilitation of a self-assessment by the MA of:

- impact
- likelihood

of specific fraud scenarios occurring.

The specific fraud risks which should be assessed were identified through knowledge of **previous fraudulent cases** encountered in cohesion policy, as well as commonly recognised and recurring fraud schemes.


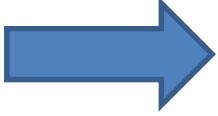



SCOPE OF THE ANALYSIS

With the help of the tool, the MA shall assess the likelihood and impact of specific and commonly recognised fraud risks particularly relevant to the **key processes**, which are:

- **selection of applicants;**
- **implementation of the projects** by the beneficiaries, focusing on public procurement and labour costs;
- **certification of expenditures** and payments

The list should be completed with the risks that are **specific for the programme**, based on the analysis of risks regarding **specific situation** connected to the delivery of Funds in the Programme Area, including **risks notified to MA** by the institutions involved in the programme implementation and committed to undertake risk analysis at their level.

Fraud risk assessment methodology

- STEP 1**  QUANTIFY THE LIKELIHOOD AND IMPACT OF THE SPECIFIC FRAUD RISK (GROSS RISK)
- STEP 2**  ASSESS THE EFFECTIVENESS OF CURRENT CONTROLS IN PLACE TO MITIGATE THE GROSS RISK
- STEP 3**  ASSESSING THE NET RISK AFTER TAKING INTO ACCOUNT THE EFFECTIVENESS OF CURRENT CONTROLS, I.E. THE CURRENT TIME SITUATION (RESIDUAL RISK)
- STEP 4**  ASSESS THE EFFECT OF THE PLANNED ADDITIONAL CONTROLS ON THE NET (RESIDUAL) RISK
- STEP 5**  DEFINE THE TARGET RISK, I.E. THE RISK LEVEL WHICH THE MA CONSIDERS TOLERABLE AFTER ALL CONTROLS ARE IN PLACE.

FINAL OUTPUT OF THE FRAUD RISK SELF-ASSESSMENT



- IDENTIFICATION OF THOSE SPECIFIC RISKS WHERE THE SELF-ASSESSMENT PROCESS CONCLUDES THAT NOT ENOUGH IS CURRENTLY BEING DONE TO REDUCE THE LIKELIHOOD OR IMPACT OF THE POTENTIALLY FRAUDULENT ACTIVITY TO AN ACCEPTABLE LEVEL.
- PLANNING/CHOOSING EFFECTIVE AND PROPORTIONATE ANTI-FRAUD MEASURES FROM THE LIST OF RECOMMENDED MITIGATING CONTROLS TO REDUCE STILL EXISTING DEFICIENCIES

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Condividi Commenti

A4 DESCRIPTION OF RISK

1: ASSESSMENT OF EXPOSURE TO SPECIFIC FRAUD RISKS - SELECTION OF APPLICANTS BY MANAGING AUTHORITIES

DESCRIPTION OF RISK						
Risk Ref	Risk Title	Risk description	Who is involved in the risk? (Managing Authority (MA) / Implementing Bodies (IP) / Certifying Authority (CA) / Beneficiaries (BF) / Third Parties (TP))	Is the risk internal (within the MA), external, or a result of collusion?	Is this risk relevant to your Managing Authority?	If you have answered NO, provide justification for your answer
SR1	Conflicts of interest within the evaluation board	Members of the MA's evaluation board intentionally influence the evaluation and selection of applicants to favour a certain applicants by providing favourable treatment to the their application in the evaluation or by exerting pressure on other panel members	Managing Authority and Beneficiaries	Internal / Collusion		
SR2	False declarations by applicants	Applicants submit false declarations in the application, misleading the evaluation board that they comply with the general and specific eligibility criteria to win an application procedure	Beneficiaries	External		
SR3	Double funding	An organisation applies for funding for the same project from several EU funds and/or Member States without declaring these applications	Beneficiaries	External		
SRX		<i>Insert description of additional risks...</i>				

1. Applicant selection SR1 SR2 SR3 SRX 2. Implementation & Verificati IR1 IR2 ...

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2: ASSESSMENT OF EXPOSURE TO SPECIFIC FRAUD RISKS - IMPLEMENTATION OF PROGRAMME AND VERIFICATION OF ACTIVITIES

RISK DESCRIPTION

Risk Ref	Risk Title	Risk description	Detailed risk description	Who is involved in the risk? (Managing Authority (MA) / Implementing Bodies (IP) / Certifying Authority (CA) / Beneficiaries (BF) / Third Parties (TP))	Is the risk internal (within the MA), external, or a result of collusion?	Is this risk relevant to your Managing Authority?	If you have answered NO, provide justification for your answer
Implementation - public procurement risks for contracts tendered and managed by beneficiaries							
IR1	Undisclosed conflict of interests or bribes and kickbacks	A member of staff of the beneficiary favours an applicant / tenderer because: - an undeclared conflict of interest occurred or - bribes or kickbacks were paid	1) Beneficiaries may award sub-contracts to third parties in which a member of staff has an interest, whether financial or otherwise. Similarly organisations may not fully disclose all conflicts of interest when applying for a contract or 2) Third parties that have applied for contracts may offer kickbacks or bribes to the beneficiaries in order to influence the award of	Beneficiaries and Third Parties	External		
IR2	Avoidance of required competitive procedure	A beneficiary avoids the required competitive procedure in order to favour a particular applicant in either winning or maintaining a contract by: - split purchases or - unjustified single source award or - not organising a tendering process or - irregular extension of the contract.	1) Beneficiaries may split a purchase into two or more purchase orders or contracts in order to avoid having to launch a competitive procedure or higher-level management review or 2) Beneficiaries may falsify single source acquisition justification by drafting very narrow specifications or 3) Beneficiaries may award contracts to favoured third parties without the required tendering process or 4) Beneficiaries may extend original contract lengths via a contract amendment or additional condition, in order to avoid a re-tendering	Beneficiaries and Third Parties	External		
IR3	Manipulation of the competitive procedure process	A member of staff of an MA favours a tenderer in a competitive procedure through:	1) Beneficiaries may tailor requests for bids or proposals so that they contain specifications which are	Beneficiaries and Third Parties	External		

1. Applicant selection SR1 SR2 SR3 SRX 2. Implementation & Verificati IR1 IR2 ...

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	A	B	C	D	E	F	G	H	
10	IR4	Collusive bidding	Bidders manipulate the competitive procedure organised by a beneficiary to win a contract by colluding with other bidders or setting up fake bidders: - collusive bidding including bidding by interlinked companies or - phantom service provider	1) Third parties in a particular geographic area or region or industry can conspire to defeat competition and raise prices through various collusive bidding schemes, such as complementary bidding, bid suppression, bid rotation and market division or 2) Third parties may set up a 'phantom' service provider to submit complementary bids in collusive bidding schemes, to inflate costs or simply to generate fictitious invoices. In addition, an employee of the beneficiary can authorise payments to a fictitious seller	Third parties	External			
11	IR5	Defective pricing	A bidder manipulates the competitive procedure by not specifying certain costs in its bid	Third parties may fail to disclose current, complete and accurate cost or pricing data in their price proposals resulting in an increased contract price.	Third Parties	External			
12	IR6	Manipulation of cost claims	A contractor manipulates cost claims or invoices to overcharge or recharge incurred costs. - Single contractor double claims costs or - False, inflated or duplicate invoices.	1) A third party with multiple similar work orders might charge the same personnel costs, fees or expenses to several contracts or 2) Third parties might knowingly submit false, inflated or duplicate invoices, either acting alone or in collusion with contracting personnel.	Third Parties	External			
13	IR7	Non-delivery or substitution of products	Contractors violate the contract conditions by non-delivery of agreed products or alterations and substitution with inferior quality - Product substitution or - Non-existence of products or operation not carried out in line with grant agreement	1) Third parties may substitute inferior quality items for those which are specified in the contract or otherwise fail to meet contract specifications and then knowingly misrepresent that they have. Beneficiaries may be complicit in this fraud or 2) Some or all products or services to be supplied as part of a contract may not be provided, or the contract was knowingly not carried	Beneficiaries and Third Parties	External			
14	IR8	Amendment of existing contract	A beneficiary and a contractor collude to amend an existing contract with more favourable conditions for the third party to such an extent that the original procurement decision is no longer valid.	Amendment may be made to a contract after it has been agreed between a beneficiary and a third party, changing the contract terms/conditions to such an extent that the original procurement decision may no longer be valid.	Beneficiaries and Third Parties	External			
15	Implementation - risks with labour costs incurred within beneficiaries or third parties								
	IR9	Overstatement of quality or activities of personnel	A contractor intentionally overstates the quality of provided personnel or activities to claim them as	1) A beneficiary or third party may propose a team of adequately qualified personnel in a tender, only to	Beneficiaries or Third Parties	External			

1. Applicant selection SR1 SR2 SR3 SRX 2. Implementation & Verificati IR1 IR2

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	A	B	C	D	E	F	G	H
15	Implementation - risks with labour costs incurred within beneficiaries or third parties							
16	IR9	Overstatement of quality or activities of personnel	A contractor intentionally overstates the quality of provided personnel or activities to claim them as eligible costs. - Inadequately qualified labour or - Inaccurate descriptions of activities completed by personnel	1) A beneficiary or third party may propose a team of adequately qualified personnel in a tender, only to implement the action with personnel that are inadequately qualified or 2) A beneficiary or third party may knowingly falsify descriptions of tasks performed by personnel in order to ensure that costs claimed are	Beneficiaries or Third Parties	External		
17	IR10	False labour costs	A beneficiary claims knowingly false labour costs for activities that are not carried out or not carried out in accordance with the contract. - False labour costs or - Uncompensated overtime or - Incorrect time rates claimed or - Staff costs claimed for personnel that do not exist or - Staff costs claimed for activities that took place outside the implementation period.	1) A beneficiary or third party may knowingly claim false labour, by inflating the number of working hours completed by the trainers, or by falsifying documents supporting the existence of such events, such as the record of attendance and invoices for the renting of teaching rooms or 2) A beneficiary or third party may knowingly claim overtime where no credit for the extra hours is usually give to staff or 3) A beneficiary or third party may knowingly claim inflated rates for personnel by misrepresenting hourly rates or actual working hours 4) A beneficiary or a third party may falsify documentation in order to claim costs for personnel that are not employed, or which do not exist or 5) A beneficiary or third party may knowingly falsify documentation to ensure that costs appear to have	Beneficiaries or Third Parties	External		
18	IR11	Labour costs are apportioned incorrectly to specific projects	A beneficiary knowingly incorrectly apportions staff costs between EU projects and other sources of funding	A beneficiary may knowingly incorrectly apportion staff costs between EU projects and other sources of funding	Beneficiaries	External		
19	IRXX		<i>Insert description of additional risks...</i>					

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2. Implementation & Verificati IR1 IR2 IR3 IR4 IR5 IR6 IR7 IR8

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F9

3: ASSESSMENT OF EXPOSURE TO SPECIFIC FRAUD RISKS - CERTIFICATION AND PAYMENTS

RISK DESCRIPTION

Risk Ref	Risk Title	Risk description	Who is involved in the risk? (Managing Authority (MA) / Implementing Bodies (IP) / Certifying Authority (CA) / Beneficiaries (BF) / Third Parties (TP))	Is the risk internal (within the MA), external, or a result of collusion?	Is the Managing Authority exposed to this risk?	If NO, provide justification
CR1	Incomplete / inadequate management verification process	Management verifications may not give adequate assurance for absence of fraud, due to a lack of the necessary skills or resources at the MA.	Managing Authority	Internal		
CR2	Incomplete / inadequate expenditure certification process	Expenditure certifications may not give adequate assurance for absence of fraud, due to a lack of the necessary skills or resources at the CA.	Certifying Authority	External		
CR3	Conflicts of interest within the MA	Members of the MA may have conflicts of interest which have undue influence on the approval of payments for certain beneficiaries.	Managing Authority and Beneficiaries	Internal / Collusion		
CR4	Conflicts of interest within the Certifying Authority	Expenditure may be certified by a Certifying Authority that has a connection to the beneficiary.	Certifying Authority and Beneficiaries	External		
CRXX		<i>Insert description of additional risks...</i>				

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4: ASSESSMENT OF EXPOSURE TO SPECIFIC FRAUD RISKS - DIRECT PROCUREMENT BY MANAGING AUTHORITIES

DESCRIPTION OF RISK						
Risk Ref	Risk Title	Risk description	Detailed risk description	risk? (Managing Authority (MA) / Implementing Bodies (IP) / Certifying Authority (CA) / Beneficiaries (BF) / Third Parties (TP))	Is the risk internal (within the MA), external, or a result of collusion?	Is the Managing Authority exposed to this risk? If NO, provide justification
PR1	Avoidance of required competitive procedure	A member of staff of the MA avoids the required competitive procedure in order to favour a particular tenderer in either winning or maintaining a contract by: - not organizing a tender process or; - split purchases or - unjustified single source award or - irregular extension of the contract.	1) A member of MA may split a purchase into two or more purchase orders or contracts in order to avoid having to launch a competitive procedure or higher-level management review or 2) A member of MA may favour single source acquisition justification by drafting very narrow specifications or 3) A member of MA may award contracts to favoured third parties without the required tendering process or 4) A member of MA may extend original contract length via a contract amendment or additional condition, in order to avoid a re-tendering	Managing Authorities and Third Parties	Internal / Collusion	
PR2	Manipulation of the competitive procedure process	A member of staff of an MA favours an tenderer in a competitive procedure through: - rigged specifications or - leaking bid data or - manipulation of bids.	1) A member of MA may tailor requests for bids or proposals so that they contain specifications which are tailored to meet the qualifications of a particular bidder, or which only one bidder can meet. Specifications which are too narrow can be used to exclude other qualified bidders or 2) Contracting, project design or bid evaluation personnel from MA may leak confidential information to help a favoured bidder formulate a superior technical or financial proposal, such as estimated budgets, preferred solutions, or the details of competing bids or 3) A member of MA can manipulate bids after receipt to ensure that a favoured contractor is selected	Managing Authorities and Third parties	Collusion	
PR3	Undisclosed conflict of interests or bribes and kickbacks	A member of staff of an MA Favours an applicant / tenderer because: - an undisclosed conflict of interest occurred or - bribes or kickbacks were paid	1) A contract may be awarded to a beneficiary in which a member of staff has an interest, whether financial or otherwise. Similarly organisations may not fully disclose all conflicts of interest when applying for a contract or 2) Beneficiaries that have applied for contracts may offer kickbacks or bribes to tenderers to influence the award of	Managing Authorities and Third parties	Collusion	

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RISK DESCRIPTION												
Risk Ref	Risk Title	Risk description	involved in the risk?	internal (within the MA),								
IR1	Undisclosed conflict of interests or bribes and kickbacks	A member of staff of the beneficiary favours an applicant / tenderer because: - an undeclared conflict of interest occurred or - bribes or kickbacks were paid	Beneficiaries and Third Parties	External								
GROSS RISK			EXISTING CONTROLS						NET RISK			
Risk Impact (GROSS)	Risk Likelihood (GROSS)	Total risk score (GROSS)	Control ref	Control description	Do you evidence the operation of this control?	Do you regularly test this control?	How confident are you in the effectiveness of this control?	Effect of combined controls on risk IMPACT taking into account confidence levels	Effect of combined controls on risk LIKELIHOOD taking into account confidence levels	Risk Impact (NET)	Risk Likelihood (NET)	Total current risk score (NET)
1	1	1	Undeclared conflict of interest									
			IC 1.1	The MA requires that beneficiary evaluation boards are comprised of several senior management personnel who are rotated, with some level of randomness in their selection for participation. The MA reviews the operation of these controls for a sample of beneficiaries.				-1	-2	0	-1	0
			IC 1.2	The MA requires beneficiaries to have conflict of interest policies, declarations and conflicts registers and reviews their operation for a sample of beneficiaries.								

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GROSS RISK IMPACT SCORE

	REPUTATION	ON OBJECTIVES
1	Limited impact	Additional work delaying other processes
2	Minor impact	Achievement of operational objective delayed
3	Major impact	Achievement of operational objective endangered or strategic objective delayed
4	Formal enquiry from Stakeholders and/or Parliament, and/or negative press	Strategic objective endangered

GROSS RISK LIKELIHOOD SCORE

	IN SEVEN-YEAR PROGRAMMING PERIOD
1	Will almost never happen
2	Will rarely occur
3	Will sometimes occur
4	Will often occur

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SELECTION OF APPLICANTS

SPECIFIC FRAUD RISKS	RECOMMENDED MITIGATING CONTROLS
Conflicts of interest within the evaluation board	<ul style="list-style-type: none">• Rotation in the evaluation board is comprised of the management personnel with some level of randomness for participating in each evaluation board.• Conflict of interest policy, with an annual declaration and register.

IMPLEMENTATION AND VERIFICATION OF OPERATIONS

SPECIFIC FRAUD RISKS	RECOMMENDED MITIGATING CONTROLS
Collusive bidding	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).
Unjustified single source awards to avoid tendering	Review by the MA of a sample of beneficiaries' single source awards NS Prior MA approval for all single source awards.

EGESIF_14-0021-00, EU Guide on Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures lays upon the Managing Authority the responsibility to build up a **self - assessment team**, carrying out the fraud risk assessment at programme level.

SELF - ASSESSMENT TEAM'S TASKS

- preparing the **risk analysis** in accordance with the EC Guidance
- carrying out the most effective **risk management** aimed at reducing fraud likelihood

SELF-ASSESSMENT TEAM IN ADRION PROGRAMME

- **SET UP OF THE S.A.T COMPOSITION BY ADMINISTRATIVE DECISION**
issued by Directorate Generale Europe, Resources, Innovation and Institutions n.° 18196 adopted on November 2017, Adrion MA has established the composition of the self-assessment team
- **S.A.T is chaired by the Managing Authority because its activities are responsibility of that Body.**
- **Rules of procedure adopted in the first meeting 22nd March 2018,**

SELF-ASSESSMENT TEAM COMPOSITION:

◆ **Managing Authority** of Interreg V B Adrion (CHAIR):

- n.1 Manager or Officer with coordination role
- n.1 Officer in charge of legal consultancy
- n.1 Officer in charge of financial and balance sheet consultancy
- n.1 Officer assigned to the Certifying Authority

◆ **Joint Secretariat**

- n.1 Officer with coordination role
- n.1 Officer in charge of financial consultancy

◆ **National Authority** for Interreg V B Adrion programme, namely Italian Territorial Cohesion Agency

- n.1 Manager in charge of national coordination and execution of first level control system

◆ **First Level Control National representatives of the programme Partner States**

- n. 1 Manager or officer in charge of coordination and monitoring of first level control system at national level (in case of Countries featuring a centralized control system) **FOR EACH COUNTRY**

Importance of **First Level Controllers'** role in their own context as to:

- detect fraud at beneficiaries level;
- immediately report to the Managing Authority or National Authority and other responsible bodies, at national level, according to the provision of law, on fraud suspicions, according to its internal working procedures

As transnational programme, the possibility for each Partner State to appoint its own FLC representative in the Self-Assessment Team **shall be guaranteed and strongly promoted**.

➔ In order to involve programme partner states in the evaluation process having regard to the added value of their expertise the national FLC representatives have been invited to give their contribution

FRAUD RISK SELF-ASSESSMENT COMPLIANCE

The self assessment tool is completed/updated on an **annual basis**.

EXTENTION: if the level of risks identified is **very low** and no instances of fraud were reported during the preceding year, the MA may decide to review its self - assessment only **each second year**.

ACTION PLAN: it is highly recommended to draft an action plan related to additional controls deemed necessary or in case of possible changes to the risk environment as well as providing adequacy of assessment scores.



Any event (e.g. new fraud instance, or main changes in the programme procedures and/or staff) able to cause a perception of weakness in the system should lead to a review of relevant parts of the self-assessment strategy.

THANK YOU FOR YOUR ATTENTION!

Rossana Pruni

@: rossana.pruni@regione.emilia-romagna.it

adrion@regione.emilia-romagna.it