PAAFRDs State of Play in Development of IT Support and Potential for Setting up Risk Analysis Based Systems

Paying Agency in Agriculture, Fisheries and Rural Development (PAAFRD), Croatia

Table of content (automated):

ABSTRACT

Paying Agency in Agriculture, Fisheries and Rural Development (PAAFRD) is the Croatan public institution in charge of selection, approval, and payment for all the agriculture support (direct payments, rural development measures and CMO).

With participation in this project we wanted to present the system for implementation of non-IAKS rural development measures and the supporting IT tolls we use, but also to learn from colleagues in other member states about their approaches and solutions. Croatia is the youngest member of the EU, and for sure we can learn a lot from the experience of the older member states, but for sure we also hope to bring new energy and new approaches.

During the two-day course we have presented our Agronet/ISSP module where everything regarding RD measures is done. The mistakes and importance of proper data planning and management were emphasized.

Development of the OLAP reporting system, and the Private procurement IT support system has induced the largest interest from our colleagues and hopefully it may inspire others to explore these methods.

With the presentation of our irregularity system and internal audit system we wanted to show the importance of having formalised procedure for irregularity management and how we should recognise the internal audit as a partner in development of our controls.

PART I Mapping the areas, methods, software and resources used for the data-based risk analysis .

Subsection 1 Challenges of introducing new technologies

- ***Improves the awareness of the PAs' staff on the importance of good planning in the software development***
- ***Points out importance of having customizable workflow***

Background and starting point

When we think about introducing new technologies and new approaches into the Paying Agencies (PAs) workflows it is important to remember what were the biggest challenges in the previous "technological leaps" we have done, what mistakes we have made and how can we avoid repeating them.

Therefore, in this subsection we would like to present current PAAFRDs software solutions for the implementation of the non-IACS rural development measures and what were the biggest challenges in its development and putting it to work.

Our solution

Croatia is a member country of the EU since July 1, 2013, so the programming period 2014-2020 is the first we are implementing as a member state. In the pre-accession period Croatia used Instrument for Pre-accession Assistance (IPA), specifically its 5th component IPARD, and before IPARD we used SAPARD. The aim of this pre-accession programmes is supporting reforms in the enlargement region, but also capacity building of the institutions so candidate countries would be prepared for the implementation of EU policies after the succession.

During this pre-accession period all the non-IAKS work done by the PA was paper based, with very little IT support (basically only Office tools). This meant that applicants were submitting their applications for support/payment claims and supporting documents in couple of binders that weighed tens of kilograms. Administrative controls and on the spot checks produced another couple of binders in audit trails and control lists.

This paper based approach has "teached" PA staff to prepare forms (Requests for support/Payment claims) with only basic set of information, because all the relevant data needed to perform checks could be found in the supporting documents.

The reporting needs were also not very large during this period so as an institution we were not very aware of the importance of having good quality data.

With the approach of the year 2013 and Croatia's accession to EU, PA started working on development of the software application that would allow us fully electronical submission of claims and administrative controls for non-IAKS RD measures. The result was the Structural Support Information System (ISSP) which became part of the Agency Information System (ISA).

Besides ISSP, which is one of the modules, ISA has other modules which are used for IAKS, market support and other horizontal processes, like accounting for instance.

Picture 1: Overview of the ISA
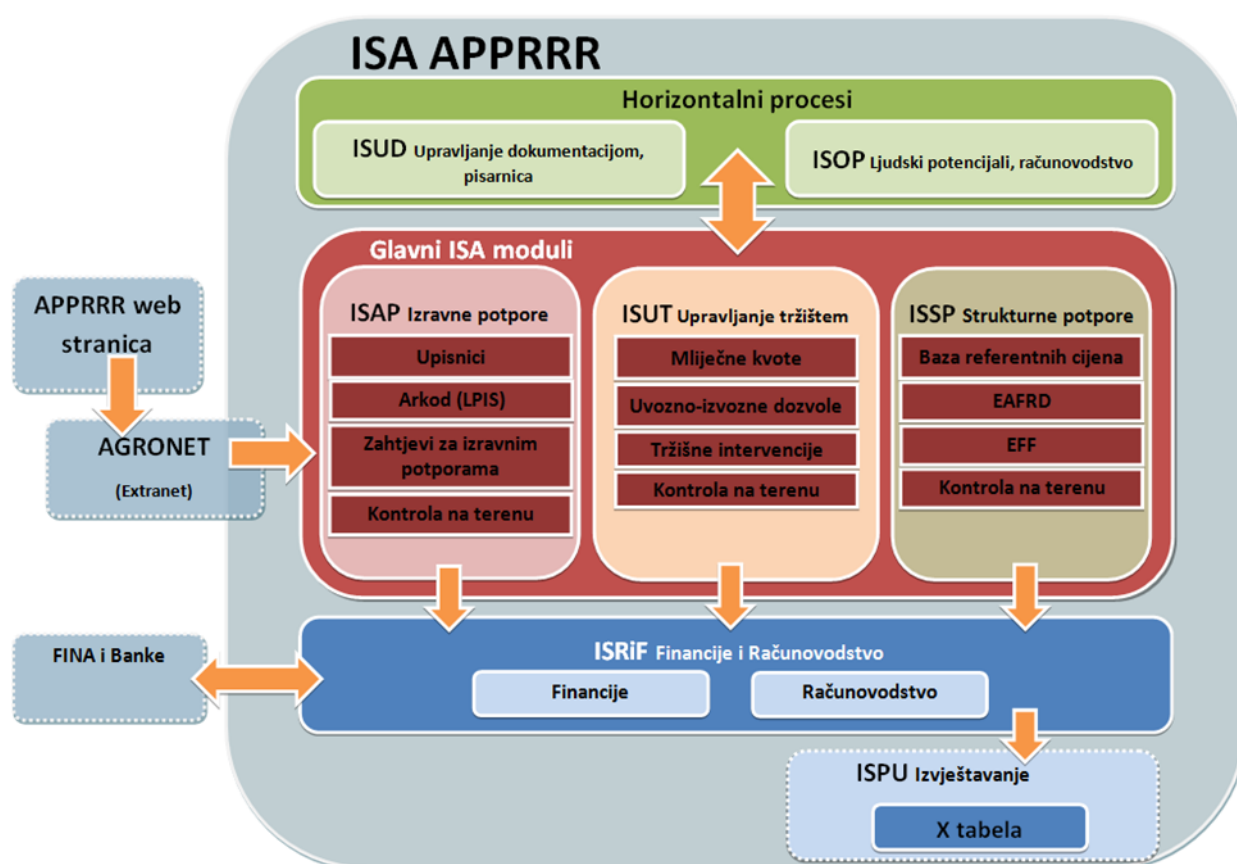
Legend:
- ISA - Agency Information System
- ISUD - Document Management Information System
- ISOP - General and Legal Affairs Information System

- ISAP (IACS) - Integrated direct payment administration system
- ISUT - Market Management Information System
- ISSP - Structural Support Information System
- ISPU - Business Management Information System
- ISRiF - Accounting and Finance Information System
- Agronet - Information system for electronic filling and submission of applications
- ARKOD - Information system for spatial records of agricultural land

Software support for non-IACS rural development measures consists of five main parts:

- Agronet - Register of beneficiaries of support in rural development and fisheries

- Agronet - Module RURAL DEVELOPMENT

- ISSP system

- Private procurement portal

- OLAP

1. Agronet - Records of beneficiaries of support in rural development and fisheries

The Beneficiary Register is a register of beneficiaries of rural development measures that is maintained, edited and updated by the Sector for Rural Development Investment Measures. The request for entry in the Register is submitted by the user by filling in and sending an online form that can be accessed through the Agronet application available from the Paying Agency website. After processing the data from the online form and their confirmation by the competent persons, the potential beneficiary will be awarded username and password that will allow access to the second part of the software support - Agronet - Module RURAL DEVELOPMENT.

In case the potential beneficiary of rural development measures already exists in one of the registers Paying Agency and has been assigned a username and password for the purpose of submitting the Request for other types of support, this potential user has to use the same username he used previously when submitting a Request for Rural Development Measures.

2. Agronet - Module RURAL DEVELOPMENT

Agronet - Module RURAL DEVELOPMENT serves the beneficiaries in terms of:

- insight into currently valid personal data in the User Register
- submission of the Application for support / change / payment / advance / withdrawal
- review of the decisions regarding submitted applications for support / change / payment / advance / withdrawal
- review the status of all types of submitted Requests or Ongoing Requests
- insight into Decisions / Contracts issued by the Paying Agency
- submitting objections to the received acts and taking over the decisions of the Appeal Commission on objections lodged

The main function of this module is submission of an online application for support / change / payment / advance / withdrawal. It is opened to the user after choosing the fund and the measure application form adapted to the legal form of the user. The application guides the user at filling out the form. After submitting the Request, the user can save the content of the Request and download the Certificate of Application with a unique barcode and identification by number. Submission of a Request claim and Payment claim / advance is enabled to the user via a link in the same module that becomes active for the corresponding Support claim procedures. Acts issued by the Agency are downloaded by the user in PDF format.

3. ISSP system

The most important modules of the ISSP system are:

- Measure administration
- Request administration
- On the spot control
- Reports
- User records.

In the module Measure administration, as demonstrated during the presentation, employees of the Independent Software Development Service for non IACS rural development measures enter: parameters of appearance and content of the Application forms for support, Requests for change and Payment claims, Progress reports, Questionnaire on project implementation, act templates programmed for automatic drafting, checklists for administrative controls and report templates. The application allows for dynamic creation of calls and adaptation of their content depending what is required. As such is highly scalable to both big and small calls.

The Request Administration module is used for downloading all types of claims, their distribution by branches of the Agency and employees, administrative processing, preparation of ranking lists, authorization of acts and issuance of acts.

The private procurement portal and OLAP modules will be covered in the next sections.

Programming of the software was outsourced to the private company but small team of the experienced PAs employees has been assigned to work on the project and their role was to assure the software has all the necessary functionalities.

The result was a very versatile and flexible application that allowed beneficiaries to submit their Requests for support/Payment claims and the entire supporting document online through AGRONET application, and it allowed PA to perform administrative checks and record data fully electronically in the ISSP module.

Lessons learnt

Although we consider implementation of fully IT based system for the non-IAKS rural development measures a great success, looking back with nowadays experience, some things could have been done differently:

1. Having a fully guided workflow by the application
   With experience from the paper-based system where we had to make sure we have track of how the case file is transferred between different departments performing their parts of control, we envisioned that workflow should be guided automatically by the application itself. This would function perfectly if were living in the perfect world where everyone is perfect, no one is making mistakes and

there are no unforeseen things. Considering this is not the case, we have realised that having an application guiding the workflow is quite restrictive; it forced us to perform some of our processes outside application. In addition, considering that workflow was hardcoded in the software application, changes required additional programming by a private vendor thus making the development of the new workflow slower and harder to implement. The solution is to break workflow in the smaller sub-processes that can be engaged independently when necessary.

2. Data planning and management

As mentioned before, ISSP module "Measure administration" allowed PA staff to create custom Request for support/Payment claim forms, checklists, reports etc.

Obviously, when we first started preparing calls for applications at the beginning of 2014-2020 period, task of preparing Request for support/Payment claim forms was given to the employees who were doing similar job in the pre-accession period. Due to lack of experience and formal education in working with advanced IT tools, the forms were prepared in MS Word and then given to the members of the team that worked on the development of software support who would create this forms in the application. This approach resulted with the lack of structured and uniform data.

The forms that were prepared in MS Word envisioned that beneficiary inputs only relatively small number of structured data, like some basic data about beneficiary (name, VAT number…) and some project data like value of project, requested amount of support, data needed for reporting to the EC, but majority of valuable data was given within the uploaded documents or as a very unstructured text input data. Contrary to the situation in pre-accession, we started receiving large number of requests for support, substantial amounts of support were being granted and reporting became an issue, because public wanted to know how money is spent, and with the lack of structured data it was very difficult to give meaningful aggregated reports.

In addition, uniformity of data was also a problem, because different people preparing forms for different types of operation were labelling same data

differently. Preparing aggregated reports with this type of data was very difficult and time consuming.

This issue was mostly solved with introduction of project OLAP (Online Analyitical Processing) tool that will be described in the next section.

To conclude, implementation of the IT system was a challenging step for PA, during which we have learned and gather a lot of experience. Making technological leaps is often motivated by the problems that become redundant once we start using new technology, but it can open some new challenges. Having devoted, trained staff and planning ahead can make these challenges easier to overcome.

Having large number of data in the IT system is a fantastic opportunity to develop new methods of administrative controls, but for the data to be useful it has to be structured and uniform. To achieve this it is important to plan data needs in advance and even more importantly to have uniformity in the same data across different calls for applications. This gives the opportunity to PA to look and evaluate beneficiaries, not only at the level of one project, but across all its projects and to compare conformity of information provided by the beneficiary in all of his support requests. In this way, it is easier to detect any lack of consistency or possible irregularities.

Subsection 2 OLAP

- ***Improves the awareness of the PAs' staff on the importance of data managemnet***
- ***Points out how difficult, but manageable it is to fix errors in data planning***
- ***Shares an idea how having fast and reliable reports can help in better execution of duties***

Background and starting point

In 2015 the development of software for the administration of applications for non-IACS rural development measures was completed and used on applications submitted. The developed software allowed creation of different types of data without limiting the data amount. 2015 saw the beginning of digital collection of data to be used for later processing and reporting

In 2017 the Paying Agency fully adopted a different method of data administration, which led to a change in the method of reporting and data collection. Since 2017 the amount of data collected in the requests received has considerably increased.

Soon afterwards a need to be able to link data for all non-IACS rural development measures was observed since at that time data on EAFRD projects were available only on a Call for application basis. The data needed to be consolidated and linked. Thus, at the end of 2018 the Agency began with development and implementation of the OLAP reporting system for non-IACS rural development measures.

Our solution

The ISSP (Structural Aid Administration Information System) is the software through which the requests for non-IACS rural development measures are processed and administered. The software allows the creation of any type of data by Call for application and type of application (support request, payment claim…).

There are in total 17 types of data that can be created in ISSP software:

TYPE OF DATA	MEANING
- Number	field for integer
- Decimal number	field for decimal number
- Date	date field
- Text	text field (STRING)
- Yes/No	yes / no fields (marked = yes)
- Variable	field for entering mathematical formula and displaying calculation results
- List	dropdown menu field with free / custom data entry
- Document	field for uploading documentation
- Data template	field for downloading templates and uploading (those filled-in)
- Administrative variable	data correction field. This field is used to confirm the data provided by the user or to correct it. The field concerns some of the above data
- Table (data set)	field for creating a table with predefined column names. The column can be one of the data types (number, date, decimal number, address, etc.)
- Address	address selection field. The field is the codebook with the list of counties, local self-government units (cities and municipalities) and settlements and a

	field for free entering of street name and number
- Settlement table	field with the list of settlement within the territory of selected LAG
- Multiple selection list	dropdown menu field with free / custom data entry and multiple selection option
- Table of insurance companies	the field is the code list of insurance companies in Croatia. The field allows selection of one of the insurance companies
- Codebook	field
- OIB	field formatted to recognize OIB (the Personal Identification Number) and enables only the entry of OIB number

Each of the above-mentioned data can be created for any measure, operation, Call for application or type of application/request/claim. These fields are used differently depending on the type of operation and the specifics of the Call.

Each of the listed data has its own label in the ISSP system, which is unique for the data type and different sort of data. The data type can be anything, depending on the needs for administrative or other processing. For example, the List sort of data has the following data types labelled:

- PRR - EDUCATION has a list to select the level of formal education from elementary school to PhD level

- PRR - TYPE OF TAXPAYER has a list to select the type of taxpayer in accordance with the national legislation at the time

- PRR - TYPE OF INVESTMENT has a list to select the type investments from construction, reconstruction, equipping/furnishing, to intangible costs and services.

These labels may be used in any Call for application required. Currently, there are about 2000 labels for various data in the ISSP system.

The software also allows the occurrence / obligation of data fill-in to be conditioned. For example, depending on the beneficiary's answers on the template, further questions for filling-in data open. This means that different requests will not be required entry of identical data.

Data (type and label) can be copied between templates and Calls for applications for different operations and it is not necessary to enter everything from scratch. This functionality allows for uniformity of data.

All data or individual data can be printed by Call for application. ISSP software allows creation of specific reports in excel with the selection of desired data from the Call for application. The report in excel document can then be analysed, sent or printed.

Initially, the reporting system functioned in such a way that required data per Call for application was created in the ISSP reporting module and reports were taken/refreshed upon need. It was enough to create a certain report once and it could be launched for a specific Call. With new Calls launched emerged the need for better and more efficient data management. To this end, it was decided to develop the OLAP reporting system for non-IACS rural development measures.

It is necessary to establish link between all applications/requests from different Calls entered in the ISSP and establish further link with the Register of Agricultural Holdings and the Module for Payments Approval through the OLAP Cube. The obtained result showed inconsistency in the programming of templates and errors in the amounts. Moreover, certain data simply could not have been linked without further analysis.

As a first step, all labels on the requested and approved amounts were harmonized/uniformed, which resulted in the display of all amounts. In the second step, one of the keys for connecting with the MOP (Module for payment) was corrected, which enabled the display of the amounts paid per each request (until then, manual records of amounts paid were kept in Excel based on the information from the Finance Sector). Finally, the requested amounts were corrected and the whole application was upgraded to reduce errors.

The result was making fast, up-to-date and easily accessible on-demand financial reports concerning project/beneficiary/operation/sub-measure/measure or programme. But that was not sufficient. It was necessary to present detailed data from request/applications related to the project, beneficiary and location. Although all these data are in ISSP, they are not easily accessible. There are also Calls for applications that were administered manually in the period from 2015 to 2018 and it was necessary to somehow include these requests into the OLAP cube.

The challenge with detailed data in requests has been the fact that each information has multiple data types. For example, the data on activity in measure 6 was in the first Call defined as Yes / No field, in the 2nd Call it was a List with dropdown menu, on the third Call it was a Multiple selection lists. Similar situation we have with the data on young farmer which in 10 out of 12 Calls is a List while on two Call it is a Yes / No field. Also, data that have the same data type, as for example List, could not have been linked due to different dropdown menus. For example, the data on the education of beneficiary is in all Calls a List but with different items listed. In some lists higher education is not listed or in some informal education is mentioned. The lists are differently structured, some starting with 1, 2, 3 while others with a, b, c. To make matters worse, a lot of different labels have been used for the same term (information) while each type of data requires a unique label. Information on the type of investment (whether it is construction / equipping or something else) could be found in each Call in the form of a list or multiple selection list, but the data has several different labels depending on the needs of the tender or operation. Also, the same label and data appeared multiple times on the forms causing duplication of data.

The solution was to unify all the desired data and patch historical data through the Master Data Service. MDS is a component of SQL Server for master data management. MDS allows the creation of a centralized data source that will be synchronized with the applications that processes those data, in this case - the OLAP cube.

The Excel spreadsheet with historical data on the processing of manual Calls has been transferred to the MDS. The labels on the data were harmonized where possible. All lists from all Calls for a particular term (taxpayer, education, type of investment….) were taken and mapped to have a uniform output depending on the beneficiary's response. Additional codebooks and additional data were created in the MDS to show the requests per sectors, object of investment, capacity and other parameters.

The application has also been upgraded to harmonize the display of investment locations, which is a prerequisite for later spatial visualization.

Lessons learnt

The development of OLAP lasted until the end of 2021, when the latest version was put into practice. Looking at the data from 2015 to 2021, there has been a considerable increase in the quantity and quality of data collected. Moreover, the use of OLAP has identified certain errors in the system itself, shown good practices in data collection and enabled more complex analyses and the decision-making based on up-to-date and accurate reports.

As part of the whole process we managed to unify templates, expand them with data, further digitalise them, and in cooperation with the Ministry of Agriculture we identified other necessary data and educated employees in the use of the OLAP cube.

The primary result of the development of OLAP is a very significant acceleration of the business processes of the Reporting Service and the up-to-datedness and accuracy of reports. The OLAP cube is used daily for reports on the status of processing contracted and approved funds, and payments. Specific data on individual investments are available within a few minutes, while previously it took up from several days up to a week.

Reporting to the Commission through the Annual Implementation Reports, The Management Statements and yearly Control Statistics has become more accurate and faster. It is possible to prepare specific reports for different analytical needs of different Ministries, Universities, organisations and other interest groups. Decisions and policies are not based on quickly available up-to-date and accurate data.

On-the-spot Control uses the OLAP cube to more easily identify items for controls based on risk analysis. The Finance Department uses the OLAP cube to display spatial financial data. Project and Payment Approval services use OLAP to check individual criteria and to identify irregularities. The data from the OLAP cube is the input data for the visualizations that are currently under development.

The possibilities for using the OLAP cube are discovered every day and time will tell what else we can use the OLAP cube for, since the solution is relatively "new" and requires training of employees to see for themselves how they can use it.

Our intention is to establish a more detailed cost-based reporting system in the next programming period. The current system and the OLAP solution provide data up to level 1 of the request, which means that the costs are summed and displayed (on

request by request basis). Data on individual costs exist in the ISSP, but not in all measures and Calls for applications. Next year we would like to make links with other modules and applications of the Paying Agency, the existing ones and those that are currently under development. The plan is to further expand and harmonize the templates in all Calls and measures and to further educate employees and the public on the use of upgraded applications and methods of filling them in.

The new programming period presents a challenge not only in demand for more detailed data collection, but also in data monitoring. To this end, for the current period, we established a system of monitoring completely paid projects. The current system includes follow up and monitoring of projects by means of yearly Questionnaires with a few data. OLAP solution has been developed to monitor these questionnaires and our intention is to use the experience gained for further planning and developing of monitoring system for completed projects and their impact.

The response to new reporting requirements is the growth, development and connection of databases in the coming period. In addition to giving solutions concerning reporting, linking and further development of databases will lead to the automation of certain processes, reduction of possibility of errors and overall increase the quality of the administrative process and ex-post analyses.

Subsection 3 Private procurement

- ***Introduces the private procurement method as a tool for assuring cost reasonableness***
- ***Points out main pros and cons of this method***

Background and starting point

Assuring cost reasonableness is probably the biggest area of risk for potential irregularities. Through the pre-accession period and at the beginning of the 2014-2020 period PAAFRD used systems of comparison of different offers and reference prices. Although, at first glance, both of those system are quite straightforward for the implementation we have learned that assuring cost reasonableness through them is pretty challenging.

The logic of comparison of offers, commonly known as the tree offer rule, is that by comparing three competitive offers we can determine the fair market price of the works/goods/services. For this system to work it is important to have real competition between bidders. Setting up the control system that would give PA reasonable assurance that offers presented by the beneficiary are competitive proved to be challenging and burdensome. Considering that beneficiary is the one choosing from which enterprises he will collect offers, it is relatively easy for the beneficiary to manipulate with the offers and not so easy for PA to recognise whether competitiveness is assured.

Regarding reference price system, we have come to an understanding that this is a great supporting system to some other system for assuring cost reasonableness. In order to have verifiable, up to date reference prices it is important to have large dataset of prices for all the possible EAFRD investments. This is very hard to accomplish, especially for the custom-made investments, but it is doable for the investment that are most common where we have a large number of historical data based on which we can, with reasonable assurance, calculate reference prices.

Considering all this, we have decided to implement the system of public procurement for private beneficiaries, commonly called "private procurement".

We consider that, by giving opportunity to all the willing entrepreneurs to compete and present their offers to our beneficiaries, under the known and transparent set of rules, we achieve the highest level of assurance that costs are reasonable.

Our solution

PAAFRD started 2014-2020 period using reference prices as the main method for assuring cost reasonableness. Given that the interest of beneficiaries, the number of Requests for support and consequently the variation of different investments has increased significantly, compared to the pre-accession, it was very difficult and burdensome to establish and maintain such a comprehensive reference price database. Therefore, in 2016, we have started exploring possibility of establishing system of public procurement for private beneficiaries. By the middle of 2017. we have deployed a web portal called "portal of offers" (Croatian: "portal ponuda") where beneficiaries were obliged to publish their calls for tenders. The system was designed

to assure we respect basic principles of public procurement: **transparency, equal treatment and open competition**

The system works the following way:

1. **Beneficiary creates the call for tender in AGRONET**

   The first thing we wanted to assure is that beneficiary is the one creating the call for tender, so in order to create and publish call for tender he had to sign in to AGRONET application with his username and password. Once signed in, the beneficiary can create call for tender. PAAFRD has published guidance for the beneficiaries to help them with this process.

   The first thing for the beneficiary is to create technical specification that are open, non-discriminatory and assure equal treatment and open competition. Defining selection/award criteria is the obligatory part of the technical specifications. For the award beneficiary has the option of using criteria of lowest price or economically most advantageous offer.

   There is also possibility to add additional documentation which is very important in construction works where beneficiary can publish cost estimates and other relevant project documentation that can help bidders to make correct price calculations. Final step is defining the time period when the offers will be received which can't be shorter of 14 days. Once the beneficiary has finished creating call for tenders, he can save it or publish it. Once it is published, the call is publically available on the website ["portal ponuda"](#).

2. **Bidders use "portal ponuda" to submit their offers**

   Published calls are available to general public without any registration needed. Bidders that are willing to participate in the competition have the possibility to search published call based on keywords so they can filter the area they are interested in (eg. construction, tractor, photovoltalics…). When they find call for tender they are willing to participate in, they can download all the documentation and prepare the offer. Once the offer is prepared, bidders are submitting it by uploading through "portal ponuda". Uploaded offers are visible to beneficiary in AGRONET, and to the PAAFRD employees in ISSP.

3. **Evaluation and selection of offers-beneficiary**

   After the final date for the submission of offers in published calls for tenders has expired, the beneficiary can evaluate and select offers. In the evaluation

process the beneficiary has to create an evaluation report. In this report the beneficiary evaluates whether submitted offers are in line with all the requirements stated in technical specifications and if some requirement is not fulfilled such offer has to be excluded from competition All eligible offers are then ranked based on the award criteria and the best offer is the one that contract should be awarded to. Evaluation report is submitted as a part of Request for support.

4. **Evaluation of the tender documentation and selection procedure-PAAFRD**

Part of administrative controls performed by PAAFRD on Requests for support is evaluation of the tender documentation and the selection procedure.

Employees performing controls have at their disposal checklist designed with the purpose to check are the basic principles of public procurement respected, especially that technical specifications and award criteria are not favourable and that they assure open competition between bidders, and that ranking and selection of offers were done correctly in line with the award criteria.

If certain irregularities are detected, financial correction may be applied. Financial corrections are determined based on the same principles as in EC published „Guidelines for determining financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement".

Lessons learnt

After almost four years of working with the system of "private procurement" we very satisfied with the results. The system has undoubtedly resulted with real competition among bidders and consequently the real market prices in the offers which was primarily the goal of the system. Nevertheless, there are some areas we have recognized to need some improvements. First of all is making the process of publishing call for tenders more guided and streamlined.

Considering private beneficiaries lack of experience with private procurement they are often misunderstanding procurement principals (eg. restrictive technical specifications, not applying award criteria correctly etc) and that results with the financial corrections and reduction of support.

Another area for improvement is registration of bidders. In the first version of "portal ponuda" there was no obligation for bidders to register. The intention was to keep the bidding process as simple as possible. However, this approach makes keeping track of one's bidder offers and comparing them very difficult, and also it creates risk that some offers may not be created by the bidder himself.

In order to fix this, PAAFRD is currently in the final stage of upgrading the system of private procurement. The new system should bring the following improvements:

For **BUSINESS ENTITIES (BIDDERS)**

- Quick and easy access
- Guided process
- Registration
- Integrated messages
- Decision notice
- History of offers

For **BENEFICIARIES (FARMERS)**

- Guided process (Call for offers, , bidder evaluation, offer evaluation, offer selection)
- Predefined selection criteria
- All in one place
- Integrated messages
- History of calls for tenders

We hope that this upgrade will help us to overcome mentioned challenges, improve satisfaction of beneficiaries, further develop competition among bidders and make administrative controls less burdensome and faster.

Subsection 4 Role of the internal audit in the irregularity management

- ***Role and purpose of internal audit in PA***

- ***Although internal audit has independent function it is still part of the Agency's control***

- ***Management can rely on the work of the audit***

Background and starting point

Internal audit sector (IAS) within PA in Croatia was established in 2004. as part of SAPARD Agency with the team of only 1 auditor, while today it contains 8 internal auditors.

Internal audit within PA is establish according to Commission Delegated regulation no 907/2014 Accreditation criteria 4B ***Monitoring / Separate evaluations via an internal audit service.***

> „*The paying agency shall adopt in this respect the following procedures:*
> *(i)*
> *The internal audit service shall be independent of the paying agency's other departments and shall report directly to the paying agency's director.*
> *(ii)*
> *The internal audit service shall verify that procedures adopted by the agency are adequate to ensure that compliance with Union rules is verified and that the accounts are accurate, complete and timely. Verifications may be limited to selected measures and to samples of transactions provided that an audit plan ensures that all significant areas, including the departments responsible for authorization, are covered over a period not exceeding five years.*
> *(iii)*
> *The internal audit service's work shall be performed in accordance with internationally accepted standards, shall be recorded in working papers and shall result in reports and recommendations addressed to the agency's top management. "*

IAS is an organizationally independent unit within the Agency established for the purpose of advising the Director of the Agency and management at all operational levels in the Agency regarding the regularity and accuracy of the Agency's activities, especially the internal control system.

> „*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.*
>
> *It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*
>
> *International Institute of Internal Auditors – IIA definition "*

Independence and objectivity are the foundations for effective internal auditing.

The **administrative independence** of the IAS is ensured by the direct subordination to the director of the Agency *(see picture 1 – PA organigram).* IAS independently determines the measures and methods of work for performing tasks.

Functional independence is ensured by non-performance of managerial duties and day-to-day operational activities. In order to ensure the objectivity of audit reports, the IAS should not perform any executive tasks in the Agency or have direct responsibility or authority for activities to be audited by the IAS.

Picture 1 – PA organigram
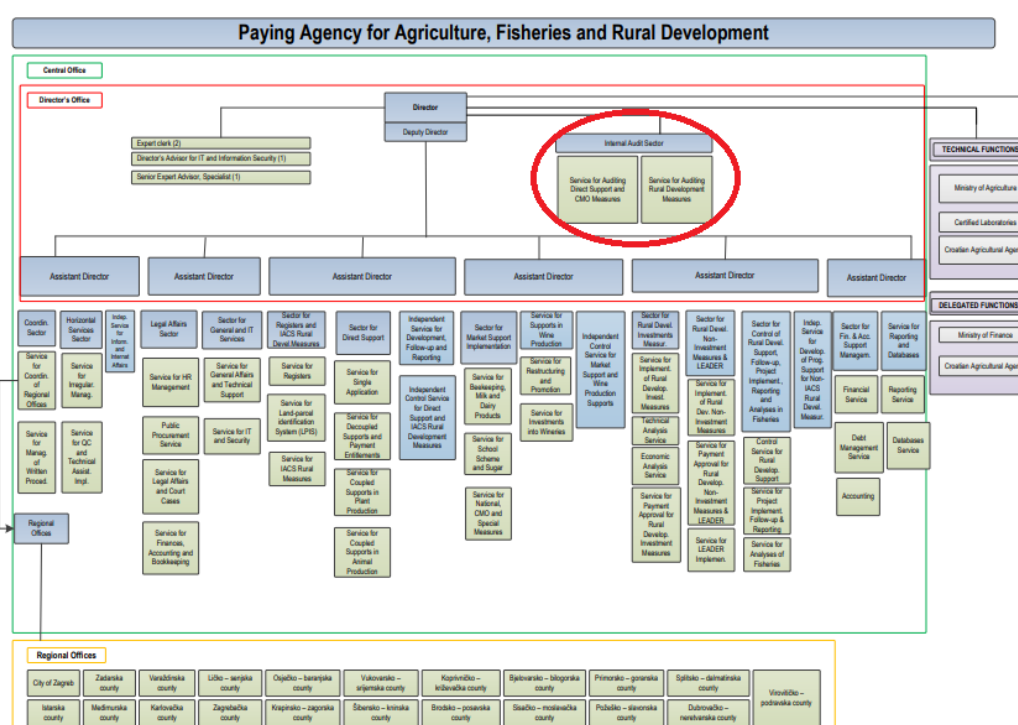
Our solution

Role, mission, scope and objective of internal audit

Internal audit sector was established to support management and provide reasonable assurance that the Agency's internal control system is appropriate and operating effectively.

At the operational level IAS **helps management in achieving the Agency's objectives** in a way that through assessment of the internal control system and identifying system deficiencies make recommendations for improvement to ensure proper implementation of all activities and tasks. Internal audit assists the Agency in

achieving its objectives by leading a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and process management.

Role of internal audit is management support. Based on the reviewed activities IAS provides analysis, assessment, recommendation advices information about established control system.

Objective of internal audit is to work with employees, middle and senior management to help them strengthen the control framework by all appropriate means.

IAS mission is to provide the Agency's management with an independent and objective audit service - providing expert audit opinions based on conducted audits and consulting activities to add value and improve PA performance, to ensure coordinated and effective implementation of CAP measures and completion of pre-accession program IPARD.

Scope of internal audits cover all responsibilities and tasks of the Agency in the implementation of CAP measures.

Based on the established internal control systems, IAS plans its <u>audit activities</u> which include the following:

a) *verification audits based on risk assessment, CAP programs and measures carried out by the Agency* (European agricultural funds for rural development – EAFRD and European Agricultural Guarantee fund - EAGF)
b) *state aid audits*
c) *information security and IT audits*
d) audits of the area covered by the implementation of the *IPARD program* (only ex-post on the spot controls and irregularities)
e) audits of business activities and management of the Agency that are not related to the implementation of the support programs - *general operations of the Agency* (e.g. human resources management, public procurement, budget planning and implementation, exc.)

Performing of internal audits

IAS performs audits in accordance with approved plans (strategic and annual plans). IAS performed audit activities in line with IIA standards.

Confirmation that *IAS performed audit according in line with IIA standards* are two external assessments of IAS those were carried out by independent company that

confirmed that the IAS operates in accordance with IIA standards *(first in 2013 by Ernst & Young and second in 2018 by Deloitte).*

The strategic plan is prepared for a period of five years and covers all areas of the Agency's business. Based on strategic plan IAS prepared every year annual plan for the following year. The strategic and annual internal audit plan are based on a risk assessment.

Audit areas include all CAP measures, IPARD programs and measures (irregularities and debts), general operations of the Agency, information security and information technology.

Internal audit cooperates with all PA organizational units (within central office and branches – see picture 2) that are involved in the implementation of programs and measures, horizontal issues and *general operations of the Agency.*

Picture 2: Croatian PA operates in central office in Zagreb and 21 branches in the territory of the Republic of Croatia

The results of the risk assessment determine the frequency of audits of a particular area. Risk assessment is performed for the probability of occurrence and impact of risk.

The calculation of the total risk is done by multiply the probability scores and the impact scores the calculation of the overall risk shall be done in such a way as to multiply the probability and impact assessment and the sum of all product for the risks of each audit area shall be divided by the number of risk factors.

Risks are rated on a scale of 1 to 4, where 1 is a very small risk and 4 is a large one. Given the well-defined risk factor assessment procedure, the frequency of audits is determined in accordance with the following ranges of identified total risk for each individual audit area.

Table 1

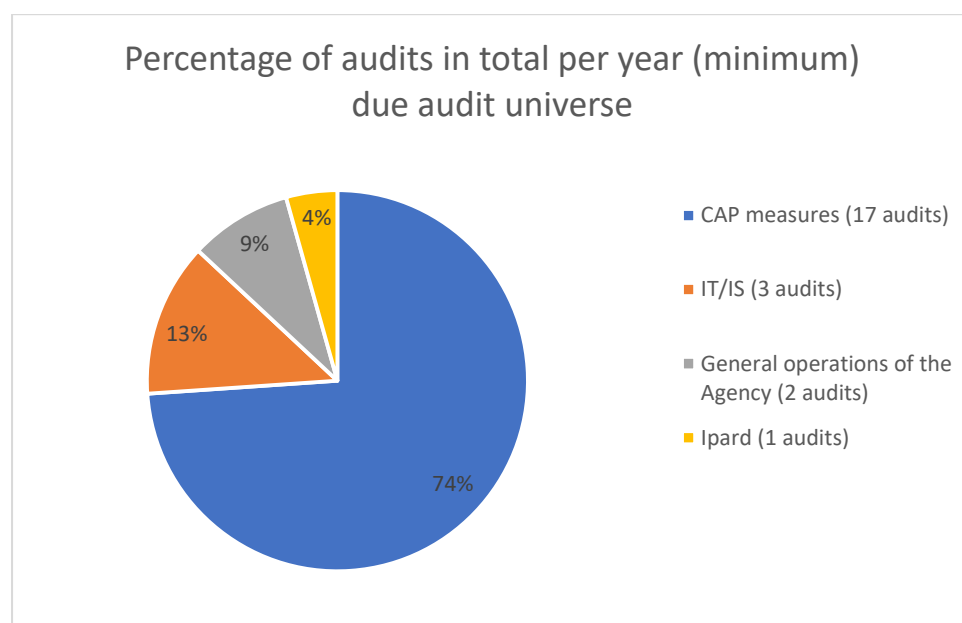| Risk assessment	Audit frequency
high (8-16	Once a year
medium (3-7,99)	At least once every two years
low (1-2,99)	At least once every three to five years

Risk assessment is performed according to defined audit universe (see above paragraph scope of internal audits).

For planning IPARD audits a risk assessment is not carried out, but it is planned to conduct an ex-post on the spot audit and an audit of irregularities and debts for IPARD at least once every two years.

The frequency of audits is determined by the level of assessed risk. Also, the minimum number of audits per year by the Agency's area of activity is determined as follows:

Audit area	Number of audits
CAP measures	Minimum 17 audit per year
IT/IS	Minimum 3 audit per year
General operations of the Agency	Minimum 2 audit per year
IPARD	Minimum 1 audit in 2 years
Total	Minimum 23 audits per year

Table 2: minimum number of audits per year

Picture 3: Chart - minimum number of audits in total per year

Percentage of audits in total per year (minimum) due audit universe

- CAP measures (17 audits) — 74%
- IT/IS (3 audits) — 13%
- General operations of the Agency (2 audits) — 9%
- Ipard (1 audits) — 4%

Picture 4: number of performed audits per year

Number of performed audits by IAS per year

Year	Number of audits
2016	24
2017	19
2018	24
2019	29
2020	27
2021	25
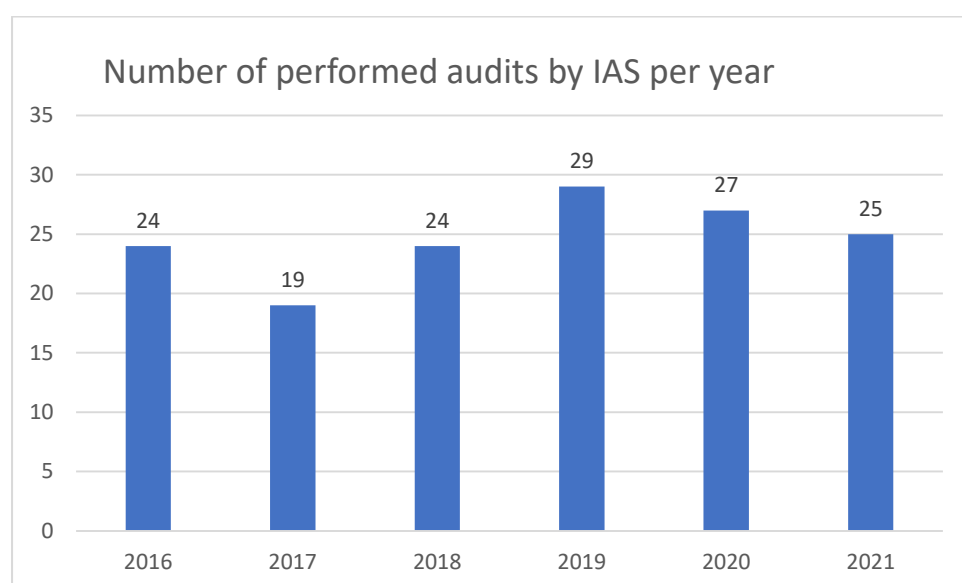
Role of Internal audit:

➢ Given an audit opinion on business processes (described in the procedures) – internal control and their implementation.

➢ Promoting effective control at reasonable costs

➢ Assessment of existence of control, their adequacy and effectiveness

➢ Giving recommendations for improving the functioning of the internal control system

➢ Direct reporting to management on the effectiveness of the internal control system

The audit process must be documented at all stages of the audit and completed with the issuance of a final report.

Performing of audit engagement

For each audit has to be follow prescribed procedures and steps which are related to IIA standards.

Audit process consists of 3 phases:

Planning phase includes following activities:

• according to annual plan auditors start audit by informing Auditee about starting date of the audit

• based on the results of the analysis of the collected information, conducted preliminary research and clearly identified audit criteria for the assessment of management and controls, auditors prepared audit plan for each audit engagements.

• Audit plan contains information about business objective of the area being audited, audit objectives and control objectives, description of the control process with identified control points, identified and assessed risks, assessment of design controls, linking risks with control objectives, linking audit criteria to control objective, plan of activities it has to be done as well as planned dates of execution of each audit activities. As a part of audit plan are

also prepared planned tests - control design tests (compliance tests) and efficiency tests (evidence tests)

- In planning phase, it is defined population and sample for verification of evidence testing.

Although population and sample for testing has to be define in planning phase in cases when some additional control has to be assessed or for some controls the sample is not reliable process of defining of sample for testing can be done in the testing phase.

Testing phase includes following activities:

- Performing of planned tests and defining conclusions based on the results of the tests carried out on the effectiveness of the implementation of controls
- confirmation of the facts resulting from the test carried out
- Giving an overall assessment of the control system and formulation of expert audit opinion, findings and recommendations based on conclusions of results of testing

Reporting phase includes:

- Based on test conclusions preparation and issuance of draft audit report
- Performing a final meeting to present the findings
- upon obtaining the management action plan, the preparation and issuance of a final audit report

The basis for planning and conducting of CAP audits are key and auxiliary controls, accreditation criteria and specific criteria for each measure/audit area defined by EC regulations.

In each audit, IAS gives an opinion on the adequacy and effectiveness of internal controls. In some cases, IAS find too much controls as well as not enough controls and both situations can significantly affect on the efficiency of controls.

The audit results are always written reported to the management so they can improve the control system as soon as possible.

A quick management response to the reported weaknesses in the control system lead to better efficiency of the control system as well as reducing costs.

Audit testing IAS conduct on the sample of transactions/applications/payment claims. In cases when IAS determines the insufficiencies of controls, IAS may and usually increase the sample in order to obtain reasonable assurance that the controls are sufficient/insufficient.

If the management of the agency does not accept the recommendations proposed by the internal auditors and decides not to take action to reduce the risk identified by the audit engagement, responsible persons for the process to whom recommendation applies, together with the PA director take full responsibility for risks arising from failure to take action to mitigate the identified risk.

Performing of audit engagement in the field of irregularities

IAS may identify indicators on irregularities when carrying out audit of any control process as the irregularity is any violation of rules / criteria that are basis for audit planning. During the audit activities in SAPARD/IPARD program implementation, IAS experienced situations with identification of suspected irregularity and even fraud. The control system at that time foreseen the immediate reporting the identified irregularity to the irregularity officer for further investigation and treatment.

In cases where there is detected suspicion on fraud is, the procedure is carried out through the national public prosecutor's office and if the fraud is proven, the case is forwarded to Court.

According to the actual irregularity detection system, during the processing of rural development applications/claims in the ISSP IT application tool, employees have the possibility to mark suspected irregularities immediately.

All employees have an access to the Agency's Share Point - card with list of pre-defined red flags that can indicate the possible irregularity/fraud (examples of indicators of irregularities – the list that is under constant updating based on new information resulting from performed controls).

As a good additional tool for detecting irregularities, internal auditors have recognized the performance of on the spot control because such control is easiest to detect

potential indicators because OTSC provides access to bookkeeping and it is visually possible to verify all the doubts identified in the beneficiary's documentation.

In bookkeeping all transactions are visible and during the OTSC it is easy to recognize the connection between beneficiary and bidders if it is existing. In cases where the IAS is unsure whether irregularities occurs, as the evidence collected does not indicate clearly the existence of irregularity but there is still suspicions on irregularity, such case has to be treated as riskier one and it is recommended to be ex-post controlled several times depending on the problem. The visual control within the OTSC allows easier control of some investments such as equipment, as well as the purpose of use of equipment or certain items from the project approved and payed.

In accordance with the national legal framework, the internal audit is obliged to finish/stop the audit once an irregularity is identified.

It is very difficult to find a balance - how deep and detailed audit testing apply for the certain case in order to provide sufficient evidence to confirm suspected irregularities. Sometimes, it is necessary to carry out a lot of additional testing and analyses and collect additional documents apart from the beneficiary´s case file to be sure and bring an adequate conclusion.

In the scope of IAS work, there is also auditing of processes and controls developed and applied for registration, collecting an evidence and reporting of irregularities. The result of conducted audit is an opinion on **Procedure for irregularity management – its adequacy and efficiencies.**

Lessons learnt

In 2017. IAS performed Audit of the management of irregularities in the implementation of the EAGF and the EAFRD with the aim of checking the level of compliance and integrity of the established irregularity management system in the implementation of the EAGF and EAFRD with binding EU and Croatian regulations.

In the opinion of the internal audit, the existing control mechanisms ensure the implementation of activities in the process of managing irregularities in the implementation of the EAGF and the EAFRD, but there is room for significant improvements to the systems as soon as possible:

- Joint interpretation of the provisions of the relevant regulations regulating the area of irregularity management that will be the basis for making improvements to the established system

- Simplifying treatment and reducing the administrative burden of primarily authorisation services but also horizontal ones while avoiding duplication of tasks

- Consolidating all procedures already developed in the Agency into a single procedure and developing missing parts of the system to make the finally established system comprehensive and simple

- The involvement of IAS in the implementation of activities on updating and improving the established irregularity management system.

- Regular cyclical education of all employees who, by carrying out their workplace activities, should identify and detect irregularities and treat it adequately

The audit was conducted more as consulting service than regular audit. Based on given recommendations, PA management improved and set up procedures for irregularity management as described in next section about irregularity management. It is still necessary to work on the constant education of all PA staff in the area of irregularities. The consultation services provided by the IAS in its plans are a good tool for correcting / upgrading the control system.

Subsection 5 Irregularity management

- ***Improves the awareness of the PAs' staff on constant education in the area of irregularities and using the system of red flags***
- ***Points out main learning points of improving risk analyses to detect a possibility of irregularity or even fraud across different processes***
- ***Shares an idea of possible/desirable future state of using IT tools to ensure data integration from different central base in order to reduce burden of control for the administration***

Background and starting point

The Croatian Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD) embedded Irregularity management service to be the main contact point in relation with managing irregularities.

The main purpose of setting up Irregularity management service is to ensure an existence of a coordination at the level of the PAAFRD, who would deal with irregularities and fraud at the operational level, i.e. who would act as a contact point for receipt of information on irregularities and informing higher reporting level bodies thereon, and who would present the PAAFRD in missions performed by OLAF.

Our solution

PAAFRD has set up horizontal procedure for irregularities management which describes the process of prevention, detection, treatment, reporting and follow-up of the irregularities and fraud in the context of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

All PAAFRD staff follow the provisions from this procedure.

Irregularities and frauds can occur within all type of projects/actions financed through EU assistance funds, at all phases of the project circle: programming, tender procedure, implementation, and post implementation.

It is the responsibility of all employees at all levels of seniority to participate in the discovery and alerting to suspected irregularities.
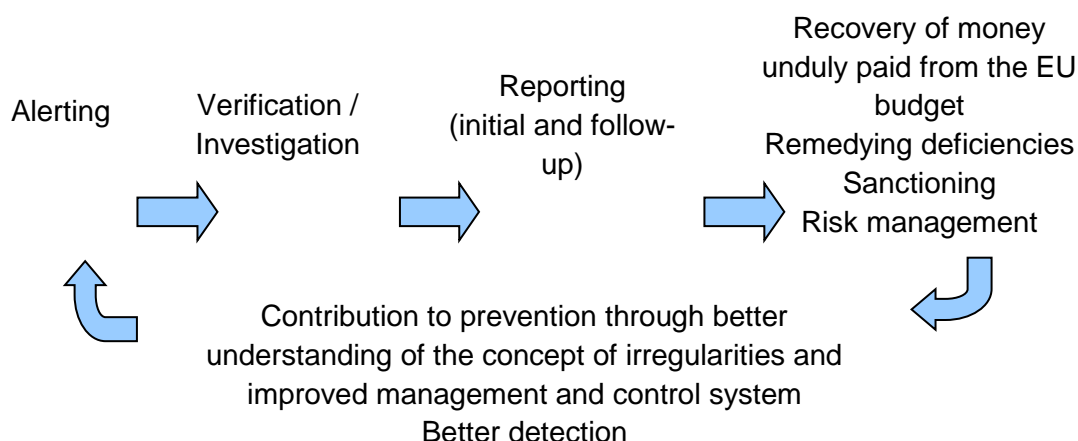
Reporting of suspected/irregularities is a tool for sound financial management.

All suspected irregularities regardless of the size of the irregularity and regardless of whether the irregularity is caused by error or suspected fraud have to be reported through the regular procedure respecting defined reporting lines.

Apart from contacting the PAAFRD following regular procedures (nepravilnosti.eu@apprrr.hr, https://www.apprrr.hr/prijava-nepravilnosti-obrazac/) one can report suspicions of irregularities affecting the financial interests of the European Union by informing OLAF and Ministry of Finance.

In general, the comprehensive process of irregularity management can be described as it is presented in the picture hereafter.

Irregularity management cycle

Alerting

Verification / Investigation

Reporting (initial and follow-up)

Recovery of money unduly paid from the EU budget
Remedying deficiencies
Sanctioning
Risk management

Contribution to prevention through better understanding of the concept of irregularities and improved management and control system
Better detection

Alerting of irregularities

Upon receiving an alert, we open an Alert File, which contain all documents received in the respective case, and register the alert in the Alert Register.

Verification of irregularities

We analyse the content of the alert and decide what measures should be taken in accordance with the legal competences. Depending on the case we use investigation tools such as:

- ✓ *Document control*

- ✓ *Performing on the spot control*

- ✓ *Asking applicant to deliver correspondence with bidders (e-mails, post receipts etc.)*

- ✓ *Taking an insight into companies register to check if there is links between bidders or bidders and applicant*

- ✓ *Asking explanations from applicants/bidders*

- ✓ *External verification*

- ✓ *Other reasonable approach*

Furthermore, if necessary, AFCOS Network bodies may be engaged in verification of irregularities if we do not have tools and/or authority to conduct verification in a way to cover the necessary scope.

AFCOS Network is a network of bodies dealing with combating fraud, corruption or some other form of illegal activities in the use of European funds.

Irregularities can also be established, not only when taking actions based on alerts, but also when performing current activities in the framework of implementation of EU assistance funds projects. Such activities cover administrative, financial, technical and physical aspects of operations, as appropriate, and can be on-the-spot control performed by our employees.

Making a decision on the recovery and recording into Debtor´s ledger

After establishing of irregularities, we take the appropriate measures to remedy the deficiencies of irregularity and, where appropriate, to recover the amounts wrongly paid taking into consideration all case circumstances and influence of irregularity on project eligibility.

Referral of cases with documentation to the competent State Attorney procedure in case of suspected fraud

In the case when the irregularity contains ascertaining elements related to suspicion(s) of fraud against EU' financial interests, we send immediately the report/document as well as relevant documentation to the State Attorney's Office of the Republic of Croatia in order to analyse what measures should be taken in accordance with the legal provisions.

Monitoring of debt repayment through the Debtor ledger

If the irregularity has been determined after the support has been paid to the beneficiary, the return of support irregularly paid will be requested (this could be a return of a part or the whole amount of the received support).

We register debt into the Debtor's Ledger and monitor recovery of debt.

Quarterly reporting on irregularities

Within one month following the end of each quarter, we report irregularity by an IMS to the Ministry of finance for OLAF, with reference to any previous report, of the

procedures instituted with respect to all irregularities previously notified and the important changes resulting from them.

Additional checks - system of red flags (risk indicators)

We have integrated red flags into anti-fraud system, as an alternative tool to detect a possibility of irregularity or even fraud across different processes.

Red flags are a set of circumstances that are unusual or vary from the normal activity, which may signal possible fraud or other irregularities.

Red flags do not indicate fraud by themselves but provide possible warning signs of fraud or irregularities and need extra attention to exclude or confirm potential irregularities.

Why do we use them?

To prevent:

- ✓ *Artificial bidding*

- ✓ *Inflated offers*

- ✓ *Collusive bidding*

- ✓ *Circumvention of funding limitations*

- ✓ *Other irregularities*

…and to minimise the risk for EU and national funds

Lessons learnt

Current system has trained PA staff to recognise different indicators of potential irregularities. However, considering there is a variety of potential irregularities and each one of them needs a specifically tailored approach we have come to an understanding that not all employees have sufficient level of expertise, knowledge and understanding to perform additional checks needed to establish whether something is or isn't irregularity. Therefore, we are now exploring the idea of establishing a small team of experienced and trained employees whose main purpose would be performing checks and investigations on potential irregularities. Hopefully, these would allow us

to be more efficient in dealing with irregularities, setting up new approaches and introducing new technologies in irregularity management.

Our goal is to find smart and efficient ways of using IT tools, in particular data integration from different central base in order to lower administrative burden and to ensure the most efficient and effective use of EU funds.

PART II Experiences of using Arachne risk scoring tool

This part:

- *Maps the challenges of using Arachne as an integrated part of administrative controls*
- *Shares PAAFRDs experience and possible ideas how to use ARACHNE*
- *Gives ideas and recommendation for the EC how to better facilitate use of ARACHNE*

The problem

Croatia joined pilot project established by DG AGRI to test ARACHNE risk analysis tool. Small team of PAAFRD employees received training and support on how to use ARACHNE.

ARACHNE is an integrated IT tool for data mining and data enrichment developed by the European Commission. Its objective is to support managing authorities/PAs in their administrative controls and management checks in the area of Structural Funds.

Once we received the training, in order to be able to use ARACHNE we had to upload data about funded projects. In this chapter, we will describe our current state of play with ARACHNE.

Our starting point

Arachne uses data from the internal (operational) databases of Member States and from 2 external databases.

The PA is responsible to collect and extract data out of their local computerised systems set up according to Article 72 of the Commission Regulation (EC) 1303/013 and to upload this data to ARACHNE in xml format.

Regarding the population to upload, we have decided to upload data about all projects we had in our database.

Preparation of data for the upload required some analysis regarding what data are we suppose to upload in certain data fields, but with some steering from the ARACHNE team in EC, we have managed to prepare our first upload. This upload was prepared

with relatively basic set of data required, considering that, in our database, we didn't manage all the data foreseen by ARACHNE risk calculations.

Once we started analysing our first results in ARACHNE we have discovered that because of our lack of data, we weren't able to see risk calculations for some important risk categories, specifically for the category "Reputational and Fraud Alerts".

In order to see full potential of ARACHNE risk analysis we needed to start collecting structured data about contractors.

Our solution

Until 2019, information about contractors were available only in the form of the selected offer/invoice beneficiary has uploaded in pdf format with his Request for support, but this information was not stored in a way readily available for reporting in our internal database.

In 2019, motivated by ARACHNE project, we have decided to start collecting and maintaining this data. For this purpose, we added data fields in Request for support and obligation to beneficiary to input data about contractor (name, VAT number, address…) and contract amounts. This gave us necessary data for the calculation of risks like:

- Links between beneficiaries/project partners and contractors/Consortium members
- Links between contractors/consortium members
- Directors/owners with high number of mandates
- Registration of multiple companies on same address

We considered this type of indicators to be good starting point for the implementation of ARCHNE into administrative controls, because we have similar controls already in place and if we would be able to replace/supplement them with ARACHNE it would be perfect example how ARACHNE could be useful.

Currently we still haven't introduced these checks as part of our administrative controls, but we are making necessary steps in order to do so.

In order to include ARACHNE into our everyday work we need to have possibility to prepare and upload data very quickly and very frequently so the first step we need to

take is to develop IT solution that will make preparation of report with necessary data easy and fast.

The second step is to prepare guidance for our employees preforming administrative controls on how to make checks using ARACHNE. Our initial intention is to use ARACHNE for checking links between beneficiaries and contractors. In this first phase we plan to make this check parallel with our usual check for links between beneficiaries and contractors.

The final step will be to evaluate effectiveness of this control compared to our usual controls for links between beneficiaries and contractors.

Lessons learnt

The first look at ARACHNE is a little overwhelming and intimidating because, when you see all those risk indicators that are being calculated, and there are more than 100 of them separated in 7 categories plus an overall score, one has to ask himself how can we manage all this.

This is emphasized even more with ARACHNE manual where it states:

"Arachne does not aim at assessing the particular individual conduct of fund recipients and does not as such serve to exclude automatically any beneficiaries from the Funds. The tool provides highly valuable risk indicators to enrich management verifications, ***but it does not supply with any proof of error, irregularity or fraud."***

Basically, how we initially interpreted this is that we have a tool that is giving us more work to do and more checks to perform but little real solutions in fighting irregularities.

From our everyday experiences with detection of potential irregularities and with using system of red flags we have learned that it is relatively easy to detect irregularity indicators. What becomes a difficulty is putting these indicators into right context, perform sufficient and proportionate additional checks and making a decision on irregularity with sufficient evidences that will hold the test of court trial.

These part of work, making a case about irregularity, is the most burdensome and time-consuming part of irregularity management and as it looks ARACHNE is not helping us very much in this area, but there may be another way to approach this new tool.

Considering that there is an ongoing pressure on the PAs to reduce administrative burden, to speed up their controls and to issue decisions faster and faster the way we may approach to incorporate ARACHNE in the internal controls system is to replace some of our usual checks with ARACHNE. With these approach we would simplify our control system, because we wouldn't have to make some specific checks for every beneficiary but only for those where ARACHNE indicates.

For this to approach to work well it would be important that data from external databases ARACHNE use for enrichment of MS operational data is up to date as much as possible. Currently this is not the case and some of the data is couple of months old and that can present a problem if we rely on ARACHNE for some checks.

The role of the European Commission in giving clear guidance and best practices on how to make ARACHNE part of the internal controls systems of the MS is also very important. Considering that auditors can be allowed to use ARACHNE for the preparation of the audit missions it is very important that MS are not sanctioned if they didn't follow through on some red indicators, because it would be almost impossible to create a system where we would check every possible indicator.

ARACHNE is a risk analysis system and Member States, together with the EC have to find a way how to use it the best. Proper risk scoring tools should detect us the riskiest projects overall so it is for both MS and EC to make a decision to entrust this to ARACHNE or not. Every risk scoring method, as well as ARACHNE, will undoubtedly leave some residual risk uncovered, and this is something that both MS and EC must accept and periodically evaluate the impact of this residual risks on the overall efficiency of risk analysis and then use this information to further improve risk analysis to better detect potential irregularities.

Conclusions

The aim of the workshop held in Zagreb was to show experiences we have with:

- Development of IT tools
- Troubleshooting the reporting
- Irregularity management system
- ARACHNE

In our presentations we have tried to show and discuss how our system is working and how it is seen from the outside by our colleagues from Belgium, Italy and Estonia.

Considering that the aim of this project is to explore the use of new technologies, for risk analysis based approach to managing irregularities, we have stressed the importance of proper data management, because having good quality, readily available data is the cornerstone of every risk analysis.

We consider that we are on a good path but in order to make things better we need to improve our access to data from other public institutions and even within the PA.

One of the things we like from our colleagues from AVEPA is how they manage their Farm register as a central place to maintain majority of farmers data available, so we will for sure explore how to expand our User register to allow us to keep and maintain more data. This would reduce administrative burden on beneficiaries as well as the PAs staff because we would check some information only once or periodically and not on each and every Request for support.

By better maintenance of internal data and with connections to external registers to make cross checks we hope to achieve substantial level of automation in the system of internal controls. Hopefully this will give free some of our administrative capacities that could work on further system developments.

The current upgrade of the private procurement IT solution will give us valuable data that should allow us to make advanced data analysis about contractors and bidders and that, hopefully, may lead to further simplification by focusing our controls to the riskiest procurements.

Our ARACHNE pilot project is now in the stage of testing it in practice and hopefully based on the results we will be able to find good purpose and usage of ARACHNE in the internal system od controls. What we would like to explore is the customisation of

the risk scoring in ARACHNE in order to better reflect risks we have recognised as more important.

For the ARACHNE we also expect more assurance and guidance to be prepared by the EC, especially for cases where MS don't follow trough each and every "red" indicator, but decide to keep approach based on overall score or even on some kind of customised settings. It is very important that EC gives clear guidance what are the criteria based on which use of ARACHNE would be considered as successful in order for the MS to be able to evaluate have they *"put in place effective and proportionate anti-fraud measures taking into account the risks identified".*