

Controllers workshop

Irregularities

Conflict of interest

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Interact



Co-funded by
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Interreg



Irregularities



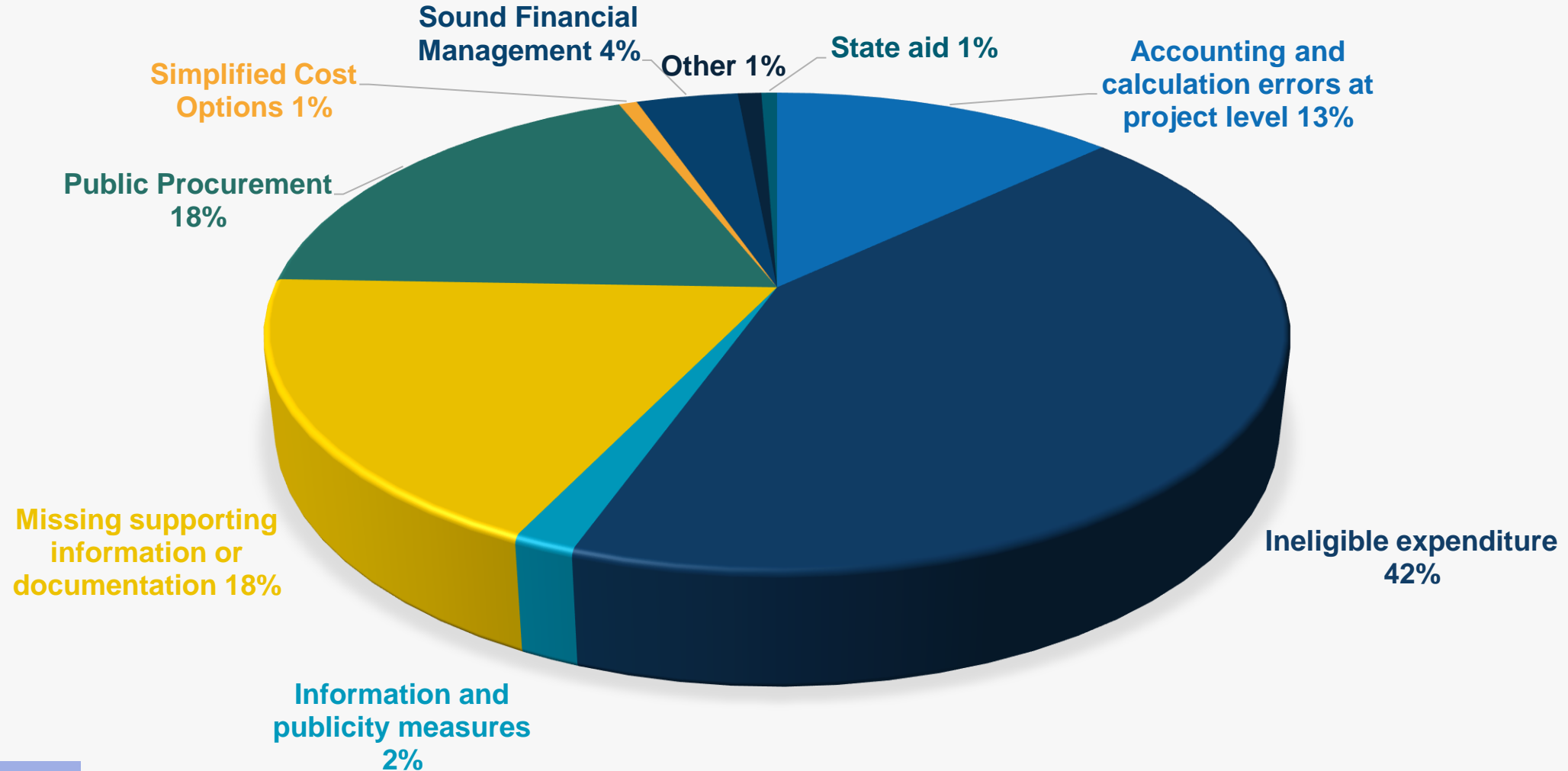
Irregularities

[Interact | Workshop on irregularities, fraud, and conflict of interest](#), 11 June 2025 10:00 – 12:00

Dr Andon Tashukov - European Public Prosecutor's Office (EPPO), registration is still open

Factsheet | Irregularity, fraud, withdrawal, deduction and financial correction

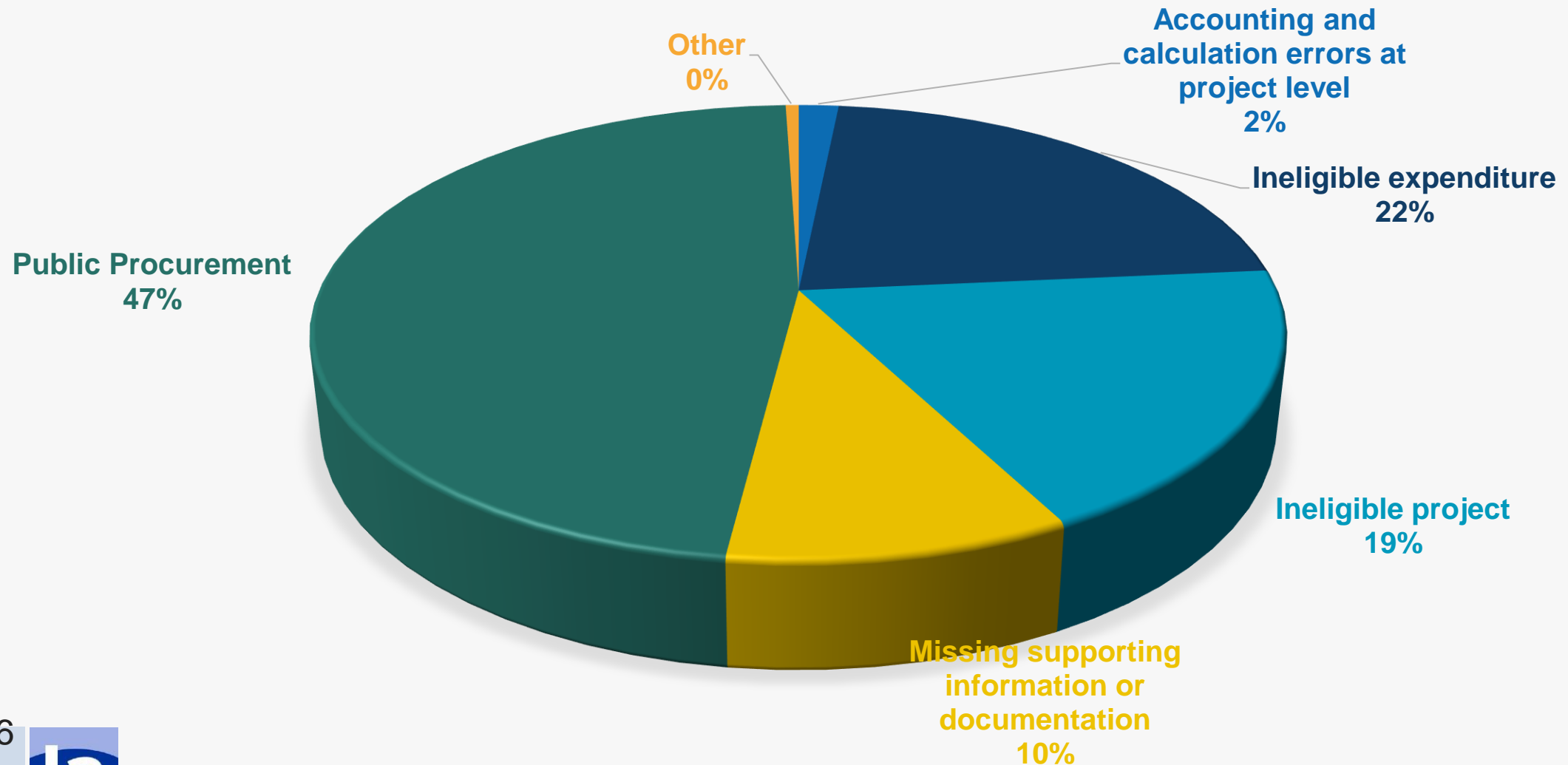
Type of irregularities (number) – Interreg - acc. year 2022/2023



Type of irregularities (number) – comparison – acc. year 2022/2023

Type	All	Interreg
Ineligible expenditure	2,429	431
Missing supporting information or documentation	1,634	187
Public Procurement	1,100	187
Sound Financial Management	506	39
Accounting and calculation errors at project level	403	132
Simplified Cost Options	225	7
Performance indicators	177	6
State aid	143	6
Information and publicity measures	117	17
Ineligible project	53	2
Financial instruments	49	-
Revenue Generating projects	13	1
Equal Opportunities / Non discrimination	10	-
Data protection	4	-
Total	6,863	1,015

Type of irregularities (amounts) – Interreg - acc. year 2022/2023



Type of irregularities (amounts) – Interreg - acc. year 2022/2023

Type	All	Interreg
Public Procurement	141,183,697.19	3,291,205.70
Ineligible expenditure	41,774,822.70	1,521,197.28
State aid	25,990,351.75	1,614.22
Missing supporting information or documentation	21,388,566.92	669,136.35
Ineligible project	11,259,107.42	1,303,822.86
Financial instruments	6,877,854.61	-
Accounting and calculation errors at project level	2,456,719.98	109,518.97
Simplified Cost Options	1,706,731.76	6,658.77
Sound Financial Management	807,924.92	27,433.86
Equal Opportunities / Non discrimination	658,219.85	-
Performance indicators	73,011.14	-
Information and publicity measures	23,140.03	77.52
Revenue Generating projects	16,850.71	7.53
Total	254,216,998.98	6,930,673.06

EVOLUTION OF FREQUENCY OF IRREGULARITIES – INTERREG

Category	2021-2022	2020-2021	2019-2020	2018-2019
Public Procurement	19.29%	19,90%	21,9%	14,1%
State aid	0.51%	0,59%	0,2 %	0,5%
Missing supporting information or documentation	19.67%	18,42%	17,3%	22,4%
Accounting and calculation errors at project level	12.18%	13,00%	11,3%	13,7%
Ineligible project/Ineligible expenditure	38.45%	42,66%	43,3%	43,3%
Sound financial management	4.31%	3,84%	3,3%	2,4%
Other categories	5.58%	1,58%	2,7%	3,6%

EVOLUTION OF AMOUNT OF IRREGULARITIES – ETC

Category	2021- 2022	2020- 2021	2019- 2020	2018- 2019
Public Procurement	42.20%	47,49%	67,9%	26,0%
State aid	0.00%	0,02%	0,0%	0,0%
Missing supporting information or documentation	3.64%	9,65%	2,2%	19,1%
Accounting and calculation errors at project level	7.52%	1,58%	5,6%	14,1%
Ineligible project/Ineligible expenditure	42.69%	40,76%	23,3%	39,2%
Sound financial management	2.58%	0,40%	0,1%	0,1%
Other categories	1.37%	0,10%	0,9%	1,5%

Irregularities

Irregularity means any **breach of applicable law**, resulting from an act or omission by an economic operator, which **has, or would have, the effect** of prejudicing **the budget of the Union** by charging unjustified expenditure to that budget;

Established irregularity when costs have been claimed in the payment application to the EC and

subject of a first written assessment by a competent authority, either administrative or judicial,
-> irregularity has been committed

Reporting in IMS - CPR Annex XII + Handbook on requirement to report irregularities, COCOLAF/23-05-17/8.2/EN



Fraud

Irregularities which have **intentional character** or are due to **intentional omission** are called **frauds**.

The intentional character must be first verified in the administrative or judicial proceedings. Until then we deal with a **suspected fraud**.

When the intentional character is confirmed we deal with an **established fraud**.



Financial corrections

Article 103 corrections

Financial corrections by Member States

Member States shall protect the Union budget and apply financial corrections by cancelling all or part of the support from the Funds to an operation or programme where expenditure declared to the Commission is found to be irregular. (...)

Management verifications based on an adequate risk assessment (first line of defence);

Efficient audit work (second line of defence).

Article 104 corrections

Financial corrections by the Commission

In 2021-2027 all irregularities (irrespective of the amount) contained in accepted accounts, and which were not detected and reported first by the MS but are identified by EC or ECA audits or OLAF investigations will lead to net financial corrections except for:

- 1.the MS removes the amounts from the accounts before their submission or acceptance;
- 2.the MS detected (and reported) the irregularity first even if the irregularity was not correctly treated in the accounts.

(Possible) double funding

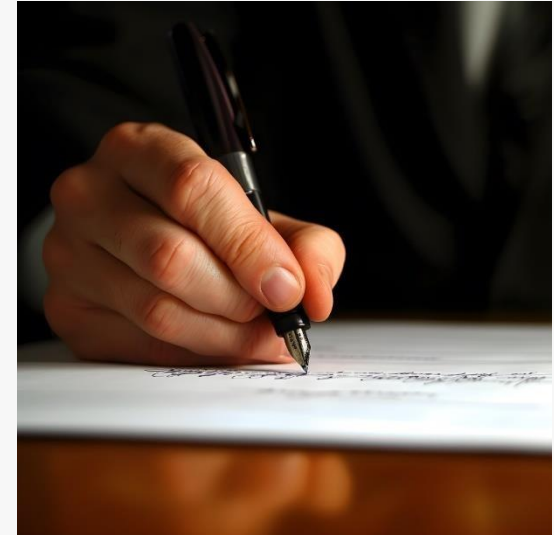
1. The costs for accounting in an Interreg operation were declared as real costs even if the Programme used the 15% flat rate for indirect costs (covering also accounting).
2. The financial manager of an operation was simultaneously employed in two other projects, which lead to over declaration of hours worked and of expenditure declared.
3. The project approved in one programme was submitted as a proposal to another programme (use keep.eu, Index).



Public procurement

The tender's **technical specification** in a public procurement **did not include any restrictions** regarding the use of a particular database.

However, a reply provided during clarifications indicated that **a specific “Microsoft database” for MySQL** was requested **without including the phrase ‘or equivalent’**.



Sound financial management

In one ESF operation, the beneficiary signed a contract for a training with a value of 3.000 EUR per person.

The auditors identified another recent training with the same contractors (in another operation) where the cost was 400 EUR per person.



State aid

The project consisted in **adapting medical facilities** to the needs of people with disabilities.

The **MA** considered that **State aid in projects in the public healthcare system does not exist**, as health benefits are **addressed to the general public** and as such the state support for these activities would not have any negative effect on competition between Member States.

However, some of the hospitals with awarded grants **carried out also commercial, private medical activities**, considered as an economic activity and therefore could involve State aid.



Reporting in IMS

Irregularities to be reported

1. have been the subject of a first written assessment by a competent authority, either administrative or judicial
2. give rise to the initiation of administrative or judicial proceedings at national level in order to establish the presence of fraud or other criminal offences (suspected fraud)
3. preceding a bankruptcy;
4. for which the Commission submits a written request for information to the Member State following the initial reporting from a Member State

Reporting in IMS

Irregularities not to be reported

1. for an amount lower than EUR 10 000 in contribution from the Funds, BUT if interlinked and total amount > EUR 10 000 have to be reported
2. Consist solely of failure to execute an operation included in the co-financed programme owing to the non-fraudulent bankruptcy
3. cases reported to MA / BAF by the beneficiary voluntarily and before detection by either authority, whether before or after the payment of the public contribution, **BUT suspected fraud YES**
4. cases which are detected and corrected by the managing authority before inclusion in a payment application submitted to the Commission, **BUT suspected fraud YES**

Irregularities in 2021-2027

Rules for the reporting of irregularities

Report irregularities within two months following the end of each quarter from their detection or as soon as additional information on the reported irregularities becomes available.

Who reports?

The Member State in which the irregular expenditure is incurred by the beneficiary and paid in implementing the operation shall be responsible for reporting

For programmes under the European territorial cooperation goal (Interreg), the reporting Member State shall inform the managing authority and the audit authority of the programme.



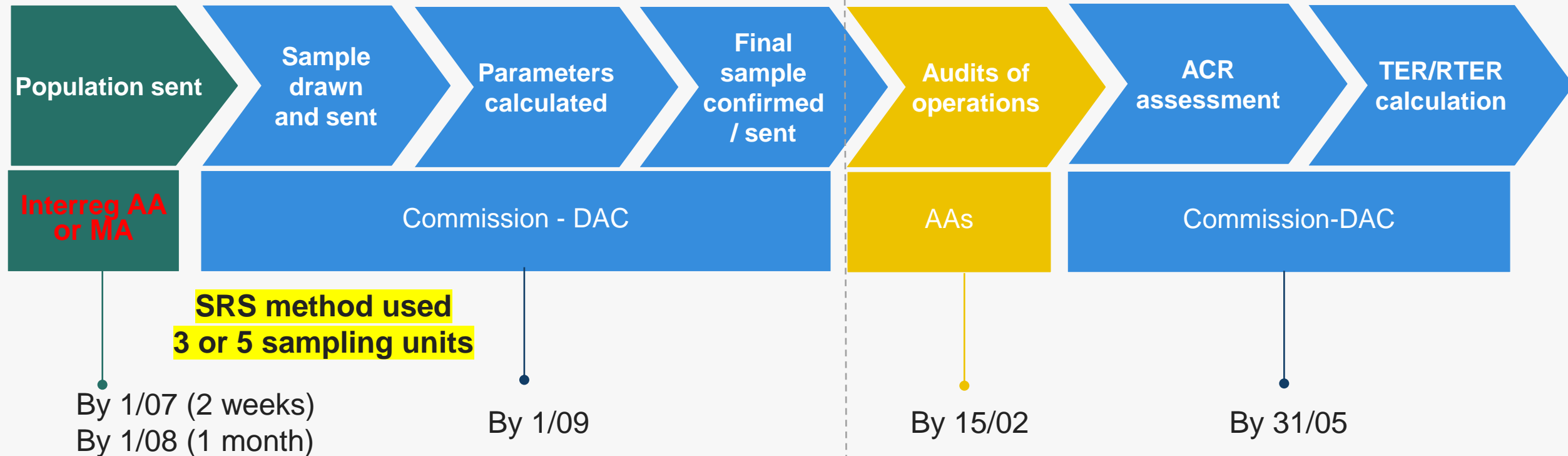
Risk-based management verifications (MA) vs audit work (AA)

Management verifications	Audit	Comments
Responsibility of the MA	Responsibility of the AA	Different authorities
Internal control function within the MCS	Ex-post control	Different levels of control
Purpose: <u>identify errors in payment claims</u> of beneficiaries and correct them	Purpose: to test whether the control system as defined in the MCS functions properly and to provide independent assurance on the system	Different purpose
Done via risk-based verifications through <u>administrative</u> and <u>on-the-spot checks</u>	1. <u>System audits</u> (design and operating effectiveness of controls) – primarily looks into the expenditure selected for RBMV, but not limited; 2. <u>Audit of operations</u> (common sample)	Different samples used by MA for management verifications and AA for audit of operations (sample is done by the EC).
Risk-based – <u>according to the risk assessment</u> and risk-based methodology developed by the MA in advance and in writing	<u>Common sample</u> at EU level – sample selected by the EC according to their methodology; sub-sampling if a large number of invoices	

Risk-based management verifications (MA) vs audit work (AA)

Management verifications	Audit	Comments
The errors/ irregularities found during MV are <u>not extrapolated</u> (non-statistical sample)	Extrapolation for all programmes covered by the common sample (TER/RTER below 2% for Interreg in 2014-2020) Targeted financial corrections for programmes with errors (if above 2%)	It is possible that an operation/payment claim/expenditure is not verified by MA but it is audited by AA
MA/IBs should <u>correct errors</u> and assess if they had any systemic impact at the level(s) of operations/ beneficiaries (e.g., by extending the level of verifications in those specific areas/ expenditure/ beneficiaries and also by revising the risk assessment).	Even in case conditions for the use of a non-statistical sample are fulfilled, results are still projected to the entire population.	The AA's sample may contain both (1) the expenditure <u>subject to previous MV</u> , and (2) <u>expenditure that has not been verified</u> by the MA/IB.
MA to <u>regularly revise the methodology</u> – based on results of MV, system audit, audit of operations, and recommendations of the AA (examination if an irregularity is one-off or systematic) + suspicion of fraud		

Common sample - process overview



Accounts

01 July 2023 – 30 June 2024

Status:

- 15 programmes submitted the assurance package
- Limited expenditure reported
- EC calculated the global extrapolated error rate for the group **0.07%**
- Well below 2% materiality level
- compliance audit in February 2025 on 8 of the 15 programmes in the common sample
- reasonable assurance that the total error rate will be confirmed well under 2%

Compliance audit

- the SCOs methodologies were assessed as expenditure was declared using SCOs
- standard DAC checklists used
- part of our normal audit work, as done in the past
- the AAs concerned are going to receive the audit report soon

System audits on KR4

any recommendations?

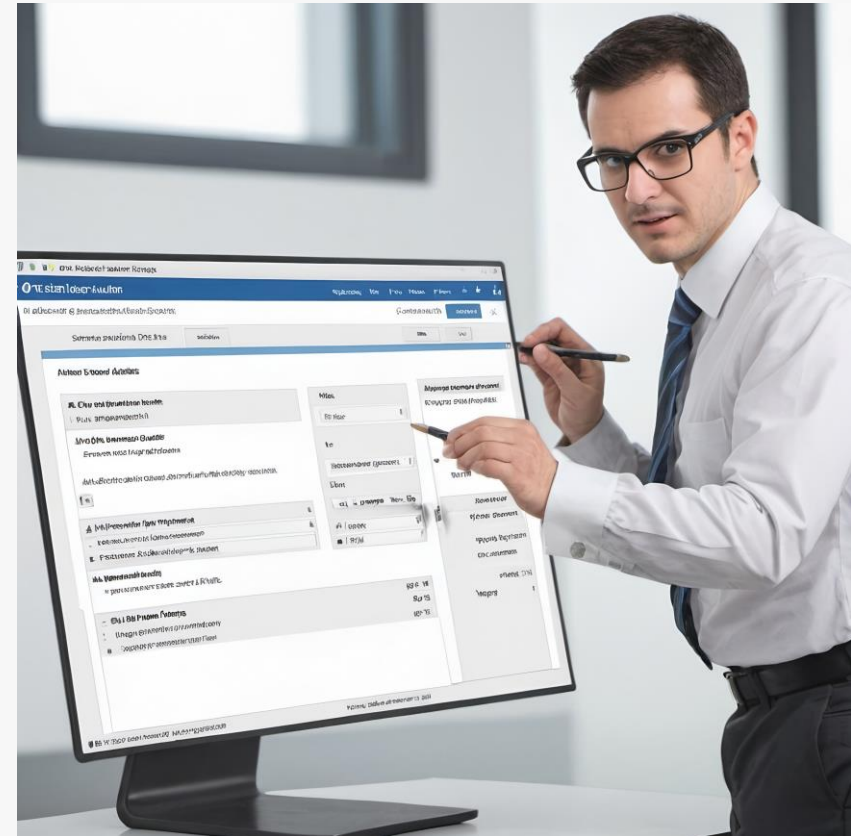
4th accounting year

1 July 2024 – 30 June 2025

Payment applications submitted by
38 programmes

Data for the common sample to be
submitted by **1 July / 1 August 2025**

Assurance package for this acc. year
to be submitted by **15 February 2026**



Do you use Arachne?

How do you use it?

What do you check there?

Are current red flags useful?

Any risks identified there?

Risk scoring systems (Arachne+)

Providing the data will be obligatory under the next MFF:

on the recipient, legal person

- recipient's full legal name, VAT identification number or another unique identifier established at country level
- the address
- the beneficial owner(s) of the recipient, where the recipient is not a natural person: the first name(s), last name(s), date of birth, and VAT identification number(s) or tax identification number(s) where available or another unique identifier at country level

on the recipient, natural person

- the first and last name; the date of birth;
- the region on NUTS 2 level when the recipient is a natural person and is domiciled in the Union or the country when the recipient is a natural person and is not domiciled in the Union;

Risk scoring systems (Arachne+)

on the operation:

- the amount committed and, in case of a commitment with multiple recipients, the breakdown of this amount per recipient where available;
- the nature and purpose of the measure.

Article 36, recast Financial Regulation

Risk scoring systems (Arachne+)

Annex 1: Consolidation of risk indicators

Current Arachne Risk Indicators	Arachne+ Risk Indicators
4.1.1 Lead time between publication and contract signature	4.1.1 Lead time between publication and contract signature
4.1.2 Percentage disqualified tender offers vs received	4.1.2 Percentage disqualified tender offers vs received
4.1.3 Number of valid tenders	4.1.3 Number of valid tenders
4.1.4 Contracted amounts via restricted procedures / total project cost	4.1.4 Contracted amounts via restricted procedures / total project cost
4.1.5 Number of contract addenda compared to sector average	4.1.5 Number of contract addenda compared to sector average
4.1.6 Financial correction	4.1.6 Financial correction
4.2.1 Contractors with invalid VAT number	4.2.1 Contract companies with invalid VAT number
4.2.2 SubContractors with invalid VAT number	consolidated with 4.2.1
4.2.3 Contract addenda cost vs project cost	4.2.3 Contract addenda cost vs project cost
4.2.4 Contract addenda cost vs contracted amount	4.2.4 Contract addenda cost vs contracted amount
4.2.5 Difference between final contract end date and initial contract end date	4.2.5 Difference between final contract end date and initial contract end date
4.2.6 Number of consortium members	4.2.6 Number of contract companies
4.2.7 Contract modifications	4.2.7 Contract modifications
4.2.8 Key experts change	4.2.8 Key experts change
4.2.9 Key experts linked to multiple projects	4.2.9 Key experts linked to multiple projects
4.2.10 Contracted amount vs annual turnover of the contractor	4.2.10 Contracted amount vs annual turnover of the contractor
4.2.11 External service provider	consolidated with 4.2.6
4.3.1 Project costs outside eligibility period - before start date	4.3.1 Project costs outside eligibility period
4.3.2 Project costs outside eligibility period - after end date	consolidated with 4.3.1
4.3.3 Difference between invoice and payment dates	4.3.3 Difference between invoice and payment dates
4.3.4 High percentage of cost allocated at the end of the project	4.3.4 Suspicious expense patterns
4.3.5 Expenses with round amounts	consolidated with 4.3.4

Do you use CRIF?

How do you use it?

What do you check there?

Any risks identified there?

Do you use EDES?

Do you use any other data mining tool (e.g. Minerva)?

Have you had whistle blowers?

How do you protect their identity?

Is it possible to inform in an anonymous way?

How? Dedicated email? Dedicated website? Any other way?



Conflict of interest



Definition of Conflict of Interest

“where the **impartial** and **objective exercise of the functions** ... is **compromised** for reasons involving **family, emotional life, political or national affinity, economic interest** or any other direct or indirect personal interest.”

Article 61
FR 2018



Case 1

Imagine that A&P are colleagues

A is a project manager in an Interreg project

P is a finance manager and reports to A who is his superior

Is there a perception of Col?

But suddenly A falls in love with P and now they are a couple.

What needs to be done in this case? Is there a Col now?

Case 2

Imagine that A&P is a married couple

A is a Project manager in an Interreg Project

P has a brother who is unemployed

A offers a contract to P's brother to work as finance manager for the next 4 years

Is there a perception of Col? What would you do with this Project?

Case 3

Imagine that A&P is a married couple

P is public procurement specialist Interreg Project
(Contracting authority)

A has one-man company offering publicity services

P offers a direct contract to A for 20 000 EUR (below the EU
and national threshold) to design project publicity materials

Is there a perception of Col? What would you do with this
contract?

Case 4

Imagine that A belongs to the board of the institution which implements EUR 8 million Project.

There is a public procurement over the PP threshold

Starprize company is granted contract. A is a beneficial owner of the Starprize company, but at the same time is in the board of the institution which was the granting authority. A signed a declaration of absence of Col.

Is there a Col? What would you do with this contract?

Case 5

Imagine that P prepares terms for reference for a public procurement procedure.

P later joins the tender committee.

P signs the declaration of impartiality despite previous involvement.

MA failed to verify the impartiality declarations.

Is there a Col? What would you do with this contract?

Unaddressed CoI - consequences

- Unresolved conflict of interest is considered an irregularity
- Corrective measures necessary (recoveries, penalties ...)
- **“100 % CORRECTION – GOOD DETERRENT EFFECT”**
- CoI is not a suspected fraud directly, but false statements are -> declarations of impartiality
- Legal acts may contain additional clauses to address irregularities

CoI Summary 1

- MC/programme/project level/public procurement/controller/auditor
- Systematic risk analysis
- Use of declarations of impartiality/declarations of conflict of interest -
CoI can pop up unexpectedly and needs to be reported
- Declarations of impartiality checked against hard evidence
- System of declaration of impartiality exists at all levels of verification
- Potential conflict is sufficient – the negative effect does not have to be justified

CoI Summary 2

- the obligation to notify a risk of CoI to a hierarchical superior
- Use of Arachne / national court and business registers / beneficial owners registers
- Red flags: the same surname and the same address
- What about small communities where people can be in family relations?
- Proper reporting (Document all the checks you do)
- Awareness-raising on CoI
- Protection of whistle blowers – no repercussions

Conflict of interest

[DG Budget's Webinar on Conflict of Interest, 08.06.2023](#)

Webstreaming + presentations

Conflict of Interest guidelines

[Technical Meeting with Audit Authorities, 12.12.2024](#)

14:20 – 16:07

Link expires on 11.12.2025

Cooperation works

All materials will be available on:

[Interact library](#)