



## **REPORT OF THE EUROPEAN ANTI FRAUD OFFICE**

**Third Activity report for the year ending June 2002**

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## **FOREWORD**

Three years have passed since the creation of the European Anti-Fraud Office (known as OLAF from the French acronym). Two-and-one-half years ago, I took up office as Director General of OLAF. This third Activity Report summarises what we have achieved in operational terms in the 12 months ending June 2002. Our work programme for the next year will build on these foundations.

Our core activity is the conduct and coordination of anti-fraud operations to protect the EC Budget and the investigation of fraud and illegal activities within the European Institutions. As chapter 1.3 of this report shows, there has been a significant increase in the number of cases handled by OLAF during this period.

OLAF was born at a difficult moment for the European Union. The legislator opted for a mixed organisational structure for the new Office: a body within the European Commission, but with operational independence and a degree of budgetary and administrative autonomy. Although this arrangement has presented certain difficulties, we have been successful in achieving a number of goals.

OLAF has achieved administrative and budgetary autonomy. In particular, I am pleased to report that the Commission has scrupulously respected my operational independence. It has not been necessary to call upon OLAF's Supervisory Committee to exercise its primary function of safeguarding that independence. OLAF has, however, continued to benefit from the Supervisory Committee's experience, advice and support.

What OLAF now needs above all is a period of stability. This may be difficult to achieve at a time in which the entire structure of EU Institutions, and their complex interrelationships, is again under review. We must, however, have time to absorb the progress which has been made without the disruption to anti-fraud operations which results from continuing change and uncertainty.

The main management structures for running an Office of more than 300 people are now in place. Recruitment continued at a fast pace during the period covered by this Report, both to fill new posts and to replace staff that left. Highly skilled and experienced staff have been appointed to fill the specific needs of the Office. The budgetary authority's decision to delay the attribution of new posts in 2001 and to impose changes in the professional profile of many of those posts has led to a delay in the completion of our recruitment exercise. This will have a long-term impact on our staffing profile. We hope, nonetheless, to be close to the target by the end of 2002.

I am particularly pleased that, notwithstanding numerous obstacles placed in our path, I was finally able to appoint the Director for Investigations and Operations.

We have also progressed with the installation of management systems that ensure transparency in our processes. We have developed clear rules for the processing of operational information which guarantee the rights of persons under investigation, while also ensuring that successful prosecution in national courts is not handicapped.

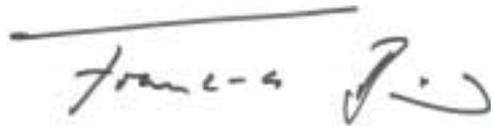
The main responsibility for the protection of the financial interests of the Community remains with the Member States. There are, however, many points at which the chain of action against criminals who operate across national borders is liable to be broken, in a network where numerous national investigation and judicial authorities operate under 17 different legal systems. OLAF's job is to prevent such breakdowns in the chain within our field of responsibility. OLAF seeks to use its position at the centre of this network to add value to the efforts of the Member States by providing a "platform of services", many of which are described in this Report.

Success or failure in the fight against fraud is not simply a question of the number of investigations conducted, cases transmitted to the Commission's disciplinary office, files submitted to national prosecution authorities, or criminal activities deterred or disrupted. Our success will be determined by the effectiveness with which we play our role at the centre, to foster cooperation between national authorities; by distilling and applying the lessons we have learned through experience; and by the construction of trans-European anti-fraud structures, legislative, administrative and judicial, which will become increasingly effective as time goes on. This is particularly important as enlargement approaches.

OLAF therefore also welcomes the opportunity to cooperate with other bodies which have responsibility for addressing criminal activity, such as Eurojust and Europol. These bodies also have complex institutional relationships which must not stand in the way of effective cooperation to protect the financial interests of Europe.

The fight against fraud must lead to visible results: fraudsters punished, stolen money recovered, damage to the functioning and reputation of institutions repaired. This requires professionalism in the handling of cases. The guilty must not escape as the result of procedural error. This also requires the efficient allocation of our limited resources, so that OLAF concentrates its efforts on those areas where we can achieve the greatest impact.

In this connection, I am convinced that the operational expertise which OLAF is acquiring provides a unique contribution to the debate on the future European Prosecutor. This is because OLAF has three critical strengths in the fight against financial and economic crime targeting the European Union and its finances: the capacity to work alongside national law enforcement authorities; the powers and the specialised knowledge to conduct operations within the institutions; and the strategic ability to influence the development of the relevant policy and legislation which flows from our status as a service of the Commission. The Office's experience has an essential role to play in the debate on this issue. I shall ensure that we do so.

A handwritten signature in black ink, appearing to read 'Franz-Hermann Bruener', with a horizontal line above it.

Director-General OLAF  
Franz-Hermann BRUENER

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### **Our Objective**

The mission of the European Anti-Fraud Office (OLAF) is to protect the financial interests of the European Union, to fight fraud, corruption and any other illegal activity, including misconduct within the European Institutions that has financial consequences. In pursuing this mission in an accountable, transparent and cost-effective manner, OLAF aims to provide a quality service to the citizens of Europe.

### **Our Methods and Means**

The European Anti-Fraud Office achieves its mission by conducting, in full independence, internal and external investigations. It also organises close and regular co-operation between the competent authorities of the Member States, in order to co-ordinate their activities for the protection of the Communities' financial interests and the fight against fraud. OLAF supplies Member States with the necessary support and multidisciplinary technical know-how to help them in their fight against economic and financial crime. It strives to contribute to the design of the European strategy for the fight against fraud and illegal activities and takes the necessary initiatives to strengthen the relevant legislation.

### **Our Principles**

The Office's activities will be carried out with integrity, impartiality and professionalism, and will, at all times, respect the rights and freedoms of individuals and be fully consistent with the law.

## **1. INVESTIGATION ACTIVITY**

### **1.1. Overview**

The period covered by this Report reflects steady growth in OLAF's principal area of business, the investigation of suspected fraud against the financial interests of the European Community<sup>1</sup>. This has resulted in growing pressure on OLAF's human resources, notwithstanding the additional staff who joined over the course of the year. In order to manage this growing caseload, work has continued over the year on the development of a formal system for prioritising incoming cases. The work programme for 2003 will include a full description of the priority criteria as implemented.

Over the last year, OLAF gave high priority to two types of cases. First, OLAF operated a policy of "zero tolerance" towards corruption or fraud within the European Institutions. This meant that all allegations made in this area were investigated, even where the source was questionable or the amount of money at issue was minimal. This policy is resource-intensive but was judged necessary in the interests of the reputation of the European Institutions. Second, OLAF gave particular attention to cases involving the applicant countries. This covers both cases involving the misuse of EC funds directed towards the enlargement process and cases where activities affecting the interests of the EU are in some way linked to the candidate countries. OLAF is particularly keen to develop its working relationship with the Anti-Fraud Co-ordination Structures in the candidate countries.

In addition, OLAF has been working with a wide range of departments in Member States as well as specialist fraud offices in such entities as the World Bank and the United Nations in investigating financial irregularities and fraud. There has been increasing liaison with Interpol, Europol, Eurojust and the European Judicial Network.

### **1.2. Analysis of Investigation Activity**

A significant increase in the number of cases opened and dealt with by the Office has occurred over the course of the current reporting period. In measuring the increase, one must be aware that the figures include investigations which OLAF inherited from UCLAF. Because UCLAF did not have the same breadth of responsibilities as OLAF and its system of recording the opening and closing of investigations was less uniform, any comparison between reporting years must be qualified. As the UCLAF cases are closed, future reporting will reflect more accurately the workload of OLAF and case trends. Notwithstanding this inconsistency in the figures, it is still clear that there has been an increase in all types of cases. This increase can be explained by several factors: the amount of fraud and its rate of detection may have increased; OLAF's work is becoming better known as the message is spread that "we are open for business"; the European Institutions, Member States and third countries increasingly understand the legal competence of OLAF and acknowledge it as the body responsible for investigating fraud and financial irregularity against the Community budget. The special role of OLAF as co-ordinator among the Member

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<sup>1</sup> The statistics in the present report cover 2 full half years, i.e. 1 July 2001 to 30 June 2002. The intention is to adopt this practice as a statistical convention so as to ensure full comparability of data in subsequent years.

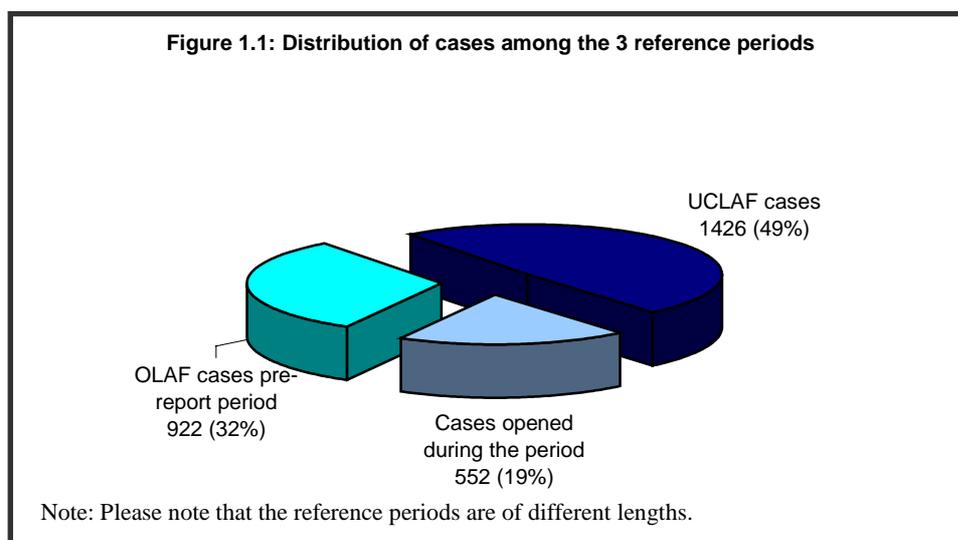
States, with the ability to offer assistance to national administrations in their investigations, is also reflected in the greater demands made on OLAF's resources.

### 1.3. Statistical overview

During the reporting period OLAF has made a major effort to establish a reference database for reliable and meaningful statistics. The investment of time and effort required by this exercise was made in order to establish a statistical regime that can be used for trend analysis in the years to come.

In order to achieve better comparability between the current activity report and the Annual Report of the European Commission, which covers the full calendar year, OLAF has modified its reporting period so that it covers two full half years, i.e. 1 July 2001 to 30 June 2002. In the future, this adjustment will allow OLAF to report statistics by semester, and to make easy comparisons between the statistics of the OLAF report and the Commission report.

On 30 June 2002, the end of the current reporting period, there were 2900 cases stored in OLAF's Case Management System (CMS). Of those, 1426 were inherited from UCLAF, while 1474 were opened between 1<sup>st</sup> June 1999, when OLAF was created, and the end of this reporting period. 552 cases were opened during the current reporting period. This indicates that OLAF's caseload increased by approximately 30% compared to the first two years. Figure 1.1 graphically represents this situation:



During the current reporting period, OLAF received information on 576 occasions, which led to the registration of 552 new cases in the CMS. The reason for this discrepancy is that with respect to several cases, information was received from more than one source. The incoming information was broken down into five sources:

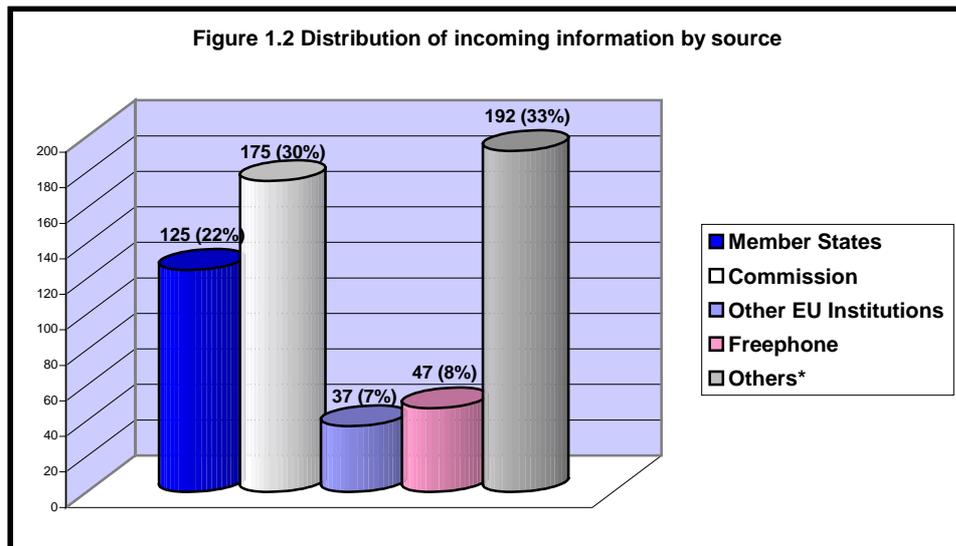


Figure 1.2 demonstrates that while most of the information came from the Commission Services (approximately 30%), this was closely followed by the Member States (22%), with the other European Institutions and the Freephone providing 7% and 8% respectively of the information received. The 33% of information that is grouped under “others” includes, for example, information received from the public and the media.

Figure 1.3 shows the breakdown of incoming information by Member State and third countries.

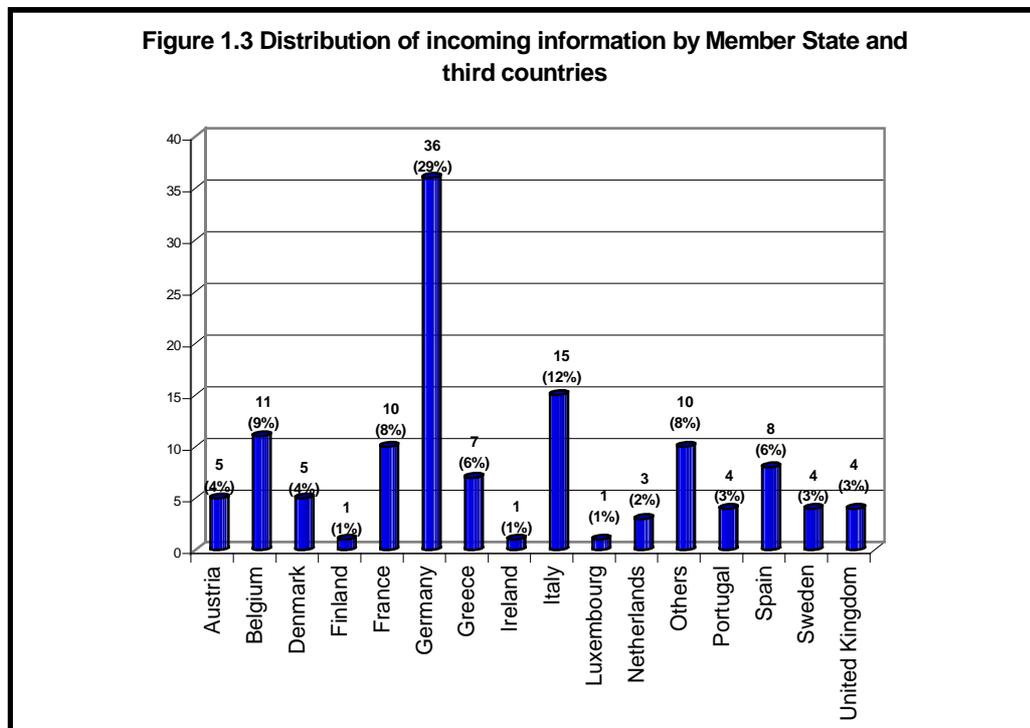
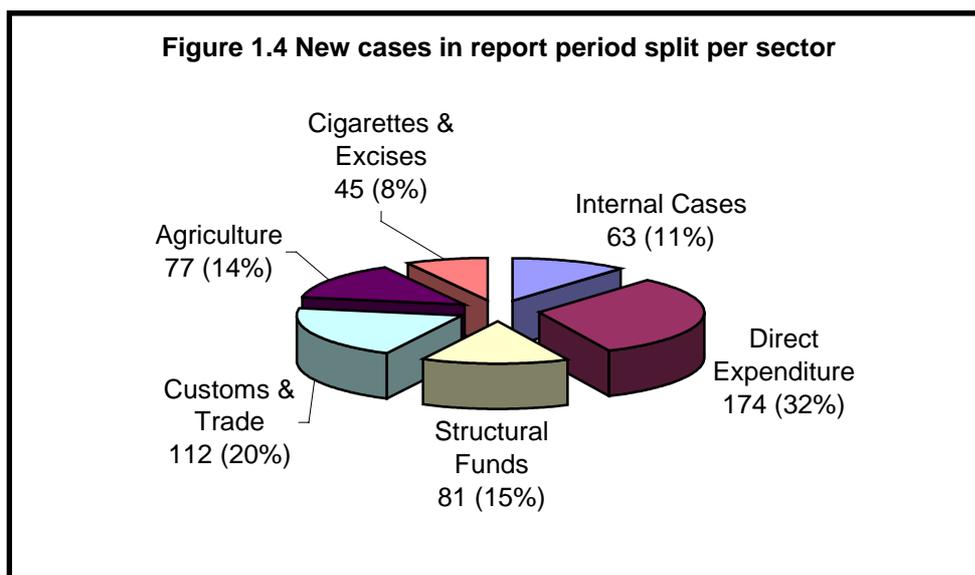


Figure 1.4 provides the breakdown of the 552 new cases by sector.



OLAF cases can be registered in the CMS as being either in evaluation, under investigation, in follow-up, or closed. Of the 552 cases that were initiated during the reporting period, 174 cases were closed by the end of that period, 263 were under investigation, and 115 were still in evaluation.

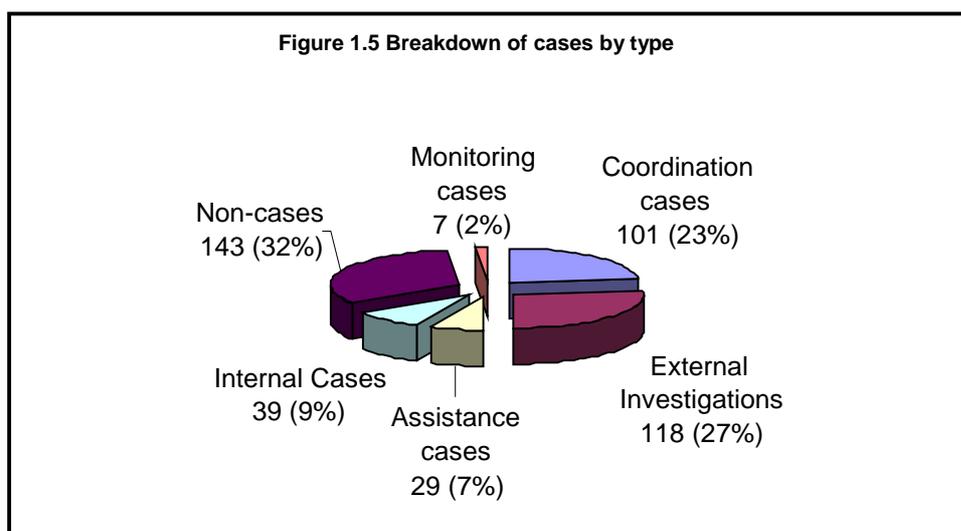
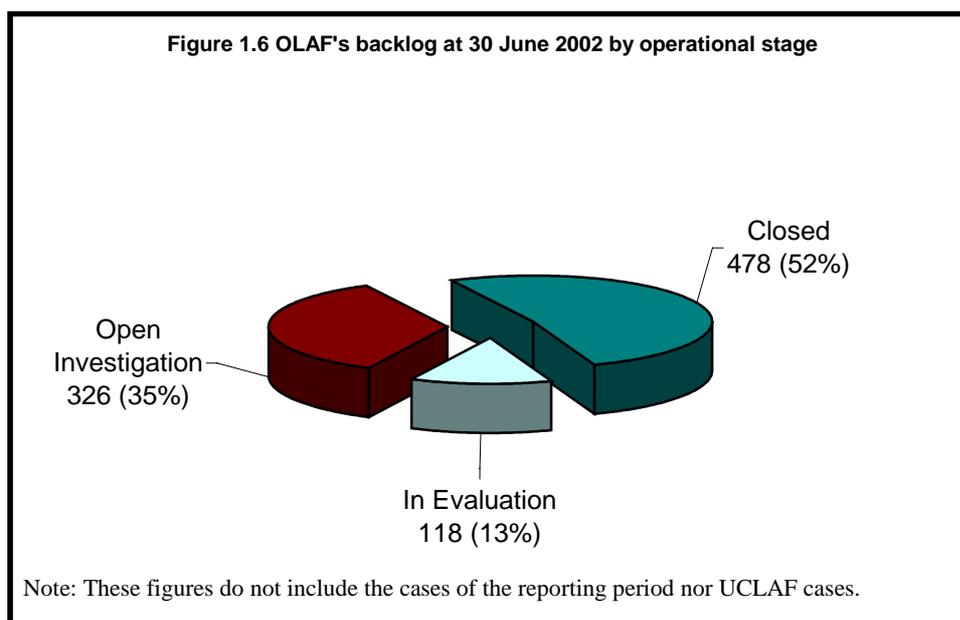


Figure 1.5 shows a breakdown of the 437 cases opened during the reporting period by type: 118 are external investigations, 101 are co-ordination cases, 39 are internal corruption cases, 29 are assistance cases, and 7 are monitoring cases. The latter type was introduced during the last month of the reporting period. These terms are described in the annex to this Report, which also outlines the procedure for opening cases.

The statistics set forth in Figures 1.1 through 1.5 are related to the reporting period and will form the basis of future trend analysis. They do not reflect, however, OLAF's substantially larger caseload. In fact, as explained above, 922 cases were initiated by OLAF before the reporting period. Within the category of active cases (in evaluation or under investigation), 277 of these cases were closed and 177 were

evaluated during the reporting period. Figure 1.6 shows the cumulative situation at the end of the reporting period.



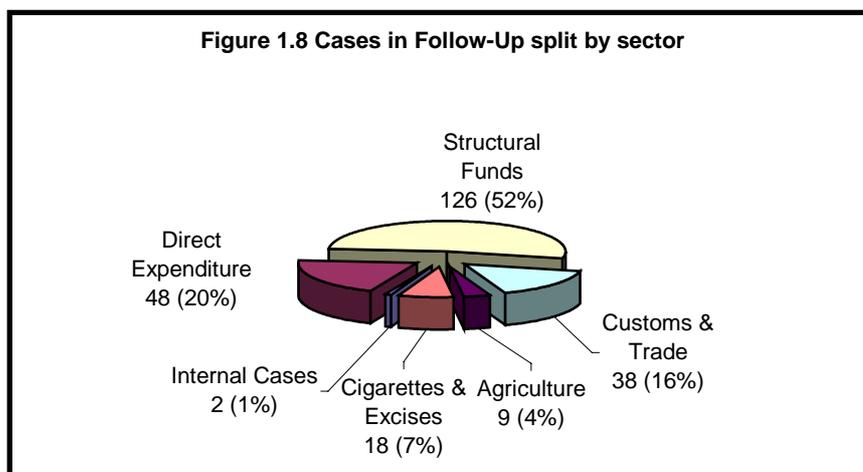
The Director General of OLAF established a Task Force in 2001 with the mandate of reviewing the cases inherited from UCLAF. Of the overall total of 1426 UCLAF cases, 660 cases were still active at the beginning of the reporting period. The Task Force closed 510 of these cases. With regard to the balance (less than 11% of the UCLAF total), the Director General has appointed a magistrate to assess the allegations. In addition, there will be a review of selected closed UCLAF cases, in order to ensure that the basis for doing so was correct. The Office will continue to dedicate the necessary resources to this professional clean-up exercise, which is scheduled to be completed by the end of the reporting period 2002-2003.

In total, OLAF closed 961 cases during the reporting period. The stage of investigation by reference period as of 30 June 2002 is summarised in Figure 1.7.

**Figure 1.7 Stage of investigation by reference period as of 30/06/2002**

Reference period	Active cases	Closed	Total
<i>OLAF reporting period (1/7/2001-30/6/2002)</i>	378	174	552
<i>OLAF pre-reporting period (1/6/1999-30/6/2001)</i>	444	478	922
<i>UCLAF (before 1/6/1999)</i>	150	1276	1426
<b>Total</b>	972	1928	2900

OLAF distinguishes between administrative, financial and legislative follow-up on one hand and disciplinary and judicial follow-up on the other hand. Figure 1.8 shows the distribution of the 241 cases that are currently in follow-up.



In most cases, responsibility for recovery of misappropriated funds, and in all cases, judicial and disciplinary action, does not rest with OLAF. Prime responsibility rests with the Member States or with the Institutions. OLAF's primary task is to investigate and then refer its findings to the relevant authority for the necessary action. Specific units within OLAF assist in this process (see Chapter 3).

Figure 1.9 shows the situation of cases in the follow-up stage broken down by reference periods.

**Figure 1.9 Stage of Follow-Up by reference period as of 30/6/2002**

Reference period	Active Follow-Up
OLAF reporting period (1/7/2001-30/6/2002)	10
OLAF pre-reporting period (1/6/1999-30/6/2001)	53
UCLAF (before 1/6/1999)	178
<b>Total</b>	<b>241</b>

The timeframe for disciplinary, administrative and judicial action following an OLAF investigation varies. Some cases are relatively straightforward and can be processed quickly, others may require extensive inter-service consultation within the Commission and/or contacts with national authorities in the Member States. There may also be related action in national courts. It is therefore possible that the follow-up stage may take considerably longer to conclude than the investigation itself.

Figure 1.10 summarises the operational activities of the Office by sector.

<b>Figure 1.10 Caseload development in the Reporting Period</b>							
	<i>New cases</i>	<i>Cases evaluated</i>	<i>Non-cases</i>	<i>Monitoring cases</i>	<i>Investigations opened</i>	<i>Closed with Follow-Up</i>	<i>Closed without Follow-Up</i>
<i>Internal cases</i>	63	58	13	0	115	2	32
<i>Direct Expenditure</i>	174	217	85	2	320	44	47
<i>Structural Funds</i>	81	78	28	5	367	124	114
<i>Customs &amp; Trade</i>	112	214	21	1	464	37	178
<i>Agriculture</i>	77	79	41	1	109	8	23
<i>Cigarettes &amp; Excises</i>	45	109	9	0	228	18	123
<b>Total</b>	<b>552</b>	<b>755</b>	<b>197</b>	<b>9</b>	<b>1603</b>	<b>233</b>	<b>517</b>

#### **1.4. Internal investigations**

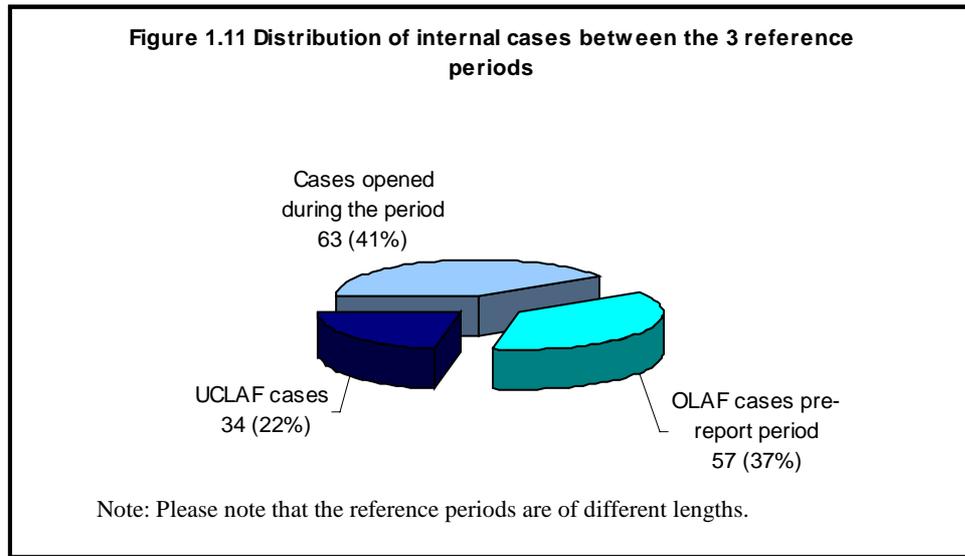
During the reporting period, the Office dealt with the majority of the European Institutions on internal cases. Co-operation with the institutions is good and improving. The speed with which documents are supplied or personnel made available for interviews significantly affects the smooth conduct of an investigation.

Although the number of internal cases treated by the Office has increased, it is difficult to draw general lessons from these investigations. Sometimes the established facts and the modus operandi vary and seem more connected with the individual than with a weakness in the system. Nevertheless, in several cases OLAF drew attention to deficiencies in the organisation and in supervision, and made recommendations to the institutions concerned to avoid repetition of the problem.

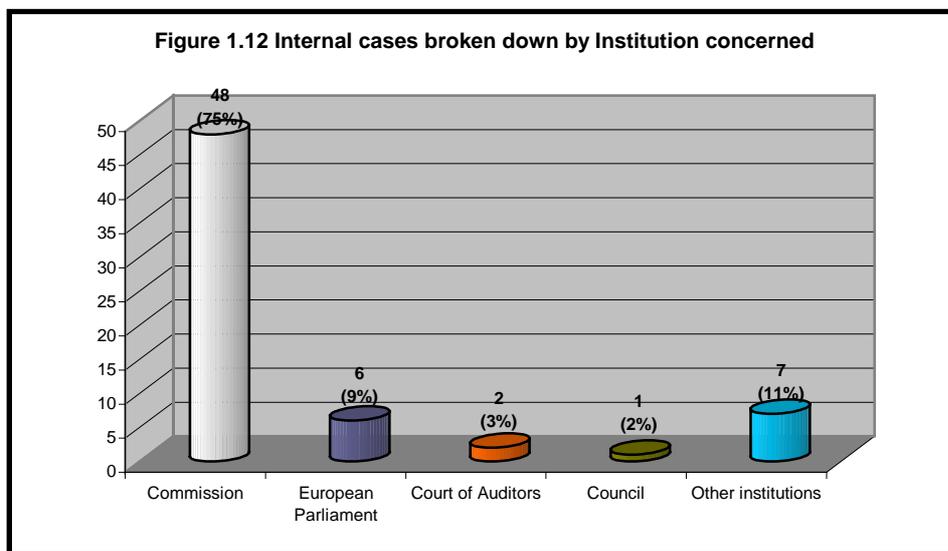
From time to time, it becomes apparent that attention should be focussed on particular activities. One such area has been the construction and refurbishment of buildings policy of the institutions; another has been Non-Governmental Organisations (NGOs). Dedicated teams have been set up to deal with these files.

There were 154 internal cases at the end of the reporting period. Of those, 34 were inherited from UCLAF, 57 were opened by OLAF before the reporting period, and

63 new cases were opened during the reporting period, indicating a large increase in the number of internal cases. Figure 1.11 graphically represents this situation:



Viewed by institutions concerned, Fig. 1.12 clearly shows that the large majority, (more than 75%), concerns the European Commission.



### *Case Study*

In March 2002, OLAF opened an internal investigation concerning an individual in a very senior position with an EU institution. This case was opened following allegations referred to the Office by a Member of the European Parliament in February. Simultaneously the information was received from the institution concerned.

Before opening the investigation, these allegations were thoroughly assessed. A special investigation team was created, composed of an investigator, the Adviser for internal cases and the Head of the Magistrates' Unit. From the outset, this team

received full co-operation from the President and the Secretary General, and had access to whatever information it required. Missions were executed in 4 Member States. More than 15 persons were interviewed.

The investigation is continuing and should be concluded within the next month. A specific target of the Office is to finish investigations as quickly as possible and the Office has found that the strategy of putting together specialist teams to deal with high profile cases helps to achieve this objective.

## **1.5. External Investigation Cases**

The largest number of cases the Office handles are external investigations. These fall into several categories.

### ***Direct Expenditure and External Aid***

Unlike other external cases, Direct Expenditure and External Aid cases fall within OLAF's exclusive competence.

OLAF has initiated discussions with its counterparts in applicant countries as to how they can collaborate to investigate cases. The objective is to ensure that investigations are properly focussed, and efforts are not duplicated. To this end, the Office is building a network of contacts with its operational counterparts in Eastern Europe. This is a particularly pressing issue given that there were, on average, only 28 OLAF investigators to deal with all internal, direct expenditure, external aid and structural funds cases for the reporting period. The proposal to create a network of OLAF liaison officers in the Applicant States is currently being considered within OLAF, however additional resources will be required to implement this initiative properly.

OLAF is also exploring how to optimise the use of resources available at the level of the law enforcement authorities in the Member States, such as the network of police and customs liaison officers.

OLAF is working in close co-operation with its partners in other international organisations, such as the United Nations and the World Bank, to develop a set of investigative standards. Such standards will allow all investigators in these institutions to exchange information more effectively, to work more closely together and, if necessary, in joint teams, and to achieve results from its investigations which can be used by all international partners. The following example shows the difficulties and the results of cooperation between national judicial authorities within the European Union.

### ***Case Study***

In August 1999, OLAF was informed that financing by the Luxembourg government for an aid project in Africa was at the same time funded by the European Community. Neither donor was aware of the other's contribution. OLAF initiated an investigation to determine whether different financing projects were the subject of a double co-financing request. In fact, the investigation disclosed multi-sourced funding for the same project from multiple donors with contributions exceeding the amount proposed for the project.

Involvement of four judicial authorities was enlisted by OLAF to carry out the investigation: Luxembourg, Frankfurt and Brussels Prosecutors and the Serious Fraud Office in London. OLAF co-ordinated all the authorities concerned.

Although the Serious Fraud Office was the lead authority in the investigation, for legal reasons the case has now been taken over by the Belgian judicial authorities. Because of the complexity of the case and the need to review dozens of aid applications made by the Non-Governmental Organisation in question, the judicial investigations are still ongoing.

### ***Structural actions***

Cases opened in this area involve predominantly the European Social Fund (ESF) and the European Regional Development Fund (ERDF).

OLAF has increased its efforts to work in close cooperation with Member State authorities and other Commission services by placing at their disposal the information gathered at the Community level.

The majority of investigations were developed in close co-operation with the administrative and national judicial authorities. The Office provided assistance through approximately seventy contacts and/or operational meetings as well as the transmission of eight reports.

The cases of fraud detected in this field normally involve the use of false invoices and false declarations. Specific problems in the field of public contracts were also identified, normally involving irregularities as to the criteria and procedures adopted by the Commission and/or the Member States, in particular with respect to technical assistance contracts.

The control systems set up by certain Member States sometimes revealed weaknesses. This situation will be the subject of a more detailed analysis within OLAF with the aim of putting forward possible corrective measures.

The example which follows demonstrates close co-operation between OLAF and national judicial authorities (assistance case). The fundamental role of on-the-spot checks carried out by the Office within the framework of external investigations is also illustrated by this example.

### ***Case Study***

Following a complaint sent to the Commission, an analysis was made of information gathered by OLAF's Intelligence Directorate in co-operation with other Commission services. The Office thereafter initiated an investigation concerning a suspected irregularity concerning the selection and financing of projects by the European Social Fund.

The complainant had registered his complaint with the national judicial authority, which sought the assistance of the Office. Meetings were organised with the Magistrate responsible for the case to discuss the various aspects of the investigation and to establish the course of action. OLAF's investigators were permitted to consult and copy data that was relevant to the case.

OLAF forwarded the file to the national judicial authority.

The national judicial proceedings led to the arrest of several individuals for misappropriation, tax evasion, fraud, etc.

The fraudulent schemes relied upon involved falsification and over-invoicing between the recipients and the subcontractors for sometimes non-existent services. Only one part of the expenditure declared by the recipients could be justified.

The relevant Commission services were informed of these results, and thereafter blocked any further financial transaction connected with the operational programs in question.

### *Customs/ External trade*

The Customs sector deals with cases involving all types of industrial and seafood products, including drug precursors.

At the beginning of 2002, anti-dumping measures in force concerned 67 different products, of which 25 were already subject to investigation by OLAF. Anti-dumping duties may represent 30% or more of a product's value, while the average customs duties applicable are 3 to 4 %. The high level of duties leads dishonest economic operators to anticipate, analyse, then seek to circumvent the regulations which would raise the price of their products.

In the specific sector of fish, origin fraud and value fraud continue to occur. Both types of fraud are a consequence of the high level of customs duties for fish products (some in excess of 20%). This situation encourages dishonest operators either to declare that the products originate in States where the rates which apply are more favourable, or to undervalue the products in order to decrease the level of duties owed. Community health requirements have also led certain operators to bypass the rules and at the same time commit origin fraud.

The number of investigations notified by the Member States in the sector of textiles and clothing products has decreased, apparently for two reasons: the progressive liberalisation of the systems of textile quotas; and earlier and better prevention, due in part to OLAF's development of agreements with certain countries (for example, Vietnam, Laos, Cambodia) for better administrative co-operation.

### *Case Study*

Based upon information received from the UK customs authority in July 2000, OLAF opened an investigation concerning imports into Europe of stainless steel wire from the United Arab Emirates. Anti-dumping duties of up to 55.6 % were imposed on such goods originating in India. Fraud was suspected, in particular on the basis of an apparent diversion in the movement of these goods from India towards the United Arab Emirates.

Although the two Member States most concerned were the United Kingdom and Germany, others were also affected. Investigations undertaken by them confirmed the suspicion of fraud.

OLAF investigators on mission to the United Arab Emirates found proof not only that the majority of the companies in question were not able to produce steel wire, but also that they had imported such wire from India. The use of this information continues. Until now, the level of unpaid duties established is approximately €6 million, of which €1.2 million have been recovered to date.

### *Agriculture<sup>2</sup>*

Activities in this sector during the reporting period concerned mainly the co-ordination of cases between various Member States, and between Member States and third countries. To a lesser degree, activities also included the direct investigation of external cases.

The level of controls and management of programmes concerning agriculture aids and subsidies in some Member States was poor. OLAF helped identify the failures which led to irregular or fraudulent conduct. Examples of such cases are the long term set-aside programmes in Greece and ongoing problems with milk quotas in Spain and Italy.

During the reporting period over half of the cases in the agriculture sector were of low monetary value and were referred to the Member States for follow-up action.

#### *Case Study*

On the basis of information received concerning possible abuse of the milk quota system by certain Spanish companies, OLAF opened an external investigation.

In the course of this investigation, some of the companies involved refused to comply with OLAF's request to facilitate the copying of computer data. In response, OLAF invoked Article 9 of Regulation No 2185/96, under which the Member State concerned must provide OLAF with the necessary assistance to carry out its functions. Accordingly, the Spanish Paying Agency (FEGA) was asked to take appropriate measures to assist OLAF in obtaining the complete computer records. In co-operation with OLAF's Magistrates' Unit legal authorisation was thereafter provided by the Spanish judicial authorities and the data was obtained. The data evidenced irregular practices resulting in damage to the EU budget of approximately €6 million. OLAF's investigation report was forwarded to FEGA in order to initiate the administrative procedures necessary to recover these funds. It was also forwarded to the Anti-Corruption Special Prosecutor's Office in Spain, as the economic operators investigated may have made false declarations on the output and sale of milk. The report also indicates that similar practices may have been followed by other Spanish firms. The Spanish authorities have been asked to review their control systems.

This case is a clear example of OLAF giving added-value to a Member State in the fight against fraud with the expertise of its various component units (investigative, computer forensics and judicial) being brought to bear on a multi-faceted case of fraud. In this regard, the advice of the OLAF Magistrates' Unit was vital in obtaining the appropriate judicial order in the Member State granting access to the companies' computer data records. Great credit is also due to the Spanish authorities whose

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<sup>2</sup> For the sake of consistency, the cases under this heading bear on EAGGF-Guarantee expenditure and agricultural trade (export subsidies).

assistance to OLAF proved invaluable in this case, and demonstrated clearly what can be done when OLAF and Member States work closely together and exploit fully the control obligations and possibilities contained in the EU regulations.

### *Cigarettes, VAT and Excise Duties*

The trends during the year have confirmed that the type of fraud committed is becoming more complex, and the fraudsters are prepared to go to greater lengths to conceal their activities. Because of the sizeable profits which can be made, it is no hardship to the fraudsters to move containers of cigarettes through several countries, and unload and reload the cigarettes several times. As OLAF's cooperation with certain third countries increases, the fraudsters move their operations. They select other countries with which the Commission does not presently have cooperation agreements, and/or which have no real interest in helping OLAF to pursue its investigations, or with which effective cooperation is very difficult to establish.

Investigations in these areas are never for the sole benefit of the Community. Rather, the Office is a major "service provider" to Member States and third countries. In the field of cigarette fraud, the Office has worked closely with the enforcement and judicial authorities of the Member States to identify the organisers of smuggling, to support the Member States in carrying out investigative missions and executing letters of request, and to provide information about suspect cigarette movements, companies and persons. In such cases the contribution of OLAF may be prevention, deterrence as well as the recovery of evaded customs duties and national taxes.

The act of seizure of cigarettes secures the goods and prevents their being introduced into the EU market without payment of the appropriate revenue. The potential revenue loss thus prevented, there is no resulting loss to the Community budget. In such cases, the task of the Member States together with OLAF is to determine whether the seizure is part of a wider smuggling scheme and if so, to terminate it. The goal is, therefore, identification, disruption and prosecution of the individuals behind the smuggling; prevention of future smuggling; and improvement in the level of knowledge and cooperation for OLAF, Member States and third countries.

OLAF has coordinated a civil action lodged in New York by the European Community and ten Member States against the American cigarette manufacturers Philip Morris and RJ Reynolds. This has involved close cooperation with the Member States, the undertaking of missions to gather evidence, cooperation with US Customs and the customs services of third countries, and close cooperation with the Commission Legal Service. The alleged smuggling schemes designed by the cigarette companies have caused sizable damage to the Community and national finances over the past ten years. The beneficial effects of the civil action have already been demonstrated by the vastly lower level of smuggling of American cigarettes into the EU in recent years.

### **VAT**

OLAF has provided coordination and assistance services to certain Member States. Major international VAT fraud, particularly carousel fraud, is often carried out by individuals who are also involved in other types of fraud. VAT fraud is also a serious problem for the Candidate Countries. OLAF must cooperate with these countries (along with the Member States) to address the problem. The objective of the VAT

activity is to enable the Member States' enforcement and judicial authorities to obtain information which can be used to prosecute offenders and recover evaded taxes.

#### *Case Study*

The Office supported Dutch authorities in a criminal investigation initiated in March 2001 concerning a VAT carousel fraud involving computer components (CPUs). The Dutch judicial authorities were investigating a criminal organisation which uses a group of companies in several Member States and in third countries. Almost all of EU customers were "missing traders" who became the subject of administrative and/or judicial investigation by the authorities of the Member States concerned. Dutch authorities should soon complete the criminal investigation. The loss of VAT is estimated to be in excess of €30 million for the years 1999 and 2000.

Another case concerned the application of the "margin scheme" to sales of used cars. There is a sizable market for international sales of used cars between many Member States. Among these, Italy holds a significant share. The suppliers of used cars inform their customers whether VAT has previously been paid on each of the individual vehicles being traded. If so, any VAT due on the subsequent sale will be based solely on the margin.

OLAF received information indicating that several VAT carousels had been created throughout Belgium, Luxembourg and Italy. This fraud appeared to be perpetrated by a Luxembourg company giving false indications that the margin scheme should apply to cars bought in Belgium and eventually sold into the Italian market. This produced a loss of tax, as well as economic distortions, because many cars were sold at prices lower than the market price.

OLAF promoted a joint administrative operation carried out simultaneously by the Belgian and the Italian tax authorities. Their on-the-spot checks led to evidence that most of the traded vehicles had never borne the correct VAT, and that false statements had been made by the Luxembourg company. OLAF's coordination efforts allowed the Member States concerned to act expeditiously to recover evaded VAT and to prosecute suspects in Italy.

This initiative by the Office led to the discovery of almost 1,800 intra-Community transactions of cars falsely described as margin scheme sales during the period from January 1999 to April 2002. This amounts to a turnover of about €16 million, and VAT not paid to the Italian State of about €3 million.

#### **Alcohol**

Fraud in this area normally involves intra-Community operations which affect the financial interests of the Community via their effects on the VAT resource and their adverse impact on legitimate trade. OLAF has devoted limited resources to this activity during the year, but is prepared to provide services to the Member States (and third countries) when needed.

## **2. INTELLIGENCE ACTIVITY**

OLAF Directorate C was created in September 2001. Entitled “Intelligence, Operational Strategy and Information Technology”, the Directorate brings together the former intelligence and IT units, reflecting the central role which information technology plays in intelligence work.

### **2.1. Strategic intelligence**

The principal tasks in this field have included:

- Improving the accuracy of OLAF’s annual statistics on irregularity and fraud affecting the Community budget drawing on information on irregularities which Member States transmitted to the Commission;
- Renegotiating contracts for access by both OLAF and Member States authorities to commercially available databases;
- Making progress in the exploitation of open sources through the Internet;
- Monitoring trade patterns in sensitive goods;
- Studying in depth the patterns of irregularity concerning a main area of the Budget.

In addition, contacts have been strengthened with police and customs intelligence branches of a number of Member States, with Europol and with the World Customs Organisation.

### **2.2. Operational intelligence and information support**

The principal activities involved assistance to Member States and to OLAF investigators across a range of areas:

- The Information Support Office provided operational support in three major surveillance operations (Operations Sinbad, Scorpio and West). Accession countries participated for the first time in a Community-driven, intelligence-based maritime surveillance operation;
- During Operation SCORPIO, OLAF established mechanisms which led to the identification of two shipments of smuggled cigarettes that had not been singled out for examination under any of the risk selection criteria previously applied by the Member State in question;
- The project “One seizure, one report” addressed the need to enter the same information about seizures of cigarettes into several systems. OLAF and the World Customs Organisation (WCO) worked together to avoid duplication;
- OLAF provided technical support for internal investigations as well as for some external services in forensic computer examination including copying and analysing the content of computers;

- OLAF provided within one week a technical solution to scanning some 80.000 documents and making the results available in a searchable electronic form for use by participating Member States with respect to an operation in Germany;
- OLAF Intelligence wrote a special software application to demonstrate that a company was over-charging the Commission for providing information and advice to the public on EU-related questions in Sweden by exaggerating the number of enquiries received. Analysis showed that a substantial number of the E-mail addresses claimed to be used did not exist and another substantial number of the addresses had only been created in order to pose the question.

### **2.3. Information technology**

The tasks of OLAF's Information Technology Unit are:

- To establish, maintain and operate the IT infrastructure of the Office with a particular view towards IT security;
- To develop, maintain and support the necessary IT systems for the collection and processing of fraud-related information; and
- To provide services and assistance to the Member States for AFIS/CIS (Anti-Fraud/Customs Information Systems).

During the reporting period, a solid IT architecture has been established in order to build trust in data collection, data storage and analysis.

The IT Unit has contributed to the computerisation and modernisation of OLAF's internal procedures. Full-text search and comprehensive structure search in OLAF's Case Management System is possible as a result of these efforts. A first version of a data analysis system has been developed (**OASYS, OLAF Analysis SYStem**) allowing selected users to produce timely statistics of OLAF's investigative activities.

In July 2002, the Director General created a Working Group to review the Case Management System and to conduct a feasibility study for the introduction of an Electronic Document Management System at OLAF.

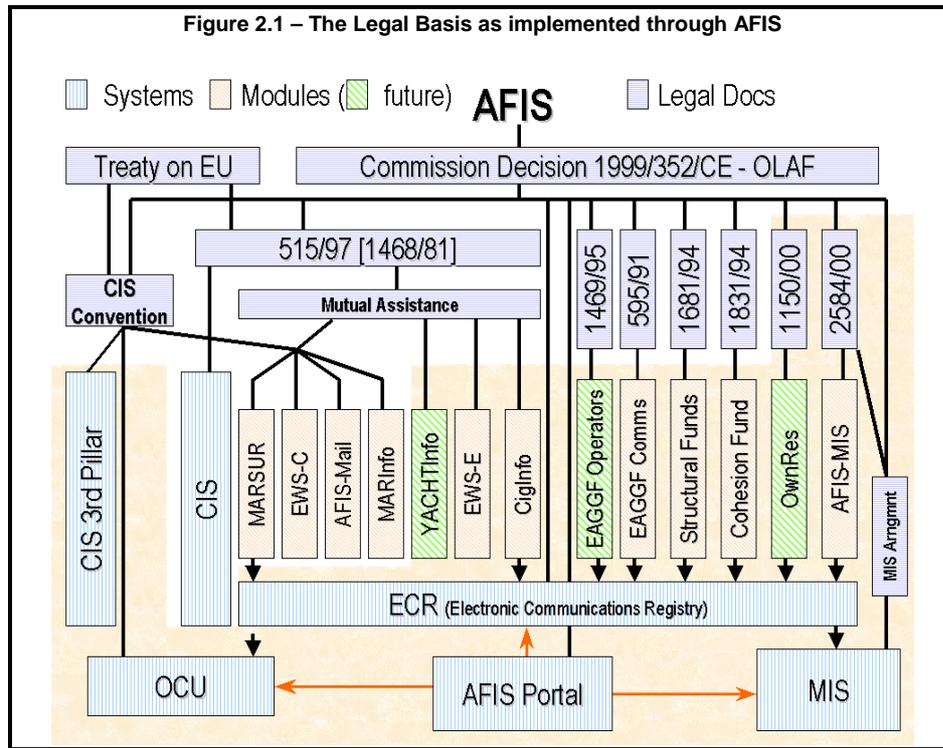
### **2.4. Information exchange with Member States**

The principal means of co-operation with the Member States is through the Mutual Assistance Agreement and AFIS/CIS (Anti-Fraud/Customs Information System). More than 3000 active users on more than 800 AFIS terminals have exchanged an average of 2500 messages per day. OLAF is committed to improving AFIS and has awarded several new contracts for this purpose.

OLAF has made progress with the development of the *Customs Information System* in co-operation with the Member States, several of whom have seconded technical experts to OLAF to help with this task.

Fig. 2.1 illustrates the breadth of OLAF's responsibilities and how the different legal acts are implemented in a common IT architecture. This is the architecture of the AFIS (Anti-Fraud Information System) which implements Council Regulation (EC)

515/97 on mutual assistance in the customs area and the CIS Convention. OLAF also collects and analyses fraud-related data through the *Electronic Communications Registry*, which enables secure exchange of text between Member States and OLAF.



Customs related activities are governed by Council Regulation (EC) 515/97. This provides for the *Customs Information System* (CIS), *Maritime Surveillance* (MARSUR), *Early Warning System for Customs* (EWS-C), *Maritime Information* (MARInfo, YACHTInfo), *Early Warning System for Excise* (EWS-E), and *Information on Cigarette Seizures* (CigInfo). It also constitutes the legal basis of *AFIS Mail*, which allows secure exchange of text between AFIS partners.

Within the context of Council Regulation 515/97, a number of Commission Regulations and Committee decisions provide for the exchange of structured information in a range of areas. These constitute the legal basis for the AFIS modules that are used by the Member States for reporting to the Commission. These modules include the *Agriculture Funds Module* (EAGGF Communications), the *EAGGF Operators Module* (in development), the *Structural Funds Module* and the *Cohesion Funds Module*. Finally, the *Mutual Information System* (MIS) deals specifically with meat exports to Russia, an area of very high risk to EC funds. It is based on the *MIS Administrative Arrangement* between OLAF and the Russian Federation. More than 7000 messages were exchanged during the first year of operation.

The *CIS Convention* foresees the creation and operation of a Central Customs Information System to cover the Third Pillar competencies (e.g. drugs, money laundering, etc). The *Operations Control Unit* (OCU) is established at regular intervals to run specific anti-fraud exercises involving Member States and third countries. Such exercises are increasingly “virtual”, meaning that there is no physical central control room staffed by all participants. Where the OCU involves third pillar operations, these use parts of the AFIS infrastructure (3<sup>rd</sup> pillar CIS) without intervention by OLAF.

OLAF is collaborating with the Member states to simplify and clarify the legal bases for the Member States' exchange of information in the various EC policy sectors.

### **3. SUPPORT AND ENHANCEMENT OF OPERATIONAL RESULTS**

#### **3.1. Strengthening the judicial dimension**

OLAF is committed to strengthening the judicial dimension in the fight against fraud, in line with the Overall Strategic Approach of the Commission of 28 June 2000 (COM (2000) 358 final). This requires OLAF to guarantee the legality and quality of the procedures, including the criminal dimension, and to coordinate effectively the Member States prosecution authorities.

To this end, OLAF's lawyers provide advice as to the development of its general investigative methodology, and translate that methodology into practical guidance for the investigators. Legal advice is also provided in specific cases requiring the interpretation of the Community legal framework governing OLAF's performance of its investigative tasks, such as respect for the fundamental rights of those under investigation, protection of personal data, professional secrecy, extent of immunities and access to documents.

OLAF does not have power either to prosecute cases before the courts of the Member States, or to conduct disciplinary proceedings within the European Institutions. When an investigation suggests that prosecution or disciplinary proceedings (or both) may be appropriate, OLAF transmits the file to the relevant authority. It is therefore important for OLAF to carry out investigations in a manner which abides by the requirements of the judicial process in the Member State(s) concerned. The Magistrates' Unit ensures that proper legal assistance and support is given at all stages of the investigation process to meet the requirements of national law. This guards against the risk that procedural error might prejudice a possible future prosecution.

Three separate procedures for conducting interviews in the course of investigations have been established. These procedures take account of the different legal positions of people interviewed and aim to achieve both effectiveness and protection of fundamental rights. Legal advice is also provided to assess the legitimacy of complaints made by persons subject to investigation by OLAF.

OLAF works in close co-operation with the Legal Service of the Commission when actions are brought before the Community Courts which involve OLAF's legislative framework, its independence and the follow-up of its investigative actions.

#### **3.2. Legislative follow-up**

The operational phase of the work of OLAF ends with the completion of the investigation report. However, the investigation may have identified weaknesses in legislation or in control systems, even if fraud was not detected. The function of "legislative" follow-up is to exploit these lessons so that existing legislation is improved and new legislation takes full account of experience. For example, agreements with third countries are now negotiated so as to include stronger administrative and financial cooperation clauses to address the problem of false declarations of origin of goods. Given this experience, the Commission has entrusted

OLAF with the establishment of a system of “fraud proofing”<sup>3</sup> to strengthen the preventative aspect of the protection of the financial interests of the Community.

OLAF’s lawyers also draft proposals for legislation to address problems which fall within the Commission’s sphere of competence, and provide advice on the establishment of practical arrangements for co-operation with other bodies such as Europol and Eurojust.

### **3.3. Administrative and financial follow-up**

Administrative follow-up aims to identify lessons of a non-financial nature from operational activity, and ensures compliance with the obligations derived from Community or national law. The recommendations resulting from the OLAF investigation may be addressed to national administrations, for example to modify their control systems for the protection of the Community’s financial interests.

When an OLAF investigation has detected irregularities, including frauds, the investigation report constitutes the base for recovery action by the Member States or by the Commission, depending on who managed the expenditure. Beyond the simple transmission of the investigation report for the recovery, OLAF provides its case-related expertise to those responsible for the recovery of the money at stake.

In the field of Own Resources, the Office ensures, in cooperation with DG Budget, the financial follow-up of closed cases and collects information on the recoveries carried out by the Member States. OLAF collaborates with DG Budget to make a detailed analysis of certain selected cases.

In the area of structural measures and the EAGGF-Guarantee section, management is shared with the Member States. The follow-up carried out in these areas consists primarily of establishing the necessary contacts with the responsible Commission departments to ensure that the appropriate measures are actually taken. OLAF is also consulted by the lead departments of the Commission before the formal closure of individual structural programmes

In the agricultural area (EAGGF Guarantee Section), the follow-up covers both cases communicated by the Member States within the framework of their regulatory obligations under Council Regulation (EC) 595/91 and cases handled by the Office (whether by investigation or coordination).

When the Member States are responsible for recovery actions, OLAF ensures that they communicate the detected irregularities in compliance with their legal obligations and that they update this communication so that the Commission can publish an overview in its report on the Protection of the financial interests of the Communities and the fight against fraud.

The follow-up in the field of direct expenditure (expenditure managed directly by the Commission) involves contacts with the authorising Directorates-General and the Accounting Officer of the Commission. It may also involve safeguarding the Commission’s position for any civil court action which may be necessary to recover funds. Following the communication which the Commission adopted on

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<sup>3</sup> See Commission Communication of 7 November 2001 concerning the fraud-proofing of legislation and contract management (SEC (2001) 2029 final).

administrative reform, OLAF created a new unit responsible for the financial aspect of the follow-up of irregularities in the field of direct expenditure.

## **4. INTERNAL ORGANISATION, TRAINING AND COMMUNICATION**

### **4.1. Administrative structures**

OLAF's administrative structure was revised in February 2002. The main changes were as follows:

- Magistrates' Unit was placed directly under the Director General;
- within Directorate A, the unit responsible for administrative and financial follow-up, anti-fraud legislation and recovery was split into three new units to reflect the scale and importance of these tasks.

Within Directorate C, the intelligence unit was divided into two units, one for strategic intelligence and one for operational intelligence. This structure is designed to enhance OLAF's function of providing a platform of services, thereby strengthening partnership and co-operation with the Member States.

During the period covered by this Report, the Office faced a number of difficulties in completing its planned programme of recruitment:

- the decision of the budgetary authority not to authorise a number of new posts until the end of 2001, and uncertainty as to the number of posts available in each category and grade, and as to their distribution between officials and temporary staff, delayed the launching of recruitment procedures;
- the redeployment in the autumn of 2001 of a number of officials from OLAF to other Commission departments abruptly reduced the number of posts available to OLAF and was followed by further departures of experienced OLAF officials who obtained posts elsewhere;
- finally, the delay in the arrival of the Director of Investigations and Operations led to delays in completing the management structure of this Directorate.

Over the period as a whole, 38 individuals left OLAF and 77 individuals joined OLAF. Arrangements were made to recruit staff to the remaining 76 vacant posts, mainly in categories B and C, by the end of 2002.

### **4.2. Anti-fraud training activities**

OLAF arranges anti-fraud training activities for its own staff and for its operational partners. Improved training both of new arrivals and of OLAF's existing staff was one of the Office's priorities for this period. A training programme was devised to complement the professional knowledge of OLAF officials, highly qualified in their field (police, judicial, financial, customs, agricultural inspectors etc), by providing them with the tools to work in OLAF's multicultural environment and within the European institutions.

The Office's external anti-fraud training activities form an integral part of the "service platform" concept. They reflect the Office's overall priorities including preparation of applicant countries for accession, promotion of the Green Paper on criminal-law protection of the Community's financial interests, operation of the

AFIS system and protection of the euro. All training activities are systematically evaluated.

Over the period of this Report, OLAF helped organise and/or co-financed 28 seminars. These included 13 organised in collaboration with national partners such as police or customs authorities, 3 with the OLAF-Poland Office, 3 with TAIEX and 9 with the European lawyers' associations. Over 1,600 people attended these events.

Lastly, OLAF participated in a further 130 conferences and seminars to which it did not make a financial or organisational contribution.

### **4.3. Communication and information strategy**

OLAF supports its operational independence with its own communication strategy. The objective is to be as open as possible within the constraints prescribed by national and Community law, the need to protect investigations, and respect for the fundamental rights of the suspect

During the period in question there were several hundred interviews or other contacts between OLAF's Director-General or the OLAF Spokesman and members of the media. The OLAF web-site has been improved to provide the general public with basic information about OLAF. An internet pressroom has also been established.

In 2001, OLAF established the OLAF Anti-Fraud Communicators' Network (OAFCN) which brings together many spokesmen and other responsible for public relations, as well as information officers in national law enforcement agencies with which OLAF co-operates. The objective is to improve the level of communication with the European citizen on the protection of the Community's financial interests.

## **5. COOPERATION WITH THE OFFICE'S PARTNERS IN THE FIGHT AGAINST FRAUD**

### **5.1. Fight against euro counterfeiting**

Apart from its legislative and training functions, OLAF has a technical operational responsibility in the area of the protection of the euro. This relates to the protection of euro coins against fraud and counterfeiting.

Community law assigns responsibility for euro coins mainly to the Member States. However, it is necessary to achieve a comparable level of protection against fraud and counterfeiting in the Member States, which have invited the Commission to co-ordinate their actions for the protection of euro coins. The Commission has therefore established the Counterfeit Coins Experts' Group, which is managed and chaired by OLAF. This brings together experts from all Member States, the European Central Bank (ECB) and Europol to ensure implementation of the technical scheme for handling counterfeit euro coins agreed by ECOFIN (the Council meeting in the format of Finance Ministers).

The cornerstone of this technical scheme is the European Technical and Scientific Centre (ETSC), which became operational in October 2001. As an independent administrative entity, it is based in the Paris Mint and is managed by two OLAF officials. The Paris Mint makes available to the ETSC its expertise on coin counterfeiting.

The main task of the ETSC is the analysis and classification of counterfeit euro coins presenting a higher degree of risk to EU citizens. Other tasks include direct technical assistance to Coin National Analysis Centres and to police authorities; contributions to the development of the database for counterfeits established at the ECB; establishment of a register of coin-like objects that could be misused as euro coins; and technical collaboration with the coin-operated industry.

The ETSC's first report was issued in April 2002. Few counterfeit coins were detected in the first six months of use. However, high quality counterfeit euro coins are now beginning to emerge. The ETSC alerts the competent authorities and carries out initial evaluations of the counterfeits.

In December 2001, the Council adopted the Commission/OLAF's proposal for the Pericles programme for the protection of the euro against counterfeiting. This programme co-finances projects to raise awareness of the Community dimension of the new currency. It also facilitates exchange of information and technical, scientific and operational assistance. OLAF is implementing this programme in partnership with the Member States. The total budget is €4 million over the period 2002-2005.

### **5.2. Support to applicant countries**

To ensure that the Community's financial interests are effectively protected in the candidate countries, both before and after accession, OLAF has supported the Commission's endeavours to reinforce their institutional capacity to prevent and combat fraud. In particular, the Office has encouraged the candidate countries to designate operationally independent anti-fraud co-ordination structures or services, responsible for co-ordinating all legislative, administrative and operational aspects of

the protection of the Communities' financial interests within the country concerned. Most candidate countries are already well advanced in the process of setting up such structures or services.

In Poland, a PHARE-financed anti-fraud project has been implemented since 2001, in close co-operation with OLAF. This project, with a budget of €3.5 million, is aimed at setting up a horizontal, multi-disciplinary anti-fraud structure. An OLAF official and three Member State experts have been detached to Warsaw to assist the Polish authorities with the establishment of the anti-fraud co-ordinating service. Although the project's implementation has run up against several difficulties of a local nature, it has provided useful insights about the management of institution-building projects in the candidate countries.

During the reporting period, 27 cases were examined, and four investigations were undertaken by the Polish authorities within the framework of the PHARE programme. Seven cases were closed as no irregularities were found and 16 cases are still under analysis. In addition, administrative cooperation between the OLAF team and various Polish authorities resulted in the opening by OLAF of 4 investigations.

In one case in the agricultural sector concerning alleged abuse of PHARE money and non-respect of the public procurement rules, OLAF investigators cooperated with their Polish counterparts by assisting during joint visits of public bodies. This investigation, which is still ongoing, has already resulted in the recovery of nearly €3 million in Phare funds, and of tens of thousands of euro for the national budget. It has also led to the review of the procedures for the issue of certificates of origin by the national authorised bodies. The Polish Prosecutor's Office has opened criminal procedures against former Polish officials.

#### *Multi-country PHARE programme*

Building on the experience gained in Poland, on 16 May 2002, the Commission approved a multi-country PHARE programme to assist ten candidate countries in establishing anti-fraud co-ordinating services or structures. OLAF has been closely involved in the preparation of the project, and will assist with its implementation. The implementation of the project should begin in early 2003. The Office is considering the possibility of establishing liaison officers in some of the candidate countries as of 2003.

## ANNEX

### OLAF's Investigation Procedures

#### 1. THE DIFFERENT TYPES OF CASES

The legislation under which OLAF operates distinguishes between *internal investigations* and *external investigations* (Articles 4 and 3, respectively, of Regulation N°1073/1999 of the European Parliament and of the Council).

*Internal investigations* involve investigations within the European Institutions. (There may nevertheless be links between suspected irregularities within the Institutions and irregularities outside the institutions. Examples are corruption of officials as part of a wider fraud in the contracting process or in the payment of subsidies from the EC budget). Although the number of internal cases is a relatively small proportion of the total, some of these cases are particularly complex and significant. Thus, the overall proportion of OLAF's investigation resources devoted to internal cases is relatively high.

*External investigations* are those outside the European Institutions.

For management and statistical purposes, however, OLAF distinguishes between a number of different types of cases, all conducted under the powers relating to external investigations. These are:

*External cases*, where OLAF provides the majority of the investigation resources.

*Co-ordination cases*, where OLAF's role is primarily to co-ordinate the activities of other investigation authorities.

*Criminal assistance cases*, where OLAF is asked by the competent authorities to assist them in conducting criminal investigations.

Two further categories of cases are:

*Monitoring cases*, where OLAF passes information to a national authority but formally monitors the outcome to ensure that any lessons to be learnt are identified and disseminated;

*Non-cases*, where OLAF decides not to open a case. OLAF's policy is to take a formal decision in the Board on whether to open an investigation into every communication which it receives alleging that an irregularity may have been committed. This is a resource-intensive process, but it gives the public the assurance that allegations of fraud cannot be overlooked. Frequently, initial examination of this material shows that there is no threat to Community funds or breach of Community law, but that there may be a breach of national law, such as evasion of national income tax or of national urban planning restrictions. OLAF then classifies the case as a non-case and passes the information to the national authorities, where appropriate. In other instances, allegations are obviously without foundation or personal in character. Such cases are also classified as non-cases.

## **2. THE PROCESS OF INVESTIGATION**

### **2.1. Initial handling of information**

All new communications about possible frauds which arrive at the Office are first systematically registered in the CMS database, and allotted a sequential number provided by the system which cannot be modified or deleted.

Once a communication has been registered in the CMS database it is automatically given the status *in evaluation*. This is the pre-investigation phase, during which the information received is subjected to a rigorous examination. Other information sources available to the Office are consulted where appropriate, to determine whether :

1. the information at first sight is sufficient to demonstrate that the (financial) interests of the EU may have been prejudiced; and
2. there are sufficient grounds to justify the opening of an investigation.

### **2.2. Decision on whether to open a case**

The decision to open a case is taken by OLAF's Board, under authority delegated by the Director General. The Board is chaired by the Director of Investigations and Operations. Representatives of the Policy, Legislation and Legal Affairs Directorate, the Intelligence Directorate, and the Magistrates' Unit sit together on the Board alongside colleagues responsible for investigations, to ensure operational co-ordination and consistency across the office. The Director General takes a small number of decisions personally, for example where there is disagreement within the Board, but retains ultimate responsibility for all decisions.

If the grounds for the opening of a case are not fulfilled, the file is closed as a 'non-case'.

### **2.3. Stages in the lifecycle of a case**

#### *Open cases*

After the initial evaluation phase, where the evidence appears to be sufficient to warrant the opening of an investigation, a case is formally opened. The purpose of the investigation is to determine whether a fraud or irregularity has been committed, and if so, to estimate the impact on the Community budget where possible.

#### *Closed cases*

*Closed – no-follow-up:* Cases in which no fraud/irregularity has occurred and for which no further action is taken.

*Closed – with follow-up:* Cases in which a fraud/irregularity has been established, and follow-up action is needed, Directorate A or the Magistrates' Unit of the Office assures the follow-up of the recommendations of the investigation (i.e. that any relevant amounts are recovered, penal actions carried out, etc.).

*Closed – follow-up complete:* Cases where the necessary follow-up has been completed.

At each stage of the investigation all significant information is systematically entered in the CMS database in order i) to ensure that the case portfolio of the Office is effectively managed and ii) to enable the office to fulfil its external reporting requirements to the Supervisory Committee, the European Parliament and the European taxpayer.