



## EC FINANCIAL CONTROL REGULATION No 438/2001

**ARTICLE 13: REPORT FOR 2005**

**COUNTRY: NORTHERN IRELAND**

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

**FUND: EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE 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 2005 calendar year this relates to the Programme for Building Sustainable Prosperity (BSP) 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 the Leader+ Community Initiative. It concentrates on the Fund EAGGF.

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

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 DARD Finance and Departmental Internal Audit Branches.

The expenditure declared to the Commission in respect 2005 for EAGGF is shown below. In some cases the value of expenditure declared during 2005 may be higher due to the inclusion of expenditure in respect of earlier years.

#### **Building Sustainable Prosperity** €

Community	National	Private	Revenue	Total
11,746,614	6,666,301	14,788,612	0	33,201,527

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**Peace II (Northern Ireland element only)**

€

Community	National	Private	Revenue	Total
5,758,448	1,919,486	0	0	7,677,934

**Leader+ Community Initiative**

€

Community	National	Private	Revenue	Total
2,352,402	2,352,404	4,338,631	0	9,043,437

**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 30<sup>th</sup> 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.

**3. CHANGES TO THE AUDIT STRATEGY**

BSP Measure 4.3 closed with no audit conducted.

**4. SYSTEMS AUDITS**

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

Audits carried out during 2005 in respect of BSP, Peace II and Leader+ are detailed separately below:

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## Building Sustainable Prosperity (BSP)

<b>Date of audit Report</b>	<b>Name of Body / Project visited</b>	<b>Report Reference Number</b>	<b>Date Report provided to the Commission</b>
03/03/05	Service Delivery Group Supply Chain Development BSP measure 4.5	EU 2/2004-2005	25/10/05
03/08/05	Service Delivery Group's BSP Measure 4.1	EU 3/2004-2005	25/10/05
03/03/05	Service Delivery Group Supply Chain Development BSP measure 4.2	EU 4/2004-2005	25/10/05
05/07/05	Rural Development Division BSP Measures 4.4, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11& 4.12	EU 5/2004-2005	25/10/05
12/08/2005	Rural Development Council BSP Measures 4.6, 4.7, 4.9, 4.10, 4.11	EU17/2004/2005	25/10/05
11/01/06	Rural Community Network delivery of BSP measure 4.7	EU 12/2004/05	16/3/06
27/06/05	Follow-up review of Structural Funds Paying Authority	EU15/2004/2005	25/10/05
07/09/05	Review of Verification Unit	EU 16-2004/2005	25/10/05

## Peace II

<b>Date of audit Report</b>	<b>Name of Body / Project visited</b>	<b>Report Reference Number</b>	<b>Date Report provided to the Commission</b>
03/01/06	Rural Development Division Peace II Measures 1.2b, 1.6, 1.7a, 1.9, 4.2b, 5.6b and 6.2a	EU 6/2004-05	16/3/06
25/10/2005	Rural Development Peace Branch Investigation Peace II Measure 1.7a	EU 14/2004-05	16/3/06
12/08/05	Rural Development Council Peace II Measures 1.7b, 1.10a, 1.10b, 2.9b, 2.10	18/2004/2005	25/10/05

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## Leader+

Date of audit Report	Name of Body / Project visited	Report Reference Number	Date Report provided to the Commission
1/11/05	Rural Development Division LEADER+ Programme	EU7/2004/2005	16/3/06
27/06/05	Follow-up review of Structural Funds Paying Authority	EU15/2004/2005	25/10/05
07/09/05	Review of Verification Unit	EU 16-2004/2005	25/10/05

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:

### Building Sustainable Prosperity (BSP)

Name of Body / Project audited	Report Reference Number	Sufficient assurance ? Yes / No	If 'No' give details
Service Delivery Group Supply Chain Development BSP measure 4.5	EU 2 / 2004-2005	Unacceptable <sup>^</sup>	<b>Major areas of concern:</b> Segregation of Duties Operating Rules Procedures Internal Financial Reviews Project Objectives Specimen Signatures Monitoring Arrangements Retention of Documentation Legitimacy of Grant Aided Posts Existing Employees Potential Conflict of Interest Achievement of Objectives Match Funding EU Jurisdictions
Service Delivery Group's administration of BSP Measure 4.1	EU 3/2004-2005	Satisfactory	
Service Delivery Group Supply Chain Development BSP 4.2	EU 4/2004-2005	Unacceptable <sup>^</sup>	<b>Major areas of concern:</b> Lack of Tendering Procedures Irregularities Recording / Reporting Article 4 Checks

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Rural Development Division BSP Measures 4.4, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11 & 4.12	EU 5/2004-2005	Satisfactory	
Rural Development Council BSP Measures 4.6, 4.7, 4.9, 4.10, 4.11	EU17/2004/2005	Satisfactory	
Rural Community Network delivery of BSP 4.7	EU 12/2004/05	Satisfactory	
Follow-up review of Structural Funds Paying Authority	EU15/2004/2005	Satisfactory	
Review of Verification Unit	EU 16-2004/2005	Satisfactory	

^ See attached **Annex A** for details of remedial action specified by Internal Audit Services. Results will be included in the 2006 Article 13 Report.

## Peace II

Name of Body / Project audited	Report Reference Number	Sufficient assurance ? Yes / No	If 'No' give details
Rural Development Division Peace II (EAGGF) Measures 1.2b, 1.6, 1.7a, 1.9, 4.2b, 5.6b and 6.2a	EU 6/2004-05	Satisfactory	
Rural Development Peace Branch Investigation Peace II Measure 1.7a	EU 14/2004-05	No Opinion	Further information required from applicant prior to decision regarding eligibility.
Rural Development Council Peace II Measures 1.7b, 1.10a, 1.10b, 2.9b, 2.10	18/2004/2005	Satisfactory	
Follow-up review of Structural Funds Paying Authority	EU15/2004/2005	Satisfactory	
Review of Verification Unit	EU 16-2004/2005	Satisfactory	

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## Leader+

Name of Body / Project audited	Report Reference Number	Sufficient assurance ?  Yes / No	If 'No' give details
Rural Development Division LEADER+ Programme	EU7/2004/2005	Satisfactory	
Follow-up review of Structural Funds Paying Authority	EU15/2004/2005	Satisfactory	
Review of Verification Unit	EU 16-2004/2005	Satisfactory	

Amounts ordered to be recovered include BSP 4.7 £200.00 and BSP 4.11 £250.00, recommendations were also made that management review some of the grant aid paid in respect of projects in BSP measure 4.5 in order to confirm eligibility. An irregularity was reported as a result of the management review (EU element £5,397).

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.

## 5. SAMPLE CHECKS ON EXPENDITURE

The EU Verification Unit – based in 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:

A summary of visits carried out to date is set out below:

Programme	Number of visits	Total amount checked (£ Sterling)	Amount as % of total eligible expenditure (£) declared up to end 2005
BSP	21	2,173,833	3.47%
Peace II	26	1,361,942	7.00%
Leader +	5	131,814.23	0.94%

### Building Sustainable Prosperity (BSP) – 21 visits

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Year	Total Eligible Expenditure £ Sterling	Amount of total eligible expenditure checked	% of total eligible expenditure checked	Cumulative total of eligible expenditure checked 2000 – 2005 (%)
2000	699,356	182,879	26.15	26.15
2001	496,980	48,177	9.7	19.31
2002	2,431,279	193,071	7.94	11.69
2003	18,490,691	1,338,865	7.24	7.97
2004	20,307,607	410,841	2.02	5.12
2005	22,719,805	NIL	NIL	3.47

#### **Peace II – 26 visits**

Year	Total Eligible Expenditure £ Sterling	Amount of total eligible expenditure checked	% of total eligible expenditure checked	Cumulative total of eligible expenditure checked 2000 – 2005 (%)
2000	2,201,924	566,688	25.73	25.73
2001	3,056,983	188,896	6.18	14.37
2002	3,323,692	233,350	7.02	11.52
2003	3,234,489	179,312	5.54	9.89
2004	4,739,590	193,696	4.09	8.23
2005	3,039,206	NIL	NIL	7.00

#### **Leader + 5 visits**

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Year	Total Eligible Expenditure £ Sterling	Amount of total eligible expenditure checked	% of total eligible expenditure checked	Cumulative total of eligible expenditure checked 2000 – 2005 (%)
2000	0	N/A	N/A	
2001	0	N/A	N/A	
2002	140,358	31,505	22.45	22.45
2003	1,762,786	100,309	5.69	6.93
2004	6,004,471	NIL	NIL	1.67
2005	6,188,424	NIL	NIL	0.94

**Project Selection** - The projects visited were selected using 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 for each Measure, 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.

**Principal results** - of the visits carried out during 2005, and on which the reports have been finalised, are as outlined in the Table below. A number of draft reports relevant to 2005 expenditure are not yet finalised and therefore have not been included in the Table below. Principal results of these checks will be included in the 2006 Article 13 statement.

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## Building Sustainable Prosperity (BSP)

Measure	Report Reference & Date issued	Irregularities		
		Greater than €4,000	Less than €4,000	Reason for Irregularities Greater than €4,000
4.7	18-24/05 5/12/05	0	3	

## PEACE II

Measure	Report Reference & Date issued	Irregularities		
		Greater than €4,000	Less than €4,000	Comment on Irregularities Greater than €4,000
1.7a	34 – 36/05 15/12/05	Nil	Nil	

## Leader +

Measure	Report Reference & Date issued	Irregularities		
		Greater than €4,000	Less than €4,000	Comment on Irregularities Greater than €4,000
1.6	V5/04 & V7/04 3/2/05	Nil	Nil	
1.7	V4/04;V06/04 & V08/04 3/2/05	Nil	Nil	

Checks have revealed a low frequency of errors and provide reasonable assurance that management and control systems are effective in respect of EAGGF.

### Follow up of irregularities

**Recorded (under €4,000 or discovered before payment was made) – number and value £Sterling of EU Element.**

The majority of Irregularities recorded fall into the following categories:

Non-eligible expenditure, Supporting documentation missing, Absence of evidence required.

Action taken includes imposing financial corrections in relation to errors on claims prior to processing the payment, or where supporting documentation or

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evidence of expenditure is not provided classifying the specific item as ineligible and withholding payment. Details of problems are shown below:

### Building Sustainable Prosperity (BSP)

Measure	Number of problems	Systemic? Yes/No	If 'Yes' what action was taken?	Value (£Sterling) of EU financial corrections imposed
4.1	Nil			
4.2	38	No	N/A	£259,789.26
4.5	5	No		£170.86
4.4 & 4.6 – 4.12	110	No	N/A	£84,618.70

### Peace II

Measure	Number of problems	Systemic? Yes/No	If 'Yes' what action was taken?	Value (£Sterling) of any financial corrections imposed
PEACE Branch – Measures 1.6, 1.7a, 1.9, 5.6b (EAGGF)	664	No	N/A	£166,791.40
PEACE II Measure 5.6a (EAGGF)	14	No	N/A	£19,693.30

### Leader +

Measure	Number of problems	Systemic? Yes/No	If 'Yes' what action was taken?	Value (£Sterling) of any financial corrections imposed
LEADER+	101	No	N/A	£96,405.69

No major problems uncovered that would indicate systemic errors

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**Reported (over €4,000) - in quarterly returns to DFP – number and value £Sterling.**

New EAGGF irregularities reported during 2005:

**Building Sustainable Prosperity (BSP)**

Name of project	Nature of irregularity	EU Amount (£)	Closed ? Yes/ No
Mushroom Association of Northern Ireland	Project not financially viable. Recruitment process had not been conducted in a fair and transparent manner. Supporting documentation for items of expenditure not available.	£5,396.85	No
McGeary Fresh Mushrooms Ltd – PMG 134	Advised on 19.9.05 by invest NI that company had closed on 27.1.05. Requested repayment but seeking legal advice on recovery as company has no means of repaying.	£53,091.51	No
McGeary Fresh Mushrooms Ltd – PMG (T) 2	Advised on 19.9.05 by invest NI that company had closed on 27.1.05. Requested repayment but seeking legal advice on recovery as company has no means of repaying.	£75,282	No
Ballyrashane Co-op Dairy and Agricultural Society Ltd	Incorrect amount awarded and grounds for award were incorrect. Clear breach of pre-condition funding.	£3,500	Yes

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## Leader+

Name of project	Nature of irregularity	EU Amount (£)	Closed ? Yes/ No
Digital Imaging Riley Photography – William Riley	Invoices submitted were dated prior to alleged delivery of training. Case referred to CIS for investigation. IUC not held yet as individual in receipt of long term hospital care.	£2,937	No
Personal E-Commerce Training (Cameron)	Suspicion regarding level of work against invoice received.	£4,691.20	No

## 6. COORDINATION BETWEEN AUDIT BODIES AND CUPERVISORY WORK OF WINDING-UP BODY

Each Head of Departmental Internal Audit Services is responsible for the winding up declaration for Funds expended by that Department. There is an ongoing exchange of information between Article 10 Teams and Internal Audit Services that informs decisions made by IAS' on work programmes and the nature of further testing undertaken. The winding up body is also provided with details of audits by other audit bodies (the Northern Ireland Audit Office and Commission DG auditors' reports). Departmental winding up bodies will provide detailed information to the central winding up body (Head of Internal Audit Services in the Department of Finance and Personnel) where further cross-examination will take place before final signature. Regular formal meetings of these bodies currently take place under the auspices of the Euronet network.

## 7. FOLLOW UP OF PREVIOUS YEAR'S AUDIT ACTIVITY

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

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## **8. CONCLUSION**

Audit activity during the year 2005 was in conformity with the audit strategy presented to the Commission.

Reports were provided by Article 4 inspection Teams to the Article 10 Teams and Head of Internal Audit Services that were considered to include sufficient information of good quality to enable a reasonable risk analysis to be conducted.

In the light of the internal audit reviews of the control over the administration of the Funds and the conclusions of any other national or Community controls the Head of DARD Internal Audit Service has provided reasonable assurance that in all material respects the Department of Agriculture and Rural Development management has prepared and put into operation management and control systems in accordance with Regulation (EC)1260/99 and 438/2001. Where weaknesses have been identified, these have been brought to management's attention, and follow-up audits conducted to ensure recommendation have been implemented.

The examination of controls, revealed a low frequency of errors/irregularities. On the basis of the review of systems for dealing with reporting errors and irregularities the Head of DARD Internal Audit Services is satisfied that the management authorities have / are in the process of making the necessary financial corrections.

Department of Finance and Personnel

June 2006

BSP MEASURE	<b>ANNEX A</b>
<b>Recommendations/ Any financial Corrections/ Follow-up actions foreseen</b>	
Measure 4.1 System Audit	<ul style="list-style-type: none"> <li>• Include a graphical representation of the flow of funds and information to the audit trail file.</li> <li>• Procedures Manual covers all of the key stages of programme implementation</li> <li>• Develop a payment checklist</li> <li>• Ensure that quarterly returns for irregularities are completed</li> <li>• Ensure that future claims are submitted, processed and paid on a timely basis.</li> </ul>
Measure 4.5 System Audit	<ul style="list-style-type: none"> <li>• Ensure that there is sufficient segregation of duties as required by Article 3 (a) of Commission Regulation 438/2001</li> <li>• Ensure that specific operating rules in relation to measure 4.5 are developed and implemented</li> <li>• Ensure that procedures are developed to cover all elements of programme implementation</li> <li>• Ensure that staff involved in conducting financial reviews has the requisite level of financial expertise to perform these checks effectively</li> <li>• Ensure that the technical assessment of applications confirms that realistic and verifiable objectives have been set.</li> <li>• Ensure that all LOOs issued include details on Programme, measure and fund; Amount awarded both EC / National; A financial plan with milestones for completion of actions; Control requirements in relation to separation of duties and conflicts of interest.</li> <li>• Ensure that formal and regular monitoring arrangements are introduced. These monitoring arrangements should include reports and evidence of progress against targets.</li> <li>• Ensure that all recruitment information including applicant CV's, short-listing criteria, interview notes and interview scores are kept on file</li> <li>• Ensure that where grant-aid applies to staff recruitment/employment that they carry out only the duties for which they were recruited.</li> <li>• Management should review the eligibility of this application under the financial viability criteria requirement. Based on the actual funding received from members of the association there are insufficient funds to provide the match funding required. (Irregularity reported)</li> <li>• Management should also ensure that there is sufficient segregation of duties and responsibilities within the project organisation. When it is evident that there has been multi level involvement by one party in the feasibility, application or claims process management should critically review the organisational structure of the project.</li> <li>• Ensure staff conducting the Article 4 visits has the required knowledge / skills to carry out the visit effectively and provide an informed opinion.. Management should ensure that formal Article 4 Reports are prepared on a timely basis, reviewed at the appropriate level, issued to the applicant and appropriate follow-up action taken.</li> <li>• Ensure that procedures for recording irregularities are implemented in accordance with the guidance issued by Financial Policy Branch.</li> <li>• Ensure that all job advertisements include the required publicity as stipulated in the Letter of Offer.</li> <li>• Ensure that a formal methodology i.e. 1st day or last day of the month exchange rate (from a recognised and acceptable source) is used in calculating salaries, and that the rate used is recorded.</li> </ul>

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