

EC FINANCIAL CONTROL REGULATION No 438/2001

ARTICLE 13: REPORT FOR 2004

COUNTRY: NORTHERN IRELAND

PROGRAMMES: BUILDING SUSTAINABLE PROSPERITY AND PEACE II

FUNDS: FINANCIAL INSTRUMENT FOR FISHERIES GUIDANCE

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) and the Programme for Peace and Reconciliation in Northern Ireland and the Border Counties of Ireland (Peace II) - reporting on the Northern Ireland element only - and concentrates on the Fund FIFG.

The Managing Authorities are Department of Finance and Personnel (BSP) and the Special European Union Programmes Body – SEUPB for Peace II with the Department of Agriculture and Rural Development (DARD) acting as the Fund Paying Authority for both Programmes.

This report has been prepared by the European Division, Department of Finance and Personnel on behalf of both Managing Authorities and is drawn from information held on the Commission's SFC Database and provided by Finance Branch and Departmental Internal Audit Branch in DARD.

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

Building Sustainable Prosperity €

Community	National	Private	Revenue	Total
8,793,277	2,602,626	1,361,191	0	12,757,094

Peace II (Northern Ireland element only) €

Community	National	Private	Revenue	Total
166,251	55,417	0	0	221,668

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 by correspondence is attached to this Report.

3. CHANGES TO THE AUDIT STRATEGY

No changes were made to the Audit Strategy

4. SYSTEMS AUDITS

Staff in the Internal Audit Branch (IAB) of DARD are qualified to the standards required by UK Treasury and carried out systems audits during 2004. This Branch is functionally and financially independent of the Managing Authority and Paying Authority and all Implementing Bodies.

Audits carried out during 2004 are detailed below:

Date of audit Report	Name of Body / Project visited	Report Reference Number	Date Report provided to the Commission
09/04/2004	Fisheries Division DARD (BSP Measure 4.13)	EU 3/2003-2004	July 2004
09/04/2004	Fisheries Division DARD (Peace II Measure 5.7)	EU 4/2003-2004	July 2004
06/05/2004	Northern Ireland Fisheries Harbour Authority (BSP Measure 4.13F)	EU16/2003-2004	July 2004
15/10/2004	Paying Authority Review	EU15/2003-2004	January 2005
29/09/2004	European Policy Branch	EU1/2004-2005	January 2005

All Structural Fund Measure / Community Initiatives are reviewed annually and audit visits selected on the basis of risk assessment and in conjunction with the notified Audit Strategy.

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

Name of Body / Project audited	Report Reference Number	Sufficient assurance ? Yes / No	If 'No' give details
Fisheries Division (BSP 4.13)	EU 3/2003-2004	Generally satisfied	
Fisheries Division (Peace II 5.7)	EU 4/2003-2004	Partially satisfied	
N.I. Fisheries Harbour Authority (BSP 4.13F)	EU 16/2003-2004	Generally satisfied	
Paying Authority review ****	EU 15/2003-2004	No unacceptable	<p>Non-implementation of previous recommendations, including:</p> <ul style="list-style-type: none"> Reconciliation of n+2 reports Statement of Assurance Structural Fund debt mangement Claim documentation Audit trail document Euro calculation Internal issues – separation of duties, timing of claims, roles and responsibilities, procedures and staff instructions Reconciliations and follow up of variances between claims and receipts. Internal data storage and information / communication management

European Policy Branch DARD	EU 1/2004-2005	Satisfactory	
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No financial consequences / amounts ordered to be recovered

All Structural Fund reviews are performed on an annual basis and the final audit reports are accompanied by an implementation plan detailing agreed action and implementation dates. Previous audit recommendations are physically followed up to ensure effective implementation of recommendations.

**** Since the Paying Authority review was carried out (mid 2004) the Structural Funds Database has been further developed to facilitate production of electronic payment applications – in January 2005 independent consultants were tasked with reviewing processes and procedures. Individual issues with regard to FIG will be pursued during 2005 to bring to conclusion. The outcome of both these actions will be provided in the 2005 Article 13 Report.

5. SAMPLE CHECKS ON EXPENDITURE

The EU Verification Unit – based on DARD Headquarters – carries out the 5% sample checks on expenditure. Details of the value of expenditure checked (in National currency - £ Sterling) by Programme are set out below:

Building Sustainable Prosperity

Year	Total Eligible Expenditure £ Sterling	Amount of total eligible expenditure checked	% of total eligible expenditure checked	Cumulative total of eligible expenditure checked 2000 – 2004 (%)
2000	0			-
2001	0			-
2002	4,052,784	522,876	12.9	12.9
2003	332,923	43,525	13.1	12.91
2004	8,942,723	NIL	NIL	4.24

Peace II

Year	Total Eligible Expenditure £ Sterling	Amount of total eligible expenditure checked	% of total eligible expenditure checked	Cumulative total of eligible expenditure checked 2000 – 2004 (%)
2000	0			
2001	4,489	224	4.99	4.99
2002	71,114	3,556	5.0	4.99
2003	413,631	20,682	5.0	5.0
2004	155,389	7,769	4.99	5.0

A summary of visits carried out is set out below:

<i>Number of visits</i>	<i>Total amount checked (£ Sterling)</i>	<i>Amount as % of total eligible expenditure (£) declared for 2004</i>
BSP - 5 visits	566,401	4.24
Peace II – 1 visit	32,231	5.0

The above projects were selected based on a risk assessment taking account of a number of factors including the level of eligible expenditure, number and type of projects approved, type of Implementing Body and final recipients. Each factor is weighted to reflect the degree of risk as shown below:

Level of expenditure (weighting = 4)

Number of projects approved (weighting = 3)

Type of projects being funded (weighting = 3)

Type of Implementing Body (weighting = 2)

Type of final recipient (weighting = 2)

After a risk assessment score has been calculated, consideration is also given to information provided by other bodies carrying out inspections – Article 4 reports, Internal Audit findings, results from fraud investigations and any Commission findings.

Projects within Measures are then selected to ensure an appropriate mix of size and type in accordance with the requirements of Article 10 (3).

The risk analysis is updated at the end of March each year – taking account of the level of expenditure declared and other factors as outlined.

The principal results of the checks are outlined in Section 4 above. There were no irregularities uncovered, therefore no amount of irregular expenditure reported.

The Head of Internal Audit (HIA) has confirmed that management and control systems are sufficiently effective as to provide reasonable assurance on their compliance with requirements.

No new irregularities have been reported during 2004.

Follow up on previous irregularities:

NI Single Programme project F S Trading – amount £45,771.72

Company ceased trading 31.8.1999 Repayments were made up to September 2004. An offer of 0.26 per £1.00 has been made for the remainder of the debt. Correspondence to OLAF will follow.

No major problems uncovered that would indicate systemic errors.

6. FOLLOW UP OF PREVIOUS YEARS' AUDIT ACTIVITY

All Structural Fund reviews are performed on an annual basis with previous audit recommendations followed up to ensure effective implementation.

7. CONCLUSION

Audit activity during the year 2004 was in conformity with the audit strategy presented to the Commission.

The Head of Internal Audit (HIA) in the Department responsible for control activities for FIG has provided reasonable assurance that in all material aspects the Department of Agriculture and Rural Development (DARD) has prepared and put into operation management and control systems in compliance with Council Regulation 1260/1999 and Commission Regulation 438/2001. Some weaknesses identified in relation to Article 4 checks were brought to the attention of management and follow up audits were conducted to ensure the recommendations made have been implemented. In addition, the HIA obtains copies of Article 10 plans and reports – following visits – and is satisfied that these also provide reasonable assurance. Overall, the Internal Audit examination of controls has revealed a low level of errors and any detected have been addressed in conjunction with management.

Department of Finance and Personnel

June 2005

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:-

¹ Separate arrangements exist for Border Region of Ireland

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.

1.3.6 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).

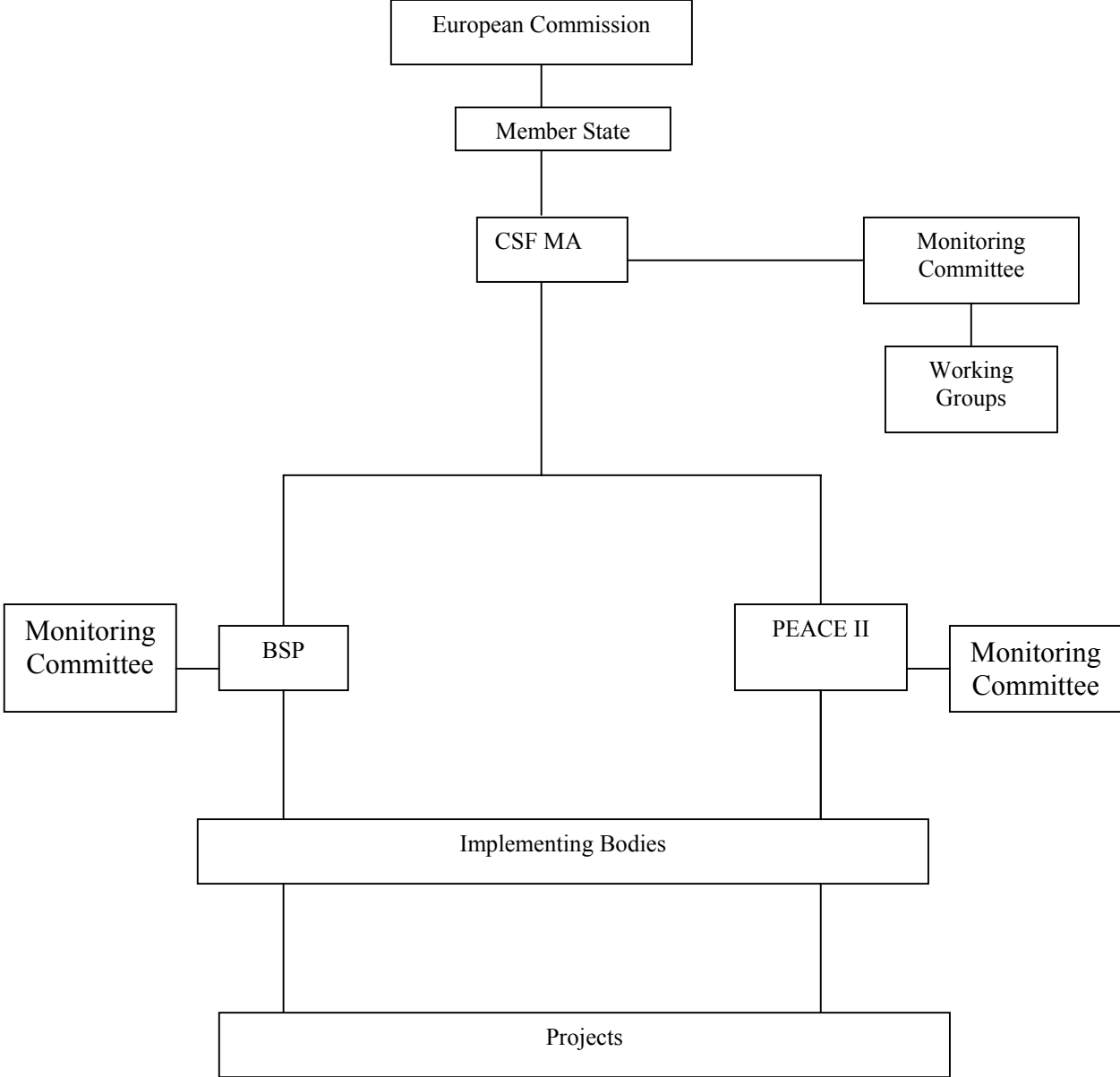
- Use of correct form
- Need for grant is clear in terms of additionality
- Project description fits within Measure
- Sponsor organisation is eligible
- Project start/completion dates are eligible
- Physical outputs/project impacts are eligible
- Intermediate results/project outputs are eligible
- Project 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

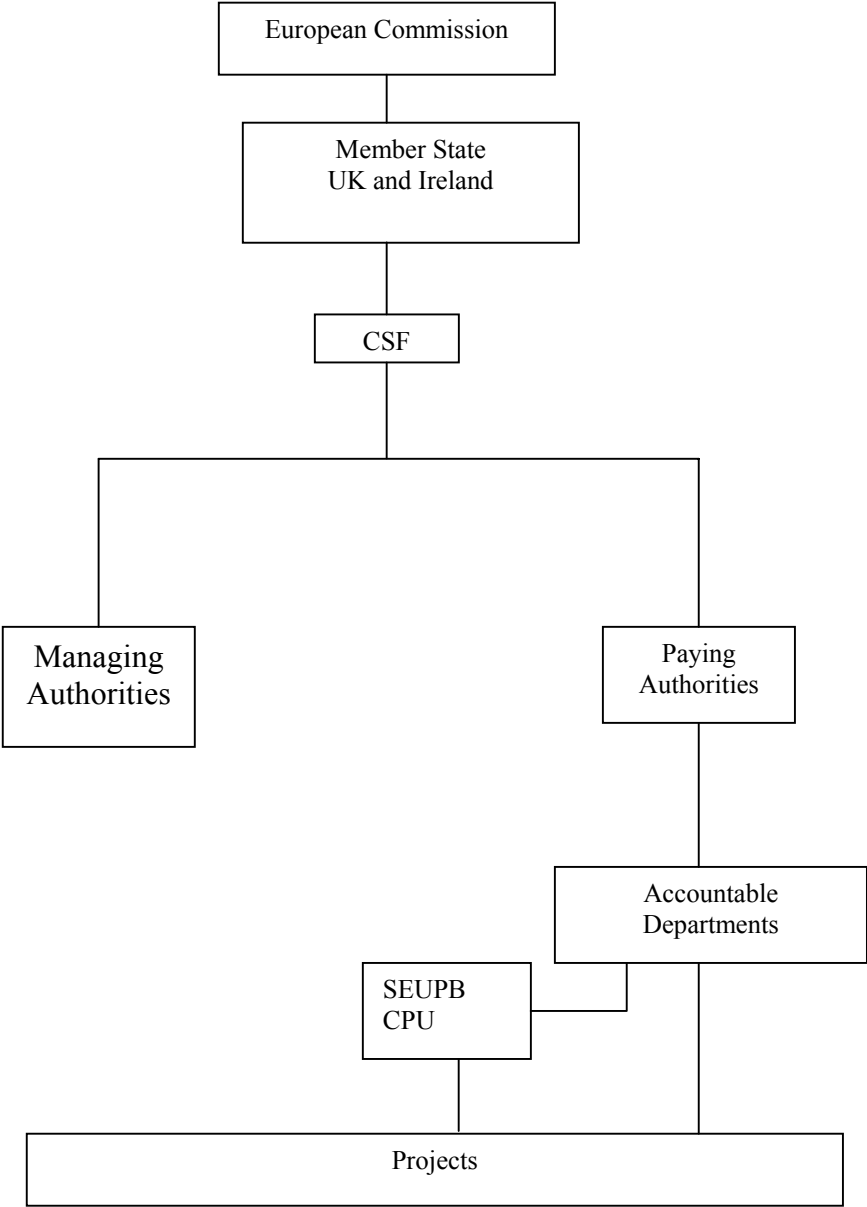
10.3 Claims Process

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

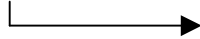




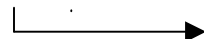
Application and Assessment Process

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.

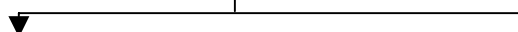


- Match Part A and Part B of application forms.
- Check for completeness.
- Sifted for eligibility i.e. meet the measure criteria,
- address Horizontal Principles,
- meet distinctiveness criteria



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



Standard Letter of Offer issued

Unsuccessful

Rejection letter issued



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



Successful

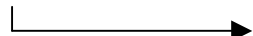
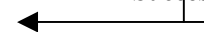
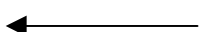


Unsuccessful



Rejection letter issued *

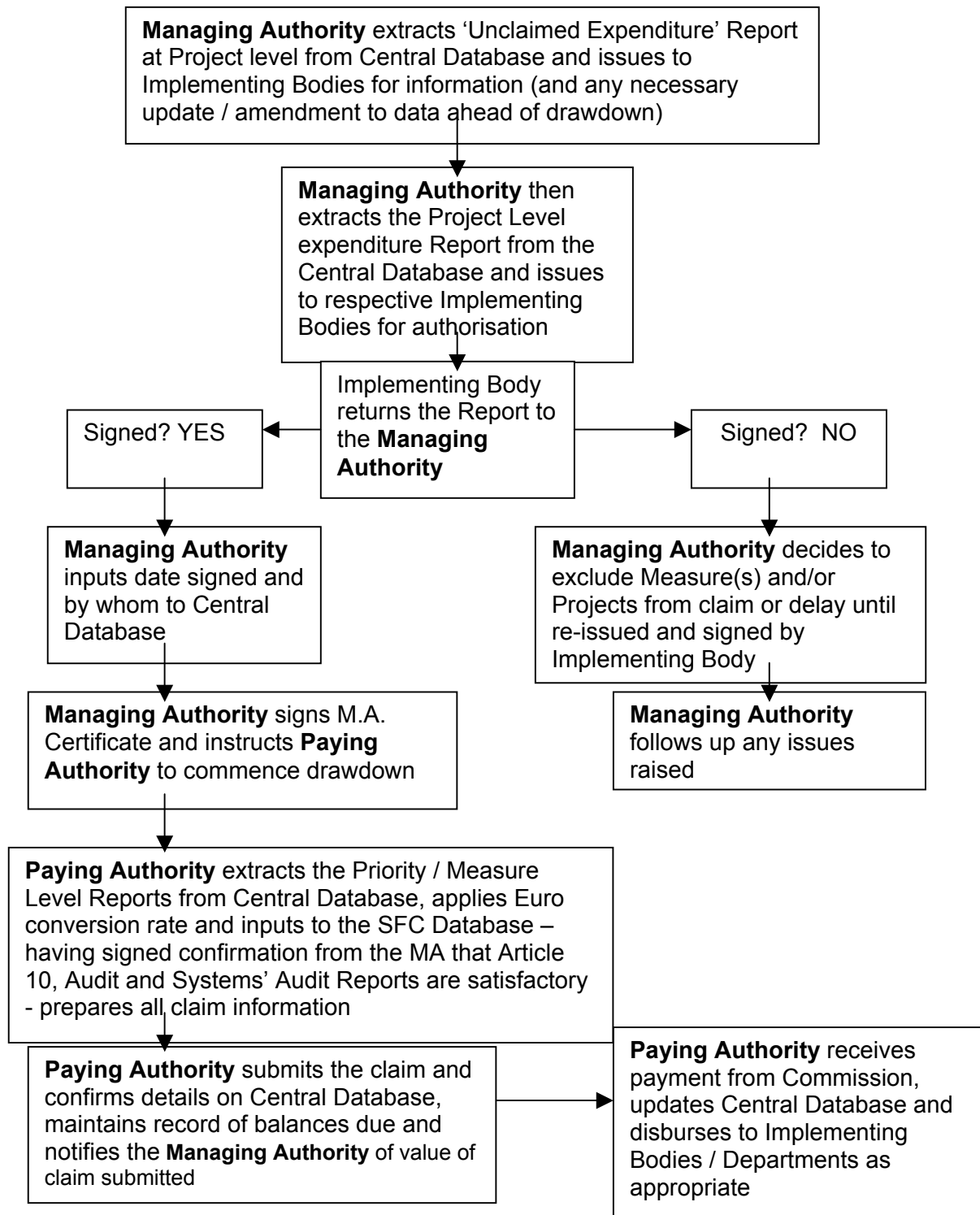
Applicant accepts conditions of Letter of Offer and returns signed copy within 1 month.



Acceptance details updated on central database.

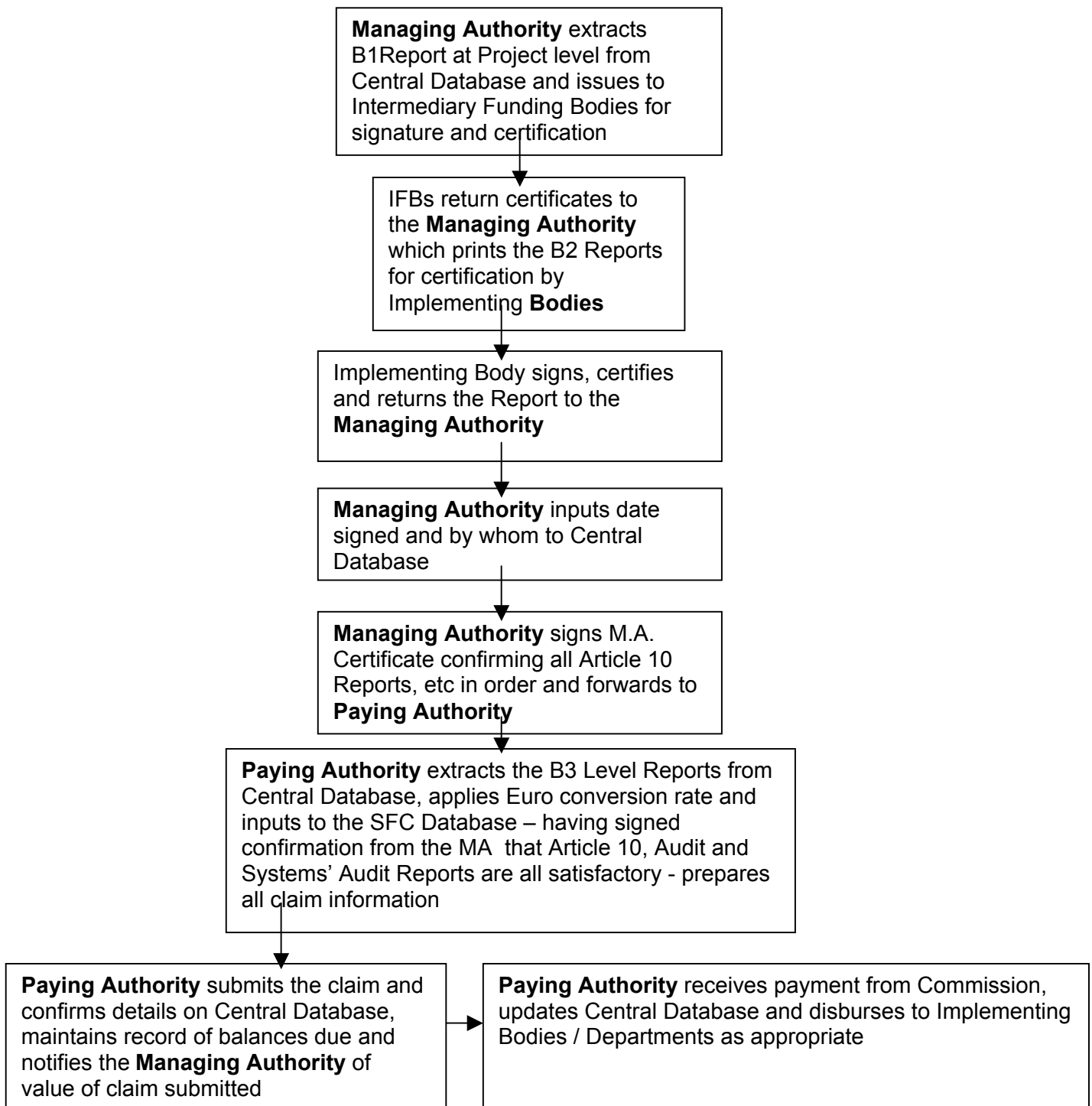
*For PEACE II projects applicants can request a 2nd review to be carried out by the SEUPB

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



ANNEX 1.4

AUTOMATED DRAWDOWN PROCEDURES FOR PEACE II



Implementing Department	Paying Authority	Commission
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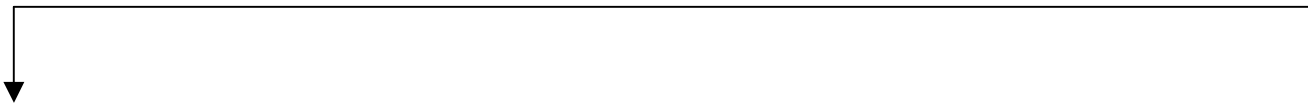
Claim Received.



Checked for eligibility of payment.



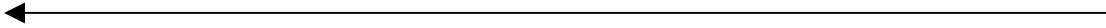
Payment request form prepared. Details recorded on central database. → Payment form and database checked and authorised. → Processed by Implementing Department Finance Branch. → Payment to project.



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

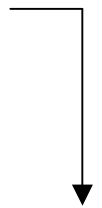
Details of expenditure prepared. → Checked and declaration of compliance with 438/01 9.2 (b) is completed. → Actual expenditure confirmed by Finance Branch. Declaration completed. →

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



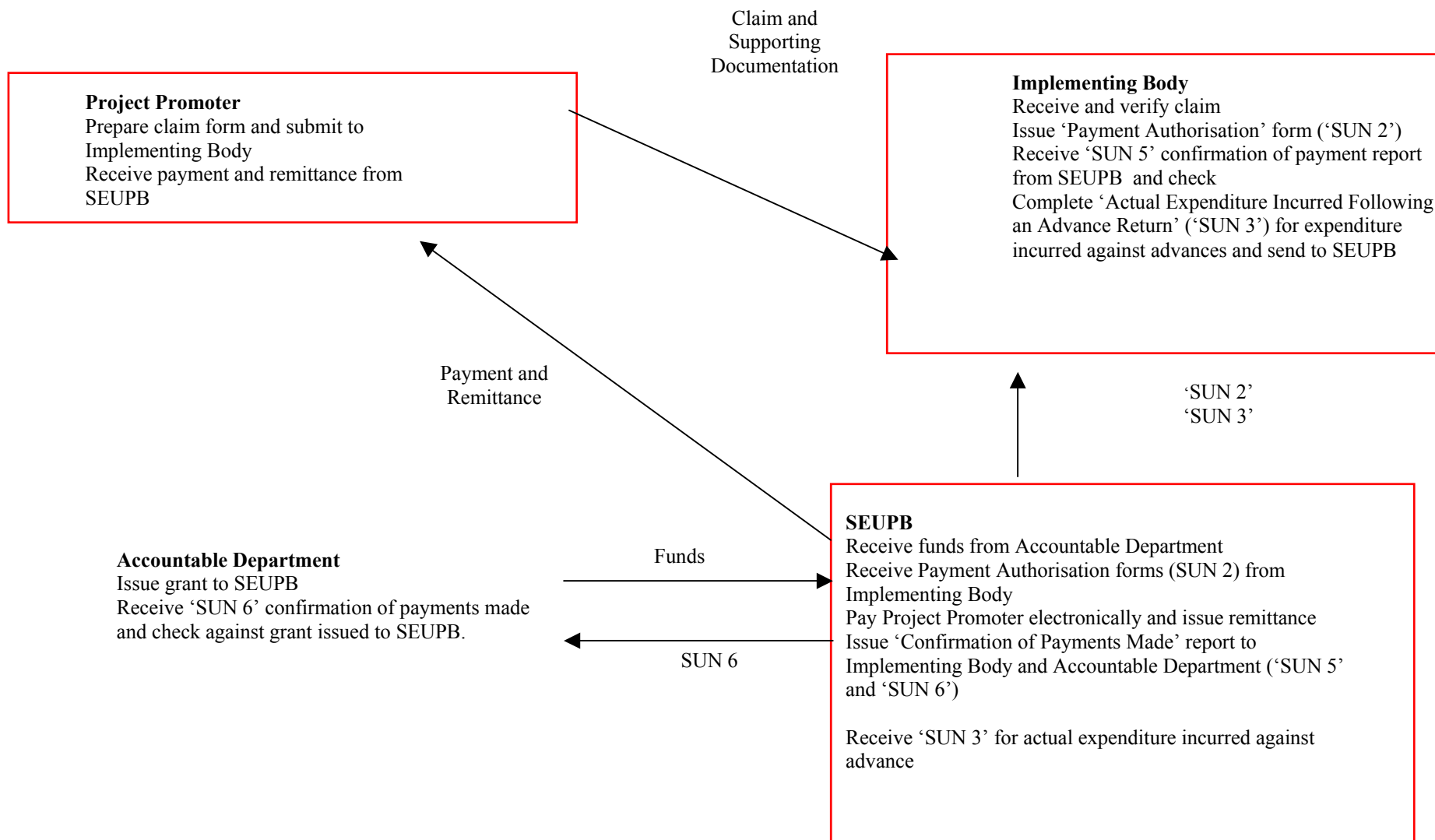
Disbursed to Implementing Departments

Payment received ←



Process claim

PEACE 11 Issue of and Payments to Projects



PEACE 11 Reporting and Making Claims to EU Commission

