



EUROPEAN COMMISSION
EUROPEAN ANTI-FRAUD OFFICE (OLAF)

Directorate D Policy
Unit D.2 Fraud Prevention

Detection of forged documents in the field of structural actions

A practical guide for managing authorities

***elaborated by a group of Member States' experts coordinated by OLAF's unit
D2- Fraud Prevention***

DISCLAIMER:

This is a working document prepared by a group of Member States' experts with the support of OLAF. The aim of this document is to facilitate the implementation of operational programmes and to encourage good practices. It is not legally binding on the Member States but provides general guidelines with recommendations and reflects on best practices.

These general guidelines are without prejudice to national legislation and should be read and may be adapted taking into account the national legal framework.

This guidance is without prejudice to interpretations of the Court of Justice and the General Court or decisions or positions of the Commission.

Executive summary

OLAF has launched a new collaborative working procedure involving experts from the Member States, OLAF and Commission DGs in charge of structural actions. The objective is to improve the quality of the ad hoc COCOLAF meetings' output, through the drafting of practical documentation that the Member States and the Commission may use as benchmarks, administrative tools, guidance or support to strengthen their anti-fraud measures/strategies.

Detection of forged documents was identified as a subject of interest to the Member States. Therefore a workshop was organised, bringing together five experts from five different Member States.

The idea is to offer tips and tricks to the managers and officers of managing authorities as regards detection of forged documents in operations financed by the EU budget under Structural Actions and Cohesion Policy programmes.

This guide aims at being a useful and practical tool for the officers concerned. It focuses on the main issues identified during the workshop:

1. Legal aspects including notions and consequences

The notion of forgery is used in the guide to cover all kinds of illegal alterations to documents: forgery, falsification, false contents, etc. This chapter presents also the administrative and criminal consequences to which detection of a forged document may lead.

2. Red flags

This chapter provides a list of red flags that were identified by the experts. The red flags are sets of elements and circumstances that may indicate fraud or corruption. As regards detection of forged documents, they may concern the format and/or the content of the documents as well as specific circumstances linked to the beneficiary and inconsistency between documents and information available.

3. Method of detection

Detection of forged documents requires due vigilance on the part of desk officers. Some documents are more susceptible to alteration, and some business sectors or activities are riskier than others. This chapter outlines some relevant elements.

It also provides some guidance on the type of action to be carried out in the case of a potential forged document. Cross-checks using databases, on-the-spot checks and coordination with the police and/or judicial authorities must be considered. Desk officers have to eliminate or confirm their doubts related to a document to ensure proper handling of the file.

The guide provides eleven examples of real cases and a list of databases that may be useful for cross-checking some elementary information concerning companies registered worldwide.

The very practical aspect of this guide should allow the managing authorities and more generally all national authorities dealing with EU funds to raise awareness and vigilance of staff with regard to forgery, falsification and all other forms of alteration of documents for fraudulent purposes.

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Introduction

OLAF has launched a new collaborative working procedure involving experts from the Member States, OLAF and Commission DGs in charge of structural actions. The objective is to exchange good practices and draw up practical documentation that the Member States and the Commission may use as administrative tools, guidance or support to strengthen their anti-fraud measures/strategies. The proposals made to managing authorities are not binding.

Under Article 59.2 (b) of the Financial Regulation, the Member States have the primary responsibility, in the framework of shared management, for preventing, detecting and correcting irregularities and fraud. In this regard the Member States have to build procedures and processes into their management and control systems.

Falsification of documents as a means of gaining access to EU funding has been confirmed in many fraud cases. Early detection would allow a quick reaction and launching of preventive measures to ensure efficient protection of the EU's financial interests. Therefore, OLAF decided to address this issue within the framework of a workshop involving the Member States.

Experts from five different Member States with practical experience of methods to increase the probability of detecting forged documents agreed to take part in this exercise. Drawing on their knowledge, they have made an inventory of the main issues where there is a need to exchange good practices.

DGs Regional and Urban Policy, EMPL, MARE and HOME were also involved in the process. The fraud prevention unit OLAF/D2 coordinated the work.

This practical guide is the result of fruitful exchanges between the experts. It is available to all Member States and relevant stakeholders, e.g. appropriate means the SFC2007 anti-fraud platform and to Commission departments via OLAF's website.

OLAF would like to thank the experts for their contribution:

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The document was endorsed by the COCOLAF Fraud Prevention Group on 12 November 2013.

1-Legal aspects

1.1- Notion of forged documents

Without prejudice to national legislation, and for the purpose of this guide, the following notion is used.

A forged document is a document in respect of which the truth is altered: this means that the document does not accord with reality. The alteration may be:

Physical: a document may be modified physically, for example by crossing-out of items or references, manuscript addition of information altering the document, etc....

Intellectual: the content of the document does not accord with the reality, for example false description of services rendered, false content of a report, false signatures on an attendance list, etc.

All types of documents provided by beneficiaries to obtain grants, to participate in a public procurement process or for reimbursement of expenditure may be affected by forgery:

- Contracts
- Identity papers
- CVs
- Bank guarantees
- Balance sheets
- Invoices (paper or electronic)
- Reports
- Timesheets
- Attendance lists
- Websites
- Other

Examples of consequences

Falsified documentation presented during the reimbursement stage could, amongst other things, result in three main types of fraudulent activities:

- A beneficiary might not be delivering at all. Hence, he/she will produce false evidence in order to claim reimbursement. This could also involve collusion with other third parties and/or with staff of the contracting authority (e.g. combined with a bribe in order to facilitate the scheme).
- A beneficiary might deliver lesser amounts, quantities or service hours than those for which he/she had applied and is entitled to; hence documents might end up being 'adjusted'.
- A beneficiary might be using the funds granted to sponsor other activities which were not intended to be funded by a particular project, and therefore false evidence and documentation will be presented.

Qualification of an event as forgery or falsification is the sole responsibility of a judge/court. An alteration of a document may not in all cases lead the judge/court to such a conclusion. Forgery confirmed by a final court's judgement shall be treated as a fraud by the desk officers.

1.2- Value of originals, certified copies, etc....

Four forms of documents come into consideration

- Original document
- A certified copy of the document
- Simple copy of the document
- An electronic version of the document

National practices regarding requirements to provide originals or copies may vary. In any case, beneficiaries must be able to produce the originals to the authorities on request, without prejudice to relevant European and national law.

Without prejudice to European, national and internal rules, desk officers should adopt a pragmatic approach that balances the needs of first-level checks and the beneficiaries' obligations to keep track of their documents for bookkeeping, audits etc... purposes.

Managing authorities should put in place specific measures dedicated to the checking of documents in case of suspicion. The efficiency of on-the-spot checks should be stressed. For instance, in case of suspicions related to falsification of a beneficiary's intent to carry out a particular operation, they should allow the necessary documentary control to be carried out and obtain an overall view of the real capacity of the firm/company to implement the project. (Note: all references to managing authorities in the document shall be understood as a reference to managing authorities or any intermediate body to whom managing authorities have delegated their tasks).

The managing authorities have to find the right way of meeting their obligations related to sound financial management of EU funds and the reduction of administrative burden for the beneficiaries and, as appropriate, costs of control versus the value of alleged forgery.

In case of suspicions, due diligence should be exercised in making the relevant checks and, if needed, contact should be made with the judicial authorities.

1.3- Administrative consequences

The Council Regulation governing structural and cohesion funds¹ obliges the Member States to apply financial corrections in the event of irregularities.² These corrections³

¹ Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 for the programming period 2007-2013 (OJ L 210 of 31.7.2006) ; Proposal for a Regulation COM(2011) 615 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund

consist in cancelling all or part of the public contribution to the operational programme, depending on the individual or systemic character of the irregularities, their nature and gravity and the final loss to the Funds.

The presentation of a forged document may have consequences, including financial, on the whole project or on a part of it.

A forgery may concern documents used to assess the exclusion, selection or award criteria. As a result, a project may not be eligible for co-financing, thus affecting the decision to grant co-financing from an operational programme.

A forgery may also concern the eligibility of all or part of the reimbursable expenditure. It may concern the documents confirming the works executed or expenditure incurred. The forgery may also concern only one invoice.

The managing authorities must assess the extent of the anomaly. If it is isolated, they may cancel only the ineligible costs or the invoice. Without prejudice to the national legislation in force, they may also consider cancelling the whole funding.

From an administrative perspective, a forged document should at least lead to the cancellation of the effects of the forged document. For example, if the attendance list of a meeting contains false signatures, the managing authorities should cancel the costs related to this meeting.

Some Member States have also put in place specific sanctions.

Example of administrative sanctions in Poland

Article 207(4) of the Act on Public Finance provides that the beneficiary shall be excluded from the possibility of receiving European funds if, for example, he/she received a payment on the basis of counterfeited or altered documents, submitted as authentic, or documents attesting such untruth.

In one case, a final court judgment confirmed the occurrence of this situation accompanying an offence by the beneficiary, beneficiary's partner or a person authorised to perform duties within a project.

The beneficiary was excluded for three years as from recovery of the funds from the beneficiary.

for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006 for the programming period 2014-2020.

² Articles 98 and 99 of Regulation 1083/2006 for the period 2007-2013, and Articles 135 and 136 of the proposal for a regulation COM(2011) 615 for the period 2014-2020 require the Commission to apply financial corrections to the Member States if the Member States do not make the financial corrections required in connection with the individual or operational programmes. The COCOF Note 07/0037/03-EN of 29/11/2007 provides for details regarding the financial corrections the Commission may apply to the Member States, in cases of non-compliance of beneficiaries with the rules on public procurement. Furthermore, Commission Decision C(2011)7321 of 19.11.2011 sets out the guidelines on the principles, criteria and indicative scales to be applied in respect of financial corrections made by the Commission under Articles 99 and 100 of Council Regulation (EC) No 1083/2006 of 11 July 2006 .

³ A financial correction differs from an administrative sanction, the financial correction consisting only in the recovery or cancellation of the undue amount paid or to be paid.

1.4- Penal consequences

Forgery of documents and the use of forged documents (notably to obtain EU funding) constitute a criminal offence in all Member States and is punishable by imprisonment.

When faced with a document that may have been forged, staff should inform the judicial authorities, without prejudice to the internal and national rules in force.

Example of criminal sanctions in Romania

- Material forgery in official documents: imprisonment from 3 months to 3 years, 6 months to 5 years if committed by a clerk during the exercise of official duties
- Intellectual forgery: imprisonment from 6 months to 5 years
- Forgery of documents under private signature: imprisonment from 3 months to 2 years or by fine.
- Use of forgery: imprisonment from 3 months to 3 years when the document is official and by imprisonment from 3 months to 2 years or by fine when the document is under private signature.

When the financial interests of the EU are at stake, imprisonment may range from 3 to 15 years.

2-Red flags

A red flag is an indicator of possible fraud or corruption. It is an element or a set of elements that are unusual in nature or vary from normal activity. It is a signal that something is out of the ordinary and may need to be investigated further.

The presence of red flags should make staff and managers more vigilant and should make them take the necessary measures to confirm or deny that there is a risk of fraud. Reactivity is of great importance. It is the responsibility of the managing authorities to lift the doubts that the red flag has raised.

It is worth pointing out that the existence of red flags does not mean that fraud has arisen or may occur, but that the situation should be checked and monitored with due diligence.

2.1 –Red flags in the format of documents

Documents which depart from standard and generally accepted layouts should be questioned.

Invoices, letters with no logo of the company

Invoices printed on paper other than prepared forms

Visible differences in type, size, sharpness, colour, etc. of font in the document

Erased or crossed-out figures, write-offs without signatures of authorised persons

Handwritten amounts without signatures of authorised persons or elements in a printed document where not a priori justified

Lack or surplus of letters, lack of continuity in the text lines

Abnormal sharp edges of official stamps or unusual colour indicating the use of a computer printer

Fully identical signatures of persons (in format and size) on various documents suggesting the possibility of forgery in form of computer print

Number of handwritten signatures made in a similar style or by identical pen on documents related to different time periods

2.2- Red flags in the content of documents

Unusual dates, amounts, notes, phone numbers, and calculations

Missing records (from sequential checks)

Miscalculation in an invoice or in a payslip produced by a computer: e.g. total amounts not corresponding to the sum of the transactions

Missing obligatory element in an invoice: date, Tax Identification Number, invoice's number, etc....⁴

- Same mutual position of a stamp and a signature of person on a set of documents suggesting the use of an image (and not a genuine signature): it may be a computer-generated image used to falsify the documents
- Lack of contact details of companies or persons, like phone number

⁴ See Annex 2.

Absence of serial numbers on invoices and delivery notes for goods, which are usually marked by serial numbers (electronics, production lines, etc.)

- Description of goods or services in a vague manner

Discrepancies and deviation from standard concerning bank account numbers (e.g. fewer digits than there should be, number not corresponding to specific branch of a bank, other visible inconsistencies)

2.3 Circumstances

Contractor's address same as employee address

Address of the supplier or beneficiary in a domiciling institution

Unusual number of payments to one payee or address

Invoices and bills issued by entities not registered in business activity register

Unusual delays in providing information

Beneficiary not being able to provide originals upon request

The data contained in the document differ visually from a similar document issued by the same body

Reference to a company not recorded in publicly available registers of companies or not traceable in public resources

Invoices issued by a newly established company

Email addresses of the company issuing an invoice on foreign internet server

2.4 - Inconsistency between documents/information available

Inconsistency between the dates of invoices produced by the same entity and their number, for example:

- Invoice number 152 issued 25.03.2012
- Invoice number 103 issued 30.07.2012

Invoices not recorded in the bookkeeping

Invoices not matching the quotations in terms of price, quantity and quality, type of product and/or description of product or service provided

Letter/contract/document signed by an individual acting as a representative of the company where he/she is not designated as such in the national company register

Inconsistencies between information provided on the website of an entity and the invoice issued : e.g. the activity of the entity does not match the goods or the services invoiced

3. Method of detection

The best detection method is by connecting a forgery to reality, which is the quickest and handiest way to achieve the best results in the time-critical activity of detection. Appropriate checks should be carried out to answer questions like

Do the companies involved in an economic operation really exist?

Did this public institution really issue this document?

Who really are the people who supposedly took part in an activity?

Who is the real owner of an asset?

3.1 -Risk based analysis

Based on experience gained in the past, and within their specific sphere of activities and their geographical area of intervention, the managing authorities may have detected particularly risky sectors. They should draw the attention of their staff to these and put in place specific measures and checks.

The risk of forgery or alteration of documents is connected with various types of documents at various stages of project implementation, such as:

- certification of compliance with the criteria for co-financing,
- legal title of property,
- certification of execution of works/services and their acceptance,
- invoices and supporting documents confirming payments,
- attendance lists, etc.....

Some examples are given below.

As regards risky documents

When it comes to compliance with the criteria for co-financing, some bidders may be tempted to produce a forged document if they cannot fulfil the requirements. Therefore special attention should be paid to logos, signatures, dates and stamps affixed to the documents.

Certificates of tax and social contributions — these types of certificate are delivered by the tax and/or social administration or entity on specific standard forms. It should be possible to check their authenticity with the issuing administration or entity.

Bank statements — a bidder may need a false bank statement to demonstrate that he/she meets the requirements related to co-financing. A false bank statement may not be easy to detect. Still, staff may check whether there is consistency between the amount stated in the bank account, the declared turnover of the company and its capital as stated in the balance sheets.

Balance sheets — a bidder may need to falsify balance sheets to prove its economic and financial capacity. Although not always easy to check, it may be useful to look for online information to cross-check the information provided. There are some open source databases that provide information related to the turnover, the capital and some other key financial figures of companies.

As regards some risky sectors

Delivery of goods

Typical fraud patterns in this area consist in:

Non-delivery of goods or delivery of only part of goods

Supply of goods of lower quality at the price agreed for higher quality

Supply of second-hand goods instead of new ones at the same price

These fraud patterns are supported by forged invoices and possibly other documents.

Vague description of the goods in invoices should attract the attention of the desk officer. If possible an on-the-spot check should be carried out to verify the existence of the goods, check their serial number (if existing) and examine the proof of origin of the goods.

Attention could also be paid to potential cases where e.g. the serial number of an item is also forged, in order to match the serial number in the forged document, i.e. by checking signs of such tampering of the serial number on the item.

Construction

Typical fraud patterns in this area consist in:

Non-performance of the work or completion of only part of the work

Performance of works that do not correspond to the technical specifications but are still invoiced at the price foreseen

Submission of invoices from subcontracting companies that do not exist or do not perform any real business

Overcharging of the costs

These frauds are supported by false invoices and/or false certification of works.

The managing authorities' staff should apply professional scepticism and diligence when dealing with construction projects. For big projects, a close monitoring system should be put in place. The desk officers should familiarise themselves with the environment in which the beneficiary operates (related companies, stakeholders, subcontractors, geographical sector of operation, etc....) in order to be able to detect rapidly any anomaly in an event, a document, or an invoice. Moreover, on-the-spot checks should be carried out to ensure the authenticity of invoices and supporting documents.

Training, conferences, seminars, missions

Typical fraud patterns in this area consist in:

Overcharging of costs

False attendance list to cover ineligibility of an event

These frauds are supported by false timesheets, false invoices, false lists of participants in part or in whole.

When it comes to training/conference or seminar attendance, random checks may prove efficient for detection of fraud in this area, if there are enough details related to the declared participants. Therefore it is highly recommended to require the beneficiary to ask for certain contact details from the participants (at least phone number, email address and details of their employer) in addition to the signature of the attendance list, so as to be able to carry out some cross-checks in line with protection of personal data law.

3.2 Cross-checks using databases

Cross-checking information they have at their disposal is a key first-level check that the managing authorities can carry out. This could be done on a sample basis. It may concern company registration details, financial information, operational data, etc....

Direct internet access allows the desk officer to carry out checks related to the existence of an entity by confirming its address and telephone numbers. It provides access also to the website of the entity, if any, and may provide useful information related to the operational means of the company as well as its commercial and financial environment.

Without prejudice to national legislation, the managing authorities may request access to databases or information from any institution holding independent and separate relevant

information (e.g. state financial institutions for budget duties⁵ and documents regarding that matter, land public authorities for land property or land identification, trade office for companies` structure and history, specific authorities for activities requiring authorisations, etc.). Cross-checking of cross-border operations may prove more difficult. General searches on the internet may lead also to useful conclusions.

A list of useful websites can be found in Annex 3.

3.3 On-the-spot checks

On-the-spot checks are a key tool for detecting false documents.

They are a means of verifying:

the existence of the beneficiary and to some extent the consistency between the elements referred to in the documentation provided within the framework of the bid and the reality in terms of implementation of the project;

whether the copies of documents submitted with the application for co-financing / payment (regardless of whether on paper or electronically) comply fully with the original documentation in the possession of the beneficiary;

that information contained in the acceptance protocol and invoice conforms to reality, i.e. the works and services have actually been performed to the extent declared.

The intensity of on-the-spot checks should be decided by the managing authorities with regard to the risks identified, the types of projects, the scope of projects and the types of beneficiaries.

Electronic documents

The use of electronic documents may increase sharply within the Multiannual Financial Framework period 2014-2020. The Member States must ensure that all exchanges of information between beneficiaries and managing authorities, certifying authorities, audit authorities and intermediate bodies can be carried out solely by means of electronic data exchange systems.⁶

This should have a fairly small impact on the detection of forged documents, which is mainly connected to the lack of obligatory information in the documents, the provision of false information or elements, inconsistency between several documents within a specific context, the general behaviour of a beneficiary, etc. Those are all elements that are not directly connected with the type of format of the documents.

Still, there might be a new issue linked to the safety, integrity and authenticity of the electronic transfer of documents. This may be addressed through the use of an electronic

⁵ Public tax administration, social contributions administration, customs administration, etc....

⁶ Article 112(3) of the Proposal for a Regulation COM(2011) 615 for the programming period 2014-2020.

signature. The authorities might have to check with the e-signature provider that the e-signature used is a genuine one.

In all cases – use of paper or electronic format - suspicion of a forged document should lead to a cross-check and/or an on-the-spot check by the relevant authorities to verify as much as possible the reality of the information.

Moreover, beneficiaries will have to keep paper documents (originals or certified true copies) – if they exist - and provide them to the relevant authorities for the purpose of checks.

3.4 Coordination between managing and police/judicial authorities

When faced with a document that may have been forged, the managing authorities have to carry out a check to eliminate the doubt or to confirm the risk. If the risk is confirmed, the managing authorities should consider carrying out an on-the-spot check.

Reactivity is of great importance and should lead to quick and appropriate reactions:

suspending payments to the operation, as necessary, in the case of irregularity or suspected fraud,

safeguarding documents and evidence,

forwarding the information to the judicial authorities, directly or through hierarchy, without prejudice to internal and national rules.

Reactions on both the administrative and penal side may occur in parallel, depending on the case.

Early contact with police/judicial authorities may be relevant for tactical reasons:

It may contribute to planning the right further steps and in particular to deciding which

- authorities should take the lead
- actions are most appropriate to safeguard the financial interests of the EU and the Member State concerned, and to ensure efficiency of the judicial investigation and prosecution of the case.

Where problems with forged documents occur with a high frequency, it is recommended to set up contacts and methods of mutual cooperation and training events with specialised bodies operating regionally or nationwide.

The authorities responsible for reporting irregularities are also required to monitor the results of criminal proceedings concerning instances of fraud. The information obtained in the course of proceedings must be transmitted to OLAF in accordance with applicable regulations (e.g. via quarterly reports in the Irregularities Management System (IMS)).

Another key issue consists in the development of a well-functioning system of exchange of information with law enforcement agencies to obtain the data needed for IMS reporting.

ANNEXES

Annex 1 - Examples of forged documents

This annex provides examples of forged invoices, timesheets, attendance lists, bank guarantees, statements of capacities, certificates, flight tickets, websites, etc.

Example 1 – Unusual number of a document and lack of stamp

Facts: A beneficiary in an operational programme carried out a public procurement procedure for services. One of the documents that the economic operators had to provide to the beneficiary in order to prove eligibility was a certificate from the Registry Agency (Commercial Register). This certificate contains administrative data about the company: residence, partners, managers, representing person, etc. The contract was awarded to a consortium of companies, so each of the companies had to present such a certificate.

Red flag: The auditor's suspicion was aroused by the lack of a stamp on the certificate and by the unusual number of the document. The number of this kind of document is in the format (yyyy/mm/dd/hh/mm/ss) and there was a discrepancy between the number and the date of issue of the document.

Reaction: The auditor detected that the certificate of one of the companies was a document with untrue contents. The auditor made an inquiry in the public database of the Commercial Register and found that manager, partner and representing person of the company was Mr A. The certificate indicated that manager, partner and representing person was Mr B, who had concluded the consortium contract and the procurement contract. The audit authority sent a query to the Registry Agency about the authenticity of the document. The Registry Agency answered that this document had not been issued by the authority and the number of the document did not tally with the date of issue.

Outcome: Recommendation for a financial correction of 100% of the expenditure on the public procurement and notification to the prosecutor's office for further investigation.

Example 2 – Certificate with unusual number

Facts: The audit authority started a procurement procedure for a service. One of the documents that the economic operators had to provide to the contracting authority in order to prove eligibility was a certificate about the experience of Key Expert 1 – Team leader.

Red flag: A member of the evaluation committee detected that one of the economic operators presented a certificate with an unusual serial number. The document was issued not by the authorised person — Secretary General or the Minister — but by the head of a unit in the Ministry of Health.

Reaction: The audit authority sent a query to the Ministry about the authenticity of the document. The Secretary General answered that the Ministry of Health had not issued

this certificate and the document had not been registered in the Ministry's information and filing system.

Outcome: As a result the audit authority eliminated the economic operator from the public procurement procedure. The file was sent to the prosecutor's office for further investigation. The investigation found that the serial number of the document had been altered in order to present it as a true document issued by the Ministry.

Example 3 – Different inks used in an invoice

Facts: The accountant of the beneficiary had added figures in the invoices, increasing the amounts payable.

Red flag: Differences in the ink used for the preparation of the invoices.

Reaction: An audit was launched. The auditor cross-checked the figures in the invoices against the primary documents - contracts and handover protocols. The audit report was sent to the prosecutor's office. The documents attached to the invoices were used as additional evidence.

Outcome: The accountant was convicted of embezzlement. The beneficiary was unaware of the illegal transactions carried out by the accountant. The auditor drew up a statement of defalcation according to the Public Internal Financial Control Act against the accountant who restored the damage to the full plus interest.

Example 4 – Invoice issued by a company operating in a sector beyond the scope of the financing

Facts: In order to receive money for work clothing, every employee needs to present an invoice from the seller.

Red flag: One of the employees presented an invoice from a company operating in the herb business.

Reaction: The auditor sent a query to the company. It appeared that the stamp on the invoice had not been used by the company for years because it had been stolen. The company also declared that the invoice's number was not compliant with the nomenclature in use.

Outcome: The perpetrator reimbursed the sum wrongly paid. The head of the Public Internal Financial Control Agency decided that the degree of social danger of the act was insignificant so the case was not sent to the prosecutor's office.

Example 5

Facts: A beneficiary presented a bank statement showing a balance of CZK 20 million to demonstrate the significant financial capacity needed to obtain EU co-financing.

Red flag: The beneficiary was already under investigation by the police. The police investigators had received information about its bad financial/economic situation, which appeared to be inconsistent with the bank statement provided to the contracting authorities.

Reaction: The police cross-checked the bank statement with the bank. It appeared that the bank statement provided by the beneficiary to the contracting authorities was fake. The real balance of the account was CZK 20 000. The perpetrator had used a real bank stamp, meaning that he probably had an accomplice working in the bank but this was not proven.

Outcome: These findings led to criminal proceedings. The beneficiary was prosecuted and sentenced to imprisonment.

Authentic document

Adresář ☎

Čtyřlístková banka, a.s.

VÝPIS Z ÚČTU

číslo účtu: 0000002004770001
BÚ TTS, SPOL. S R.O.

klíent [REDACTED] TRADE [REDACTED]

datum výpisu 31-10-02

měna CZK

číslo výpisu 1

strana 1

[REDACTED] TRADE [REDACTED] - TTS, SPOL. S R
[REDACTED] /55
181 00 PRAHA 8 - ČIMICE

Průběžný stav minulého výpisu 0.00

DATUM	OPERACE	DEBET	KREDIT
31-10-02	00020/PO2 9 KS 379		20,000.00CR
31-10-02	Fixed Commission	110.00DR	
31-10-02	Interest		0.28CR
Součty obrátů za výpis		110.00DR	20,000.28CR
zůstatek			19,890.28CR
limit			0.00
lze čerpat			20,000.00CR

Číslo účtu: 0000002004770001
BÚ TTS, SPOL. S R.O.

klient: [redacted] TRADE [redacted]

datum výpisu: 31-10-02

měna: CZK

číslo výpisu: 1

strana: 1

[redacted] TRADE [redacted] - TTS, SPOL. S R
[redacted] /55
181 00 PRAHA 8 - ČIMICE

konečný stav minulého výpisu 0.00

M OPERACE DEBET KREDIT

31-10-02 00020/PO2 9 KS 379		
31-10-02 Fixed Commission	110.00DR	20,000,000.00CR
31-10-02 Interest		280.00CR

Součty obrátů za výpis 110.00DR 20,000,280.00CR

zůstatek		20,000,170.00CR
limit		0.00
lze čerpat		20,000,170.00CR

Forged document

Example 6

Forged bank statements (confirmation of bank operations)

Facts: During an on-the-spot check a beneficiary presented printouts of scans of two bank statements (confirming payments of VAT from invoices A and B on 13.09.2011).

Red flag: A discrepancy in bank account numbers concerning payment of invoice A (11 2222 3333 4444 5555 6666 7777) and invoice B (11 2222 3333 4444 5555 66667) triggered the suspicion.

Reaction: The beneficiary was asked to provide original bank statements, bearing the stamp of the bank, but they were never provided. Analysis of copies of the bank statements showed that:

- in the bank statement confirming payment of VAT from invoice B, in the field 'from account No' there is a bank account number consisting of 23 digits instead of the standard 26 digits;
- there are visible differences in size and sharpness of font between the two bank statements. The data contained in the fields: accounting date, date of currency, from the account No, amount of transaction, amount booked, title of payment are visually different.

Moreover, another bank statement was submitted, concerning a different account number and a different date of payment (16.09.2011), but for the same amount and the same supplier. The above issues raised doubts as to the authenticity of the statements confirming the payments of 13.09.2011.

Outcome: The managing authorities notified the case to the prosecutor's office on suspicion of crime. At the same time the payment to the beneficiary was suspended.

Example 7

Facts: Beneficiary submitted a bank statement claiming it to be the original.

Red flag: A thorough examination of the document demonstrated that it was only a copy. The beneficiary explained that he no longer held this bank account. Therefore this was the only document he had.

Reaction: The beneficiary was asked to provide the original bank statement, bearing the stamp of the bank, but it was never provided. The analysis of the copy of the above-mentioned bank statement showed:

- Mismatch of the balance sum. The starting balance was PLN 1 733,83, there was a sole financial transaction – payment of PLN 2 893,40, and the final balance was the same amount - PLN 2 893,40.
- The amount in the field 'Total debit' – PLN 9 444,98 – did not correspond to the sum of transactions.

Outcome: The case was referred by the managing authorities to the prosecutor's office on suspicion of crime. At the same time the payment to the beneficiary was suspended.

Example 8

Forged (altered) invoices

Facts: The beneficiary submitted, with an application for payment, copies of invoices and confirmation of bank transfers dated September 2009.

Red flag: During the on-the-spot check the beneficiary was asked to provide the originals. The beneficiary stated that the originals were lost.

Reaction: An investigation conducted by the law enforcement authorities demonstrated that the dates of issuing the documents had been manipulated. The originals were found with the same number but with a different date (July 2009). Thus it was concluded that the duplicates were a forgery.

The beneficiary had forged the dates to hide the fact that he had started the project before applying for the financing. This rendered his application ineligible.

Outcome: Criminal proceedings were brought before the court of law. The beneficiary was charged with altering the dates on the agreement with the contractor, invoices and bank transfer in order to extort funding from the operational programme. In 2013 the judgment was issued, acquitting the beneficiary of the alleged offence. The prosecution appealed. In the course of the proceedings it was established that the implementation of the project started before the application for co-financing and therefore the beneficiary was not entitled to receive funding under the programme. The managing authorities will take action to terminate the grant agreement with the beneficiary and to recover the funds paid to him.

Example 9

Facts: An applicant company was seeking to refurbish and upgrade its premises, and presented the requested three quotations at the application stage.

Red flag: At the review stage, the following issues were highlighted:

The main trigger which gave rise to the initial suspicion of fraud was the similarity between the quotations submitted with the application form (Refer to Q1, Q2 and Q3);

Also the lack of detail on the quotations submitted was questionable. The quotations only provided lump sum amounts without giving details of unit price and quantities. This was a turnkey project; however, with respect to works such as plastering, painting and flooring, no measurements or unit costs were included in the quotations (Refer to Q1, Q2 and Q3) and were never provided to the audit team when requested;

The company which issued the invoice (refer to INV) after carrying out the work was different from the company which had been selected at the application stage (refer to Q1).

The company issuing the invoice (refer to INV) had the same VAT number as that included in the quotation of the company which was selected by the beneficiary (refer to Q1), yet the company was not the same;

The VAT numbers of the companies were checked using VIES. It transpired that quotation Q1 was using a VAT number which corresponded to the name of the company issuing the invoice;

Reaction: Further checks were made with the VAT Department.

The company providing quote Q1 was nowhere in their books;

These facts raised serious doubts about the existence of the company providing quote Q1, which was the one which got the work.

Also, after further checks it transpired that two companies out of the three submitting quotations, Q2 and Q3, had the same shareholders and common directors, with the major shareholder being XXXXXXXXX Ltd.

Outcome: The Audit Authority immediately effected a 25 % recovery based on presumed fraud and pending further investigations. Funds were recovered. The case was forwarded to AFCOS, which launched investigations.

Q 1

[REDACTED] LTD.
PHONE [REDACTED]
VAT - [REDACTED] 16 [REDACTED] 15
E-MAIL [REDACTED]

FACSIMILE TRANSMITTAL SHEET

TO: [REDACTED] FROM: [REDACTED]
MR [REDACTED]
COMPANY: [REDACTED] DATE: 24/MARCH/2009
RF: QUOTE TOTAL NO. OF PAGES INCLUDING COVER: 1
NOTES/COMMENTS:

Dear Sir,

Hereunder is our quote for the works required. Kindly note that this quote is valid for 12 months as of today.

	Euro Price (excl. VAT)	Euro VAT	Euro Price (incl. VAT)
1. Air-conditioning work	12,000.00	2,160.00	14,160.00 ✓
2. Electrical Installation	4,250.00	765.00	5,015.00 ✓
3. Plastering and painting works	8,950.00	1,611.00	10,561.00 ✓
4. Internal wooden doors	3,250.00	585.00	3,835.00 ✓
5. Sanitary area works	2,790.00	502.20	3,292.20 ✓
6. Flooring	5,125.00	922.50	6,047.50 ✓
7. Drop ceiling	4,125.00	742.50	4,867.50 ✓
8. Internal Glazing	2,950.00	531.00	3,481.00 ✓
9. Light fittings	1,750.00	315.00	2,065.00 ✓
10. Multimedia facilities	3,750.00	675.00	4,425.00 ✓
11. Classroom furniture	6,750.00	1,215.00	7,965.00 ✓
12. Service room	4,450.00	801.00	5,251.00 ✓
13. Lounge area	6,500.00	1,170.00	7,670.00 ✓
14. Shading systems	1,450.00	261.00	1,711.00 ✓
15. Dispensing machines	1,150.00	207.00	1,357.00 ✓
16. Decorative paintings	2,250.00	405.00	2,655.00 ✓
17. Internal signage	1,250.00	225.00	1,475.00 ✓
TOTAL Euro	72,740.00	13,093.20	85,833.20

Please keep us updated.
[REDACTED]

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Q 2

[Redacted] *Ltd.*

24/03/2009

Quotation: [Redacted]

Dear Mr. [Redacted]

Hereunder is the quote requested as per specifications detailed to us by [Redacted]
- Forsite Design. Please note that this quote is valid for up to 12 months.

		VAT	Total
1. A/C supply and install	12,500.00	2,250.00	14,750.00
2. Electricals	4,000.00	720.00	4,720.00
3. Plaster / paint work	8,500.00	1,530.00	10,030.00
4. Woodworks	4,800.00	864.00	5,664.00
5. Sanitary supplies	3,000.00	540.00	3,540.00
6. Floor coverings	6,000.00	1,080.00	7,080.00
7. Suspended ceilings	3,250.00	585.00	3,835.00
8. Internal Glazing	2,950.00	531.00	3,481.00
9. Light fittings	2,150.00	387.00	2,537.00
10. Multimedia supplies	3,520.00	633.60	4,153.60
11. Classroom furniture	6,950.00	1,251.00	8,201.00
12. Service room	4,950.00	891.00	5,841.00
13. Lounge area	5,125.00	922.50	6,047.50
14. Shading	1,750.00	315.00	2,065.00
15. Dispensing machines	1,450.00	261.00	1,711.00
16. Decorative paintings	2,750.00	495.00	3,245.00
17. Internal signage	1,750.00	315.00	2,065.00
			88,966.10

Please let us know if clarifications are required.

Thanks and regards.

[Redacted Signature]
Managing Director.

MEMBER OF:
[Redacted]

Q 3

[Redacted] *Ltd.*

Tel/Fax: [Redacted]
VAT Reg No [Redacted]
Co. Reg. [Redacted]

Quote to [Redacted]

Date: 24th March 2009

Dear [Redacted]

Thanks for this opportunity to quote for your new project. Following the site visit and the meeting with the designer in charge, hereunder is our itemized quote as requested.

	<u>Net price</u>	<u>VAT</u>	<u>Total</u>
1. Air-conditioning	11,000.00	1,980.00	12,980.00
2. Electrical Installation	4,180.00	752.40	4,932.40
3. Plastering and painting	9,020.00	1,623.60	10,643.60
4. Internal wooden doors	3,465.00	623.70	4,088.70
5. Sanitary supplies	2,640.00	475.20	3,115.20
6. Flooring	5,500.00	990.00	6,490.00
7. Drop ceiling	3,850.00	693.00	4,543.00
8. Internal Glazing	2,750.00	495.00	3,245.00
9. Light fittings	1,980.00	356.40	2,336.40
10. Multimedia facilities	3,520.00	633.60	4,153.60
11. Classroom furniture	6,600.00	1,188.00	7,788.00
12. Service room	4,950.00	891.00	5,841.00
13. Lounge area	5,500.00	990.00	6,490.00
14. Shading systems	1,760.00	316.80	2,076.80
15. Dispensing machines	1,320.00	237.60	1,557.60
16. Decorative coatings	2,640.00	475.20	3,115.20
17. Internal signage	1,650.00	297.00	1,947.00
TOTAL	72,325.00	13,018.50	85,343.50

Please note that this quote is valid for 12 months. Delivery dates are approx. 30-45 days after confirmation. Programme of works to be discussed

[Redacted]

INV

[REDACTED] LTD

Te [REDACTED]
 VAT Reg. No: [REDACTED]16[REDACTED]-[REDACTED]15

[REDACTED]
 VAT Reg. No: [REDACTED]

Date 31/08/2011
 A/C Code 000623
 Sys Ref 00016084
 Int Ref IN 021899
 Ext Ref JOB 623
 Page 1

Invoice 021899

Details		EUR	VAT %
Invoice as per quotation dated 24/03/2010;		72,740.00	18.0
1.	Air-conditioning work - €14160.00		
2.	Electrical Installation - €5015.00		
3.	Plastering and painting works - €10561.00		
4.	Internal wooden doors - €3835.00		
5.	Sanitary area works - €3292.20		
6.	Flooring - €6047.50		
7.	Drop ceiling - €4867.50		
8.	Internal Glazing - €3481.00		
9.	Light fittings - €2065.00		
10.	Multimedia facilities - €4425.00		
11.	Classroom furniture - €7965.00		
12.	Service room - €5251.00		
13.	Lounge area - €7670.00		
14.	Shading systems - €1711.00		
15.	Dispensing machines - €1357.00		
16.	Decorative paintings - €2655.00		
	Internal signage - €1475.00		
		<i>Sub-total</i>	72,740.00
		<i>VAT Amt</i>	13,093.20
		TOTAL EUR	85,833.20
VAT Rate %	Amount	VAT Amount	
18	72,740.00	13,093.20	
	72,740.00	13,093.20	

Equivalent in [REDACTED]

[REDACTED] LTD

Example 10

Falsified attendance list

Facts: The beneficiary submitted financial requests for conferences to the managing authorities without supporting documents. The managing authorities paid the amount without requesting the attendance lists.

Red flag: Within the framework of an audit, the auditor asked for the attendance lists from the beneficiary, who provided them. A thorough examination of the documents showed that the signatures had a very similar shape.

Reaction: The auditor made written requests to the companies which were supposed to have attended these conferences. He enquired about their supposed representatives' participation at the event. It finally came out that for each of the 16 events around 200 signatures were false and 95 % of these 'belonged' to fictitious persons.

Outcome: The case was forwarded to the prosecutor's office.

Example 11

Falsified hotel invoice

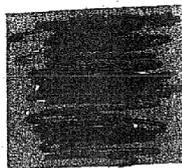
Facts: A beneficiary submitted a hotel invoice to justify attendance at a meeting.

Red flag: The hotel belongs to a large group where all operations are computerised: clients' registration, invoicing, etc. The invoice was hand-written, had no number, did not indicate the currency and did not show any information related to the payment.

Reaction: The invoice was cross-checked with the hotel, which confirmed that it did not issue such invoices and that it did not know this client.

Outcome: The reimbursement was refused to the beneficiary. Taking into account the low amount at stake, no further action was carried out.

HOTEL
PLACE [REDACTED] 13
[REDACTED]



For official use

Description	Montant
Room Rent	
3 x 85	255
[REDACTED]	
[REDACTED]	
[REDACTED]	
[REDACTED]	
Petit dj. :	
Extra :	
Total :	255

Ch. No. 404 Nom. [REDACTED]
Date : 14/1/2009 No. Prs. 1

Annex 2: Minimum content of invoices (business to business)

Directive 2006/112 related to VAT provides some rules concerning the content to be expected in invoices when the companies concerned are subject to VAT rules. In general, the partners the managing authorities deal with have obligations regarding VAT and should therefore produce and present invoices respecting the following rules. They need these documents for taxation purposes.

The minimum content of an invoice should be as follows⁷ (Article 226 of the Directive):

- (1) The date of issue
- (2) A sequential number which uniquely identifies the invoice
- (3) The supplier's VAT identification number under which the taxable person supplied the goods or services
- (4) The customer's VAT identification number
- (5) The supplier's full name and address
- (6) The customer's full name and address
- (7) A description of the quantity and nature of the goods supplied or services rendered
- (8) The date the tax becomes chargeable (due to the Treasury)
- (9) The unit price exclusive of VAT and any discounts or rebates if they are not included in the unit price
- (10) The VAT rate applied
- (11) The VAT amount payable
- (12) A breakdown of the VAT amount payable per VAT rate or exemption
- (13) The total amount to pay

⁷ Article 226 of Directive 2006/112.

Annex 3 - List of useful databases online

Note:

The following list of websites is provided to help managing authorities looking for first-level information concerning foreign companies submitting documents within the framework of an EU-financed project: existence, date of creation, names of shareholders, annual gross, capital, etc. It is of course non-exhaustive.

Some of them have just a version in the national language of the country where they are located. It was decided to keep them in the list so that the managing authorities who have the appropriate human resources would be able to use them.

The list is organised in three main clusters:

- 1- Overall websites
- 2- EU websites
- 3- National registers websites

1- Overall websites

Investigative Dashboard

<http://www.investigativedashboard.org/category/www/>

Language: English

This is a portal to a large number of national registries and databases in the world providing information on companies, shareholders, etc.

Worldwide registries

<http://www.companieshouse.gov.uk/links/introduction.shtml#reg>

Language: English

This is a portal to a large number of official company registers by country providing information on companies, shareholders, etc.

<http://www.commercial-register.sg.ch/home/worldwide.html>

Language: English

Website maintained by the Kanton St Gallen, it provides links to the company registration websites of a great number of countries worldwide.

Official company registers

<http://www.rba.co.uk/sources/registers.htm>

Language: English

Provides links to company registers around the world including EU Member States.

2- EU websites

VIIES - VAT Information exchange system

http://ec.europa.eu/taxation_customs/vies/

This website registers all EU firms subject to VAT.

TIN (Tax Identification Number) on Europa

http://ec.europa.eu/taxation_customs/tin/

This website allows checking of the TIN online (validity of the number) and provides information on TIN formats by country.

3- National websites

Belgium

http://www.ejustice.just.fgov.be/cgi_tsv/tsv.pl

Languages: French, Dutch

Provides information on companies registered in Belgium from 01/01/1983.

Bulgaria

<http://www.brra.bg/>

Language: Bulgarian

National trade register - provides information on trade companies registered in Bulgaria.

Czech Republic

<https://or.justice.cz/ias/ui/rejstrik-rozsirene>

Language: Czech

Czech online companies register. Provides official information on companies registered in the Czech Republic (legal form, identification number, settlement shareholders, statutory body, etc.)

http://wwwinfo.mfcr.cz/ares/ares_fo.html.cz

Language: Czech

Czech Ministry of Finance - online information from the register of self-employed persons and information about VAT payers

France

<http://www.infogreffe.fr/>

Language: French

Provides official information on companies registered in France.

<http://www.societe.com/>

Language: French

Provides basic information on companies, links with other companies and financial key figures.

Luxembourg

<http://www.legilux.public.lu/entr/index.php>

Language: French

Provides basic information on companies registered in Luxembourg.

Malta

<http://www.mfsa.com.mt/>

Languages: Maltese, English

Provides information on company set-up, services provided, any related companies and information on directorship.

<http://www.mepa.org.mt/home?l=1>

Languages: Maltese, English

Provides information related to permits required as part of a project. In Malta this role is in the remit of the Malta Environment and Planning Authority (MEPA).

<http://www.etc.gov.mt/Index.aspx>

Languages: Maltese, English

The Employment and Training Centre (ETC) in Malta holds databases of registered employers/employees. Checks can be performed to confirm the details provided by applicants.

Poland

<http://www.stat.gov.pl/regon/>

Language: Polish

Provides basic information on companies registered in Poland, including the tax registry number, name of company, address of company, legal form, form of ownership, type of main activity, date of start of business activity, date of entering into records.

<https://ems.ms.gov.pl/krs/danepodmiotu>

Language: Polish

Official webpage of National Court Registry, providing information on name of company, address of company, legal form, representatives of company.

Romania

<https://portal.onrc.ro>

Language: Romanian

Provides information regarding companies registered in Romania. Requires pre-registration.

<http://www.mfinante.ro/pjuridice.html?pagina=domenii>

Language: Romanian

Provides basic fiscal information regarding companies registered in Romania.

Switzerland

<http://www.moneyhouse.ch/>

Languages: German, Italian, French, English

Provides information on companies registered in Switzerland.