

EC FINANCIAL CONTROL REGULATION No 438/2001

ARTICLE 13: REPORT FOR 2004

COUNTRY: NORTHERN IRELAND

**PROGRAMMES: BUILDING SUSTAINABLE PROSPERITY, PEACE II
AND EQUAL COMMUNITY INITIATIVE**

FUNDS: EUROPEAN SOCIAL FUND

1. INTRODUCTION

This report covers the management and control systems that are in place in Northern Ireland for control of the EU Structural Funds Programmes for the period 2000-2006. For the 2004 calendar year this relates to the Programme for Building Sustainable Prosperity (BSP) the Programme for Peace & Reconciliation in Northern Ireland and the Border Counties of Ireland (Peace II) – reporting on the Northern Ireland element only and THE equal Community Initiative. It concentrates on the European Social Fund.

The Managing Authorities are the Department of Finance and Personnel for BSP, the Special European Union Programmes Body (SEUPB) for Peace II and the Department for Employment and Learning (DEL) for the Equal Community Initiative.

This report has been prepared by the European Division, Department of Finance and Personnel on behalf of the Managing Authorities and is drawn from information held on the Commission's SFC Database and provided by the Internal Audit Branches within the following Departments:

Department of Health and Social Services and Public Safety (DHSSPS)

Department of Enterprise Trade and Investment (DETI) on behalf of the Department for Employment and Learning (DEL)

Department of Social Development (DSD)

Department of Education (DE)

Department of Finance and Personnel (DFP) on behalf of the Office of the First Minister and Deputy First Minister (OFMDFM) and the Special EU Programmes Body (SEUPB).

The expenditure declared to the Commission during 2004 in respect of ESF is shown below.

Building Sustainable Prosperity

€

Community	National	Private	Revenue	Total
35,458,806	20,481,927	272,347	3,024,450	59,237,530

Peace II (Northern Ireland element only)

€

Community	National	Private	Revenue	Total
29,438,058	9,812,686	0	0	39,250,744

Equal Community Initiative

€

Community	National	Private	Revenue	Total
1,925,025	1,069,437	96,077	9,802	3,100,341

2. COMPLETION AND UPDATING OF DESCRIPTION OF MANAGEMENT AND CONTROL SYSTEM UNDER ARTICLE 5

Following the draft Management and Control Report submitted to the Commission in October 2001, points raised by the Commission were addressed by correspondence sent to the Commission on 30th June 2003. This also addressed lessons learned during the early implementation of 2000 – 2006 Programmes and from checks carried out as part of the closure of the 1994-1999 Programmes. These systems continue to be reviewed and refined as necessary with the Article 5 Statement being amended as appropriate. For reference an update Article 5 Statement taking on board issues addressed in correspondence is attached as an Annex.

3. CHANGES TO THE AUDIT STRATEGY

While there were no changes to the audit strategy during the year, the underlying SEUPB plan was amended with an audit of the Peace II system being moved from the last quarter of 2004 to the first quarter of 2005 due to n+2 pressures at the year-end.

4. SYSTEMS AUDITS

Departmental Internal Audit Branches (IABs) carried out systems audits during 2004. Under the Peace II Programme a number of Implementing Bodies are outside of central government and, in these instances, staff from the SEUPB carried out systems audits – with DFP EU Verification Unit fulfilling the Article 10 role in those areas where DFP is the Accountable Department.

Details of the systems audits carried out (the majority of which covered the Peace II Programme) are detailed below:

Date of audit visit	Name of Body / Project visited	Report Reference Number	Date Report provided to the Commission
September 2003 – January 2004 (carried out by DFP IAB)	SEUPB - Peace II & Article 4 Team.	-	February 2005
January – February 2004 (carried out by DFP IAB)	European Division DFP - North South Policy & Programmes Unit.	-	February 2005
January – February 2004 (carried out by DFP IAB)	Office of the First Minister and Deputy First Minister – Victims Unit	-	June 2004
January – February 2004 (carried out by DFP IAB)	Office of the First Minister and Deputy First Minister – Community Relations Unit	-	June 2004
February 2004 (carried out by DE IAB)	Department of Education. BSP and Peace II Measures (disbursement of Funds)	-	November 2004
February – March 2004 (carried out by DFP IAB)	SEUPB - Central Payments Unit.	-	December 2004
March 2004 (carried out by DETI IAB)	Invest N.I. - Entrepreneurship Development Team. BSP Measure 2.8	-	25 February 2005
April - May 2004 (carried out by DFP IAB)	EU Verification Unit (DFP).	-	August 2004
May 2004 (carried out by DFP IAB)	SEUPB - Central Payments Unit (Follow Up).	-	

			May 2004
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All Structural Fund measures / Community Initiatives are reviewed annually and audit visits selected on the basis of risk assessment – taking account of complexity, value and volume of transactions, impact on organisational objectives and audit opinion - and in conjunction with the notified Audit Strategy.

Principal findings and conclusions drawn from audit visits are set out below:

Name of Body / Project audited	Report reference No	Sufficient assurance? Yes / No	If 'No' give details
SEUPB - Peace II & Article 4 Team	-	Yes	
European Division DFP - North South Policy & Programmes Unit.	-	Yes	Further evidence of the monitoring of SEUPB expenditure required (a follow up in 2005 has confirmed that recommendations have been implemented)
Office of the First Minister and Deputy First Minister – Victims Unit	-	Yes	
Office of the First Minister and Deputy First Minister – Community Relations Unit	-	Yes	
Department of *** Education. BSP and Peace II Measures (disbursement of Funds)	-	No	<p>A significant number of activities to control and monitor the disbursement of funds have been implemented, however, Internal Audit considers that the system of internal control over the management of PEACE II and BSP monies is not compliant, at this stage, with all the requirements of the EU.</p> <p>The main areas for improvement identified were in relation to: Effective implementation of EU Article 4 and 10 checks; Maintenance of an adequate audit trail; Expanding the current level of formal procedures and in-house guidance in place; and Formalising the arrangement with the organisation that processes grants on behalf of DE. Arrangements for the performance of management checks, as required under</p>

			Article 4 and Article 10 of EU Regulations, are on-going. As no checks had been performed at the time audit fieldwork was conducted, Internal Audit is unable, at this point, to provide an evaluation of the effectiveness of the operation of these checks or the procedures put in place to record and report findings arising from the checks once performed. <u>Internal Audit anticipate that if management continue with current efforts to implement sufficient actions to comply with EU Article 4 and 10 checking requirements, and, to collate sufficient monitoring and audit trail documentation, the assurance will rise when next reviewed.</u>
SEUPB - Central Payments Unit.	-	Yes	
Invest N.I. - Entrepreneurship Development Team. BSP Measure 2.8	-	Yes	
EU Verification Unit (DFP).	-	Yes	
SEUPB - Central Payments Unit (Follow Up).	-	Yes	

*** Follow up of issues raised in DE will take place during 2005 and an update will be provided in the 2005 Article 13 Report.

As referred to above, SEUPB staff carried out systems audits on 31 Implementing Bodies that operate outside of central government following recommendations made in a report produced in 2003 by PriceWaterhouse Coopers. While the reviews have been carried out, all of the detailed reports have not yet been finalised.

No financial consequences / amounts ordered to be recovered. Where recommendations – mostly minor in nature - have been made, follow up is carried out by IABs as part of their overall strategy to ensure these are being implemented. Such follow up of issues raised during 2004 will take place in 2005.

5. SAMPLE CHECKS ON EXPENDITURE

Verification Units have been established within Northern Ireland Departments to carry out sample checks on expenditure in compliance with Article 10, however, DE and the SEUPB made use of external consultants, while DEL used its own Financial Audit and Support Team (FAST) for these activities.

Details of visits carried out and the value of expenditure checked are set out below:

Number of visits	Total amount checked (£ Sterling)	Amount as % of total eligible expenditure (£) declared up to end 2004	Number of visits providing full assurance
54 by DEL (BSP)	988,809	7.62	51
4 by DEL (Peace II – directly funded and 14 by DEL on IFBs)	304,756	6.65	3 directly funded 14 IFBs
6 by DE (Peace II)	225,682	2.0	6
1 by DFP (Peace II Measure 2.4B)	57,481	2.0	1
13 by DFP (Peace II Measure 3.2)	489,151	4.1	13
26 by DHSSPS (Peace II) – 21 related to the period before 2004	358,357	4.82	Reporting system does not provide for 'full assurance' – but any weaknesses are highlighted. 12 visits without concern, 5 reports not yet completed, 9 irregularities uncovered
13 by DSD (Peace II)	112,020	3.16	High error rate uncovered – sample extended for further investigation
3 by DEL (Equal C.I.)	63,178	2.99	3

Projects were selected for visits after consideration of all relevant risk factors – determined by a number of considerations including, nature of the project, past track record, value and volume of transactions, urban and rural locations and information provided by bodies carrying out Article 4 checks. Selection was in full compliance with the requirements of Article 10 of the Regulation.

The principal results of the checks were that there were substantial assurances across Departments as to compliance with EU Regulations. Where weaknesses were identified, detailed recommendations were made and will be followed up during the 2005 year.

Follow up of irregularities uncovered:

The number of new irregularities recorded in 2004 (below the reporting threshold) is shown below:

Building Sustainable Prosperity

Number	Amount (£)	Department	Resolved in 2004
9	7,470	DEL	3 (total £2,147)

Peace II

Number	Amount (£)	Department	Resolved in 2004
6	3,962	DHSSPS	0
1	45	DE	0
5	5,382	DSD	0

New irregularities reported in 2004 are shown below:

Building Sustainable Prosperity

Project Name	Amount (£)	Department
Garden Reach / Reconnect	6,381	DEL
North Down & Ards Institute for Further and Higher Education	24,000	DEL

Peace II

Project Name	Amount (£)	Department
Queen's University, Belfast Modern Irish Translation	49,300	DEL
The Link Centre, Newtownards	15,195	DE
Newhill Playgroup	4,206	DHSSPS
Homestart	5,340	DHSSPS
123 House	13,633	DHSSPS
Citywide Women's Consortium	15,740	DSD
18-25 Young Men's Training	27,160	DSD

While problems were identified in the course of visits, none of these was considered systemic in nature and there was therefore no financial corrections imposed. In all cases recommendations for improvement were made and are being followed up.

6. FOLLOW UP OF PREVIOUS YEARS' AUDIT ACTIVITY

During 2004 further work was carried out by Departmental Internal Audit Branches in response to issues raised by the Commission in relation to the closure of the 1994-1999 round of Funding.

While each Department maintains a schedule of follow up activity as part of its annual audit planning process, in cases where this was not completed during 2004 any outstanding issues have been re-scheduled for 2005. Out of approximately 300 recommendations made Departmental Audit staff over 80% have been satisfactorily addressed with those remaining being followed up during 2005.

7. CONCLUSION

Audit activity carried out during 2004 in respect of ESF was in conformity with the audit strategy provided to the Commission. This activity confirmed that there was no material deficiency in the operation of management and control systems underlying the declarations of expenditure to the Commission.

Any problems or issues identified, while not systemic, were addressed by way of recommendations and proposals for change. These were followed up and will continue to be monitored in the coming year.

Where irregularities were uncovered, these were addressed in accordance with Commission Regulations and requirements and any cases not closed by the end of 2004 are being followed up during 2005.

As the performance of Article 4 checks increased during 2004, findings were made available to the Teams carrying out Article 10 checks to help inform risk assessment and it has been confirmed that the standard of Article 4 reports provided in this context was good and used effectively in preparation of Article 10 visits.

On the basis of work carried out during 2004, Internal Audit branches have confirmed substantial assurance that EU Regulatory requirements are being met.

Department of Finance and Personnel

June 2005

ANNEX

Article 5 Description

Management and Control Systems for Northern Ireland

2000 – 2006



EU Programme
for Peace and Reconciliation
(2000-2004)

JUNE 2005

8. 1.MANAGEMENT AND CONTROL SYSTEMS

1.1 INTRODUCTION

Article 38 of the Structural Funds Council Regulation 1260/1999, requires the Member State to inform the Commission of the management and control arrangements that are in place, including details of any bodies to which tasks are delegated, to implement the requirements of the financial regulations. This report fulfils the Article 38 requirement and complies with Article 5(2) of Commission Regulation 438/2001.

1.2 BACKGROUND

The European Council, meeting in Berlin in March 1999, determined that for the period 2000-2006 Northern Ireland would receive support as an Objective 1 Region in Transition and, further, that the PEACE Programme for Northern Ireland and the Border Region of Ireland would be continued over the period 2000-2004. Two Programmes, the Northern Ireland Programme for Building Sustainable Prosperity (BSP) and the PEACE II Programme operate together under the authority of the Northern Ireland Community Support Framework (CSF). The PEACE II Programme has since been extended to 2006.

1.3 KEY ADMINISTRATORS

1.3.1 Member State

In relation to EU Structural Funds the United Kingdom (UK) is the Member State but as a result of devolved government responsibility for the administration of the Structural Funds was transferred to the Northern Ireland Executive. The NI Executive designated the Northern Ireland Department of Finance and Personnel (DFP (NI)) as the Managing Authority for the CSF and this continues during any period where there is suspension of devolved government.

1.3.2 Programme Managing Authorities

DFP, Managing Authority for the CSF, is also the Managing Authority for BSP. The Special EU Programmes Body (SEUPB) set up under the provisions of the Belfast Agreement (1998) is the Managing Authority for PEACE II.

The Managing Authorities are responsible for the efficiency and correctness of management and implementation as laid down in Article 34 of the Structural Funds Regulation 1260/1999. The Managing Authorities work in close liaison with all Implementing Departments and Bodies to which tasks have been delegated.

1.3.3 Paying Authority

The Paying Authorities for BSP and the Northern Ireland¹ part of PEACE II Programme are the following Northern Ireland Government Departments:-

ERDF: The Department of Finance and Personnel (DFP)

ESF: The Department for Employment and Learning (DEL)

EAGGF/FIFG: The Department of Agriculture and Rural Development (DARD)

The Paying Authorities fulfil their functions in accordance with Article 32 Council Regulation 1260/1999. In the event of a body, as in the case for DFP, being designated as carrying out the tasks of both Managing and Paying Authorities, there is clear separation of duties. In the event of a delegation of tasks from both the Managing and Paying Authorities to a single designated body, the same separation of functions will be ensured within the designated body.

For the funding period 2000-2006 the ERDF Paying Authority (DFP) will chair meetings of the 4 Paying Authorities to agree advice and guidance and ensure consistency.

1.3.4 Implementing Bodies

An Implementing Body is a public or private body acting under the responsibility of the Managing Authorities, designated to perform tasks on their behalf in relation to final beneficiaries. They can be a Government Department, an Intermediary Funding Body (IFB) or a Local Strategy Partnership (LSP).

1.3.5 Accountable Departments

Accountable Departments are all Government Departments implementing BSP projects and for PEACE II they are those Government Departments that are accountable for voted monies passed via grant payments to SEUPB to facilitate payments to projects.

¹ Separate arrangements exist for Border Region of Ireland

1.3.6 Expert Advisors

Managing Authorities will, when necessary, call on Agencies, Departments, external consultants who are expert in knowledge and practice of the operation of funds, evaluations etc to provide advice and guidance on issues that impact on the operation of the programmes. In particular, advice and guidance will be sought from the Department for Employment and Learning on ESF issues, Department of Agriculture and Rural Development for EAGGF and FIFG issues and NISRA (Northern Ireland Statistics and Research Agency), on statistic and research issues. The above will liaise with the appropriate DGs within the Commission and UK Government Departments. The Managing Authorities will be responsible for the dissemination of such advice and guidance.

9. 2.ROLE OF THE MANAGING AUTHORITIES

2.1 CSF Managing Authority

The role of the CSF Managing Authority is to report progress of the achievement of the CSF Priorities and to oversee the implementation of the two programmes, if necessary adjusting the CSF priority at the request of the relevant Monitoring Committee or on its own initiative. The CSF Managing Authority will meet regularly with the Commission to monitor Structural Funds assistance. The Managing Authority will also endeavour to identify and take appropriate action on possible EU fraud/duplicate funding under the Structural Funds.

2.2 Programme Managing Authorities

DFP and the SEUPB in their capacities as Managing Authorities have overall responsibility for two Operational Programmes BSP and PEACE II, ensuring efficiency and correctness of management and implementation. They are the liaison point with the Commission and the respective Monitoring Committees for both Programmes. In compliance with Article 34 of the Structural Funds Council Regulation 1260/1999 the Managing Authority will:-

- set up a system to gather and monitor financial and statistical information and commission from an independent assessor the mid-term and ex-post evaluations (Articles 42 and 43);
- negotiate and re-negotiate, if necessary, the Programme Complement for approval by the Monitoring Committee and the Commission;
- request information on the progress of each Measure and collate the Annual Implementation Report for approval by the Monitoring Committee;

- Monitor performance of the Regulation 438/01 Article 10 checks; and
- Provide advice and guidance.

2.3 SEUPB – Relationship with Government Departments

- 2.3.1 The administration of SEUPB is funded by DFP (NI) and DOF (Ireland) and is governed by a Financial Memorandum between DFP (NI), Department of Finance (DOF) (Ireland) and SEUPB. This sets out financial procedures and accountability arrangements and is designed to ensure proper use of public money.
- 2.3.2 Government Departments have two main roles within the Peace II Programme; firstly the Department will act as an Accountable Department in relation to certain measures within the Programme operated by IFBs and LSPs. This will involve the Department accountable for voted monies passing money via grant payments to the SEUPB in order for SEUPB to issue payments to projects. Exception to this rule is referred to at paragraph 2.3.4. A Terms and Conditions Agreement governing the roles and responsibilities is in place between the SEUPB and each Accountable Department.
- 2.3.3 Secondly, Departments may act as Implementing Bodies for certain measures within the Programme. The SEUPB will process payments to those funded projects. Voted monies will be made to the SEUPB via grant payments from each Department. A Service Level Agreement governing the transactions exists between each Department and the SEUPB.
- 2.3.4 There are two Implementing Departments that are issuing payments directly to projects and therefore not using the SEUPB central payment system. A separate Service Level Agreement exists between those two Departments and the SEUPB.

10. 3.ROLE OF PAYING AUTHORITY

3.1 The Paying Authority is responsible for:-

- (i) ensuring the sound financial management of Structural Funds by maintaining records which detail:-
 - payment requests received from the Managing Authorities;
 - payment requests presented to the Commission;
 - receipts of reimbursements from the Commission; and
 - transfer of funds to reimburse Implementing Bodies.

Receipts from the Commission will be disbursed as quickly as possible and in full - in accordance with Article 32(1) of Council Regulation (EC) 1260/1999.

At all times the Paying Authority will co-operate with the Commission to ensure sound financial management in compliance with Article 32(3) of Council Regulation 1260/1999.

- (ii) Commissioning quarterly reports from Implementing Bodies detailing irregularities uncovered, amounts involved, action taken and progress towards recovery (where appropriate). This information is transmitted to the Commission (via The Department of Trade and Industry which report at Member State level) in a quarterly report under Commission Regulation 1681/94 with an annual statement detailing amounts awaiting recovery – as an Annex to the fourth quarterly report each year in compliance with Article 8 of Commission Regulation (EC) 438/2001. Guidance on the treatment and reporting of irregularities forms part of the Irregularities Guidance.
- (iii) Presenting payment applications to the Commission, a minimum of three times per year. Before submitting an application, the Paying Authority satisfies itself that conditions 2(a) and (b) of Article 9 of Commission Regulation (EC) 438/2001 have been met. This is done by the means outlined in sub-paragraph (i) above.

The Paying Authority will present the claim for the final balance within the timescale specified and subject to the requirements of Article 4 of Commission Regulation (EC) 438/2001. The required declaration presented with the final claim will be drawn up by the

Internal Audit Services having a function independent of both the Managing Authority and Paying Authority.

- (iv) Ensuring a separation of functions both within the Paying Authority and between the Paying Authority and Managing Authority. Within the Paying Authority, this is achieved by administrative staff carrying out the initial mathematical check on project level reports before they are passed to supervisory staff to aggregate and confirm compliance with the stated Regulations. The aggregate payment application drawn up as specified in Annex II of Commission Regulation (EC) 438/2001 is signed by a duly authorised official of the Paying Authority.

- (v) Preparing financial information in the form of tables outlined in the vade mecum for use by the Monitoring Committees established under Article 35 of Council Regulation 1260/1999 and for inclusion in the Annual Implementation Report submitted by the Managing Authority as required by Article 34(1)(c) of Council Regulation 1260/1999.

In addition, the Paying Authority seeks, collates and produces information for inclusion in the annual forecast of payment applications for future years as required by Article 32(7) of Regulation (EC) 1260/1999.

- 3.2 In compliance with Article 2(1) of Commission Regulation (EC) 643/2000 the Paying Authority submits statements of expenditure in support of payment applications in Euro, converted from the National currency using the method specified in Article 2(2) of the same Regulation.

- 3.3 For the funding period 2000-2006 the ERDF Paying Authority (DFP) will chair meetings of the 4 Paying Authorities to agree advice and guidance and ensure consistency. Detailed guidance and procedures on Paying Authorities responsibilities are provided in the Paying Authorities Operating Procedures Manual.

11. 4 ROLE OF THE IMPLEMENTING BODIES

- 4.1.1 DFP, as Managing Authority for BSP has delegated a number of Managing Authority tasks to Implementing Departments.
- 4.1.2 SEUPB, the Managing Authority for PEACE II has delegated the same managing authority tasks, to Implementing Departments, under contract, and to IFBs and LSPs under Global Grant Arrangements.
- 4.3 The Implementing Bodies shall provide the Paying Authority with the assurance:-
- that claims they have submitted include only expenditure that has been actually paid out;
 - that expenditure has been incurred in operations covered by laid down procedures and selection criteria and subject to Community rules throughout the period expenditure was incurred; and
 - that expenditure was from Measures for which all notified State Aid has been formally approved by the Commission.
- 4.4 The Implementing Bodies shall inform the Managing Authority of remedial work undertaken as a result of any Article 10 checks. Paragraph 9.3 refers.

In addition, they will ensure:-

- sound financial management;
 - action is taken on irregularities identified; and
 - those taking part in the management and implementation of the assistance maintain either a separate accounting system or accounting code for all transactions relating to EC assistance.
- 4.5 They should verify compliance with national and Community rules on eligibility of Structural Funds expenditure, public procurement, protection of the environment and equality of opportunity.
- 4.6 They shall ensure compliance with Commission Regulation (EC) 1159/2000, Information and Publicity, in particular potential and final beneficiaries are informed of the opportunities afforded by European Union assistance and also the general public about the role played by Europe in the assistance given.

5. ROLE OF MONITORING COMMITTEES

5.1 Monitoring will be carried out by the Managing Authority under the supervision of a Monitoring Committee. In Northern Ireland there are 3 Monitoring Committees. The Community Support Framework Monitoring Committee, chaired by the Minister of Finance and Personnel and two Operational Programmes Monitoring Committees chaired by representatives of the respective Managing Authorities.

5.2 Tasks of the Monitoring Committees

5.2.1 The work required of the Monitoring Committees is set out separately in Council and Commission Regulations and in the CSF and Operational Programmes.

5.3 Tasks of CSF Monitoring Committee

5.3.1 In accordance with Article 35 of Council Regulation (EC) No 1260/1999 the CSF Monitoring Committee will:-

- review progress made towards achieving the specific objectives of the CSF;
- examine the results of implementation, particularly the achievement of the CSF targets set and the outcome of the Mid-term Evaluations;
- consider and approve annual and final implementation reports before they are sent to the Commission;
- consider and approve any proposal to amend the contents of the Commission Decision on the contribution of the funds;
- propose to the Managing Authority any adjustment or review of the CSF Priorities likely to make possible the attainment of the objectives of the CSF or to improve the management of assistance including in respect of financial management; and
- adopt a communication and publicity strategy.

5.4 Working Groups

5.4.1 In order to be appropriately informed in specific areas, the CSF Monitoring Committee will be assisted by a number of Working Groups which may comprise members from the CSF and other Monitoring Committees or others determined by the CSF Monitoring Committee as having particular skills or bringing other benefits to the Working Group. The Working Groups will cover such topics as Human Resource Development, Fisheries, the Environment, the Information Society and Equal Opportunities/Section 75.

5.5 Horizontal Principles

- 5.5.1 The CSF Monitoring Committee is further charged with seeking to ensure in co-operation with the Operational Programme Monitoring Committees and in consultation with the Managing Authority that the horizontal principles identified in Chapter 3 of the CSF are applied. These horizontal principles are meant to serve as guidelines for all those involved in the implementation of the CSF and its Operational Programmes and set the ethos of the EU intervention.

12. 6.TASKS OF PROGRAMME MONITORING COMMITTEES

6.1 In accordance with Article 35 of Council Regulation (EC) No 1260/1999 the Monitoring Committees will satisfy themselves as to the effectiveness and quality of the implementation of assistance for all Structural Funds. To that end, it will:-

- agree the Programme Complement, including the physical and financial indicators to be used to monitor the assistance and any subsequent adjustment to it;
- approve the criteria for selecting the operations financed under each Measure;
- review progress made towards achieving the specific objectives of the Programme;
- examine the results of implementation, particularly the achievement of the Programme targets set and the outcome of the Mid-term Evaluations;
- consider and approve annual and final implementation reports before they are sent to the Commission;
- consider and approve any proposal to amend the contents of the Commission Decision on the contribution of the funds;
- propose to the Managing Authority any adjustment or review of the Programme Priorities likely to make possible the attainment of the objectives of the Programme or to improve the management of assistance including in respect of financial management; and
- adopt a communication and publicity strategy.

6.2 Horizontal Principles

6.2.1 The Monitoring Committee is further charged with seeking to ensure in consultation with the Managing Authority that the Horizontal Principles identified in the Programme are applied.

7. FINANCIAL PROCEDURES UNDER THE 2000-2006 EUROPEAN STRUCTURAL FUNDS

7.1 Payments from the European Commission:

7.1.2 Article 32 of Regulation (EC) 1260/1999 states that payments will be made to the 'Paying Authority' in the form of payments on account, interim payments and payment of the final balance.

7.1.3 Once the Commission has adopted the Operational Programme, a 'Commitment' will be made. On the occasion of a 'first Commitment', the Commission releases a *payment on account* of 7% of the total value of the assistance (for each fund) for the period (eg. 7% of the ERDF allocation of 503.509 Meuro under the Building Sustainable Prosperity programme: 35.25 Meuro = the payment on account).

7.1.4 After the release of this *payment on account*, all future payment requests will be on the basis of reimbursement of expenditure actually incurred and paid. To gather this information, the Managing Authority will extract details of eligible public and private expenditure at Project level from the Central Database. Implementing Bodies, will in turn, confirm to the Managing Authority that all relevant EU Regulations have been respected and payments have been actually made, as laid down in Commission Regulation (EC) 1685/2000, amended by 448/2004.

7.1.5 The Paying Authority will submit payment applications to the Commission on a regular basis, at least three times per calendar year and promptly disburse payments received. It also ensures that, in line with EU Regulations, the condition outlined in Article 32(2) of Council Regulation (EC) 1260/1999 to submit the first interim application to the Commission within 18 months of the decision to grant assistance, is met.

7.1.6 The combined total of payment on account and interim payments will not exceed 95% of the total Commission allocation for each Fund. Payment of the final balance will be subject to the conditions specified in Article 32(4) referred to above. In practice, this means the final balance will not be paid until after the Commission receives the final reports for the period 2000-2006, by 30 June 2009.

7.2 Requirements for other financial information:

7.2.1 When an application for an interim payment is presented to the Commission, it will be accompanied by a detailed statement of expenditure at Priority and Measure level. Conditions to be fulfilled before a statement is certified are detailed in Article 9 of Regulation (EC) 438/2001.

7.2.2 The Paying Authority will provide any additional information required on declared expenditure within a Measure outlined in Annex iv to Commission Regulation (EC) 438/2001. This detail will be transmitted to the Commission electronically within ten working days of the Commission request. Where records are not held in computerised form an alternate period for the provision of the required information may be agreed between the Paying Authority and the Commission.

7.2.3 By 30 April each year, the Paying Authority submits a forecast of payment applications for the current year and forecast for the following year (Article 32(7) Regulation (EU) No 1260/1999). The Paying Authority will advise the Implementing Bodies of the designated format of this exercise.

7.3 Irregularities

7.3.1 The Paying Authority shall seek regular updates from Implementation Bodies and keep an account of the amounts recoverable from payments of EU Funding and provide the Commission, via the Department of Trade and Industry, of ongoing developments within that area. The Paying Authority shall also oversee progress and ensure that amounts are recovered without undue delay. The Paying Authorities shall inform the Commission once a year, via the DTI, with a statement (as requested by Regulation (EC) 1681/94) of the amounts awaiting recovery at that date. This information will be classified by the year of the start of recovery proceedings.

7.4 Retention of Documents

7.4.1 The Managing Authority shall ensure that Implementing Bodies and project promoters are aware of the need to retain documentation relevant to expenditure declared on payments made for three years following the final payment by the Commission under an Operational Programme (ie if the final payment is made by the Commission in 2009, documents must be retained until 2013).

7.4.2 In the event of an audit visit, failure to retain such documentation could result in the expenditure being deemed ineligible and full recovery being required by the Commission.

7.4.3 Access to this documentation should be agreed with projects and the location of the documentation should be recorded and retained by the Implementing Body for the purposes of verification checks and to meet the requirements of the relevant Commission Regulation.

7.5 Guidance

- 7.5.1 Guidance on the detail of the requirements of the Paying Authority can be found in the '*Paying Authorities Operating Procedures Manual*' which will be regularly updated.

13. 8.NI FINANCIAL CONTROL

8.1 In accordance with Article 38(1)(a) and 38(1)(c) of the Structural Funds Council Regulation 1260/1999, the Member State will establish financial management and control arrangements in such a way as to ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all the applicable Community rules and in accordance with the principles of sound financial management.

8.2 In Northern Ireland, the treatment of Structural Funds expenditure is based on the principle that receipts from the Commission should be managed, disbursed and monitored in exactly the same way as Northern Ireland public expenditure. The basic principles of the UK Government Accounting apply to these receipts, the most important being:-

- Parliamentary/Assembly Scrutiny and Accountability;
- the identification of an Accounting Officer responsible for the funds under his or her control; and
- a statutory basis for all expenditure, whether National or EC source.

8.3 Detailed provisions for handling transactions are contained in the procedural guide "Government Accounting Northern Ireland" (GANI): DFP has produced a Structural Funds Manual which sets out the main aspects of UK Structural Funds administration so there is consistency of treatment both within and between Departments and other implementing bodies.

8.4 Audit trail and financial flow

8.4.1 An indicative description of information requirements for a sufficient audit trail is provided in Article 7 and Annex 1 to Commission Regulation (EC) 438/2001. The relevant Fund Paying Authority shall ensure that these requirements are brought to the attention of the Implementing Bodies to assist with accurate completion of expenditure declarations, in particular the audit trail will be required to:

- allow a reconciliation of the summary accounts certified to the Paying Authorities with the individual expenditure records and supporting documentation held by Implementing Bodies.
- clearly show the allocation and transfer of Community Funds as they pass through the relevant accounts.

8.4.2 Flow charts (Annex 1) identify the management and financial flows, processes and checks carried out that will provide assurance that EC funds are used within a sound financial management system.

8.5 Payments to Projects and claims to Paying Authority

BSP

8.5.1 PAYMENTS MADE UNDER BSP WILL BE PROCESSED VIA DEPARTMENTAL ACCOUNTING SYSTEMS WITH DETAILS RECORDED ON THE CENTRAL DATABASE. THE MANAGING AUTHORITY WILL EXTRACT PAYMENT INFORMATION FROM THE CENTRAL DATABASE. DETAILS OF CLAIMS MUST BE CERTIFIED BY BOTH THE DAY TO DAY MANAGEMENT AND THE FINANCE SECTION WITHIN THE DEPARTMENT. THE PAYING AUTHORITY WILL CARRY OUT A % CHECK OF CLAIM DETAILS AGAINST THE DATABASE.

PEACE II

8.5.2 The Central Database is updated regularly by all Implementing Bodies with details of expenditure claimed by Projects, whether they are processing payments through the CPU or not. Those Bodies not processing payments through the CPU must send the same paperwork to the CPU marked as a 'Do Not Pay'; the transaction and therefore the details of the actual payment made to the Project is captured.

8.5.3 Only when the CPU updates the Central Database for the Programme with the payment details/'Do Not Pay' information, and an appropriate match is found on the database which has been input by the Implementing Body, will the payment become eligible to be treated as expenditure as part of a claim to the Paying Authority. The Implementing Bodies therefore report expenditure to both the Central Database and the CPU at the SEUPB.

SEUPB requires Implementing Bodies to complete verification statements of assurance that the expenditure recorded as eligible on the Central Database, following a matching exercise with the CPU records, meets with all assurances required prior to a claim being processed through to the Paying Authority.

14. 9.CHECKS REQUIRED UNDER COMMISSION REGULATION (EC) 438/2001

9.1 In addition to the normal system controls carried out by Implementing Bodies on project applications, appraisals and claims processing, the Managing Authorities have also delegated to them the task of performing checks required under Article 4 and Article 10. The checks will go to the level where verification of expenditure can be made from examination of original documentation.

9.2 Article 4 checks

9.2.1 In accordance with Commission Regulation (EC) 438/2001, Article 4 Implementing Bodies, ie those who issue Letters of Offer, will have in place procedures to verify the delivery of the products and services co-financed by EU funds.

9.2.3 They will put in place checks to ensure that a claim is eligible, accurate and complies with national and community rules, in particular public procurement, environment equality of opportunity and state aid rules.

9.2.4 In addition, they will visit all projects at least once and using a sample selection of payments; confirm that expenditure has been incurred in accordance with the Letter of Offer. Any discrepancies will be recorded and appropriate action taken. Final reports will be forwarded for information to the relevant project and to the team responsible for the Article 10 check.

9.2.5 A checklist will be used to ensure consistency across the two programmes.

9.3 Article 10 checks

9.3.1 Commission Regulation EC 438/01 Article 10 requires independent verification checks on the effectiveness of the management and control systems. The responsibility for ensuring the minimum 5% verification check of total eligible expenditure across the Programmes in accordance with Commission Regulation 438/2001 rests with the Managing Authority.

9.3.2 The Managing Authorities have delegated this task to the Accountable Departments. Arrangements for the minimum 5% verification of eligible expenditure at project level can vary within Accountable Departments, however each of the following will be functionally independent of day-to-day management of the project and the Article 4 check:

- Internal Audit Units;

- Departmental verification/inspection teams.
- External Consultants

9.3.3 The checks will be carried out retrospectively. To ensure an even spread of checks over the programme period, expenditure claims for each year on year will be confirmed before a risk assessment is carried out. There will be an appropriate mix of types and sizes and the main intermediary body/final beneficiary will be checked at least once before the winding up of the programme.

9.3.4 As well as examining original financial documentation, the 5% check will include examination of how the project is being managed as a whole and in particular for compliance with all the conditions of the letter of offer, the application and effectiveness of the management and control systems and the presence of an adequate audit trail.

9.3.5 A checklist will be used to ensure common methodology and consistency of operation across the two programmes

9.3.6 Final reports will be forwarded for information to the relevant Implementing Body, Paying Authority and Managing Authority.

9.3.7 The Managing Authorities will, on an annual basis, monitor the level of checks carried out against target.

9.4 Article 13

Article 13 of Commission Regulation 438/2001 requires a report on control work, Article 4, 10 and systems audits, carried out in the previous year, to meet the Commission deadline of 30th June each year.

9.5 Article 15

9.4.1 Article 15 of Commission Regulation 438/2001 requires an independent statement to accompany the final declaration of expenditure. For the two multi-funded programmes an individual final claim and final declaration of expenditure will be prepared for each fund in line with the allocated Paying Authority. (Allocated responsibility detailed below)

	PAYING AUTHORITY RESPONSIBLE FOR SIGNING AND SUBMITTING FINAL CLAIM	INDEPENDENT BODY SIGNING THE ARTICLE 8 FINAL DECLARATION
ERDF	Department of Finance and Personnel	Head of Internal Audit Department of Finance and Personnel
ESF	Department for Employment and Learning	Head of Internal Audit Department for Employment and Learning
EAGGF	Department of Agriculture and Rural Development	Head of Internal Audit Department of Agriculture and Rural Development
FIFG	Department of Agriculture and Rural Development	Head of Internal Audit Department of Agriculture and Rural Development

- 9.4.2 The lead signatories for the final declarations will base their conclusions on subsidiary declarations from Heads of Internal Audit of other Departments that administer the fund. To ensure consistency in approach DFP will provide guidelines on audit methodologies for the preparation of closure statements.
- 9.4.3 The Head of Financial Management within the DFP European Division will be the central contact point for the Commission on finance and audit issues.

9.5 Audit (External and Internal)

- 9.5.1 A feature of public sector financial management and control is the obligatory requirement to submit all public expenditure operations to periodic audits. This covers both the financial systems in operation and an annual audit of specific payments made by the Member State.

The Northern Ireland Audit Office (NIAO)

- 9.5.2 Under the Audit (NI) Order 1987 the NIAO carry out examinations of economy, efficiency and effectiveness of any NI Government Department or public body supported by public funds.
- 9.5.3 Financial audit work is conducted in accordance with the Statements of Auditing Standards issued by the Auditing Practices Board. In addition to providing the UK Parliament and Northern Ireland Assembly (when sitting) with reasonable assurance that the financial accounts audited

are true and fair they provide advice to improve financial management, control and reporting arrangements.

Internal Audit

9.5.4 Each Accounting Officer is charged with making arrangements for internal audit services to provide assurances on the adequacy, reliability and effectiveness of the organisation's risk management control and governance processes. All Government departments and SEUPB have these arrangements in place.

9.5.5 The Heads of Internal Audit (HIA) will determine the areas for review by an assessment of risk by executive management in conjunction with the HIA, all systems which have an EU element will be subject to a review at least once within the life time of the programme.

Commission Audits

9.5.6 From time to time audit reviews will be carried out by the European Commission auditors. The Commission will give notice with the view to detailing all the assistance necessary.

10. APPLICATION AND CLAIM PROCESS

10.1 This section sets out, for both the Application and Claims process, the minimum checks required before approval or payment. It is for Implementing Body to determine the order in which checks are undertaken.

10.2 Application Process

10.2.1 Department/IFB/LSP will undertake a 100% check of all applications. The records will identify if applications meet the criteria specified below (if appropriate).

- Use of correct form
- Need for grant is clear in terms of additionality
- Project description fits within Measure
- Sponsor organisation is eligible
- Project start/completion dates are eligible
- Physical outputs/project impacts are eligible
- Intermediate results/project outputs are eligible
- Project costs are eligible
- In-kind contribution is correctly assessed and presented
- Co-finance is approved
- Private sector contribution is correctly assessed and presented
- Planning permission has been obtained
- Public procurement requirements are met
- Project meets State Aids requirements
- Project addresses Equal Opportunities requirements
- Project addresses Sustainable Development requirements
- Publicity requirements are properly addressed
- Application is certified by correctly appointed officer
- Project addresses Equal Opportunities requirements
- Project addresses Sustainable Development requirements
- Application is certified by correctly appointed officer

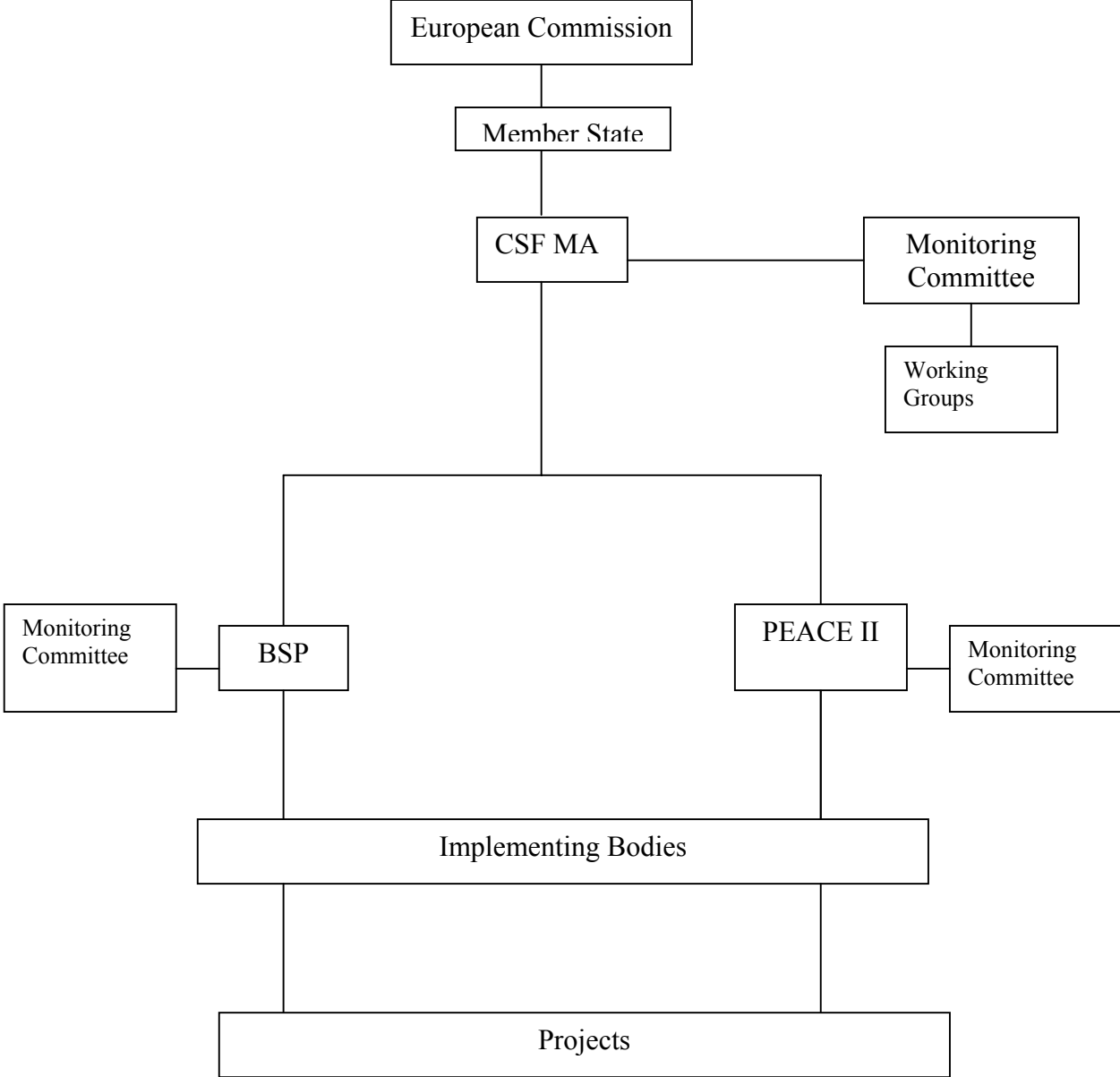
10.3 Claims Process

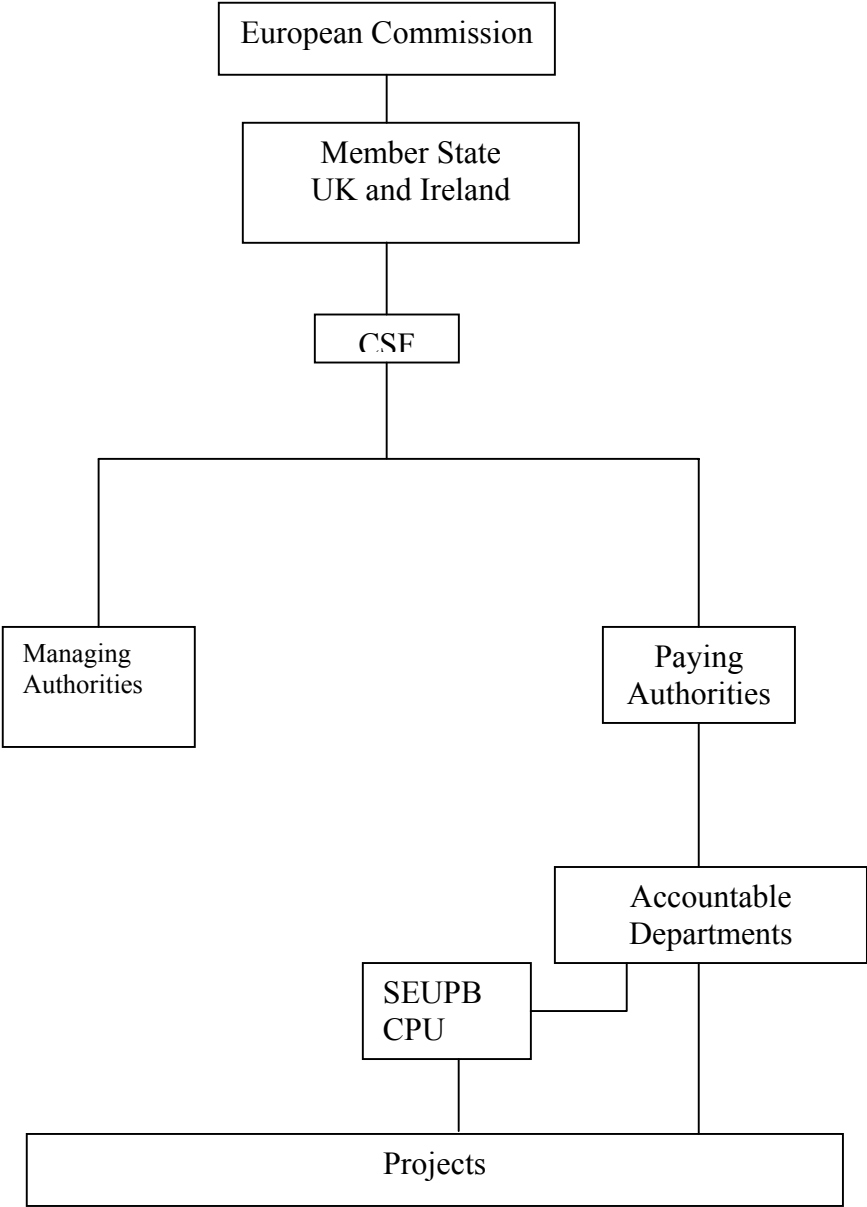
10.3.1 Departments/IFB/LSP will check 100% of all claims. The records will identify if claims meet the criteria specified below.

- Correct form used
- Period of claim is in order
- If final claim, have audit requirements been met?
- Expenditure incurred is on eligible items which match those specified on the Letter of Offer.
- Financial progress report in order
- Match funding in order

- Publicity section in order
- Public procurement compliance in order
- State Aids compliance in order
- Claimant signatory in order
- Implementing Body Management and Finance signatories are in order
- Claim certification in order
- Properly authorised.

ANNEX 1





Application and Assessment Process

Applicant	Implementing Bodies
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- Selects measure
- Completes Part A of 2^{part} application form.
- Unique reference number allocated.
- Part B downloaded, completed and signed before sending it to Implementing Body.

- Match Part A and Part B of application forms.
- Check for completeness.
- Sifted for eligibility i.e. meet the measure criteria, address Horizontal Principles,
- meet distinctiveness criteria

Assessment Panel

- Assessment panel of at least 3 people
- to include an external representative to the implementing body
 - Be independent of those who may assist in developing the projects
 - A scoring frame is used

Successful

Unsuccessful
Rejection letter issued

Review process made up of 3 people not involved in original project.

Successful

Unsuccessful

Standard Letter of Offer issued

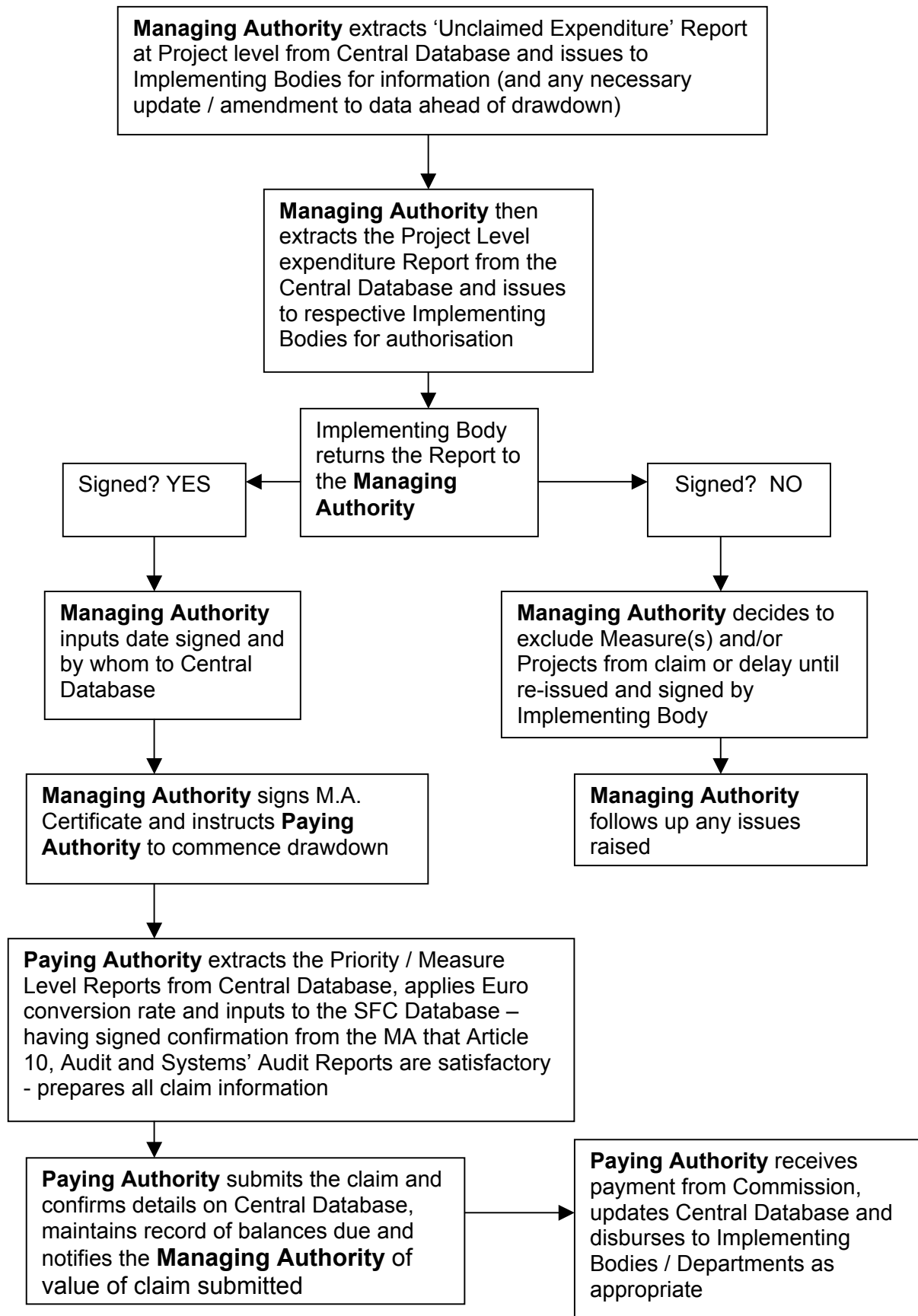
Applicant accepts conditions of Letter of Offer and returns signed copy within 1 month.

Acceptance details updated on central database.

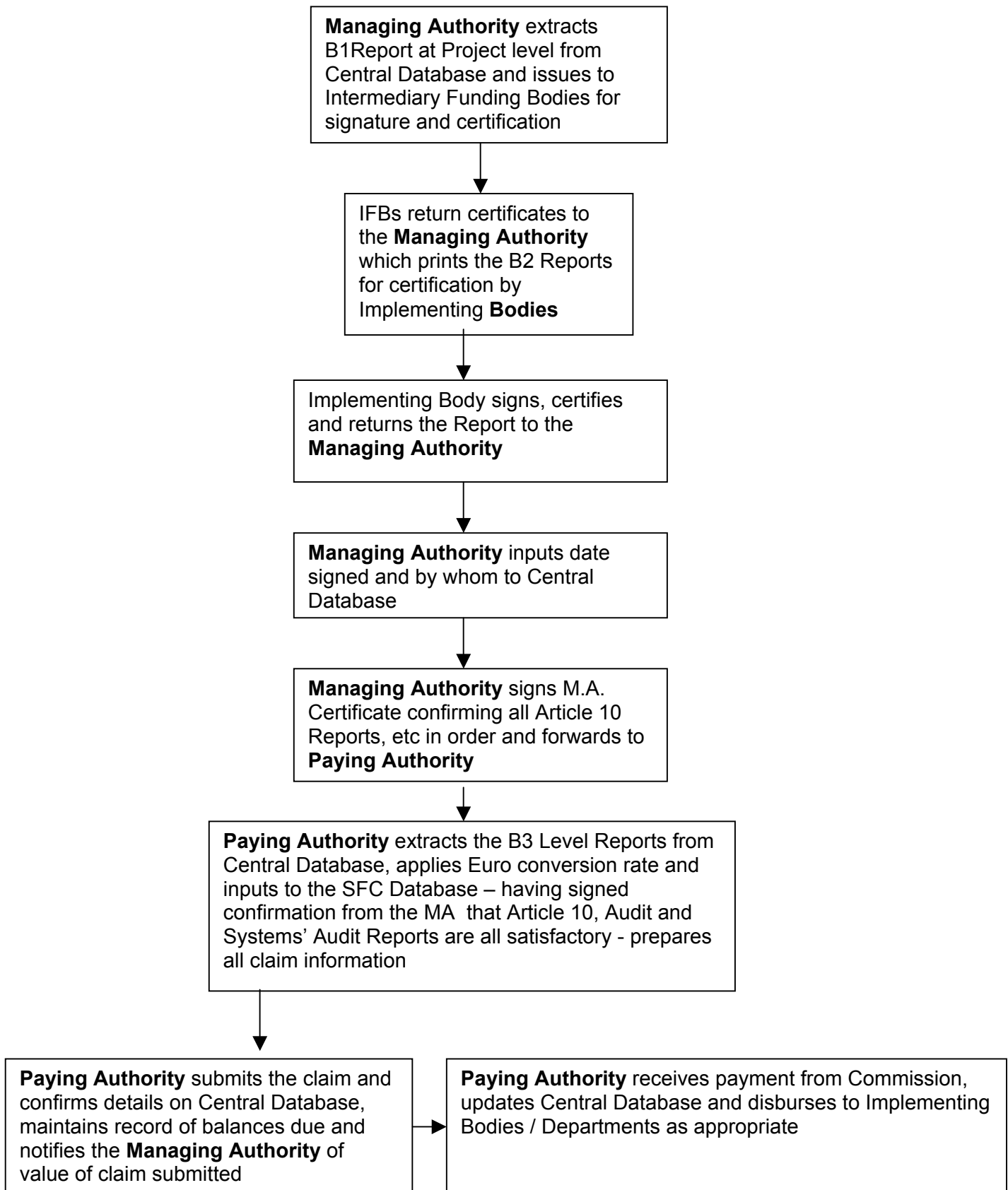
Rejection letter issued *

*For PEACE II projects applicants can request a 2nd review to be carried out by the SEUPB

ANNEX 1.4
REVISED - AUTOMATED DRAWDOWN PROCEDURES FOR
BUILDING SUSTAINABILITY PROGRAMME (BSP)



ANNEX 1.4 AUTOMATED DRAWDOWN PROCEDURES FOR PEACE II



Implementing Department	<u>Paying Authority</u>	Commission
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Claim Received.



Checked for eligibility of payment.



Payment request form prepared.
Details recorded on central database.



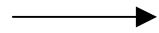
Payment form and database checked and authorised.



Processed by Implementing Department Finance Branch.



Payment to project.

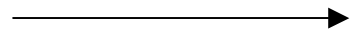


Details of expenditure prepared.

Checked and declaration of compliance with 438/01 9.2 (b) is completed.

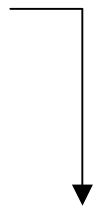


Actual expenditure confirmed by Finance Branch.
Declaration completed.



Requests details of actual expenditure incurred by projects from Implementing Departments at least 3 times a year.

Payment details % check against database.
Collate and complete payment request form to Commission.

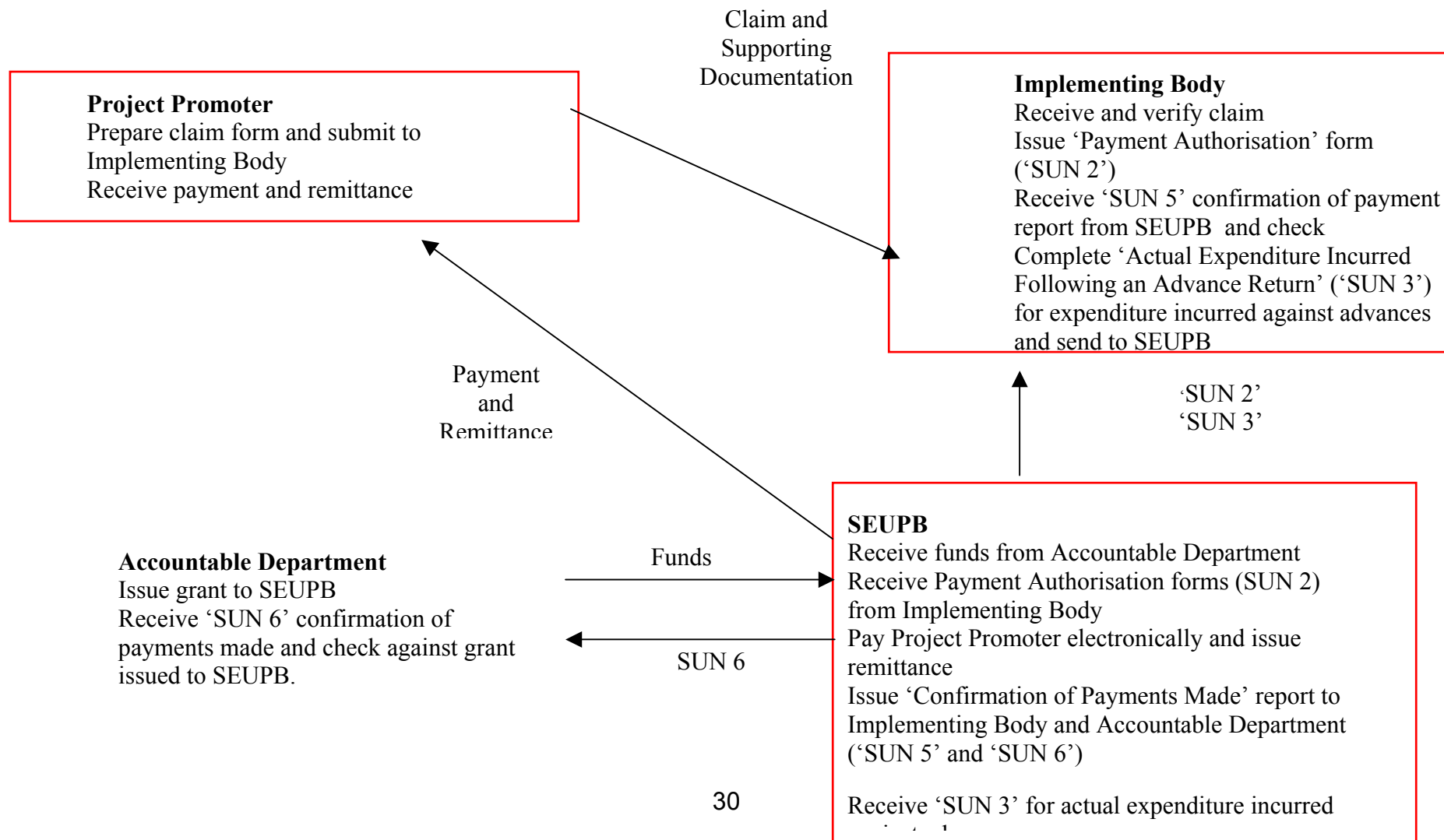


Disbursed to Implementing Departments

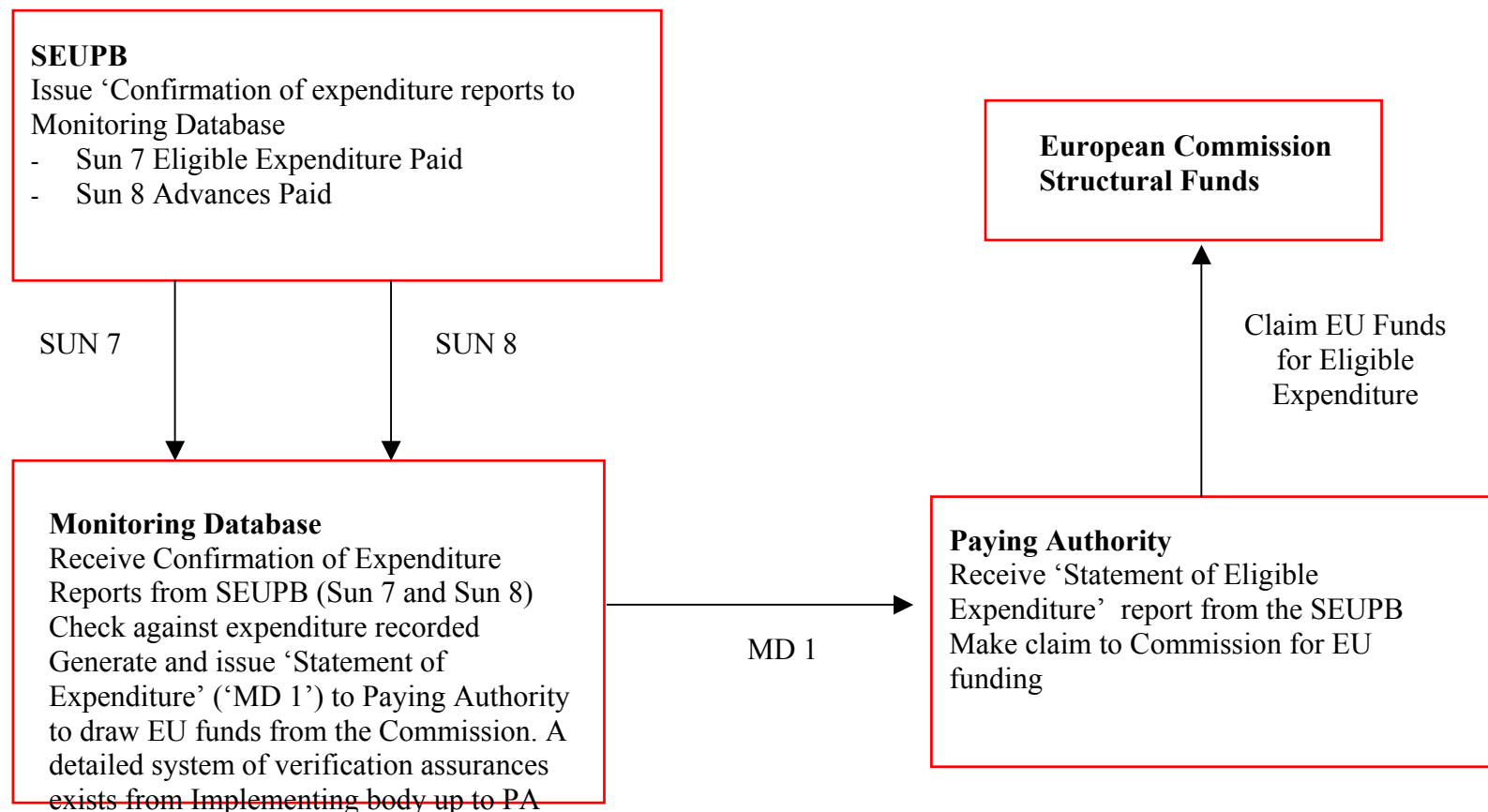
Payment received

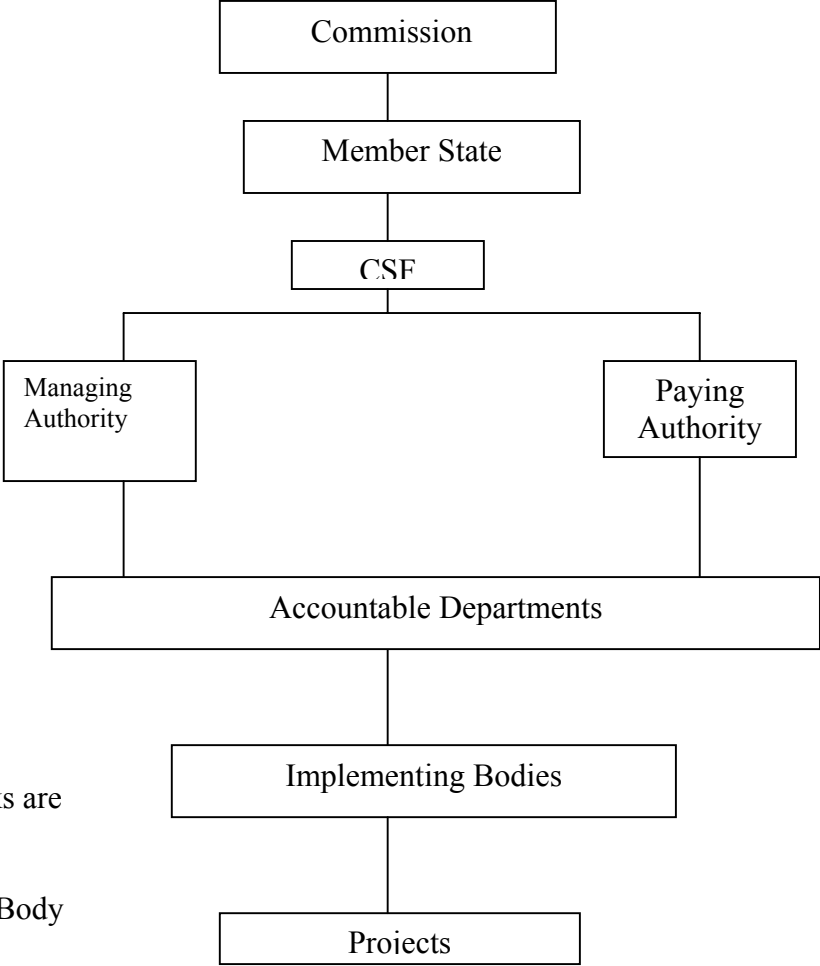
Process claim

PEACE 11 Issue of and Payments to Projects



PEACE 11 Reporting and Making Claims to EU Commission





System reviews at all levels carried out by Internal Audit Units

Article 10 checks carried out by Accountable Departments dedicated verification teams/Internal Audit Units

Article 4 checks are carried out on projects by the Implementing Body