

EXECUTIVE SUMMARY

1. IDENTIFICATION

BODY RESPONSIBLE FOR THE AUDIT: DEPARTMENTAL VERIFICATION UNITS

AND DEPARTMENTAL INTERNAL AUDIT UNITS

CCI No: 1999 GB 16 1 PO 007

2000 RG 16 1 PO 001

2000 GB 05 0 PC 002

PROGRAMME TITLE: BUILDING SUSTAINABLE PROSPERITY

PEACE II

EQUAL

FUND: ESF

**AUDITED BODIES¹: IMPLEMENTING BODIES, VERIFICATION UNITS
INTERMEDIATE BODIES AND PROJECTS**

2. AUDIT SCOPE AND OBJECTIVES:

Systems audits of implementing bodies and sample checks on expenditure – Article 10 of Regulation 438/2001

| <u>3. SUMMARY OF MAIN FINDINGS:</u> | <u>FOLLOW-UP ACTIONS:</u> |
|---|---|
| 1. audit findings provided satisfactory assurance | Annual follow up as outlined in audit plan |
| 2. some weaknesses identified | Some recommendations made for improvements / changes. Will be followed up during 2006 |
| 3. irregularities identified and reported | Followed up in compliance with Regulation 1681/94 |
| 4. | |
| etc | |

4. OVERALL CONCLUSION / OPINION: CONTROL SYSTEMS IN PLACE OPERATING TO ENSURE REASONABLE AUDIT ASSURANCE FOR ESF ACTIVITIES

¹ Please indicate their function like PA, MA, IB, body responsible for sample checks, system audits, winding-up body etc

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

EC FINANCIAL CONTROL REGULATION No 438/2001

ARTICLE 13: REPORT FOR 2005

COUNTRY: NORTHERN IRELAND

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

FUND: 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 2005 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 in respect of ESF during 2005 is shown below. In some cases the total value of expenditure declared during 2005 may be higher due to the inclusion of expenditure in respect of earlier years.

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

Building Sustainable Prosperity

€

| Community | National | Private | Revenue | Total |
|------------|------------|---------|---------|------------|
| 22,441,698 | 13,726,627 | 31,000 | 141,615 | 36,340,940 |

Peace II (Northern Ireland element only)

€

| Community | National | Private | Revenue | Total |
|------------|-----------|---------|---------|------------|
| 15,099,209 | 5,033,336 | 0 | 0 | 20,132,545 |

Equal Community Initiative

€

| Community | National | Private | Revenue | Total |
|-----------|-----------|---------|---------|-----------|
| 2,020,554 | 1,151,810 | 16,670 | 18,508 | 3,207,542 |

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.

3. CHANGES TO THE AUDIT STRATEGY

The audit strategy for 2005 – as notified to the European Commission remained unchanged.

4. SYSTEMS AUDITS

Departmental Internal Audit Branches (IABs) carried out systems audits during 2005. 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.

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

Details of the systems audits carried out are detailed below:

| Date of audit visit | Name of Body / Project visited | Report Reference Number | Date Report provided to the Commission |
|----------------------------|--|--------------------------------|---|
| September 2005 | Jobskills – BSP Measure 2.1 | IAS 44/04 | 20 March 2006 |
| November 2005 | Financial Audit Support Team (FAST) – EC 5% Verification checks. | IAS 31/05 | 20 March 2006 |
| January 2005 | OFMDFM Victims Unit | IA 37/04 | February 2005 |
| March 2005 | SEUPB Central Payments Unit | IA 65/04 | June 2005 |
| April – May 2005 | SEUPB – Peace II (& Follow-up on Article 4 Team) | IA 61/04 | October 2005 |
| April 2005 | EUD Structural Funds Database | IA 71/04 | June 2005 |
| May 2005 | EU Verification Unit Follow-up | IA 78/04 | July 2005 |
| August 2005 | OFMDFM Victims Unit Follow-up | IA 19/05 | August 2005 |
| June 2005 | Dept Education follow up of Peace II and BSP recommendations | | May 2006 |

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. Frequency is annual, alternate years or once in a four year cycle.

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

| Name of Body / Project audited | Sufficient assurance? Yes / No | If 'No' give details |
|--|---|--|
| Financial Audit Support Team (FAST) – EC 5% verification checks (Article 10) | Yes. IAS considers that management has established a satisfactory system of internal control. Controls/procedures are generally in accordance with accepted good practice, but some minor issues are noted as requiring improvement. Key control points are in place. | N/A |
| Jobskills Training Programme – | Yes – generally satisfactory system of internal controls. | Limited assurance over the validity of reported target results |

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

| | | |
|---|-----|---|
| BSP Measure 2.1 | | and the branch Risk Register. |
| OFMDFM Victims Unit (IA 37/04) | Yes | N/A |
| SEUPB Central Payments Unit (IA 65/04) | Yes | N/A |
| SEUPB – Peace II (& Follow-up on Article 4 Team) (IA 61/04) | Yes | <p>We are satisfied that adequate management controls are operating in respect of the Managing Authority function and that the project appraisal and appeal process is well documented, transparent and robust.</p> <p>In relation to projects directly funding by SEUPB, at the time of the audit a number of Article 4 checks were outstanding and SEUPB was in the process of contracting these out on a short-term basis.</p> <p>Of those Article 4 checks completed, checklists had not been signed as evidence of the check being performed by the Article 4 Officer. In addition, there was no evidence of a more senior review being carried out over the Article 4 check and no back up documentation to support the findings.</p> |
| EUD Structural Funds Database (IA 71/04) | Yes | N/A |
| EU Verification Unit Follow-up (IA 78/04) | Yes | N/A |
| OFMDFM Victims Unit Follow-up (IA 19/05) | Yes | N/A |
| Dept of Education follow up | Yes | N/A |

In 2005, reviews were carried out on 15 of the 43 bodies under the Peace II Programme, ie 4 of the 11 Intermediary Funding Bodies and 11 of the 26 Local Strategy Partnerships (LSPs). Each review involved a follow-up of previous recommendations in the 2003 PWC report and a review of current

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

arrangements utilising a system based approach. In some cases an article 4 completed in 2004 was followed up. By the end of 2005 31 reports on checks carried out in 2004 had been finalised and 15 reports in respect of 2005 were at a final stage (ie management responses received).

No financial consequences / amounts were 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.

Recommendations for changes

In relation to Departmental systems, most recommendations were generally minor in nature and are followed up as part of the continuing audit programme. It was noted that Article 4 arrangements were still being embedded in 2005. Improvements on 2004 were noted and positive progress continued to be made. LSPs also resolved to redress any issues raised and have responded positively with progress being made.

Where any weaknesses were identified these were raised in the specific audit report for the assignment concerned. The key recommendations made in respect of the expenditure and control of EC funds have included:

To ensure uniformity a standard checklist, including as a minimum all aspects of the model checklist issued by DFP, should be used by all inspection/audit teams. That checklist would detail whether the LoO has all of the relevant clauses included.

Management should review current procedures and identify where supplementary procedures should be developed

All checks should be carried out by staff independent of the grant process

Training Programmes Branch (in DEL) should explore the development of a standard report to consistently produce accurate lists of the names of Jobskills achievers for reconciliation with the figures used for the purpose of reporting achievers, prior to reporting on achievement against the relevant target.

Recommendations have been accepted and are either implemented or are in the process of being implemented.

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.

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

Details of total visits carried out and the cumulative value of expenditure checked to the end of 2005 are set out below:

| Programme | Cumulative number of visits | Total amount checked (£ Sterling) | Amount as % of total eligible expenditure (£) declared up to end 2005 |
|------------------|------------------------------------|--|--|
| BSP | 123 | 19,643,675 | 14.72 |
| Peace II | 127 | 4,125,229 | 4.33 |
| Equal | 12 | 338,211 | 6.12 |

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, 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.

Extensive use is made of the Projects Central Database for the extraction of Measure level expenditure information, project Letter of Offer details and value of payments made. From initial lists, projects expenditure details are selected to inform the 5% checking.

Results of checks

While various issues were identified in the course of visits including - tendering procedures, apportionment of costs, publicity, project performance,

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

written policies and financial control records, none of these was considered systemic in nature. There were therefore no financial corrections imposed. In all cases recommendations for improvement were made, accepted by the organisations and are being followed up. All visits to Equal projects provided satisfactory assurances. A high percentage of the total projects visited provided satisfactory / substantial assurance with only a small number (3) resulting in a qualified or no assurance (2). Where irregularities were identified, these were reported – as appropriate in accordance with the threshold – or recorded when below the €4,000 threshold. Details of irregularities reported during 2005 are shown below:

Building Sustainable Prosperity (University of Ulster projects)

| Project Name | Amount (£) | Department |
|-------------------------------------|------------|------------|
| Geographic Information Systems | 35,413.08 | DEL |
| Food Biotechnology | 62,329.25 | DEL |
| International Business | 39,611.10 | DEL |
| Bioinformatics | 10,530.04 | DEL |
| Biotechnology | 56,802.43 | DEL |
| Pathways to Education for Women | 8,319.71 | DEL |
| E-Business & Information Innovation | 39,727.66 | DEL |
| Master of Research | 9,816.73 | DEL |

Peace II

| Project Name | Amount (£) | Department |
|-----------------------------------|------------|--------------------------|
| Social Entrepreneurship | 41,243.08 | DFP (Belfast LSP) |
| Direct Routes Programme | 2,941.60 | DFP (Belfast LSP) |
| Culturlinx | 5,000.42 | DFP (Newry & Mourne LSP) |
| LEAP | 4,718.08 | DENI |
| New Routes EGSA | 3,030.00 | SEUPB (Closed) |
| The Women's TEC | 39,494.07 | SEUPB (Closed) |
| QUB Modern Irish | 22,500.00 | SEUPB |
| Prisoners Enterprise Project | 7,691.00 | SEUPB (Closed) |
| Strabane Farmers Forum | 4,087.00 | SEUPB (Closed) |
| Iontaobhas Rurai | 3,750.00 | SEUPB |
| Neighbourhood Renewal Coordinator | 11,003.00 | SEUPB |
| Play Partnership | 10,142.25 | SEUPB (Closed) |
| Belfast Kids Computer Club | 7,650.00 | SEUPB |

6. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY 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

Reference : PM002267

GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13

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 YEARS' AUDIT ACTIVITY

Each Department maintains a schedule of follow up activity as part of its annual audit planning process. Recommendations made during systems checks are followed up the following year and results noted. In particular, DENI noted that 12 out of 17 recommendations made had been implemented and the remaining 5 are subject to ongoing work. With regard to DHSSPS, 161 of the 166 recommendations made in the previous year have now been cleared with work progressing on the remaining 5 issues. Some work in relation to sample (Article 10) checks relating to earlier years carried out by consultants on behalf of DENI had not been finalised by the end of 2005 and will be reported on fully in 2006.

8. CONCLUSION

Audit activity carried out during 2005 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 by the respective Departmental Internal Audit Branches and are subject to ongoing monitoring.

Where irregularities were uncovered, these were addressed in accordance with Commission Regulations and requirements and any cases not closed by the end of 2005 will be followed up during 2006.

Findings from Article 4 checks 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 2005, Heads of Departmental Internal Audit Branches have confirmed a reasonable level of assurance that EU Regulatory requirements are being met.

Department of Finance and Personnel
June 2006

Reference : PM002267
GOVERNMENT FINANCE SERVICES\Funding\European Union Structural Funds\Finance Control\Article 13