European
Commission

2013

Annual Activity Report

European Anti-Fraud Office (OLAF)

Table of Contents

INTRODUCTION:

DG OLAF in brief

The **mission** of the European Anti-Fraud Office (OLAF, also referred to as 'the Office' in this report) is threefold:

- it protects the financial interests of the European Union (EU) by investigating fraud, corruption and any other illegal activities;

- it detects and investigates serious matters relating to the discharge of professional duties by members and staff of the EU institutions and bodies that could result in disciplinary or criminal proceedings;

- it supports the EU institutions, in particular the European Commission, in the development and implementation of anti-fraud legislation and policies.

    By performing its mission as effectively as possible OLAF contributes to the efforts made by the EU Institutions to guarantee that the best use is made of taxpayers' money.

OLAF operates within a complex institutional framework and is at the centre of a group of bodies concerned either directly or indirectly with **anti-fraud issues**. These bodies fall into three sub-groups:

    a) Those located in the Member States or third countries, such as police and customs services, judicial authorities and administrative anti-fraud authorities;

    b) European Union bodies, such as the Investigation and Discipline Office of the Commission (IDOC), each institution's internal audit service, the audit capabilities of the Commission's operational departments, Eurojust, Europol; and

    c) International organisations such as the UN, the World Bank, Interpol etc.

As the Member States are responsible for managing around 80% of European Union expenditure as well as for the collection of traditional own resources, it is essential for the effectiveness of the Office to work closely with national authorities (police, customs, the courts, etc.). The Member States are responsible for criminal proceedings but the diversity of their judicial systems renders the Office's investigative and monitoring activity particularly complex. Moreover, the effectiveness of the investigation stage may be reduced if the Member States do not adequately respond to the Office's requests for support.

OLAF has a small operational budget (to provide financial support for operational projects in cooperation with beneficiaries in the Member States) and limited financial transactions. OLAF mainly handles financial transactions linked to three subjects: the Hercule programme (protection of EU financial interests), the Pericles programme (protection of the Euro) and the Anti-Fraud Information System (cooperation with partners). As such, the OLAF control system puts special emphasis on risks linked to the assurance of the quality of investigations, the protection of the individual rights of the persons concerned and the secure handling of

sensitive information records.

In 2013, OLAF's activities were linked to **three Activity-Based Budgeting (ABB) entries in the "Fight against Fraud" policy area**:

- Fight against fraud;

- Policy strategy and coordination for the European Anti-Fraud Office;

- Administrative support for the European Anti-Fraud Office.

The Director-General of OLAF is responsible for the conduct of **OLAF investigations**. In order to guarantee the independence of OLAF in its investigative function, the legislation foresees that the Director-General of the Office does neither seek nor take instructions from any government or any Institution (including the Commission) as regards this function. If the Director-General of OLAF is of the opinion that the Commission has taken a measure that challenges his independence, he has the possibility of bringing a case against the Commission before the Court of Justice.

To strengthen OLAF's independence, the Office is subject to regular monitoring of its investigative functions by a **Supervisory Committee[1]**. The Committee comprises five independent members, having experience in senior judicial or investigative functions or comparable functions relating to the areas of activity of the Office. They are appointed by common agreement of the European Parliament, the Council and the Commission. Since 2013 the term of office of members is five years, not renewable. Three and two members should be replaced alternately to preserve the Supervisory Committee's expertise[2]. The Supervisory Committee delivers opinions on its own initiative, at the request of the Director-General or at the request of an institution, body, office or agency, without however interfering with the conduct of investigations in progress. The Director-General of OLAF meets and exchanges with the members of the Supervisory Committee on a regular basis. The activity report (covering the year 2013) of the Supervisory Committee[3] was transmitted to OLAF on 28 March 2014. While the report does not point to any breach of OLAF's independence in the exercise of the competences conferred upon it by Regulation 883/2013, it does include a recommendation to improve reporting to the Committee on potential risks to OLAF's independence[4].

Organisational structure

OLAF's structure demonstrates a focus on the core business tasks (investigations and their support - Directorates A, B and C, as well as the Investigation Selection and Review Unit 0.1)

---

[1] http://ec.europa.eu/anti_fraud/about-us/supervisory-committee/index_en.htm

[2] Article 15.3, Regulation 883/2013

[3] http://ec.europa.eu/anti_fraud/documents/reports-sup_comm/2013/scar_2013_final_en.pdf

[4] Recommendation 11, Annex 4, Opinion No 2/2014.

and on anti-fraud policy (Directorate D). In 2013, a small Resources Directorate (Directorate R) dealt with human resources, budget and IT infrastructure management.

However, in autumn 2013, a change was agreed to OLAF's organisation chart to take effect on 1 January 2014. As a result, Directorate R "Resources" was abolished. Units R1 "Human Resources" and R2 "Budget" were merged into Unit 02 "Human Resources and Budget", reporting directly to the Director General. Unit R3 was transferred to Directorate C under the new name "Information Systems Infrastructure". Unit C1 was split into two: "Investigation Workflow" has remained as C1 dealing with registry, document management, data quality assurance and production of statistics. The new Unit C6 "Information Systems Development" is now in charge of IS development and project management, including the development of OLAF's Content Management System. A new position of principal advisor has been created.

The year in brief

Changes to the OLAF's legal framework and improved working arrangements

In 2013, the single most important development for OLAF was the **entry into force of Regulation 883/2013** concerning investigations conducted by the European Anti-Fraud Office and the Commission Decision 2013/478/EU accompanying Regulation 883/2013[5], on 1 October 2013. Together with the new Regulation, a new set of Guidelines on Investigation Procedures for OLAF Staff also entered into force to ensure that OLAF investigations are carried out in a consistent and coherent way[6].

Under Regulation 883/2013, new **Working Arrangements** were signed between OLAF and its **Supervisory Committee** on 14 January 2014. This is the most comprehensive text governing the cooperation between the two bodies since the creation of OLAF in 1999.

In July 2013, OLAF signed **Practical Arrangements with the European Parliament**. These non-binding arrangements aim at ensuring the effectiveness of internal investigations led by OLAF and streamlining the cooperation between OLAF and the European Parliament.

OLAF's contribution to Commission initiatives

The priority actions proposed in the **Commission Anti-Fraud Strategy (CAFS)** were completed in 2013. OLAF took the lead in organising and executing many supporting actions throughout the year.

The Commission presented an **EU Strategy to tackle the illicit trade in tobacco products** in

---

[5] Commission Decision of 27 September 2013 amending Decision 1999/352/EC, ECSC, Euratom establishing the European Anti-fraud Office.

[6] replacing the OLAF Instruction to Staff on Investigative Procedures adopted in 2012.

June 2013[7], accompanied by a multi-annual **Action Plan** with the objective of extending the reach of actions beyond the EU's Eastern border to tackle the illicit consumption in the EU more generally.

In July, the Commission proposed a Regulation on the establishment of a European Public Prosecutor's Office (EPPO)[8] to improve the fight against offences affecting the Union's budget. Its exclusive task will be to investigate, prosecute and, where relevant, bring to justice, in the Member States' courts, suspects of crimes affecting the Union's financial interests.

The new **Hercule III** financing programme for 2014-2020 was adopted in October 2013. The budget for this programme amounts to EUR 104.9 million over the seven-year period.

An overall budget of EUR 7.3 million is available to the new **Pericles 2020** programme for the period 2014-2020.

In November 2013, the Commission adopted a proposal amending Regulation (EC) No 515/97[9] to address shortcomings regarding the functioning of the anti-fraud system in the customs field and to improve customs risk management at national and EU levels.

OLAF's contribution to international law instruments

The Commission/OLAF negotiated on behalf of the EU and its Member States the **Protocol to Eliminate Illicit Trade in Tobacco Products to the WHO Framework Convention on Tobacco Control** (FCTC), agreed at the fifth Conference of the Parties to the FCTC in Seoul, in November 2012. The EU signed the Protocol on 20 December 2013.

---

[7] Communication from the Commission to the Council and the Parliament on stepping up efforts to fight against cigarette smuggling and other forms of illicit trade in tobacco products (COM(2013)324) – A Comprehensive EU Strategy

[8] COM(2013) 534 final
[9] COM(2013) 796 final

Executive Summary

Key Performance Indicators (5 most relevant)

Average duration of selections	☺	Target (2013): **No longer than 2 months** Results:	
		2013	1.82 months
		2012	1.4 months[10]
		2011	6.8 months
		2010	6.3 months
		2009	5.8 months
Average duration of investigations and coordination cases[11]	☺	Target (2013): **21 months** Results:	
		2013	17.7 months
		2012	16.4 months[12]
		2011	22.5 months
		2010	20.2 months
		2009	19.8 months
Strengthening anti-fraud measures in accordance with the Commission's Work Programme (CWP) 2013 and the Commission's Anti-Fraud Strategy (CAFS)	☺	Target: 100% of planned output delivered	OLAF delivered input into the following CWP 2013[13] items[14]: - Regulation on the establishment of a European Public Prosecutors' Office (co-lead: DG JUST/OLAF) - Communication on the fight against cigarette smuggling Agenda Planning CWP 2013 The priority actions proposed under the Commission's Anti-Fraud Strategy (CAFS) were completed in 2013[15].

---

[10] This result is based on 11 months starting from 1 February 2012, the date on which significant changes were introduced to OLAF's investigative procedures and organisation. Including January, the average duration of the selection phase is 3.9 months.

[11] These figures include cases closed during the reporting period and those still open at the end of the reporting period. It does not include the corresponding selection phase.

[12] As part of the changes introduced on 1 February 2012, the assessment phase was replaced with a selection phase. As a result, 419 cases, which were being assessed under the previous investigative procedure, were opened as investigation or coordination cases. This lowered the average duration of investigations and coordination cases for 2012.

[13] One proposal was suspended due to policy/political considerations pending the outcome of negotiations on the EPPO proposal.

[14] Covered under Specific Objective 4.a in the Management Plan for 2013.

Hercule II Programme: Balanced participation of Member States (technical assistance, training and legal training sectors)	☺	Target 2013: Grant beneficiaries shall originate from more than 60% of the Member States	Grant beneficiaries originate from 79% of the Member States (22 MS)
Pericles Programme: Training, exchange and assistance for the protection of the euro against counterfeiting - Number of projects financed	☺	Target 2013: At least 12 projects	13 projects

Policy highlights of the year (executive summary of part 1)[16]

OLAF has concluded a successful 2013 where its key objectives were attained and targets linked with its most important performance indicators were met.

In line with its mission statement, OLAF investigated fraud, corruption and any other illegal activities affecting the financial interests of the EU, as well as serious matters relating to the discharge of professional duties by members and staff of the EU institutions and bodies; and did so efficiently. The average duration of the initial assessment of whether a case should be opened (1.82 month) remained within the target of "no longer than two months" set in the Management Plan for 2013. The average duration of investigations and coordination cases (17.66 months) was well within the limit set for the year (21 months).

In the area of investigation support, nearly all targets were attained, reflecting an increase in the number of OLAF investigations opened following up on information collated within OLAF, an increase in internal users' satisfaction with IT systems and services, the achievement of the percentage target of investigative staff trained, and the timeliness of replies by the legal advice unit to internal requests as well as, in most cases, to complaints and requests.

Following its mission statement, OLAF continued to support the EU institutions, in particular the European Commission, in the development and implementation of anti-fraud legislation and policies. OLAF delivered input into the legislative and non-legislative items in the

---

[15] Further information is available under 1.1.3. ABB activity "Policy Strategy and Coordination for the European Anti-Fraud Office; Specific objective 4.b.

[16] An Executive agency should give the heading "Implementation of the Agency's Annual Work programme - Highlights of the year"

Commission's Work Programme and OLAF was instrumental in the implementation of the Commission's Anti-Fraud Strategy. OLAF delivered on actions included in the Action Plan to Fight Against Smuggling of Cigarettes and Alcohol along the EU's Eastern Border and incorporated still outstanding actions into the Communication on the fight against cigarette smuggling (June 2013). OLAF reinforced its cooperation with the EU Member States as much as possible and improved its cooperation with non-EU countries. OLAF organised and supported some Joint Customs Operations in 2013. These were JCO Helios (focusing on high-taxed goods and illegal drugs), JCO Halyard (targeting illegal drugs and other prohibited sensitive goods, including cigarettes), JCO Warehouse (focusing on excise goods) and JCO Romoluk (targeting cigarette and alcohol smuggling).

All targets were met in connection with spending programmes Hercule and Pericles.

For 2013, OLAF's Management Plan defined two general objectives, four specific objectives and six horizontal objectives. The sub-objectives under specific objective 4 are divided between two different ABB activities in this Annual Activity Report. Comments explaining OLAF's performance are included under tables in Part 1 where appropriate.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

In accordance with the governance statement of the European Commission, OLAF conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG OLAF has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the estimated error rate does not exceed 2% annually.

DG OLAF has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented with the exception of standards ICS 3 and ICS 12. Please refer to Part 3 for further details.

In addition, OLAF has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation

tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

Information to the Commissioner

The Annual Activity Report is a management report of the Director-General of the European Anti-Fraud Office (OLAF) to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Algirdas Šemeta, responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud.

1. POLICY ACHIEVEMENTS[17]

1.1 Achievement of general and specific objectives

1.1.1 Policy area "Fight against Fraud"

Policy Area: Fight against Fraud				☒ Non-spending
GENERAL OBJECTIVES		Target 2015	Interim Mileston e 2013	Current situation[18]
To protect the financial interests of the EU and the reputation of its institutions by combating fraud, corruption and any other illegal activities by means of efficient **investigations and coordination actions**	Percentage of investigations closed with recommendations	At least 40%	At least 35%	51% in 2013 (148/293)
	Amount of recoveries[19] in mid-term perspective (as 3 years' moving average)	A ratio of 2:1 or above between recoveries as a result of OLAF's investigations and OLAF's administrative and operational budget.		OLAF's budget for 2013: €79.4m **3 year's average: 3.8:1** 2013: € 117 million 2012: € 94.5 million 2011: € 691.4 million
To protect the financial interests of the EU and the reputation of its institutions by combating fraud, corruption and any other illegal activities by means of **contributions to the development of anti-fraud policies**	Strengthening anti-fraud measures in accordance with the Commission's Work Programme (CWP) 2013 and the Commission's Anti-Fraud Strategy (CAFS)	100% of planned output delivered	100% of planned output delivered	OLAF delivered input into the following CWP 2013[20] items[21]: - Regulation on the establishment of a European Public Prosecutors' Office (co-lead: DG JUST/OLAF) - Communication on the fight against cigarette smuggling - Proposal for amendment of Regulation 515/97 and Decision 2009/917/JHA [CWP 2012] The priority actions proposed under the Commission's Anti-Fraud Strategy (CAFS) were completed in 2013[22].

---

[17] See footnote 1.

[18] OLAF's Case Management System is the source for OLAF's statistics concerning its investigative activity.

[19] OLAF applies this as a general indicator to measure the value-added of anti-fraud action; however, OLAF itself has no recovery powers.

[20] One proposal was suspended due to policy/political considerations pending the outcome of negotiations on the EPPO proposal.

[21] Covered under Specific Objective 4.a in the Management Plan for 2013.

1.1.2 ABB activity "Fight against Fraud"

ABB activity: Fight against Fraud			☒ Non-spending
Specific objective 1: Further improve the efficiency and effectiveness of OLAF's investigations and coordination actions	Result indicators	Target 2013	Current situation 2013
1.a. Speed up the initial assessment of whether a case should be opened	Average duration of selections[23]	No longer than 2 months	1.8 months
	Percentage of selections closed whose duration is less than 2 months	At least 75%	76.8% (959/1248)
1.b. Keep the clearance rate close to 1	Clearance rate (number of cases opened / number of cases closed)	Close to 1	0.7 (287/415)
1.c. Reduce the duration of investigations and coordination cases	Average duration of investigations and coordination cases[24]	2013: 21 months 2014: 20 months 2015: 19 months	17.7 months
	Percentage of investigations and coordination cases closed whose duration is less than 21 months	At least 65%	57.1%
1.d. Monitor the effective implementation of recommendations following the closure of cases	Number of recommendations implemented with results[25] by the end of 2013 as a percentage of all Recommendations issued in 2011 (including results of financial, judicial, as well as disciplinary and administrative action)	At least 30% out of all Recommendations made in 2011	Data not available; development of a specific module in OLAF's Case Management System is ongoing for monitoring the implementation of recommendations issued by OLAF.

Comments: The clearance rate is monitored by OLAF in order to manage its caseload as a relevant indicator to anticipate on possible backlogs. It cannot be used per se as a measure

---

[22] Further information is available under 1.1.3. ABB activity "Policy Strategy and Coordination for the European Anti-Fraud Office; Specific objective 4.b.

[23] Including both the items that resulted in an investigation or coordination case and those that did not.

[24] This figure includes cases closed during the reporting period and those still open at the end of the reporting period (31/12/2013). It does not include the corresponding selection phase.

[25] OLAF applies this as a general indicator to measure the value-added of anti-fraud action; however, OLAF itself has no recovery competence.

of OLAF's current performance.

The result corresponding to the second indicator under 1.c., measuring the duration of investigations and coordination cases reflects OLAF's successful efforts to close its oldest cases which have resulted indeed in a high number of old cases finalised in 2013. OLAF is pleased with this result as it shows willingness and ability to reduce the overall duration of investigations and obtain quicker results. This indicator is updated in the Management Plan 2014 to read: "Percentage of on-going investigations lasting more than 20 months (the milestone of average duration of investigations for 2014)" in order to highlight the volume of "old" cases we are committed to reduce.

ABB activity: Fight against Fraud			☒ Non-spending
Specific objective 2: Provide the necessary tools and training to support OLAF's investigative activities	Result indicators	Target 2013	Current situation 2013
2.a. Provide operational support	Number of OLAF investigations opened following up on information collated within OLAF	Increase the number of investigations opened, following up on information collated within OLAF	2013: 24 2012: 5 2011: 2
2.b. Supply Information and Communication Technology (IT) tools	Internal users' degree of satisfaction with IT systems and services	Increase user satisfaction by 5% by 2013 (compared to 2012)	User satisfaction 23% higher in 2013. 2013: 87% of OLAF users either satisfied or very satisfied[26] (175 responses) 2012: 64.1% of OLAF users either satisfied or very satisfied[27] (131 responses)
2.c. Train investigative staff	Percentage of new investigators trained on basic investigative techniques	95 %	99%
	Percentage of experienced investigators trained in targeted workshops on specific investigative activities	80%	82%

---

[26] 10% were neutral.

[27] 25,2% were neutral.

	Percentage of investigators that have participated in training sessions on any new investigative tools implemented	90%	90%

Specific objective 3: Provide high-quality and timely legal support to OLAF's investigative activities	Result indicators	Target 2013	Current situation 2013
3.a. Meet the demand for legal advice to a high quality standard	Legal advice given to investigative units within the envisaged timeframe	At least 80% of responses provided within the envisaged timeframe	96%
	Degree of satisfaction of investigative units with the legal advice received (measured on the basis of a feedback system, to be launched mid-2013)	A majority of respondents consider the advice received relevant (system to be piloted during the second half of 2013)	No relevant data available this year; only three requestors used the option to measure satisfaction.
3.b. Reply to requests and complaints	Timely replies to complaints and requests (in particular, requests on personal data and access to documents)	Replies within the timeframe foreseen by the relevant Regulations: at least 90%	87.5%

ABB activity: Fight against Fraud			☒Spending programme
Specific objective 1	Result indicator	Target 2013	Current situation 2013
4.f Conduct/support joint operations and provide support through the AFIS applications	Number of Joint Customs Operations (JCOs) led or supported by OLAF	Organise and/or support: - 3 JCOs - 2 regional / virtual JCOs	- 1 JCO (Warehouse; co-organised) - 3 regional / virtual JCOs (Romoluk, Helios and Halyard) Organised and/or supported.

<u>Comment</u>: The two (additionally) foreseen JCOs could not be implemented in 2013, even though they were prepared, because of a lack of commitment of participating countries. Also lengthy negotiations about the content of the operations slowed down the process. Finally, agreements were reached and the two JCOs were on track at the time of finalising this AAR.

Anti-Fraud Information System

AFIS is an umbrella term for a set of anti-fraud applications operated by the European Commission under a common technical infrastructure aiming at the timely and secure exchange of fraud-related information between national and EU competent administrations.

By the very nature of customs fraud, occurring by definition among at least two countries there is a continuing necessity for centralised action at the EU level. Effective sharing of information and wide-scale fight against breach of customs legislation cannot be conducted only by national customs authorities at a reasonable cost. Systemic collection of the data required to analyse customs risks which pose a threat to the EU and its Member States would constitute a disproportionate effort for 28 individual Member States and can be achieved more effectively and efficiently by action at the EU level.

The need for enhancement of the functioning of customs risk management, particularly in relation to safety and security risks, is recognised in Commission Communication on Customs Risk Management and Supply Chain Security (COM (2012) 793).

The main objective of AFIS is to improve cooperation with partners for the correct application of EU customs law. Member States use AFIS to report cases of fraud and irregularities. By the end of 2013, AFIS had 8 642 registered end-users on behalf of 1 670 services in Member States, third countries, international organisations, the Commission and other EU institutions.

In 2013, AFIS users exchanged 10 978 MAB mail (AFIS secure mail service) messages. A total of 8 598 cases were published in the AFIS mutual assistance databases and modules (1 779 of those cases were forwarded to the WCO, non-nominal data only, at the request of Member States). The transit information database (ATIS) received information on seven million new transit consignments, representing a total of 35 million goods movements. The irregularity management system (IMS) received 23 282 new communications (9 998 related to new cases and 12 740 updates to existing cases) on irregularities from Member States and candidate countries, at the end of 2013 the IMS (Irregularity Management System) database held a historical total of 174 000 communications. A total of four Joint Customs Operations, three regional and one EU-wide, were conducted in 2013 using the AFIS system VOCU (Virtual Operations Coordination Unit) as communication tool.

ABB activity: Fight against Fraud			☒Spending programme
Specific objective 4: **Prevent, deter and combat fraud and corruption**	Result indicators	Target 2013	Current situation 2013
4.g Provide the support necessary for partners to tackle fraud and corruption effectively and equivalently, in particular, through financing programme Hercule II - Manage Hercule II Programme: prevention of, and fight against, fraud	Degree of commitment of the budget	More than 90% of commitments by the end of 2013	99% of the commitments by the end of 2013
	Balanced participation of Member States (technical assistance, training and legal training sectors)	Grant beneficiaries shall originate from more than 60% of the Member States	Grant beneficiaries originate from 79% of the Member States (22 MS)
	Number of projects financed in relation to training events, seminars conferences and studies[28]	At least the level of projects financed in 2012	27 projects co-financed in 2013 (against 24 projects in 2012)
	Degree of satisfaction measured through evaluation forms (trainings, seminars, conferences)	More than 75% of participants expressing "good" and above judgments	97% of participants expressed excellent and good
	Balanced use of the purchased (access to) external databases during investigations conducted by the Member States and OLAF (IT-support sector)	At least 90% of the use of the databases shall be made by Member States' beneficiaries	92% of the access to the databases is made by the Member States users

---

[28] Covering all training events, seminars, conferences and studies financed or co-financed under the Hercule programme.

Hercule II Programme – highlights 2013

The Hercule-II Programme aims at promoting activities in the field of the protection of the Union's financial interests. In 2013, the programme provided financial support to national and regional authorities of the Member States in order to strengthen their operational and investigative capacity to fight irregularities, corruption and fraud perpetrated against the Union's budget. Moreover, the Programme enabled the organisation of Conferences, seminars and training sessions for law enforcement staff and legal professionals in order to exchange information and best practices in the area of the protection of the Union's financial interests.

The programme's support enabled Member States to strengthen their investigative capacity that eventually led to an increase in the number of seizures of smuggled tobacco and cigarettes as well as the identification of corrupt officials involved in smuggling and counterfeiting activities.

In 2013, grants were provided for the purchase of x-ray scanners that enabled an easier detection of the entry into the EU of smuggled and counterfeited goods, in particular cigarettes and tobacco. Moreover, the programme supported actions to purchase equipment for Automated Number Plate Recognition Systems (ANPRS) and to interconnect ANPRS from different Member States, together with appropriate training for staff in order to operate this equipment. These purchases led to a substantial number of seizures of smuggled goods, such as cigarettes and tobacco, but also drugs, weapons and counterfeited goods. The Programme's funding of IT-tools and the purchase of access to databases contributed to the analyses of large amounts of data that eventually facilitated customs to organise targeted controls of shipments and consignments entering the European Union.

The Hercule-II Programme also provided funding for legal training Conferences and studies that were eventually used for providing input to the policy documents accompanying the Commission's proposal on the creation of a European Public Prosecutor's Office. The ongoing support for digital forensics training sessions attended by law enforcement staff from Member States and third countries continued to contribute to a high level of professionalism and an excellent co-operation between operational staff in the Member States.

The evaluation of Hercule II by an external contractor was initiated at the very end of 2013 and the contract for the evaluation of the programme was signed on 6 March 2014. The report from the Commission to the EP and the Council with the results of the evaluation is due for the end of 2014.

ABB activity: Fight against Fraud			☒Spending programme
Specific objective 4: Prevent, deter and combat fraud and corruption	Result indicators	Target 2013	Current situation 2013
4.h Provide the support necessary for partners to protect the euro effectively and similarly, in particular, through the Pericles financing programme: *Protect the euro against counterfeiting*	Degree of classification of euro coins and communication to Coin National Analysis Centres (CNACs)	100% classified and communicated to the CNACs in 2013	100%
4.h Provide the support necessary for partners to protect the euro effectively and similarly, in particular, through the Pericles financing programme: *Manage Pericles programme: training, exchange and assistance for the protection of the euro against counterfeiting*	Degree of commitment of the budget	More than 90% of commitments by the end of 2013	95%
	Number of projects financed	At least 12 projects	13
	Number of actions in high-risk areas	5 actions in high-risk areas	8
	Percentage of stakeholders filling in the evaluation form	At least 75% of stakeholders fill in the evaluation form	88%
	Degree of satisfaction measured by evaluation forms	More than 75% of participants expressing "good" and above judgments	99%

Evaluation of the Pericles programme

An evaluation of the Pericles programme was carried out in 2013. The overall efficiency of the programme was considered satisfactory and it was concluded that the programme had been highly effective in contributing to the achievement of its specific objectives. Concrete results achieved with the programme's contribution have been reported by the competent authorities and include: satisfactory cooperation among competent authorities in the EU and with third countries, improved capacity of competent authorities in the EU and third countries, successful cross-border operations, the promotion of national structures and the development of relevant legal instruments on euro protection. The programme has also contributed to the promotion of convergence among the MS on euro protection, mainly by

providing high level training and by facilitating the exchange of information and best practices. The transnational and multidisciplinary dimensions of the programme activities also represent a clear added value of the programme compared to activities carried out at MS and European level.

The evaluation did not include recommendations although it identified potential improvements which could enhance the overall efficiency and effectiveness of the programme. The complementarity and coherence of the programme activities are in general satisfactory. Nevertheless, these and other efficiency aspects are not always clearly presented and reported. While the existing planning process has, in general ensured coordination and flexibility to address new threats and priorities, a multi-annual strategy for the programme with a clearly defined timeframe is not in place and the current annual reporting does not provide sufficient information on the results achieved by the programme. Follow-up on the improvements identified by the evaluation will be carried out once implemented. The full implementation is planned during 2014 in the context of the new Pericles 2020. Annex 9 contains further information on this evaluation.

Internal and external communication

ABB activity: Fight against Fraud			
			☒ Non-spending
Objective: Enhance awareness and understanding of OLAF's role in fighting fraud and corruption, through establishing an effective external and internal communication strategy	Result indicators	Target 2013	Current situation 2013
	Timely and quality replies to information requests from citizens	95% of queries answered within 15 days	95% of queries answered within 15 days
	Timely and quality replies to the press[1]	70% within 24 hours	81% of replies within 24 hours[2]
	Number of articles on OLAF[3]	keep high number of articles (>400)	1518 articles[4]
	Steady information to OLAF staff: Number of events for all OLAF staff	4 events	4 successful events were organised
	Number of articles on Intranet	1 article per working day on average	1-3 article(s) per working day on average
	Number of weekly newsflashes	A minimum of 40 weekly newsflashes	36 weekly newsflashes

Comment: Holiday periods were not taken into account sufficiently when the target was set.

---

[1] This is based on written replies, and does not include interviews.

[2] This figure is based on the calculation of a single month

[3] This is based on articles mentioning OLAF

[4] This figure is based on the calculation of a single month multiplied by 6 to cover the period Jan-June 2013. The figure is unusually high due to the media interest in the "Dalli case".

Document management

ABB activity: Fight against Fraud			☒ Non-spending
Objective: **Put in place and maintain an effective document management system so that any document connected with OLAF's official functions can be electronically filed, stored and retrieved at any time irrespective of its original form and the document management system in place.**	Result indicator	Target 2013	Current situation 2013
	Percentage of incoming case related documents registered within 48 hours	At least 95%	81.4%

Comment: The registration target was set at 95% without having a previous baseline of data. It has clearly resulted too ambitious also considering the fact that we are now scanning in **all** operational records, which was not the case in the past.

Main output:

1. The registration target of 95%has only been achieved in October and December but we were above 85% in 7 months out of 12. If we lower down the percentage to 80% we were reaching the target in 9 months.
2. We have implemented a monthly report to monitor regularly the trend and possibly analyse reasons for delays and tackle them.
3. We have organized 12 training sessions on topics related to document management: 7 of them specifically tailored for OLAF staff to raise awareness and compliance with eDomec policy reaching out in total more than 174 staff members.

1.1.3 ABB activity "Policy Strategy and Coordination for the European Anti-Fraud Office"

ABB activity: Policy Strategy and Coordination for the European Anti-Fraud Office			⊠Spending programme
Specific objective 4	Result indicators	Target 2013	Current situation 2013
4.b Implement the Commission's anti-fraud strategy (CAFS)	Proactive support to DGs and executive agencies in the drafting and implementation of their anti-fraud strategies	Respond to all requests within agreed deadline.	OLAF organised several workshops for clusters of DGs to assist them in the preparation of their anti-fraud strategy.
	Maintain and reinforce horizontal efforts to improve fraud awareness and knowledge in the Commission and the executive agencies		OLAF contributed to DG REGIO's conference on prevention of corruption and fraud. OLAF delivered training for auditors of all DGs and provided specific training for DGs and EAs on request.
	Support anti-fraud measures by decentralised agencies	The actions scheduled for 2013 implemented.	
	Exchange best anti-fraud practices for and in-between Member States through the COCOLAF structure and its experts groups (see also 4d)		OLAF drew up a methodology and guidance for anti-fraud strategies for decentralised agencies and provided training to two agencies.
	Support the implementation of anti-fraud strategies of the shared management DGs and individual Member States		The anti-fraud strategy for shared management DGs was adopted in 2012. In 2013 emphasis was put on the implementation of the most important action: the guidance note for fraud risk assessment.

ABB activity: Policy Strategy and Coordination for the European Anti-Fraud Office		☒Spending programme ☒ Non-spending	
Specific objective 4	Result indicators	Target 2013	Current situation
4.c Fight against illicit trade in tobacco products	Delivery of actions included in the Action Plan to Fight Against Smuggling of Cigarettes and Alcohol along the EU's Eastern Border for 2013	Actions scheduled for 2013 implemented: on-going actions to be included in the planned Cigarette Communication	Actions scheduled for 2013 were implemented. Still outstanding actions were incorporated into the Cigarette Communication of June 2013.
	Percentage of illicit trade in cigarettes as share of total consumption in the EU as a whole	Break the negative trend 2012: 11,1%[29] 2011: 10.4% 2010: 10%	The Project Star Report, the previous source of information, is discontinued and equivalent sources were not available at the time of the finalisation of this report. The Commission is looking into other means to measure trends regarding illicit trade in cigarettes.
	Percentage of illicit trade in cigarettes as share of total consumption in Eastern Boarder EU-Member States[30]	Consolidate the positive trend 2012: 12,1%[31] 2011:12.7% 2010:15.4%	See above

[29] Source: KPMG, Project Star Report

[30] Bulgaria, Estonia, Finland, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

[31] Source : KPMG Project Star Report

ABB activity: Policy Strategy and Coordination for the European Anti-Fraud Office / Fight against Fraud			☒ Non-spending
Specific objective 4	Result indicators	Target 2013	Current situation 2013
4.d Reinforce cooperation with the Member States	Implementation of Article 3.4 of the new OLAF Regulation regarding the requirement for the Member States to designate an "anti-fraud coordination service" (AFCOS) as first point of contact for OLAF	Designation on AFCOS by every Member State by the end of 2013.	Regulation 883/2013 entered into force on 1/10/2013. OLAF has put considerable effort into the achievement of this target, notably by issuing a guidance note to Member States on the designation of AFCOS and by discussing the matter with Member States, bilaterally and in meetings of the COCOLAF (the Advisory Committee for Coordination of Fraud Prevention). By the end of 2013 more than half of all Member States had designated an AFCOS.
	Number of Member States using the Irregularities Management System (IMS) for electronic communication to the full extent	All Member States to use the electronic transmission of irregularities for all domains.	Achieved. The use of IMS is currently being extended to candidate countries for the module linked to the reporting of irregularities in the area of pre-accession.

ABB activity: ABB activity: Policy Strategy and Coordination for the European Anti-Fraud Office / Fight against Fraud			☒ Non-spending
Specific objective 4	Result indicator	Target 2013	Current situation 2013
4.e Improve cooperation with non-EU countries	Fraud-related provisions in EU agreements/regimes with third countries (EU expenditure fraud: financial cooperation provisions; Customs: mutual administrative assistance and "temporary withdrawal of preferences")	Fraud-related provisions in 100% of new EU agreements / regimes with third countries	Fraud provisions in agreements with Georgia and Australia. OLAF proposed fraud provisions in agreement with Afghanistan, which is pending The Commission is negotiating the inclusion of provisions for the temporary withdrawal of preferences in PTAs with a number of partners, including Japan, Vietnam, Morocco, Thailand and Canada. It is extremely difficult to defend the clause with some partners like Japan or Canada. The negotiations of mutual administrative assistance in customs matters are ongoing with Vietnam, Thailand, Canada and New Zealand.
	Number of events in countries that are beneficiaries of EU assistance	At least 2 events organised by OLAF	Two events organised: April 2013: OLAF training for the Palestinian Anti-Corruption Commission June 2013: annual meeting of the African Pilot Group.
	Number of Administrative Cooperation Agreements (ACAs) concluded with relevant third country authorities and international organisations	Finalise 4 ACAs in 2013.	Five ACAs signed with the following partners: Palestinian Anti-Corruption Commission, Ukrainian Customs, Australian Customs, Moldovan Customs, Serbian National Bank.
	Meetings with Anti-Fraud Coordination Service (AFCOS) networks of countries in the enlargement process	4 bilateral meetings and 1 AFCOS meeting	Four bilateral meetings and one AFCOS meeting held: One meeting with Montenegro and Croatia, two with Serbia; AFCOS conference organised in Ankara in June 2013

1.1.4 ABB activity "Administrative support for the European Anti-Fraud Office"

Human resource management

ABB activity: Administrative support for the European Anti-Fraud Office		⊠ Non-spending	
Objective	Result indicators	Target 2013	Current situation
Recruit, train, assess, motivate and retain highly-qualified staff to ensure that OLAF operates effectively and efficiently	Vacancy rate of available posts	The proportion of posts being vacant equals the Commission average (**6.5**% , latest known figure) by the end of 2013	8.4% at the end of 2013 (4.7% excluding "frozen posts" and ongoing recruitment) *Vacancy rate on 24/03/2014: 7.5% (3.9% excluding "frozen posts" and ongoing recruitment); Commission average (end of February 2014): 7.3%, DG family average: 9%*
	Number of women at senior management, middle management and AD non-management levels	The Commission targets for representation of women in AD category for 2010-2014: 25% for senior management, 30 % for middle management and 43% for AD non-management	60% in senior management level, 10.5% in middle management level and 33.3% in non-management AD level.
	Rate of absenteeism	Absenteeism for OLAF staff reduced to below the Commission average (**3.9**%)	Long-term absences faced in 2013 drew up the overall rate to 4.9%.
	Number of staff in the policy directorate participating in a training course on impact assessments	5	10

Comment:

Vacancy rate - At the beginning of the year, OLAF had almost 10% of vacancies. In July, the vacancy rate climbed even more to reach 11% with the 6 additional vacant posts received from the Commission for reinforcement. However, through the intense efforts made in monitoring vacancies, this rate has dropped to 8.4% at the end of the year. It should also be noted that by excluding the frozen posts to be returned to the Commission and the vacancies where a decision on recruitment has already been taken, the OLAF vacancy rate falls to **4.7%** (Real vacancy rate).

For information, the current OLAF vacancy rate is **7.5%** (Situation of 24/03/2014) against a Commission average of **7,3%** and a DG family average of **9%** (Last known rates, dated from the end of February 2014). By excluding the frozen posts and vacancies where a decision on

recruitment has already been taken (9 + 5= 14 posts), the real OLAF vacancy rate falls to **3.9%.**

Long-term absences faced in 2013 took the overall rate up to 4.9%. In fact, compared to 2012, the absences of between 1 to 3 months (consecutive calendar days) increased significantly (+25%).

In the framework of OLAF's HR Strategy, an action plan will be implemented including actions such as close monitoring and follow up, particularly on long term medical absences by the HR Unit, closer follow up by the line managers, training actions to improve management skills in proactive absence management, support to individuals to return to work successfully, etc.

Internal control and risk management

ABB activity: Administrative support for the European Anti-Fraud Office			
			☒ Non-spending
Objective	Result indicators	Target 2013	Current situation 2013
OBJECTIVE: Implement, maintain and report on an effective and reliable internal control system so that: **- Reasonable assurance can be given that resources assigned are used according to the principles of sound financial management;**	Percentage of internal audit recommendations overdue for more than 12 months	0%	0%
- Risk of errors in operations is minimised and, **- The control procedures put in place give the necessary guarantees concerning the legality and regularity of underlying transactions.**	Degree of implementation of mitigating measures for critical risks	100%	100%

Internal Audit

ABB activity: Administrative support for the European Anti-Fraud Office			☒ Non-spending
Objective	Result indicators	Target 2013	Current situation 2013
Assess the compliance, efficiency and effectiveness of the control system in place by: **- Assisting the Director General and management in controlling risks and monitoring compliance;** **- Providing an independent and objective opinion on the quality of management and internal control system; and** **- Making recommendations in order to improve the efficiency and effectiveness of operations and to ensure a cost-efficient use of resources**	Degree of implementation of the IAC annual work plan	100 %	80%
	Level of acceptance by the auditees of the "critical", "very important" or "important" audit recommendations issued by the IAC	target: >80%	n.a.[32]
	Percentage of accepted audit recommendations implemented within the deadline	target: >90%	n.a.

Comment: The resources needed for the performance audit of AFIS have been higher than planned and this has been the main reason for the delay in completing this audit.

Evaluation

ABB activity: Administrative support for the European Anti-Fraud Office			☒ Non-spending
Objective	Result indicators	Target (long-term)	Current situation[33] 2013
Supporting decision making to improve the design and quality of interventions and reporting on their achievements.	Degree of implementation of the evaluation annual work plan.	100 %	100%
	Level of acceptance of evaluation recommendations	target: >70%	100%[34]
	Percentage of accepted evaluation recommendations implemented within the deadline.	target: >80%	n.a.

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the financial regulation (art 30), the principle of economy required that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG OLAF is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG:

1.2.1 Example 1

As part of a large reorganisation in OLAF, since 1 February 2012, the process of selecting cases for investigation has been centralised in a single unit. Prior to that date, investigative units had performed this task.

The ***centralisation of the selection process*** enables a uniform approach towards the assessment of information of possible investigative interest and towards the interpretation of the criteria adopted as references for drafting the opinion to the Director-General on whether a case should be opened or whether the case should be dismissed.

Centralising the selection process in one unit contributes to effective business continuity. It makes it possible to allocate an adequate level of resources to the assessment of information; to handle staff turnover and unforeseen absences appropriately; to offer competent tutoring and mentoring to newcomers; to offer focused training .in order to cope proactively with the specific needs of the selection phase; and to share experience and knowledge in this specific domain effectively.

The Investigation Selection and Review Unit offers a clearer relationship with the source of information as it offers one clearly identified contact point for keeping contact with informants.

Since the centralisation of the selection process took place, the duration of **selections** has been reduced (6.8 months in 2011 compared to 1.8 months in 2013). The volume of selections completed has increased by 36% (920 in 2011 compared to 1248 in 2013).

1.2.2 Example 2

OLAF's human resources needs in terms of specific competences are high. It is therefore important to ensure that OLAF's staff continuously develops their competences in OLAF's activities.

In order to enable OLAF's staff to develop the necessary competences and to adapt to the changes (procedures, guidelines, rules, etc) OLAF's training sector has been reinforced. The aim of this reinforcement is to develop internal training responding to OLAF's specific needs. Such types of training will also improve the sharing of information between colleagues from different units and therefore will certainly improve the efficiency of the training and have a positive impact on the management of investigations.

In terms of economy, the benefit is clear compared to external training which is sometimes expensive and not always adapted to OLAF's specific needs.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives[35]. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

DG OLAF has 3 main expenditure types for implementing its activities which are procurement (EUR 23,7 million of payments in 2013), grants in direct management (EUR 6,1 million of payments in 2013) and other administrative expenditures related to salary, renting, mission…(EUR 42,7 million of payment in 2013).
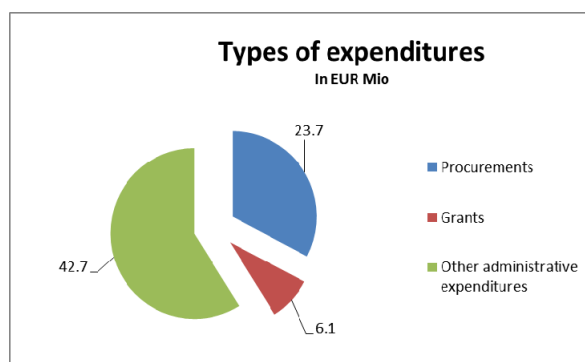
2.1 Management of human and financial resources by DG OLAF

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 "Grants and Procurement" outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

Human resources:

---

[35] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

In 2013, OLAF paid special attention to the areas related to training, ethics and equal opportunities and started developing an HR strategy.

Training: a training programme for managers was developed in 2013 and will be launched end of January 2014. The aim of this training is to further develop the management competences via a group coaching.

Ethics: an awareness campaign with the aim of reminding staff of the importance of ethics in OLAF was launched in 2013. A lunch debate was organised, along with the drafting of an OLAF Ethics guide and a revamp of the intranet page dedicated to Ethics.

Equal Opportunities: a mentoring session was organised in order to prepare staff members interested in middle management positions. Special attention is paid to the gender balance and the equal opportunities issues were discussed with the Commissioner at the beginning of 2013.

HR Strategy: OLAF is developing an HR strategy that encompasses all the objectives of the Office on HR matters for the period 2014-2016.

Financial resources:

The financial circuit applied is a partially decentralised model for all transactions except for the pre-financing transactions where the centralised model is used. The operational units are responsible for the operational verifications. In OLAF, all files are verified by at least 3 persons (2 financial and 1 operational agent) before they are accepted and processed by the Authorising Officer.

In 2013, the Budget Unit was staffed with 11 FTE of whom 1,5 FTE dealt with ex-ante control and 1 FTE are in charge of ex-post controls, risk management, internal control and audit coordination. Every commitment or payment file is checked by the Financial Verifying Agent (FVA) before it is handed over to the Authorising Officer by Sub-Delegation (AOSD) in the operational unit.

The accounts are checked on a monthly basis by the Accounting Correspondent supervised by the AOSD of the Budget Unit.

Ex-ante controls are carried out by the FVA on every transaction (administrative, grants and procurement files) which requires an approval of the AOSD. During these ex-ante controls the legality and regularity of transactions are checked on the basis of checklists.
These checklists are produced on the basis of the results of the risk assessment carried out in the context of the Accounting Quality Report (such as: LE and BA, G/L accounts, budget lines, amounts and calculations, etc.). A checklist exists per type of transaction and for the different stages in the financial circuits (commitment, payment, advance-payment…). Moreover, when errors and/or weaknesses are noted these checklists are updated in order to cover the risk identified.

An Exceptions report is kept for all exception and non-compliance events and signed at the appropriate management level. These exceptions cases were not of a nature or extent to

lead, either to a reservation, or to the identification of a significant weakness in the internal control system and did not have an impact on the declaration of assurance of the AOD.

Every justification sent by the contractor in relation to a payment request is verified thoroughly by the Financial & Operational Initiating Agent. When the justifications are found unsatisfactory, additional proof is requested from the beneficiary. Their findings are monitored by the Financial Verifying Agent. Special attention is paid to compliance with payment deadlines.

OLAF has set up internal control procedures aimed at ensuring the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the estimated error rate does not exceed 2% annually. Ex-post controls were carried out on 2013 expenditures. During the ex-post controls the regularity and legality of the transactions were verified. The controls were carried out on the basis of a sample composed of 28 transactions representing a value of EUR 5,8 Mio (in payments) which covers 19% of transactions under review for 2013 in value and 1 % in total number of transactions. The ex-post controls carried out did not lead to the identification of financial error. The sampling methodology applied was a combination of a risk-based approach and random selection.

Grants

Control effectiveness as regards legality and regularity

The Budget amount of the work programmes related to 2013 amounts to EUR 9 400 000. The Success ratio 'value proposals received over budget available' is of 157%. This ratio illustrates the attractiveness of the programme towards beneficiaries. It is to be noted that programmes ran smoothly in 2013 without having any proposal challenged under the redress procedure and no litigation case is to be reported.

Moreover, the percentage of selected proposals with recommendations implemented in grant agreements can be assessed as low as 2.5%.

Finally, DG OLAF adjusted 39 cost claims for a value of EUR 219 171 which corresponds to 1,7% in value of costs claims submitted.

As regards the legality and regularity of the underlying transactions, the objective is to ensure that the estimated annual risk of errors in commitments and payments at the time of the authorisation of the transactions is less than 2%.

The key control objective is to ensure that errors, irregularities and cases of fraud are detected and addressed in due time.

The ex-post controls carried out on grants covered 6 grants for a value of EUR 1.593.800 (representing 26% of the payment of 2013 for grants). The Ex-post controls did not identify any financial error that could have had an impact on the assurance. The results of the 2013

ex-post controls are in line with the results of 2012 and allow DG OLAF to conclude that the control objective has been met as regards the control effectiveness on legality and regularity.

The average time for informing all applicants of the outcome of the evaluation of their application is 1,5 month for Pericles and 3,3 months for Hercule.

The average time for signing the agreements with applicants is 1,5 month for Pericles and 2 months for Hercule.

Control efficiency and cost-effectiveness.

For 2013, the average cost of preparation, adoption and publishing an annual work programme 2013 was EUR 66 000 which corresponds to an average cost per number of proposals received to EUR 2 731.

The cost of controls represented respectively 3,98% for monitoring the execution of grants and less than 0,5 % for the ex-post controls of the amounts disbursed on grants in 2013. These controls led to the adjustments of 39 cost claims for a value of EUR 219.171 which corresponds to 1,7% in value of costs claims submitted.

OLAF has assessed its cost of controls as adequate taking into account the atypical position of OLAF as the Office in charge of the fight against fraud which pleads for a strong control environment.

Procurements

Control effectiveness as regards legality and regularity

In 2013, the procurement payments amounted to EUR 23,701,232.25. OLAF issued 10 tendering procedures and none was cancelled nor the contract discontinued due to a lack of use. There was only one case where only one offer was received. The number of requests for clarification regarding tenders amounted to 20. No complaints or litigation cases have been recorded.

The error rate prevented on procurements by the controls in place corresponded to less than 0.1% and there was only one case of liquidated damage for EUR 14 056.

The ex-post controls carried out on procurements covered transactions for EUR 4 220 113 (representing 18% of the payment of 2013 for procurements). The Ex-post controls did not identify any financial error.

The control objective has been met as regards the control effectiveness on legality and regularity.

Control efficiency and cost-effectiveness.

The amount of interest paid for late payments amounted to EUR 412. The cost of the controls on tendering procedures amounted to some EUR 198.000, corresponding to 1,5% of the amount disbursed on tenders in 2013. OLAF has assessed its cost of controls as adequate taking into account the atypical position of OLAF as the Office in charge of the fight against fraud which plead for a strong control environment.

Fraud prevention and detection

DG OLAF has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy[36].

The controls carried out by DG OLAF did not identify any case of fraud during the implementation of its budget.

Other control objectives: use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information.

The safeguarding of sensitive information related to investigation is one of the most important objectives. With this aim OLAF is dedicating special attention to the treatment of information related to investigation. The LISO, DMO and DPO are continuously ensuring the integrity, security of information and protection of personal data. These three people are involved in the OCM (Olaf Content Management System) project. This project was set up to replace the current Case Management System and to deal with OLAF's specific requirements on document and case management. The OCM project is expected to be implemented by the beginning of 2015. Due to the development of the OCM project it has been decided to prioritise the ICS 11 for 2014 (see part 3 for further details).

OLAF's "Privacy by Design" and accountability in data protection: Following all the prior checks, OLAF has developed and implemented a system for ensuring compliance by each investigator in each case. This is achieved through the OLAF instructions to staff on data protection, OLAF workforms, and the OLAF Data Protection Module in the Case Management System. The instructions to staff on Data Protection were adopted by the Director-General in April 2013, replacing Guidelines that had been in force for several years. The instructions take account of a number of the EDPS recommendations indicating what OLAF case handlers must do in order to meet data protection requirements. The OLAF workforms contain privacy statements and data protection transfer clauses, ensuring that the recipients of letters from OLAF are correctly informed of their data protection rights or obligations. Case handlers are obliged to record relevant information about their observance of data protection requirements in the OLAF data protection module, which was updated in 2013.

---

[36] COM(2011) 376 24.06.2011.

2.2 Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

Cross-sub-delegations

As in previous years, OLAF has given crossed sub-delegations to DEVCO (EUR 195.000). The credits sub-delegated are used to finance the administrative expenditure associated with the presence of OLAF officials and support staff in delegations.

The cross-delegation agreement requires the AOD of DG DEVCO to report on the use of these appropriations. In his report, the AOD does not communicate any events, control results or issues which could have a material impact on assurance.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

European Court of Auditors

In 2011 the **Court of Auditors** issued a **"Special Report (No 2/2011) on the follow-up of Special report No 1/2005 concerning the management of the European Anti-Fraud Office"**. This report issued nine recommendations needing further action by OLAF, which were taken up in the review on the structure and processes of OLAF. The last two recommendations (2011/AUD/003 and 011/AUD/009) have been implemented in 2013 with the adoption of the amended Regulation 1073/99.

Internal Audit Service

IAS audit on Fraud Prevention and Detection in OLAF

A report of the **IAS audit on Fraud Prevention and Detection in OLAF (2010)** resulted in seven recommendations classified as very important and four recommendations classified as important. By end of 2013, all the recommendations issued by the Internal Audit Service (IAS) of the Commission have been successfully implemented.

IAS audit on IT (AFIS)

A report of the IAS audit on the Anti-Fraud Information System (AFIS) was issued in 2009. The last recommendation was implemented in 2013 (Functional accounts used by the AFIS application v-OCU). By end of 2013, all the recommendations issued by the Internal Audit Service (IAS) of the Commission have been successfully implemented.

IAC

No audit report was issued by the IAC in 2013. A performance audit on AFIS and a follow-up engagement on a training audit are currently being finalised. In 2013, OLAF's IAC also provided consultancy as part of the preparation of the OLAF Anti-Fraud Strategy.

OLAF's IAC is also responsible for the evaluation function in OLAF and in 2013 completed the evaluation of the PERICLES programme.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG OLAF has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates. DG OLAF annually assesses the effectiveness of its key internal control systems, including the processes carried out by implementing bodies in accordance with the applicable Commission guidance. The assessment relies on a number of monitoring measures and sources of information including a survey-based management risk assessment, monitoring of reported instances of exceptions, non-compliance events and internal control weaknesses related to audit findings.

Summary of the actions taken for the prioritised standard since the prior assessment

Although OLAF complied already with all relevant requirements, in its management plan for 2013, **ICS 11** was chosen as a prioritised standard due to the ongoing project to develop a new OLAF Content Management System (OCM) to better suit its specific needs on document and case management. The project was launched in 2012 and is expected to be implemented early 2015. Some important developments were made to get an integrated system (working space, archival and investigation files) in 2013.

Standards prioritised in 2014

Under **Internal Control Standard 3**: Staff Allocation and Mobility, 1 of the 4 requirements, Policy to promote, implement and monitor mobility was not totally met according to the survey carried out by DG HR in 2013. Several workshops sessions have been organised in December 2013 and January 2014 at Unit and Directorate level to better identify the areas for improvement and a dedicated action plan will be included in the HR Strategy of the Office.

Under **Internal Control Standard 11:** Appropriate processes and procedures are in place to ensure that the DG's document management is secure, efficient (in particular as regards retrieving appropriate information) and complies with applicable legislation. Nevertheless, it was decided to include this ICS as a priority because of the ongoing OCM (Olaf Content Management System) project. This project was set up to replace the current Case Management System and to deal with OLAF's specific requirements on document and case management. The OCM project is expected to be implemented by the beginning of 2015.

Under **Internal Control Standard 12**: Information and Communication, 1 of the 7 requirements, ensure that management and staff are appropriately informed of decisions, projects or initiatives was not totally met. During the survey launched to assess the impact of the 2012 reorganisation some areas for improvement were identified at the level of the

internal communication channels. Several workshops sessions have been organised in December 2013 and January 2014 at Unit and Directorate level to better identify the areas for improvement and a dedicated action plan will be included in the HR Strategy of the Office.

In conclusion, the internal control standards are effectively implemented with the exception of standards ICS 3 (for 1 requirement out of 4) and ICS 12 (for 1 requirement out of 7). The impact of the non-effective implementation of ICS 3 and ICS 12 have been assessed as minor on the assurance of the authorising officer.

4.   MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1   Review of the elements supporting assurance

DG OLAF has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to section 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance.

4.2   Reservations and overall conclusion on assurance

OLAF has sufficient reasonable assurance that a reservation on the declaration is not seen as necessary.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of OLAF

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[37].

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Brussels, 2 April 2014

[signed]

Giovanni Kessler

---

[37] True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.