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GUIDANCE NOTE ON FRAUD RISK ASSESSMENT AND EFFECTIVE AND PROPORTIONATE ANTI-FRAUD MEASURES

DISCLAIMER:

"This is a working document prepared by the Commission services. On the basis of the applicable Union law, it provides technical guidance to the attention of public authorities, practitioners, beneficiaries or potential beneficiaries, and other bodies involved in the monitoring, control or implementation of the Cohesion policy on how to interpret and apply the Union rules in this area. The aim of this document is to provide Commission services' explanations and interpretations of the said rules in order to facilitate the implementation of operational programmes and to encourage good practice(s). However this guidance is without prejudice to the interpretation of the Court of Justice and the General Court or decisions of the Commission."

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EXECUTIVE SUMMARY

This guidance note provides assistance and recommendations to managing authorities (MA) for the implementation of Article 125.4 c), which lays down that the managing authority shall put in place effective and proportionate anti-fraud measures taking into account the risks identified. The Commission also provides guidance for the audit authority's verification of the compliance of the managing authority with this article.

The Commission recommends that managing authorities adopt a **proactive, structured and targeted approach to managing the risk of fraud**. For the ERDF, ESF, the Cohesion Fund and the EMFF, the objective should be proactive and proportionate anti-fraud measures with cost-effective means. All programme authorities should be committed to zero tolerance to fraud, starting with the adoption of **the right tone from the top**. A well-targeted fraud risk assessment, combined with a clearly communicated commitment to combat fraud can send a clear message to potential fraudsters. Effectively implemented robust control systems can considerably reduce the fraud risk but cannot completely eliminate the risk of fraud occurring or remaining undetected. This is why the systems also have to ensure that procedures are in place to detect frauds and to take appropriate measures once a suspected case of fraud is detected. The guidance should help as a step-by-step guide to addressing any remaining instances of fraud once other sound financial management measures have been put in place and are implemented effectively. However, the overall objective of the regulatory provisions is cost-effective fraud risk management and the implementation of proportionate anti-fraud measures, which in practice means a targeted and differentiated approach for each programme and situation.

Therefore, the fraud risk self-assessment tool which is attached to this guidance note, together with detailed instructions, can be used to assess the impact and likelihood of common fraud risks occurring. Secondly, the guidance indicates the recommended mitigating controls which could help further reduce any remaining risks, not yet effectively addressed by current controls. The operational objective for the managing authority should be to deliver fraud responses which are proportionate to the risks and tailored to the specific situations related to the delivery of the funds in a particular programme or region. Notably, following this risk assessment and related mitigating controls put in place at system level, managing authorities should address specific situations which may arise at the level of implementation of operations by further developing specific fraud indicators (red flags) and by ensuring effective cooperation and coordination between the managing authority, the audit authority and investigative bodies. The Commission will also assist Member States by offering a specific risk scoring tool, ARACHNE, which will help to identify, prevent and detect risky operations, projects, beneficiaries and contracts/contractors and will serve also as a preventive instrument.

The fraud risk self-assessment proposed by the Commission is straightforward, logical and practical and is based on five main methodological steps:

1. Quantification of the risk that a given fraud type would occur by assessing impact and likelihood (gross risk).

2. Assessment of the effectiveness of the current controls in place to mitigate the gross risk.

3. Assessment of the net risk after taking into account the effect of any current controls and their effectiveness i.e. the situation as it is at the current time (residual risk).

4. Assessment of the effect of the planned mitigating controls on the net (residual) risk.

5. Defining the target risk, i e the risk level which the managing authority considers tolerable after all controls are in place and effective.

Finally, the Commission plans to provide targeted roll-out support, when needed, to assist Member States in implementing Article 125.4 c. and this guidance.

1. INTRODUCTION

1.1. Background

According to Article 59(2) of the Financial Regulation, Member States shall take all necessary measures, including legislative, regulatory and administrative measures, to protect the Union's financial interests, namely by preventing, detecting and correcting irregularities and fraud.

The legislative proposals for Cohesion Policy 2014-2020[1] include specific requirements in relation to Member States' responsibility for fraud prevention. This guidance on fraud risk management is addressed to the managing and audit authorities of the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF). It is equally applicable to the European Maritime and Fisheries Fund (EMFF) under the specific regulation.[2]

Apart from Article 72 h) of the legislative proposals, which sets out that the management and control systems shall provide for the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest, Article 125.4 c) lays down that the managing authority shall put in place **effective and proportionate anti-fraud measures taking into account the risks identified**.

Fraud and corruption risks should be adequately managed. Managing authorities have a responsibility to demonstrate that attempts at defrauding the EU budget is unacceptable and will not be tolerated. Dealing with fraud, and its causes and consequences, is a significant challenge to any management, as fraud is designed to avoid detection. Managing authorities are also advised to take notice of Transparency International's *Corruption Perception Index*[3] and the EU Anti-

[1] Legislative Proposals for Cohesion Policy 2014-2020, COM(2011)0615 final of 6.10.2011

[2] Article 114.1 d) of COM(2011) 804 of 2.12.2011

[3] http://cpi.transparency.org/cpi2012

corruption report prepared by the European Commission[4], when assessing to what extent its overall operating environment is perceived to be exposed to potential corruption and fraud.

The potential for fraud cannot be ignored and should be seen as a set of risks to be adequately managed alongside other business risks or potentially negative events. Assessment of fraud risks can therefore be carried out using existing risk management principles and tools. Effectively implemented robust control systems can reduce the risk that fraud occurs or remains undetected but cannot eliminate the likelihood of fraud occurring. The overall objective should be to address the main fraud risks in a targeted manner, keeping in mind that – apart from baseline requirements – 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.

In order to assess the impact and likelihood of any potential fraud risks which could harm the EU's financial interests, the Commission recommends that managing authorities use the attached fraud risk assessment tool in **Annex 1**. The assessment should be carried out by a self-assessment team designated by the managing authority[5]. The list of recommended but non-binding mitigating controls which the managing authority could put in place, in response to any remaining risks, is indicated in **Annex 2.** These proportionate measures could help further mitigate any remaining risks identified in the self-assessment, not yet effectively addressed by current controls.

Moreover, a voluntary template for an anti-fraud policy statement is also provided at **Annex 3**, for the benefit of those managing authorities which wish to set out their anti-fraud programme in a policy statement, which communicates internally and externally their official position with regard to fraud and corruption.

In order to complement this guidance, the Commission also provides guidance for the audit authority's verification of the work done by the managing authority in the context of the fraud risk assessment and the corresponding measures it has put in place to mitigate the fraud risks. The attached checklists at **Annex 4** may prove useful in view of the systems audits to be performed by the audit authorities under Article 116 of the legislative proposals. They will be used for the Commission's own risk assessment purposes and may also be useful for the independent audit body responsible for the assessment of the management and control system in view of the designation of managing authorities referred to in Article 123 bis.

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[4] Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee of 6 June 2011 – Fighting corruption in the EU (COM (2011) 308 final).

[5] In the case of European territorial cooperation, as managing authorities are responsible for all functions, the risk assessment should take into account fraud risks across the whole programme area and should seek to ensure that effective and proportionate anti-fraud measures are put in place, as necessary.

1.2. A proactive, structured and targeted approach to managing the fraud risk

The attached practical fraud risk self-assessment tool targets the main situations where key processes in the implementation of the programmes could be most open to manipulation by fraudulent individuals or organisations, including organised crime, the assessment of how likely and how serious these situations could be and, what is currently being done by the managing authority to tackle them. Three selected key processes considered to be most exposed to specific fraud risks should be targeted:

- selection of applicants;
- implementation and verification of the operations;
- certification and payments.

The end output of the fraud risk assessment should be the identification of those specific risks where the self-assessment concludes that not enough is currently being done to reduce the likelihood or impact of the potentially fraudulent activity to an acceptable level. This assessment will then form the basis for responding to the deficiencies by choosing effective and proportionate anti-fraud measures from the list of recommended mitigating controls. In some cases, the conclusion could be that most residual risks have been addressed and that therefore very few, if any, additional anti-fraud measures are required. In all assessment scenarios, it would be expected that arguments can be provided by the managing authority to support its conclusions.

2. DEFINITIONS

This risk assessment deals only with specific fraud risks, not irregularities. **However, indirectly, effective implementation of the exercise may also have an impact on prevention and detection of irregularities at large**, being understood as a larger category than fraud.

It is the element of intention which distinguishes fraud from irregularity.[6]

2.1. Definition of irregularity

For the purposes of Council Regulation (EC) No 2988/95 of 18 December 1995[7] on the protection of the European Communities' financial interests, the term irregularity is a wide concept and covers both intentional and non-intentional irregularities committed by economic operators.

Article 1(2) of Regulation (EC) No 2988/95 defines **"irregularity"** as:

[6] The reasons behind fraudulent behaviour have been dealt with in COCOF 09/0003/00 of 18.2.2009 - Information Note on Fraud Indicators for ERDF, ESF and CF.

[7] OJ L 312, 23.12.1995, p. l.

"any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure".

2.2. Definition of fraud in the Treaty

The Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on the protection of the European Communities' financial interests[8] defines **"fraud",** in respect of expenditure, as any intentional act or omission relating to:

> "- *the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of the European Communities;*
> *- non-disclosure of information in violation of a specific obligation, with the same effect;*
> *- the misapplication of such funds for purposes other than those for which they were originally granted."*

2.3. Definition of corruption

A broad definition of corruption used by the Commission is the abuse of (public) position for private gain. Corrupt payments facilitate many other types of fraud, such as false invoicing, phantom expenditure or failure to meet contract specifications. The most common form of corruption is corrupt payments or other advantages; a receiver (passive corruption) accepts a bribe from a giver (active corruption) in exchange for a favour.

3. FRAUD RISK SELF-ASSESSMENT

3.1. The tool

The main objective of the fraud risk assessment tool at **Annex 1** is the facilitation of a self-assessment by the managing authority of the impact and 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. In other words, the tool has been pre-populated with a set of recognised specific risks. Any other known risks for the specific programme / region under assessment should be added by the self-assessment team.

The guidance in Annex 1 explains in detail how to complete the fraud risk assessment tool.

[8] OJ C 316, 27.11.1995, p. 49.

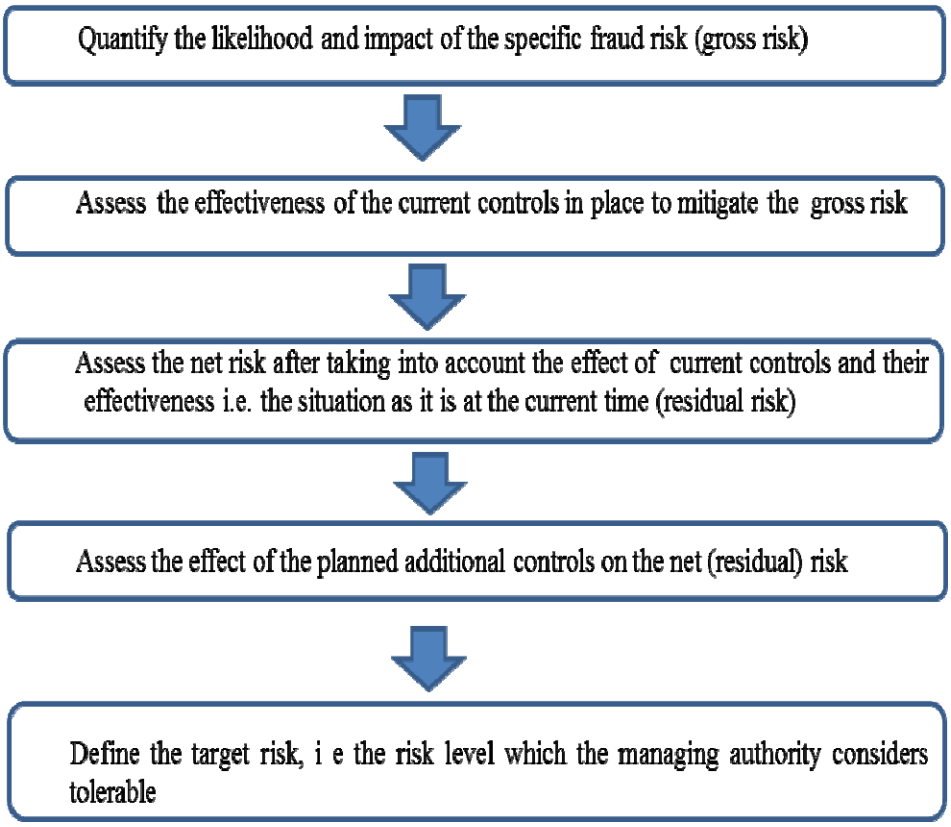
The tool covers the likelihood and impact of specific and commonly recognised fraud risks particularly relevant to the key processes:

- selection of applicants (worksheet 1 of the spreadsheet);
- implementation of the projects by the beneficiaries, focusing on public procurement and labour costs (worksheet 2);
- certification of costs by the MA and payments (worksheet 3).

Each section is preceded by a cover sheet, which lists the specific risks relevant to the section.

Moreover, the MA is recommended to assess fraud risks in relation to any public procurement it manages directly, e.g. in the context of technical assistance (worksheet 4). In case the MA does not carry out any public procurement for which a fraud risk assessment is necessitated, section 4 need not be filled in.

The methodology for this fraud risk assessment has **five main steps**:



For each of the specific risks, the overall objective is to assess the 'gross' risk of particular fraud scenarios occurring, and then to identify and assess the effectiveness of controls already in place to mitigate against these fraud risks either from occurring or ensuring that they do not remain undetected. The result will be a 'net' current risk which should lead an internal action plan to be put in place when the residual risk is

significant or critical in order to improve controls and further reduce the exposure of the Member State to negative consequences (i e putting in place any additional effective and proportionate anti-fraud measures, as necessary – see the list of recommended mitigating controls[9] in **Annex 2**).

3.2. Composition of the self-assessment team

Depending on the size of the programme and of the managing authority, it may be that each of the implementation processes are executed by different departments within the MA. It is recommended that the most relevant actors take part in the assessment in order that it is as honest and accurate as possible and so that it can be done in an efficient and smooth way. The assessment team could therefore include staff from different departments of the MA having different responsibilities, including selection of operations, desk and on the spot verification and authorisation of payments, as well as representatives from the certifying authority and implementing bodies. Managing authorities may want to consider involving the Anti-Fraud Coordination Services ('AFCOS') or other specialised bodies, which could bring in specific anti-fraud expertise into the assessment process.

As the audit authority will audit the completed risk assessment, it is recommended that it does not take a direct role in deciding on the level of risk exposure, but it could be envisaged to participate in the assessment process in an advisory role or as an observer.

For obvious reasons, the self-assessment should not be outsourced as it requires a good knowledge of the operating management and control system and the programmes's beneficiaries.

3.3. Frequency of the self-assessment

First, compliance with the requirements for adequate procedures for putting in place effective and proportionate anti-fraud procedures are part of the designation criteria for managing authorities.

The recommendation is that this tool should be completed in full on an annual basis, as a general rule, or every second year. However, more regular reviews of progress against action plans related to additional controls which were put in place, changes to the risk environment and the continuing adequacy of assessment scores may be necessary (e.g. through management meetings). When 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. The occurrence of any new fraud instance, or main changes in the MA procedures and/or staff, should immediately lead to a review of perceived weaknesses in the system and of relevant parts of the self-assessment.

[9] These constitute non-binding suggestions for additional controls in order to further mitigate the residual risk.

4. GUIDANCE ON MINIMUM REQUIREMENTS FOR EFFECTIVE AND PROPORTIONATE ANTI-FRAUD MEASURES

Whereas this section provides general guidance on principles and methods which should be employed by the MA to combat fraud, **Annex 2** provides for each specific risk identified in the fraud risk assessment, the recommended mitigating controls which could be put in place in order to seek to reduce the risks to an acceptable level.

The minimum standards set out in this chapter which managing authorities are recommended to comply with relate to the anti-fraud cycle.

In order to successfully tackle the issue of fraud, the MA should develop a structured approach to tackling fraud. There are four key elements in the anti-fraud cycle: prevention, detection, correction and prosecution. The combination of a thorough fraud risk assessment, adequate preventative and detective measures, as well as coordinated and timely investigations by competent bodies could significantly reduce the fraud risk as well as provide adequate deterrence against fraud.

4.1. Anti-fraud policy

Many organisations use an anti-fraud policy to communicate their determination to combat and address fraud. Within any such policy, which should be simple and focused, the following topics should be covered:

- Strategies for the development of an anti-fraud culture;
- Allocation of responsibilities for tackling fraud;
- Reporting mechanisms for suspicions of fraud;
- Cooperation between the different actors.

This policy should be visible within an organisation (distributed to all new staff, included on intranet) and it should be clear to staff that it is actively implemented, via avenues such as regular updates on fraud matters and reporting of outcomes of investigations into fraud. See the suggested template for an anti-fraud policy at **Annex 3**, which provides a voluntary template for an anti-fraud policy statement for the benefit of those managing authorities which wish to go beyond the immediate regulatory requirements and to formalise and communicate internally and externally their official position with regard to fraud and corruption.

4.2. Prevention

If the MA demonstrates a clear commitment to combat fraud and corruption, raises awareness about its preventative and detective controls, and is determined in transmitting cases to the competent authorities for investigations and sanctions, it will send a clear message to any potential perpetrators and could change behaviours and attitudes towards fraud.

Given the difficulties in proving fraudulent behaviour and repairing reputational damage, it is generally preferable to prevent fraudulent activity rather than to have to deal with it after the event. Prevention techniques most often revolve around reducing opportunities to commit fraud via the implementation of a robust internal control system, combined with a proactive, structured and targeted fraud risk assessment, but comprehensive training and awareness raising activities and the

development of an **'ethical' culture** can also be used to combat any potential 'rationalisation' of fraudulent behaviour.

The strongest preventative defence against fraud is the operation of a robust system of internal control which should be designed and operated as a proportionate response to the risks identified during a risk assessment exercise. An organisation should however also work to create the right structures and culture to discourage potential fraudulent behaviour.

4.2.1. Ethical culture

The creation of an anti-fraud culture is key both in deterring potential fraudsters and also in maximising the commitment of staff to combat fraud within the MA. This culture can be created by a combination of specific anti-fraud structures and policies, as shown in the second circle in the above diagram and discussed in more detail below, but also through the operation of more general mechanisms and behaviours:

- **Mission statement** – a clear expression, visible to all internal and external observers, that the MA is striving to achieve the highest ethical standards;
- **Tone from the top** – oral and/or written communication from the highest level of the MA that the highest standard of ethical behaviour is expected from staff and beneficiaries (the latter can be implemented through the grant letters and contracts);
- **Code of conduct** – a unambiguous code of ethics that all staff must routinely declare adherence to, covering such things as:
  - Conflicts of interest – explanation and requirements and procedures for declaring them;

- Gifts and hospitality policy – explanation and responsibilities of staff for compliance;
- Confidential information – explanation and responsibilities of staff;
- Requirements for reporting suspected fraud or breaches of the Code.

In short, staff must comply with principles such as integrity, objectivity, accountability and honesty.

4.2.2. Allocation of responsibilities

Within the MA, there should be a clear allocation of responsibilities for setting up management and control systems which comply with EU requirements and for verifying that these systems function effectively in preventing, detecting and correcting fraud. This is to ensure that all actors fully understand their responsibilities and obligations, and to communicate both internally and externally, towards all potential programme beneficiaries, that the organisation has a coordinated approach towards combatting fraud.

4.2.3. Training and awareness raising

Formal training and awareness-raising can be included within the organisation's overall risk management strategy, as necessary. All staff could be trained on both theoretical and practical matters, both to raise awareness of the MA's anti-fraud culture and also to assist them in identifying and responding to suspected instances of fraud. It should cover the detail of any anti-fraud policy, specific roles and responsibilities and reporting mechanisms.

Awareness-raising can also be carried out via less formal avenues, such as through newsletters, posters, intranet sites or inclusion as a regular agenda item for group meetings.

4.2.4. Internal control systems

The strongest defence against potential fraud is a well-designed and operated system of internal control, where controls are focused at effectively mitigating the identified risks.

Management verifications must be thorough and the associated on-the-spot controls must be risk-based and carried out with sufficient coverage. **The likelihood of detecting potential fraud cases will increase when management verifications are thorough**. Staff in charge of desk and on-the-spot management verifications should be aware of the Commission and any national guidance on fraud indicators (see below).

4.2.5. Data analytics and the ARACHNE tool

With the growth in sophistication of data gathering, storage and analytics comes an opportunity in the fight against fraud. Within and taking account of the limits of the respective legislation in each Member State, data analytics can be used at this stage to enrich the risk assessment process, cross-check

data with other public or private sector organisations (e g tax authorities, government departments, credit checking authorities) and detect potentially high risk situations even prior to the award of funding.

In the framework of the fight against fraud (and irregularities), the Commission offers a specific data mining tool called ARACHNE to managing authorities, in order to identify projects which might be susceptible to risks of fraud, conflict of interest and irregularities. ARACHNE is a risk scoring tool which can increase the efficiency of projects selection, management verifications and further strengthen fraud identification, prevention and detection. The use of ARACHNE, which will be considered by the Commission as a benchmark for the fraud combatting measures, should be taken into account when assessing the adequacy of current controls in place. The tool will be gradually rolled out in 2013.

4.3. Detection and reporting

Preventative techniques cannot provide absolute protection against fraud and so the managing authority need systems that detect fraudulent behaviour in a timely manner. Such techniques include analytical procedures to highlight anomalies (e g data mining tools, such as the ARACHNE tool), robust reporting mechanisms and on-going risk assessments.

A strong ethical culture and a sound system of internal control cannot provide absolute protection against perpetrators of fraud. A fraud strategy must therefore take into consideration that instances of fraud may still occur, for which a series of fraud detection measures must be designed and implemented.

4.3.1. Developing an appropriate mindset

The MA could address fraud risks with specialised and focused detection techniques with designated individuals having responsibility for conducting them. In addition to this, all of those involved in implementing a structural funding cycle have a role to play in spotting potentially fraudulent activity and then acting upon it. This necessitates the cultivation of an appropriate mindset. A healthy level of scepticism should be encouraged, together with an up-to-date awareness of what could constitute potential fraud warning signs.

4.3.2. Fraud indicators (red flags)

Fraud indicators are more specific signs or ‘red flags’ that fraudulent activity is taking place, when an immediate response is required to verify whether further action is required.

Indicators can also be specific to those activities frequently taking place under structural funding programmes, such as procurement and labour costs. For this purpose, the Commission has provided the following information to the Member States:

- *COCOF 09/0003/00 of 18.2.2009 - Information Note on Fraud Indicators for ERDF, ESF and CF*
- *OLAF Compendium of Anonymised Cases – Structural Actions*
- *OLAF practical guide on conflict of interest*
- *OLAF practical guide on forged documents*

These publications should be read in detail and the content widely publicised amongst all staff who are in positions in which they could detect such behaviour. In particular, these indicators must be familiar to all of those working in roles involving the review of beneficiary activities, such as those performing both desk-based and on-the-spot management verifications or other monitoring visits.

4.3.3. Reporting mechanisms

The establishment and promotion of clear reporting mechanisms is a key element of prevention, as well as detection. Any such mechanisms should facilitate the reporting of both suspicions of fraud and also control weaknesses that may increase the MA's susceptibility to fraud. MAs should have clear reporting mechanisms ensuring **sufficient coordination on anti-fraud matters with the audit authority and competent investigative authorities in the Member State**, including anti-corruption authorities.

Reporting to the Commission on the results of effective anti-fraud measures and any suspected instances of fraud will be part of the annual summary report and management opinion of the managing authority. The annual control report of the audit authority will also comprise a section on fraud suspicions detected during the year.

Communication and training with staff about these reporting mechanisms must ensure that they:

- understand where they should report suspicions of fraudulent behaviour or control;
- are confident that these suspicions are acted upon by management;
- are confident that they can report in confidence and that the organisation does not tolerate retaliation against any staff member who reports suspicions.

Suspected fraud must be reported to the European Anti-Fraud Office (OLAF) by the authority designated by the Member State in line with requirements under Article 122. In addition, beneficiaries should be made aware of how they can approach OLAF with any information they may have.[10]

[10] COCOF 09/0003/00 of 18.2.2009 - Information Note on Fraud Indicators for ERDF, ESF and CF, also contains information on reporting procedures.

4.4. Investigation, correction and prosecution

Once a suspicion of fraud has been raised and correctly reported, the MA must transmit the case to the competent authority in the Member State for investigation and sanctions, including anti-corruption authorities where relevant, and inform OLAF accordingly.

The MA should also conduct a thorough and critical review of any related internal control systems that may have exposed them to the potential or proven fraud.

Once a case of suspected fraud has been detected and reported in accordance with internal and EU requirements, in order for the competent body to make an assessment whether an investigation should be opened, recovery and criminal prosecution should ensue, as relevant.

4.4.1. Recovery and criminal prosecution

Recovery of undue payments from beneficiaries is required by MAs and CAs and so they should ensure that they have robust processes in place for following up any potential recoveries of EU funds spent in a fraudulent manner. These processes should also be clear on the cases in which civil and criminal proceedings will be pursued. **The implementation of such sanctions, and the visibility of these, are a key deterrent to potential fraudsters** and so the MA should be vigorous in pursuing such outcomes.

4.4.2. Follow-up

Once a fraud investigation has been concluded by competent authorities, or handed over to the relevant authorities for pursuit, a review of any processes, procedures or controls connected to the potential or actual fraud should be conducted. This should be objective and self-critical and should result in clear conclusions about perceived weaknesses and lessons learned, with clear actions, responsible individuals and deadlines. This should also feed into the subsequent review of the self-assessment, as indicated in section 3.3 above.

Full cooperation with investigative, law enforcement or judicial authorities should be ensured, in particular by keeping files concerning fraud cases in safe places and ensure a proper hand over in case of staff mobility.

5. AUDIT BY THE AUDIT AUTHORITY OF THE MANAGING AUTHORITY'S FRAUD RISK ASSESSMENT AND ITS ANTI-FRAUD MEASURES

5.1. Checklist for audit authorities

A proposal for a checklist for the audit authority’s audit of the MA’s (and its intermediate bodies') compliance with Article 125.4 c) is at **Annex 4**. This can be part of checklists used by the audit authority for its system audits.

The check list can also be used for the independent audit body in charge of assessing the management and control system in accordance with Article 127.

5.2. Frequency of the audit authority's verification

In connection with audits on the functioning of the management and control systems, the audit authority should carry out verifications of the effective implementation of the anti-fraud measures by the MA as early as possible in the programming period.[11] Depending on the results of such audits and on the identified fraud risk environment, follow-up audits may be carried out as often as necessary. In some cases this may entail annual follow-up audits, depending on the gravity of fraud suspicion for each programme. Here again a targeted and proportionate (risk-related) approach is recommended. The conclusions should be included in the AA's annual control report.

The audit authority should also systematically review the implementation of effective and proportionate anti-fraud measures at the level of intermediate bodies, as part of its system audits.

[11] As regards European territorial cooperation, the single audit authority, or where this is not possible, a group of auditors should assist the programme audit authority.