

ETF ANTI-FRAUD STRATEGY 2020-2027

Version:	1
Date:	18 December 2019

CONTENTS

1.	INTRODUCTION	3
2.	BACKGROUND	3
3.	GUIDING PRINCIPLES AND TARGET STANDARDS	4
4.	OBJECTIVES AND METHODOLOGIES	4
5.	NOTION OF FRAUD	5
6.	CURRENT ACTORS, ROLES AND RESPONSIBILITIES	5
7.	THE ANTI-FRAUD CYCLE	7
7.1	The risk assessment	7
7.2	Prevention	8
7.3	Detection	10
7.4	Investigation	11
7.5	Sanctions and recovery	11
8.	IMPLEMENTATION	12
	ANNEX A –FRAUD PREVENTION MEASURES	13
	Financial and procurement management	13
	Human resource management	14
	Programme management	14
	ANNEX B –FRAUD DETECTION MEASURES	16
	Financial and procurement management	16
	Human resources management	16
	Programme management	16

1. INTRODUCTION

The ETF is an Agency of the European Union (EU) which works in the area of human capital development (HCD) and has an annual budget of approximately 20 M€ financed by the European Commission (EC) for 100% of its revenues.

The ETF's main partners and stakeholders are the EC, the EU Member State authorities, non-EU member country authorities, international organisations, economic operators, civil society organisations, universities and social partners.

Ethics and integrity are key principles in the EU institutions and bodies and therefore the ETF commits to ensuring they are properly applied.

2. BACKGROUND

EU citizens and taxpayers deserve EU institutions that operate with the utmost integrity.

Their hard-earned contributions to the EU budget shall be used only for implementing the policies, which the EU legislature has approved, be spent in a sound and efficient way and protected from fraud and illegal activities.

Fraud that affects the EU budget can cause EU funds to be siphoned off from their legitimate purposes and thereby compromise the effectiveness of EU measures. When fraudsters succeed, they call the integrity of EU action into question and undermine the public's trust in EU policies.

On June 2011 the EC adopted its Anti-Fraud Strategy (CAFS) followed by an updated version in 2019 to adapt to an evolving situation (e.g. new funding schemes and fraud trends, development of IT tools). The main objective of the CAFS therefore being to equip the EC with a stronger analytical capability for purposes of prevention and detection and with a more centralised system of oversight for its anti-fraud action.

In parallel, the EC also developed a Common Approach for EU decentralised agencies requiring a set of anti-fraud measures to put in place. In this context, in 2014, the ETF set up its Anti-Fraud Strategy (the Strategy) and Action Plan taking stock of the priorities set by the EC as well as of the main rules and anti-fraud measures recommended and/or linked to the policies of the ETF parent DG.

Indeed, in spite of the ETF setting up its Anti-Fraud framework to comply with the above- mentioned EU Common Approach, both the nature of the ETF activities and the statistics drawn on 25 years of work of the Agency, indicate a low level of risk.

In the course of 2019, the ETF carried out an assessment on the relevance, effectiveness, efficiency and coherence of the 2014 Strategy and its implementation and ascertained that:

- the priority actions and all measures set out in the Action Plan have been completed or are continuing in the case of those of a repetitive nature, e.g. training;

- the overall objective of the 2014 Strategy, emphasising the comprehensive approach to counter EU-fraud, is still fully relevant. This comprehensive approach covers the complete anti-fraud cycle including (i) improving prevention, detection and the conditions for investigating fraud; and (ii) ensuring there is sufficient reparation and deterrence, with proportionate and dissuasive sanctions.

To conclude, the spirit set for the fight against fraud in the 2014 Strategy remains valid and forms the basis of the revised 2020-2027 Strategy.

3. GUIDING PRINCIPLES AND TARGET STANDARDS

In compliance with the EC approach, the ETF shares the following guiding principles and target standards for the fight against fraud:

- zero tolerance for fraud;
- fight against fraud as an integral part of internal control;
- cost-effectiveness¹ of controls;
- professional integrity and competence of staff;
- transparency on how EU funds are used;
- set up of an effective investigation capacity;
- swift correction (including recovery of defrauded funds and judicial/administrative sanctions);
- good cooperation between internal and external actors;
- effective internal and external communication on the fight against fraud².

4. OBJECTIVES AND METHODOLOGIES

The ETF Strategy for the period 2020-2027 focuses on protecting the Agency's financial interests from:

- fraud, corruption and misappropriation³ affecting the ETF/EU's financial interests;
- other criminal offences affecting the ETF/Union's financial interests, (e.g. offences linked to an abuse of procurement procedures where they affect the EU budget; irregularities⁴ insofar as they are intentional but not already captured by the criminal offences referred to above);
- serious breaches of professional obligations by staff⁵,
- the risk of serious wrongdoing.

¹ To resolve possible conflicts between the first and third principle, it is imperative to take the reputational aspect fully into account, while applying the requirement of cost-effectiveness to anti-fraud controls, especially in cases of internal fraud.

² While internal communication is instrumental in steering and supporting the institution's anti-fraud action, external communication serves to protect the Agency's reputation and to reassure the public about the integrity and sound financial management of EU operations.

³ As defined in Articles 3 and 4 of the PIF Directive (EU) 2017/1371.

⁴ As defined in Article 1(2) of Regulation (EC, Euratom) No 2988/9523

⁵ As referred to in Article 1(4) of the OLAF Regulation and in the second subparagraph of Article 2(1) of Commission Decision (EC, ECSC, Euratom) No 352/19925.

The selected methodological approach to reach the above goal is to assess the existing anti-fraud measures in place that enhance the prevention and detection of fraud within the ETF, and to identify the residual areas of intervention needed to strengthen the ETF anti-fraud framework.

This Strategy is based on the principle of 'keep it simple and short'. It shall be easy to understand and possible to implement within a reasonable timeframe.

5. NOTION OF FRAUD

For the purpose of this Strategy, the term "fraud" is used as an umbrella term for including various types of criminal and non-criminal wrongdoings.

It is useful to identify fraud risk areas and to draw the distinction between External and Internal fraud:

- External fraud refers to situations in which external parties such as tenderers (bidders), contractors/providers, candidates/applicants, are under suspicion of committing fraud, but where there is no involvement of internal staff.
- Internal fraud refers to situations in which ETF staff are involved in committing the fraudulent behaviour or operation, either alone or in collusion with other internal staff, contractor or other external parties.

Fraud relates to financial and non-financial aspects. Whereas financial gain is believed to be the key motivator in the majority of fraud cases, nevertheless, non-direct financial aspects could also lead to fraud, for example leaking of confidential or sensitive information.

It is also important to highlight that there is no materiality threshold for fraud, which, due to its malicious nature, will be sanctioned in all cases where confirmed.

6. CURRENT ACTORS, ROLES AND RESPONSIBILITIES

The following internal and external actors play a role in the various anti-fraud measures described in this strategy document.

Actor	Roles and responsibilities
Appointing Authority	<ul style="list-style-type: none">• Overall responsible for setting up an effective internal control system
Managers	<ul style="list-style-type: none">• Performing risk based self-assessment exercises
Internal Control Coordinator (ICC)	<ul style="list-style-type: none">• Ensuring the provision of an effective and proportional internal control and risk framework based on the ETF Internal Control Principles (ICP)

	<ul style="list-style-type: none"> Designing and implementing ETF risk management processes and related activities
ETF OLAF Correspondent	<ul style="list-style-type: none"> Managing and reporting the ETF fraud cases; Interfacing with OLAF
ETF Ethics and Integrity Correspondent	<ul style="list-style-type: none"> Raising awareness of (unethical) behaviours
Finance and Procurement	<p>Financial management</p> <ul style="list-style-type: none"> Defining the financial management model, procedures and internal controls in line with segregation of duties and incompatibility of roles in financial circuits Performing independent centralised ex-ante Financial Verification function on medium and high risk commitments and payments; Performing an independent annual ex-post exercise on selected financial transactions <p>Procurement management</p> <ul style="list-style-type: none"> Including internal controls and procedures within rules and guidelines applicable across the ETF
HR	<ul style="list-style-type: none"> Designing and implementing HR processes in line with regulatory framework Ensuring correct implementation of staff rights and obligations (Title II of the Staff Regulations).
All staff	<ul style="list-style-type: none"> Behaving in compliance with the ETF Ethical Regulatory framework; Whistleblowing unethical behaviours.
Inter-Agency pool of investigators	<ul style="list-style-type: none"> Handling of administrative inquiries
Auditors	<p>European Court of Auditors (ECA)</p> <ul style="list-style-type: none"> Performing annual ex-post audits on financial transactions, procurement, HR related procedures and annual accounts <p>Internal Audit Service (IAS)</p> <ul style="list-style-type: none"> Performing audits on the effectiveness of risk management, control and governance processes Providing risk based and objective assurance, advice and insight;
European Anti-Fraud Office (OLAF)	<ul style="list-style-type: none"> Conducting investigations on fraud involving the European Union

7. THE ANTI-FRAUD CYCLE

The anti-fraud cycle is composed of the following phases:

- Risk Assessment;
- Prevention;
- Detection;
- Investigation;
- Sanction & Recovery

This section provides an overview of how the ETF anti-fraud approach covers all stages of the anti-fraud cycle.

7.1 The risk assessment

The present Strategy builds on the results of a risk analysis carried out within the ETF mainly on the basis of the following existing institutional sources and exercises:

- The annual risk assessment process (macro level & operational level);
- Reports of auditors (ECA/IAS) and their conclusions on fraud and irregularities;
- Cases of fraud or suspected fraud in the past;
- The risk assessment carried out in the context of regularly reviewing the ETF sensitive functions;
- The main developments in the ETF and their potential consequences in terms of new types of fraud;
- Risk assessment made during the review of ETF processes and procedures

Fraud includes both external as well as internal misconduct, as described in the following sub sections.

External risks

The external risks of fraud are defined as those resulting from fraudulent behaviours of non-staff members adversely impacting the ETF (financial and reputational) or the EU in general. They may be classified into financial and technical risks. A non-exhaustive list of examples follows below.

Financial risks

- Intentional false declaration (forged document, false costs);
- Misrepresentation of organisational, physical and/or financial situation of a contractor /bidder or beneficiary;
- Double funding; unjustified expenditure
- Fraudulent bankruptcies;

Technical risks

- Plagiarism of proposals / deliverables / recruitment tests;
- Selection of contractors/recruitment of ineligible candidates, based on forged documents/false declarations, false CVs;
- Professional misconduct (e.g. falsifications, fabrications of results).

Internal risks

The internal risks of fraud are defined as those resulting from fraudulent behaviour by staff of the ETF and correspond mainly to an intentional breach of regulations. The most common areas where internal fraud risks may occur are recruitment, procurement and requests for reimbursement of expenses.

Typical examples (non-exhaustive) of potential risks identified within the ETF are:

- Conflict of interest of members in selection panels for recruitment and procurement activities with applicants/bidders;
- Intentional false declaration, for example:
 - Recruitment: forged certification, false experience, false place of origin;
 - Staff reimbursements: forged documents/invoices/receipts, double reimbursement, abuse of declarations, unjustified expenditure;
 - False declaration of working time;
 - Sickness and absences: forged documents, abuse of declarations, work for external parties during sick leave or other types of special leave;
- Misappropriation of goods;
- Unethical behaviour in accepting services and goods/gifts in return for preferential treatment;
- Pressure by the hierarchy to have external parties obtaining preferential treatment to certain parties;
- Undue positive performance assessment with a view to have staff obtaining preferential treatment (i.e. contract renewal, reclassification).

7.2 Prevention

Control environment

The Director of the ETF is responsible for the internal control systems. This responsibility is exercised through the Internal Control Coordinator, who bears the responsibility for setting up and supervising the overall internal control system of the ETF (Internal Control Principles), and the Delegated Authorising Officers who bear responsibility for setting up dedicated controls and procedures for the processes within their area of delegated responsibility.

Particular attention in this section is given to prevention controls and measures in the area of human resource management, finance and procurement, sensitive functions, and the handling of deviations from the regulatory framework.

Prevention measures in the area of human resource management:

Human resource management is governed by the applicable Staff Regulations and Implementing Rules.

Annex A – Fraud prevention measures lists the control measures in place at ETF preventing fraud risks.

Prevention measures in the area of financial and procurement management:

In the area of control management, the Financial Regulation and Implementing Rules applicable to ETF provide with a large set of control measures preventing fraud risks, which where necessary are further reinforced by procedures introduced by ETF.

Annex A –Fraud prevention measures lists the control measures in place at ETF preventing fraud risks.

Prevention measures in the area of Information and Communication Technologies

ICT tools for financial and human resources management, are enhanced for fraud prevention by ensuring that access is limited to authorised actors with specific roles (e.g. avoiding that a single person can initiate, verify and authorise a financial transaction), via user authentication (ID and password). Furthermore all transactions and operations are logged to allow for investigations in case of suspected irregularities.

In addition, the ETF network and infrastructure is protected against unauthorised access from outside (cybercrime) with state of the art technology, and is constantly monitored and assessed by CERT EU (the Computer Emergency Response Team for the EU institutions, agencies and bodies).

Prevention measures in the area of sensitive functions:

A policy is in place that governs the management of sensitive functions. The inventory of the sensitive functions is reviewed regularly.

Handling of deviations from the regulatory framework

Deviations from the regulatory framework are governed by the Register of Exceptions procedure. The overall objective of the procedure is to establish appropriate arrangements to ensure that the ETF Director and Management register any exceptional circumstances of significant instances of the overriding of controls or deviations from the established and in force ETF regulatory framework; and report them to the Governing Board and Discharge Authority in accordance with the principle of transparency. The exception must be documented and justified. They are analysed within the context of the ETF Progress Report in order to identify systemic weaknesses and to put in place adequate preventive controls.

Raising staff awareness on fraud risks

The ETF Intranet has dedicated sections that inform staff about ethical and organisational values managed by the ETF ethics and Integrity Correspondent.

Compulsory induction/training activities take place for staff upon entrance in function on sound financial management, procurement principles and ethics and integrity principles, covering issues such as staff's liability, prevention and reporting of fraud and irregularities. Regular raising awareness activities are held for staff and managers in particular on conflict of interest and behaviour at work topics. Staff attendance is registered.

Managers are requested to sign declaration of commitments and interests on an annual basis. These declarations, complemented with a summary CV, are published on the ETF web site.

Raising awareness among external partners and stakeholders

General conditions of ETF contracts refer to OLAF and include contractual clauses to protect against fraud and other irregularities. Grounds for termination of contract include professional misconduct, non-compliance with obligations relating to the payment of social security contributions or the payment of taxes, commitment of fraud or corruption, submission of false information and any other illegal activity detrimental to the ETF's financial interests. They also indicate the possibility of being submitted to on-site audits e.g. by the ETF and/or OLAF.

Governing Board members are requested to sign declaration of commitments and interests on an annual basis. These declarations, complemented with a summary CV, are published on the ETF web site.

7.3 Detection

The ETF has put in place systems which give reasonable assurance that major irregularities and fraud will be detected. This implies that the Agency must be capable of (i) recognising indicators (red flags) that show that fraud may have been committed, (ii) identifying control weaknesses that could allow fraud to occur, and (iii) assessing whether a fraud investigation should be conducted by OLAF. Such red flags may also be identified through several processes of data mining of information available within the Commission, OLAF and/or on the Internet.

Annex B – Fraud detection measures lists the main control measures in place at ETF detecting fraud risks.

Detection of a potential (risk of) fraud can occur during three different phases:

- Before the implementation of an activity;
- During the implementation of an activity;
- After the implementation of an activity.

Before the implementation of an activity

Activities are regularly implemented by means of procurement. The ETF's fraud risk analysis has identified possible risks that could be addressed before or during the procurement as follows:

- Check the proposal against possible plagiarism;
- Check eligibility and verify the legal existence of the financial and operational capacity of bidders;
- Verify whether operators are excluded from access to EU funding or subject to financial penalty in the Commission's database (Early Detection and Exclusion system: EDES-DB) and consider appropriate risk mitigating measures
- Independent central *ex ante* verification by ETF Finance and Procurement Unit is in place for medium/high risk financial transactions (budgetary commitments and pre - financing payments).

During the implementation of an activity

During the assessment of the deliverables submitted by the providers specific attention is required from the project officers to detect possible plagiarism, fabrication of results, underperformance, misrepresentation, etc.

Independent central *ex ante* verification by ETF Finance and Procurement Unit is in place for medium/high risk financial transactions (top-up of budgetary commitments and interim and final payments).

In performing controls, the quality and presence of the supporting documents (invoices, certificate of attendance, supporting travel documents, and declarations) is carefully assessed.

After the implementation of an activity

The ETF implements on an annual basis internal transactional ex-post controls on financial transactions applying a risk-based sampling methodology.

The ETF is also subject to regular institutional audits by the European Court of Auditors and the European Commission Internal Audit Service. In particular, ETF's Financial statements are subject to the approval of the European Court of Auditors and the opinion of the Governing Board before obtaining the discharge from the EU Budgetary Authority.

Other measures are described in the above-mentioned Annex B – Fraud detection measures.

7.4 Investigation

For external fraud, once a potential occurrence of fraud has been detected, the case is brought to the Director for her/his decision on the course of actions to be undertaken. Where appropriate the following actions are launched:

- Flagging the entity within the Early Detection and Exclusion System database of the Commission (EDES-DB) to inform the EC services about the risk of fraud.
- Transmission of the case to OLAF for external investigation.

Following the outcome of its pre-analysis, OLAF will decide whether it will launch an investigation. Each case transmitted to OLAF is being followed up by the ETF OLAF correspondent.

For internal fraud, the potential occurrence of fraud by staff members is addressed to the hierarchical superior or to the ETF Director or directly to the OLAF. The ETF OLAF Correspondent, as applicable in consultation with the Director, is responsible for liaising with OLAF.

7.5 Sanctions and recovery

In case of external fraud, contractors/tenderers may be flagged in the Early Detection and Exclusion database (EDES-DB) if they commit an irregularity in the implementation of the activity; they may also, under certain conditions, be excluded from further participation in future procurement award procedures (i.e. listed in the Commission's Central exclusion database which is an integral part of the EDES system).

Contracts provide clauses for e.g. liquidated damages and financial penalties, recovery, suspension of payments, possibility to terminate the contract.

These measures contribute to an effective control environment by providing mechanisms for correction upon detection of errors and provide a dissuasive effect against overcharging by beneficiaries.

In case of internal fraud, measures will be decided according to the relevant disciplinary framework namely the provisions of the Staff Regulations.

In addition, ETF staff trained as investigator is member of the Inter-Agency pool of investigators and upon request, handles administrative inquiries.

8. IMPLEMENTATION

The implementation of the present Anti-Fraud Strategy will be ensured through an annual Action Plan detailing the priorities for the ETF fraud prevention activities.

ANNEX A –FRAUD PREVENTION MEASURES

The below list of fraud prevention measures distinguishes between three main areas: Financial and procurement management, Human resources management, and Programme management.

Financial and procurement management

Compulsory raising awareness and training activities on sound financial management financial matters, procurement principles and ethics and integrity principles upon entrance in function. Regular refreshment activities available on a voluntary basis;
Double signature on bank transactions (authorisation on bank accounts only approved by Director. The Director himself has no authorisation on the bank accounts. Only the Director can open a new bank account.
Financial statements subject to approval of European Court of Auditors and subject to opinion of the Governing Board before obtaining discharge from the EU Budgetary Authority
Full articulated (sub)delegation of budget implementation powers, responsibility and authority limits are clearly defined;
Segregation of duties is ensured by adopted financial circuits (four eyes principle)
Segregation and subordination rules between initiation and verification ("4 eyes principle").
Incompatibility of roles between Authorising officer, Accounting officer and Financial initiating/verifying agent (FIA, FVA), and between Accounting Officer and ABAC ⁶ Security Officer.
ABAC system (including ABAC assets related to inventory) aligned with financial regulations
Financial systems are validated by the Accounting Officer
Signed charters of authorising officer, (sub-) delegated authorising officers responsibilities/roles
Operational actors in the financial circuits are nominated by responsible authorising officer and the Financial circuits director decision defines the responsibilities of all actors
All (delegated) authorising officers are requested to sign declaration of commitments and interests on an annual basis, which are publicly available on ETF website
Regular risk-based review of the adequateness of the financial circuits in place at ETF
The bank account and legal entity data of all beneficiaries must be created and validated in ABAC before proceeding with the legal/budgetary commitment and payment (automatic control performed by ABAC for a payment to an invalid bank account)
All payments are processed on the basis of original invoices/payment requests or certified copies, other necessary documentation prescribed in the contract, and only after receipt of certification of correctness by beneficiary of the services/goods received
All documentation to finance and procurement transactions is stored electronically/physically according to established retention rules
Formal appointment by authorising officer of tender opening and evaluation committees, members from different departments/units
Members of opening and evaluation committees provide self-declaration on conflict of interest (professional-personal) on which basis the authorising officer may decide to replace the committee member

⁶ ABAC is the official European Commission IT tool for financial management, used by ETF

Continuous guidance and support is provided by procurement team to committee members for the assessment of eligibility, selection and award criteria for all tendering procedures
Revised Register of Exceptions procedure requires prior approval of AO in relation to any exception

Human resource management

Art 110 of the Staff Regulations require that any derogation from the Commission Implementing Rules that shall apply by analogy to agencies, is agreed first with the Commission and adopted by the ETF Governing Board, after consultation with the Staff Committee;
The Director has a limited contractual term. He/she is the Appointing Authority (AIPN) responsible for all staff matters;
Staff members can submit a request or a complaint to acts adversely affecting them as per article 90 of the Staff Regulations;
Staff performance management (objective setting and appraisal) procedure in place: objectives set, self-assessment, appraisal and potential appeal and conclusion are recorded electronically. Staff members can appeal against the outcome of their appraisal as per art. 43 of the Staff Regulations;
Promotion / reclassification: all Heads of Department and the Director are part of the Board, a first list of staff to be reclassified is published to all staff which allows staff who do not see their name and believe they deserve a promotion to make an appeal to an appeal board which will assess the appeals and provide recommendations to the Appointing Authority. The latter takes a decision on the outcome considering the recommendations from the appeal board; the final list is then published. A Joint Committee also looks at the procedure (ex-post) and may make recommendations for future exercises;
The Appointing Authority appoints Board members for selection procedures. Members of the Board provide a self-declaration on conflict of interest (professional-personal) on which basis the Appointing Authority may decide to replace the Board member. The Appointing Authority also takes a decision on the outcome considering the recommendations from Board members;
Staff financial entitlements are prepared by ETF HR and processed by Commission-PMO;
Staff obligations as per Title II of the Staff Regulations are overseen by default by different actors (Line Manager, then HR and finally the Director)
Requests for allowances or other payments (staff rights) are processed on the basis of original documentation or certified copies.

Programme management

A procedure for programme management has been established in Operations, Resources and Services, Communication and Strategic Development Departments ⁷ ;
All department, unit and project plans are endorsed by the management and approved by the Director
In the ETF Operations the Project Coordinators are involved in drafting department and unit plans, a quality review step is foreseen by the Strategic Development Department before the visa of the Director. Regular monitoring is ensured through the quarterly reports.

⁷ Status of the ETF organisational structure on October 2019.

In relation to country management, the process involves country teams, a peer review, quarterly reports, mission reports, publicity of all relevant documents related to the country.

The operational management decision-making process is articulated in a number of steps, involving operational experts and country and project management staff; constant monitoring through quarterly reports. The possibility of influencing management is more related to technical expertise and should be considered a natural and positive attribute to a project manager in a centre of expertise such as the ETF.

ANNEX B –FRAUD DETECTION MEASURES

The below list of fraud detection measures distinguishes between three main areas: Financial and procurement management, Human resources management and Programme management.

Financial and procurement management

ECA and IAS audits;
Ex post transactional and procurement controls by ETF Finance and Procurement Unit
Reporting to Governing Board (Consolidated Annual Activity Report);
Work Programme activities and budget adopted by Governing Board

Human resources management

ECA and IAS audits;
Ex post sample checks performed by HR Unit

Programme management

ECA and IAS audits;
Sampling ex post audit/control by external chartered auditors;
Work Programme activities and budget adopted by Governing Board;