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Rialtas na hÉireann  
Government of Ireland

## PMC Meeting 17.6.2019

### Agenda Item 5 Update on Designation Recommendations

#### Background

1. When assessing the Procedures for putting in place effective and proportionate anti-fraud measures as part of its Report on the Designation of the MA and CA (13 November 2018), the Independent Audit Body (IAB) noted that Arachne (or an equivalent system) was not currently in operation and that the Fraud Risk Action Plan was at an early stage due to the timing of claims. It recommended that
  - training be provided to MA staff on Arachne and that the system be utilised and
  - the Fraud Risk Action plan be updated and amended if required following completion of the management verifications on the November 2018 claim.

Both recommendations were to be implemented by **end Q2 2019**.

#### Use of Arachne

2. The European Commission has developed Arachne, a risk – scoring tool to be used by MAs and IBs for projects funded by the ESF. Its objective is to support MAs in their administrative controls and management checks in the area of Structural Funds. Arachne establishes a comprehensive database of projects, implemented under the Structural Funds in the EU, based on data provided by the ESF and ERDF MAs and is seen as one of the tools for “effective and proportionate anti – fraud measures’ according to Regulation (EU) No 1303/2013. It can boost the effectiveness and efficiency of management verifications and help to reduce the error rate and detect and prevent potential irregularities in projects or contracts. Arachne uses 100 adapted risk indicators and a wide range of linkages between individuals and organisations to generate alerts about irregularities and risks of fraud between the selection and approval of operations, as well as during their implementation.
3. The MA will use Arachne prior to sampling declarations for management verification. The MA will identify based on a set of risk indicators, those projects, beneficiaries, contracts and contractors which might be susceptible to risks of fraud, conflict of interest and irregularities. The MA will investigate any projects, beneficiaries, contracts and contractors who obtain a high score based on the Arachne risk assessment to ascertain the reason for the increased “risk” score. If a satisfactory explanation is not obtained the MA will incorporate the project into its management verifications.

#### Training on and Use of Arachne

4. Arachne training has commenced for the ESF Authorities, with the Certifying Authority (CA) receiving training in May 2019 from the Commission. The CA will train its MA colleagues in June 2019. Following its training, the CA prepared a file of ESF data from the eCohesion system. This data was successfully uploaded onto the Arachne database on 5<sup>th</sup> June. Risk indicators on this

data will be produced from the Arachne database on the 17<sup>th</sup> June and will be recalculated on a weekly basis. Further uploads of ESF data from the eCohesion system will be provided on a regular basis to refresh the data on the Arachne database.

5. Arachne will be used to detect risky operations and ensure that staff are aware of fraud risks and receive anti-fraud training. The ESF Authorities will carry out a vigorous and prompt review into all cases of suspected and actual fraud which have occurred with a view to improving the internal management and control system where necessary. The review feeds into the subsequent update of the fraud risk self-assessment. It is objective and self-critical, resulting in clear conclusions about perceived weaknesses and lessons learned, with clear actions, responsible individuals and deadlines.

#### **Fraud Risk Action Plan**

6. The MA circulated its Anti-Fraud Strategy and ESF Anti-Fraud and Conflict of Interest Policy to the PMC at its 7<sup>th</sup> PMC Meeting in November 2018.

The MA used the Commission's Fraud Risk Self-Assessment tool to carry out its initial Fraud Risk Assessment. This Tool uses risk scores from 1 to 4. If the Net Risk Total Current Risk score is above 3, then planned new controls are required to bring the Target Risk Total score to below 3. The MA determined planned new controls for a range of issues. It developed its strategy and anti-fraud and conflict of interest policy and prepared an Action Plan. It wrote to all IBs (& Beneficiaries where there is no IB) requesting that they complete a return setting out the mitigating controls to reduce fraud risk in two areas, namely public procurement and labour costs. The responses have been reviewed and the MA is engaging with some IBs who have yet to respond. The Administration and Service Level Agreements set out how IBs and Beneficiaries will co-operate with the fraud risk assessment and put in place any additional actions identified to mitigate against identified fraud risks. As part of its Fraud Risk Action Plan the MA will test the controls identified.

7. The MA has reviewed its Anti-Fraud Action Plan and is set out below:

<b>Action No.</b>	<b>Actions 2019</b>	<b>Timeframe</b>	<b>Update</b>
1	Review and agree financial verification checklists to be used at all levels of the cascade for each activity	End Q2	
2	Provide training on the performance of verification checks for IBs as requested and issue updated guidance documents on processing financial declarations for IBs and Beneficiaries.	Ongoing Training as requested Guidance documents by end Q2	The updated Guidance documents are being finalised.
3	Annual review of fraud risk self-assessment	End Q4	
4	Prepare a schedule for 2019 of checks to be carried out on controls at IB and Beneficiary level.	End Q2	
5	Carry out checks on controls at IB and Beneficiary level in order to support the fraud risk self-assessment.	End Q4	
6	Arachne Training	Ongoing	CA trained in May

7	Update the MA's verification procedures to reflect the use of the Arachne	End Q2	
8	Participate in any working groups/training on preventing Fraud and Corruption in ESI funds	Ongoing	AD attended Commission Training; further team members will attend later in year
9	Liaise with IBs to enquire if further training sessions required on raising awareness on ethics, integrity and conflict of interests for Beneficiaries	Ongoing	
10	Maintain a record of Fraud cases and carry out appropriate actions	Ongoing	

### **Designation of IBs**

8. The MA has formally delegated functions to 5 IBs [SOLAS; Department of Justice and Equality (DJE); HEA; Department of Employment and Social Protection (DEASP) and the Department of Rural and Community Development (DRCD)] under the PEIL and there are Administrative Agreements signed between the MA and each of the IBs. When issuing its formal designation report, the IAB noted that it had concluded its review of the SOLAS and DJE revised IB Procedures Manuals and considered that these were adequate in respect of the Designation criteria.
9. The IAB is currently reviewing the responses provided by DEASP and the HEA and their IB Procedures Manuals against the Commission Designation Criteria Checklist. The IAB is engaging with DEASP and the HEA to finalise amendments required to their Procedures Manuals. The MA has reviewed the SICAP Procedures Manual provided by DRCD and suggested amendments. The IAB will review the revised Procedures Manual when available.

### **ESF AA Planned Systems Audits of IBs**

10. The AA has selected SOLAS and DJE for systems audits of the Management and Control Systems and is engaged in a public procurement process to engage external accountancy firms to undertake these audits.