

Practice Name:

Tackling Fraud and Corruption Risks in the Slovak Republic - A Strategy with Key Actions for the European Structural and Investment Funds

Country: **Slovak Republic (with OECD)**

Practice category:

- Guidance and template models



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Fraud risk(s) countered

- Corruption
- Bribery
- Avoidance or manipulation of public procurement procedures
- Collusion
- Manipulation of project costs

Context and objective(s)

The European Structural and Investment (ESI) Funds had EUR 450 billion at their disposal for the planning period 2014-2020, out of which over EUR 15 billion were allocated to the Slovak Republic.

Many countries face challenges in the management of fraud and corruption risks relating to ESI Funds. During the programming period 2007-2013, the Slovak Republic reported irregularities relating to: a) a lack of transparency in the selection of projects; b) infringements of procurement procedures; c) declarations of expenditure not in line with the works performed; and d) failure to ensure fair competition. In particular, the Slovak Republic experienced deficiencies in relation to insufficient verification by Managing Authorities (MAs).

Although the European Commission (EC) issued guidance, e.g. relating to fraud risk assessments, the documents are general and not country specific. Therefore, the Central Co-ordinating Body (CCB) which manages and co-ordinates the implementation of Operational Programs among Slovak authorities approached the OECD with the request for assistance in modernizing its own risk management strategy for ESI funds.

The project culminated in a report outlining a specific strategy for managing fraud and corruption risks related to the ESI Funds in the Slovak Republic. This served as basis for the Slovak Republic to update and implement its National Anti-Fraud Strategy. In addition, a general guide to raise further awareness about fraud schemes affecting ESI Funds with concrete actions to take was published which is not specific to the Slovak Republic.

Description of the practice

Country specific strategy

During an 18-month period, the OECD worked with the Central Co-ordinating Body (CCB) within the Government Office of the Slovak Republic, which included fact-finding missions and interviews with 4 representative MAs. A number of other Slovak authorities were also engaged in the co-operation, including: the Public Procurement Office, General Prosecutor's Office, Anti-Monopoly Office, Procurement Unit of the Deputy Prime Minister's Office, Anti-Corruption Unit of the Government Office, Ministry of Finance (certifying authority, audit authority), and the central contact point for OLAF.

The OECD assessed relevant legislation, policies, practices and tools for managing risks, and organized five workshops with project participants. Experts and practitioners from six EU Member States shared their experiences in the form of practical case studies. In addition, the OECD conducted a survey of approximately 80 practitioners from program authorities in other Member States to gain insights into the most prevalent fraud and corruption risks and schemes that other countries encounter. Last, the OECD team researched fraud and corruption schemes involving ESI Funds.

This allowed the OECD team to gain a deeper understanding of how the ESI Funds were managed through the nine national and regional programs in the Slovak Republic, and the fraud and corruption risk assessment framework in place. The insights gained were published in the Report “Tackling Fraud and Corruption Risks in the Slovak Republic: A Strategy with Key Actions for the European Structural and Investment Funds”. This Report is a unique resource tailored to the specific context of the Slovak Republic.

The strategy outlined in the Report identified two key areas for improvement for the country:

1. Enhancing fraud and corruption risk assessments, with a focus on data-driven approaches to risk management; and
2. Adopting a systematic approach for managing fraud and corruption risks involving ESI Funds.

For each area, various issues were identified and priorities with respective key action items defined, such as:

- Clarify and improve the criteria for scoring fraud and corruption risks;
- Ensure control activities are appropriate, sufficient and proportional for mitigating identified risks;
- Conduct periodic statistical analysis of irregularities, fraud cases and audit findings to help determine higher-risk areas in different sectors across the whole system;
- Further define objectives and expand the use of Arachne for assessing risks within MAs, with practical guidance from the CCB;
- Have managing authorities develop and approve a tailored anti-fraud policy and disseminate it widely
- Develop formalized, regular, and ongoing training programs on fraud risk management and assessments for personnel in managing authorities;
- Organize information-sharing forums between authorities responsible for managing ESI Funds and key national authorities, including law enforcement authorities and the Anti-Monopoly Office.

The Report also provides a template for a fraud risk management scorecard for MAs and a list of concrete actions with a suggested timeframe for implementation for the Government of the Slovak Republic. Programme authorities in other EU Member States can use this practical resource.

General Guide

The OECD team also carried out research on specific risks relating to each stage of the project cycle, identified preventive and detective actions to take for each stage and identified exemplary case studies. This information was summarized in the Guide “Fraud and corruption in European Structural and Investment Funds: A spotlight on common schemes and preventive actions”. The Guide relates to ESI funds management in general and can be applied to any EU Member State. Although the guide does not present a definitive list of risks and actions, it provides a snapshot of common challenges that EU Member States face regarding fraud and corruption in ESI Funds, and suggests ways to tackle them.

The Guide focuses on an individual risk perspective. Risks identified at each project stage include, for instance:

- Application and project selection stage:
 - Applicants may submit a false declaration to strengthen their application;
 - Applicant may seek to influence members of the evaluation committee/board to ensure their project is selected, e.g. through bribes;
 - Members of the evaluation committee/board may collude with the applicant.
- Implementation stage:
 - MA may tailor tender specifications or leak sensitive bid information to favor one particular company or individual;
 - Companies or contractors may also take part in collusive bidding in order to win tenders;

- Beneficiaries may fabricate fictitious works, services or activities or inflate of labor costs;
- Beneficiaries may bribe officials to conceal the fraud scheme.
- Project closure and evaluation stage:
 - Perpetrators may try to cover up earlier fraudulent or corrupt activities and e.g. bribe auditors or evaluators;
 - Conflicts of interest may arise if the same people involved in the selection are also involved in the evaluation of the project;
 - Beneficiaries or third parties may submit forged documents.

Concrete actions to take at each stage include, among others:

- Application and project selection stage:
 - Requiring staff and members of Evaluation Committees to disclose their family member's private interests to avoid conflicts of interest;
 - Cross checking information and using data analytics to check the submitted information;
 - Making sure staff are aware of available channels to report suspected fraud.
- Implementation stage:
 - Ensuring that an audit trail is maintained;
 - Ensuring all actors have similar access to tender information;
 - Establishing an e-procurement system for the dissemination of public procurement information.
- Project closure and evaluation stage:
 - Ensuring that auditors are subject to specific code of conducts;
 - Putting in place conflict of interest provisions;
 - Cross-checking information across available databases.

Furthermore, based on interviews, research and survey responses, the Guide includes a collection of 9 case studies about actual fraud/corruption schemes at different project stages. Each case study includes a description of the case and perpetrators involved, their tactics and the actions taken. It also lists preventive and detective actions that can be taken by procurement, managing and certifying authorities as well as evaluation committees and beneficiaries.

Overall, the OECD identified key areas where countries could improve risk management in ESI Funds:

- Strengthening the effectiveness, coherence and co-ordination of existing strategies for managing fraud and corruption risks and implementing risk-based control activities in EU-funded projects;
- Improving the effectiveness of methodologies and tools for identifying and assessing fraud and corruption risks in Operational Programs, including the use of data for analytics, leveraging risk assessments to inform decision making, and monitoring and evaluation of fraud and corruption risk management; and
- Enhancing activities and mechanisms that promote a government-wide culture of risk management related to ESI Funds, such as working groups, awareness-raising initiatives and technical trainings.

Communication of the results

The Strategy was published in October 2019 in the series “OECD Governance Reviews” and is available for download in the OECD i-Library (login needed) or can be read online. The Guide can be directly downloaded on the OECD website. The publication was communicated through the OECD network to experts and practitioners in the field of ESI Funds management, and was promoted on social media. The Report and the Guide were officially launched the same month with an event held by the OECD, with the publications being launched by then-Deputy Prime Minister of the Slovak Republic, Mr. Richard Raši and Deputy Secretary General of the OECD, Mr. Jeffrey Schlegelhauf. Slovak media covered the launch event of the Report.

During the Integrity Week 2019, the OECD also organized a seminar with experts from Member States and EU-level institutions to gain their perspectives on different thematic areas relative to the strategy.

Unique features

- Analysis of the country specific fraud/corruption risks with the help of an international organisation the OECD, allowing access to resources, previous research and networks of experts in the field of corruption and fraud risk management
- Development of an action plan tailored to the country-specific context with prioritised recommendations
- Enhancement of EC guidance through concrete action items
- Insights are overall transferable to other countries
- All results publicly available
- Initiative from the government showing a sustained commitment for the fight against fraud in ESI funds

Outcomes and results

- Increased co-ordination and communication between authorities involved in ESI Funds management, e.g. through the Risk Management Working Groups that were established as a result of the project
- Better understanding of the risk landscape
- Guidance on the modernization of the Risk Management strategy for ESI funds in the Slovak Republic
- Concrete suggestions relating to preventive and detective actions
- Increased awareness for common fraud/corruption schemes surrounding ESI funds
- Input for the Slovak National Anti-Fraud Strategy

Key success factors

- In-depth study of the country context in order to identify unique features and risks
- Interviews with key actors in the ESI Funds Management process in the Slovak Republic
- Involvement of experts and practitioners from other EU Member States for sharing of case studies and information on encountered fraud/corruption schemes
- Use of OECD research and expertise to support the recommendations
- Effective communication between the CCB and the OECD in order to understand the CCB's needs

Challenges encountered & lessons learned

- At the beginning of the co-operation, it was apparent that there was limited communication between programme authorities, which was hindering risk identification and mitigation. Through the project, these authorities interacted more frequently during the fact-finding missions, sharing their experiences and risk registers to compare their practices. As a result, there is now an improved culture of knowledge-sharing and communication.
- Risk Management is a relatively new concept in the Slovak public sector, meaning that MAs had limited experience regarding fraud risk management. The fact-finding missions allowed the OECD team to present on international standards and best country practices that the MAs could draw from and apply.

Potential for the transferability

Other countries can already use the existing documents as resources, especially the Guide, which presents more information regarding the common risks throughout the project cycle and common fraud/corruption schemes encountered in different countries. However, other countries might face primarily different types of risks or have a specific legal structure. Also, the management of funds and the number of involved institutions is specific to each country. In order to implement the recommendations outlined by the OECD in other countries, these will have to be amended for each country's specific context.

Other countries may choose to follow a similar path to the Slovak Republic and engage the OECD or other institutions with expertise in the area of fraud risk management to perform a national analysis and issue action items specific to them. An obstacle for such a project might be financing. An alternative is to dedicate an internal team or department to that task.