

EXECUTIVE SUMMARY

1. IDENTIFICATION

**BODY RESPONSIBLE FOR THE AUDIT: DEPARTMENTAL VERIFICATION UNITS
AND DEPARTMENTAL INTERNAL AUDIT UNITS**

CCI No: 1999GB161PO007

2000RG161PO001

2001GB160PC002

PROGRAMME TITLE: BUILDING SUSTAINABLE PROSPERITY

PEACE II, URBAN II

FUND: ERDF

AUDITED BODIES¹:

2. AUDIT SCOPE AND OBJECTIVES:

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

3. <u>SUMMARY OF MAIN FINDINGS:</u>	<u>FOLLOW-UP ACTIONS:</u>
1. majority of audit findings satisfactory	Annual follow up as outlined in audit plan
2. some weaknesses identified	Recommendations for improvement / change made. Will be followed up during 2007
3. irregularities identified and reported	Followed up in compliance with Regulation 1681/94
4. OVERALL CONCLUSION / OPINION: Systems in place operating to ensure reasonable audit assurance for ERDF activities	

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

**WORKING DOCUMENT ON MODEL REPORT PURSUANT TO
ARTICLE 13 OF REGULATION 438/2001**

Preliminary note

Article 13 of Regulation 438/2001 (“the Regulation”) provides that Member States shall inform the Commission by 30 June each year of their application of Articles 10 to 12 of the Regulation which relate to sample checks on operations in the previous calendar year and in addition provide any necessary completion or updating of the description of their management and control systems communicated under Article 5 of the Regulation.

In addition, for the purposes of the contract of confidence, the report will be specifically the source of assurance for the Commission that the audit activity is being carried out in accordance with the established audit strategy and that no material deficiencies in the effective functioning of the management and control systems have been found.

The report should therefore concern an identified system for the management and control of the Funds (e.g. national/regional level, by Fund, by programme), and should be compiled by, or in collaboration with, the person or department designated to issue declarations on winding up of the assistance under Article 15 (“independent body”). The report should be signed or countersigned by the independent body.

Where the report covers more than one Fund, the information provided should be broken down by Fund.

The first report presented in compliance with this model following the establishment of a “Contract of confidence” should provide a summary of audit activity carried out in previous years (even where this has been mentioned in earlier reports) and should cover in the conclusions all preceding years.

In all cases a copy of the report should be sent to the Director General of the Regional Policy DG, and the deadline of 30 June should be respected

MODEL REPORT

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 2006 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 Urban II Community Initiative. It concentrates on the Fund ERDF.

The Managing Authorities are Department of Finance and Personnel (BSP) the Special European Union Programmes Body – SEUPB for Peace II and the Department of Social Development (DSD) for Urban II with DFP also acting as the Fund Paying Authority for both Programmes and the Urban II 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 information provided by Departmental Internal Audit Services in DETI, DRD, DSD, DE, DARD, DCAL and DFP.

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 subsequently 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

There were no changes to the notified audit strategy for 2006

4. SYSTEMS AUDITS

Names of bodies carrying out systems audits during 2006

Departmental Internal Audit Services within Department of Enterprise Trade and Investment (DETI), Department for Regional Development (DRD), Department for Social Development (DSD), Department of Education (DE), Department of Agriculture and Rural Development (DARD), Department for Culture, Arts and Leisure (DCAL) and the Department of Finance and Personnel (DFP)

Summary list of audits carried out and date of submission of the report(s) to the Commission – by Programme

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

<i>Date of audit visit</i>	<i>Name of Body / Project visited</i>	<i>Date Report provided to the Commission</i>
Jan 2006	Invest NI - EU Compliance Team	12/1/07
Feb 2006	Invest NI - Sustainable Development	12/1/07
Feb 2006	DETI – European Programmes	02/08/06
April 2006	Invest NI - National Programmes	12/1/07
July 2006	Invest NI – Western Innovation Network	12/1/07
September 2005	DFP EUD Structural Funds Policy Management Branch Follow-up - IA 36/05 Structural Funds database	28.04.06
December 2005	DFP EUD Structural Funds Policy Management Branch Follow-up - IA 56/05 BSP MA & Technical Assistance	06.01.06
March 2006	DFP EU Verification Unit - IA 80/05 Article 10 function for DFP, OFMDFM and DCAL	24.04.06
September-October 2006	DFP EUD Financial Management and Data Systems Team - IA 24/06 ERDF PA	20.02.07
October 2006	DFP EUD Structural Funds Policy management branch 2nd Follow-up - IA 57/06 BSP MA	30.10.06

PEACE II PROGRAMME

<i>Date of audit visit</i>	<i>Name of Body / Project visited</i>	<i>Date Report provided to the Commission</i>
Jan 2006	Invest NI - EU Compliance Team	12/1/07
August – September 2005 (For declarations in 2004)	DRD Ports & Public Transport Division	May 2006
Report dated 27/03/07 (ref: EU11/2005/06)	Rural Development Division Measures 1.2B, 4.2B and 6.2A	April 2007
September 2005	DFP EUD Structural Funds Policy Management Branch Follow-up - IA 36/05 Structural Funds database	28.04.06
February-April 2006	SEUPB PEACE II - IA 66/05 Peace II MA, Article 4 Team & M6.1 & 6.2	09.02.07
February 2006	OFMDFM European Policy and Co-ordination Unit Follow-up - IA 68/05 Peace II M4.1	07.01.06
February-March 2006	OFMDFM Community Relations Unit - IA 73/05 Measure 4.1	07.08.06
February 2006	SEUPB Central Payment Unit - IA 76/05 Payment processing system for Peace II	04.05.06
March 2006	DFP EU Verification Unit - IA 80/05 Article 10 function for DFP, OFMDFM and DCAL	24.04.06
September 2006	OFMDFM European Policy and Co-ordination Unit - IA 19/06 Measure 4.1	20.03.07

September-October 2006	DFP EUD Financial Management and Data Systems Team - IA 24/06 ERDF PA	20.02.07
November 2006	OFMDFM Community Relations Unit - IA 62/06 Measure 4.1	07.02.07
December 2006 - January 2007	DFP EUD North South Policy and Programmes Branch Follow-up - IA 75/06 Sponsor Control Arrangements for SEUPB	14.03.07

While no systems audits were carried out in 2006 respect of the Urban II Community Initiative, there are audits planned for 2007 and 2009 – in accordance with the agreed audit strategy.

Details of selection basis for visits carried out

A Northern Ireland Internal Audit Structural Funds Audit Strategy 2000-2009 was compiled to cover all Government Departments and provides the basis for the prioritisation and selection of audit assignments. While the strategy takes account of management's assessment of risk, it also applies weighted factors is largely based is under headings such as impact on organisational objectives, sensitivity of systems, complexity, value of transactions, volume of transactions, opportunity for fraud, previous Internal Audit findings/opinion etc. On application of a formula comprising the weighted factors against all systems, priorities are then identified. As it would not be efficient or desirable to cover all systems in detail every year, the prioritisation process allows the frequency of review to be determined.

Internal Audit also takes into account matters that are specific to the Structural Funds environment. This is in recognition that its audit opinions are relied on by the EC as well as by Departmental management and to plan forward for Article 15 closure opinions. Accordingly account is taken of previous audit assessments of systems and processes, the length of time since specific systems have been reviewed and the results of other related audit work (eg NIAO, EC and ECA).

Additionally, as the responsibility for the audit opinion rests with the Head of Internal Audit (HIA), the HIA forms a view on the nature and amount of audit work required within their area of responsibility to support the audit opinion. Plans are also reviewed at least annually to take account of revisions in the risk assessment, enable new developments to be taken into account and inform the plan for future periods.

Outline of the findings of each audit and whether the visit(s) provided sufficient assurance that all regulatory requirements were met – by programme

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

<i>Name of Body / Project audited</i>	<i>Sufficient assurance ? Yes / No</i>	<i>If 'No' give details</i>
Invest NI - EU Compliance Team	No	A limited assurance was obtained in view of the fact that test samples of projects already used to draw down EC funding revealed that substantial remedial action remains outstanding in relation to the completion of Article 4 Checklists and the retention of sufficient evidence of the issuance of Letter of Offer addendums. A follow up audit is scheduled for 2007/08 and results will be reported in a future Article 13 report.
Invest NI - Sustainable Development	Yes	
Invest NI - National Programmes	Yes	
Invest NI - Western Innovation Network	Yes	
DETI – European Programmes	No	Some compliance issues identified in relation to Article 4 checks, subsequent follow-up has shown that these have been addressed. (The follow up activity had not been completed by the end of 2006, therefore it is expected that sufficient assurance

		will be provided at the 2007 report stage.
NITB – Funding and Monitoring Unit - Review of Monitoring	Yes	
DFP EUD Structural Funds Policy Management Branch Follow-up - IA 36/05 Structural Funds database	Yes	N/A
DFP EUD Structural Funds Policy Management Branch Follow-up - IA 56/05 BSP MA & Technical Assistance	Yes - some isolated issues raised but these have now been implemented - see IA 57/06 below	N/A
DFP EU Verification Unit - IA 80/05 Article 10 function for DFP, OFMDFM and DCAL	Yes	N/A
DFP EUD Financial Management and Data Systems Team - IA 24/06 ERDF PA	Yes	N/A
DFP EUD Structural Funds Policy management branch 2nd Follow-up - IA 57/06 BSP MA	Yes	N/A

PEACE II PROGRAMME

<i>Name of Body / Project audited</i>	<i>Sufficient assurance ? Yes / No</i>	<i>If 'No' give details</i>
Invest NI - EU Compliance Team	No	A limited assurance was obtained in view of the fact that test samples of projects already used to draw down EU funding revealed that substantial remedial action remains outstanding in relation to the completion of Article 4 Checklists and the retention of sufficient evidence of the issuance of Letter of Offer addendums. A follow up audit is scheduled for 2007/08 and results will be reported in a future Article 13 report.
PPTD (DRD)	Yes	
Rural Development Division Measures 1.2B, 4.2B, 6.2A (ERDF) (ref: EU 11/2005/06)	Yes	Measure 1.2B - Satisfactory Some concerns were expressed over some aspects of the recording of project data on the DFP Structural Funds database, with issues highlighted for follow up. Measure 4.2B - Satisfactory Some concerns were expressed with issues highlighted for follow up. MEASURE 6.2A - Satisfactory No areas of concern.
SEUPB PEACE II - IA 66/05 Peace II MA, Article 4 Team & M6.1 & 6.2	Yes	N/A

OFMDFM European Policy and Co-ordination Unit Follow-up - IA 68/05 Peace II M4.1	Yes - recommendations implemented	N/A
OFMDFM Community Relations Unit - IA 73/05 Peace II M4.1	Yes - but some key issues highlighted	While Article 4 checks were up to date, a number of actions remained outstanding ie follow-up letters have not been issued following verification visits and will require immediate attention. See also 62/06 below.
SEUPB Central Payment Unit - IA 76/05 Payment processing system for Peace II	Yes	N/A
DFP EU Verification Unit - IA 80/05 Article 10 function for DFP, OFMDFM and DCAL	Yes	N/A
OFMDFM European Policy and Co-ordination Unit - IA 19/06 Peace II M4.1	Yes - Some isolated issues were detected but these have been rectified by Branch management.	N/A
DFP EUD Financial Management and Data Systems Team - IA 24/06 ERDF PA	Yes	N/A

OFMDFM Community Relations Unit Follow-up - IA 62/06 Peace II M4.1	Yes - recommendations implemented	N/A
DFP EUD North South Policy and Programmes Branch Follow-up - IA 75/06 Sponsor Control Arrangements for SEUPB	Yes - recommendations implemented	N/A

Financial consequences / amounts to be recovered – by Programme

BUILDING SUSTAINABLE PROSPERITY

<i>Name of Body / Project</i>	<i>Amount of expenditure to be recovered</i>	<i>Date of issue of Recovery Order</i>
Classroom 2000	£49,603.05	15 May 06

PEACE II PROGRAMME NIL

URBAN II COMMUNITY INITIATIVE NIL

Follow up of the audit findings, in particular any corrective and preventive measures applied.

All Structural Funds 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 followed up to ensure effective implementation of recommendations and some of the details of follow up are included in the tables above

Due to the timing of some full audits, follow-up reviews will be completed in 2007 and reported in detail in the next Article 13 report

5. SAMPLE CHECKS ON EXPENDITURE

Names of bodies carrying out sample checks during 2006

EU Verification Teams within accountable Departments carry out checks under the requirements of Article 10. Checks on PEACE II cross border measures, are performed by SEUPB appointed consultants. DFP - EU Verification Unit also provides Article 10 checks for DFP, OFMDFM and DCAL.

Summary lists below indicate the number of checks carried out and the amount of expenditure checked broken down by Programme, including an indication of the percentage of expenditure checked in relation to total eligible expenditure declared to the Commission (both for the year in question and cumulatively);

BUILDING SUSTAINABLE PROSPERITY

<i>Number of visits during 2006</i>	<i>Total amount (£) of expenditure examined during 2006</i>	<i>Cumulative amount (£) examined to end of 2006</i>	<i>Amount (£) of 2006 expenditure vouched</i>	<i>% Error rate</i>
27	4,797,689	25,604,673	4,450,958	7.22%

PEACE II PROGRAMME

<i>Number of visits during 2006</i>	<i>Total amount (£) of expenditure examined during 2006</i>	<i>Cumulative amount (£) examined to end of 2006</i>	<i>Amount (£) of 2006 expenditure vouched</i>	<i>% Error rate</i>
86	8,965,753	23,340,424	8,899,428	0.7%

URBAN II COMMUNITY INITIATIVE

<i>Number of visits during 2006</i>	<i>Total amount (£) of expenditure examined during 2006</i>	<i>Cumulative amount (£) examined to end of 2006</i>	<i>Amount (£) of 2006 expenditure vouched</i>	<i>% Error rate</i>
10	152,619	438,822	144,728	5.2%

The basis for selection of the operations subject to control is set out below;

While ensuring an appropriate mix of projects and expenditure to meet the minimum 5% requirement, generic risk assessment criteria are used to decide on which projects are to be examined. Information is extracted from the Central Database in respect of declared expenditure and total award amounts for all Measures, within the programme/fund, subject to examination. Based on this information a risk assessment is completed taking account of the value of eligible expenditure, volume and type of projects, project provider and complexity of funds.

A priority listing of measures is then produced and a full project list for each measure is obtained from the Central Database based on award amount and the projects within the Measure. Account is also taken of projects which have been visited previously and information supplied by the relevant Implementing Body including Article 4 reports.

The principal results of the checks, indicating in particular for each programme the number of irregularities identified and the amount of irregular expenditure are set out below;

Checks carried out during 2006 confirmed that Implementing Bodies were complying with Article 10 of Commission Regulation (EC) No 438/2001.

The number of irregularities uncovered as a result of the checks is shown below:

For BSP, Peace II and Urban II a number of recordable (<€10,000) irregularities were uncovered and noted for appropriate follow up action.

None were above the €10,000 threshold.

Conclusions drawn from the results of the checks with regard to the effectiveness of the management and control system are shown below;

The majority of the Management and Control systems were found to be satisfactory. Where weaknesses were identified – mainly in the areas of organisational structure, performance, publicity and recording of costs - steps have already been taken to remedy the shortcomings and follow up visits will take place to ensure that remedial action has been successful.

Testing revealed compliance with Article 10 of Commission Regulation (EC) No 438/2001

Follow up of the irregularities;

All recorded irregularities were followed up in accordance with the guidelines provided with recoveries effected as necessary.

Reported irregularities followed up as below:

Building Sustainable Prosperity

Fermanagh District Council	€24,109	Cleared
Supporting Business Comp	€29,540	Cleared
Glenbia Cheese Ltd	€29,532	Cleared
Belfast City Council	€13,524	Cleared
Belfast City Council (2)	€34,615	Cleared
Broadband Wireless trial L'burn	€11,521	Cleared
Western Connect Ltd	€53,237	Cleared
ASP portal	€19,002	Cleared
Community Change	€49,905	Not Cleared
Lurgan Coun for Vol Action	€204,122	Not Cleared
4 No Tech (Measure 1.2)	€73,434	All detected before payment
1 No Measure 1.3B	€105,082	detected before payment
10 No Councils (Measure 1.4)	€516,893	All detected before payment

Peace II

Rossahilly House NRRTI	€16,842	Not Cleared
N.I. Interfaith Forum	€75,808	Not Cleared
Greater East Belfast Comm	€80,879	Not Cleared

Arts Network

Centre for Excellence	€111,434	Cleared
6 No Centre for Excellence	€513,645	All detected before payment
Weak Infrastructure	€15,780	detected before payment
Neighbourhood Development	€10,022	detected before payment

URBAN II

Nil

Note: All the above irregularities in respect of 2006 were notified in the quarter ended 31st December 2006 and may therefore not have reached the Commission until 2007.

Indicate whether any problems identified were considered to be of a systemic character, and the measures taken, including a quantification of any financial corrections. Details are set out below:

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

<i>Number of problems</i>	<i>Systemic ? Yes/No</i>	<i>If 'Yes' what action was taken ?</i>	<i>Value (£Sterling) of any financial corrections imposed</i>
1 Measure 1.4 Final report issued in 2007	No		£19,603

PEACE II PROGRAMME

<i>Number of problems</i>	<i>Systemic ? Yes/No</i>	<i>If 'Yes' what action was taken ?</i>	<i>Value (£Sterling) of any financial corrections imposed</i>
69	No	<p>General recommendations made regarding:</p> <p>future on-site Article 4 checks performed earlier in the life of a project</p> <p>retrospective signing and dating of all assessment matrices</p> <p>that projects are closed sooner</p> <p>that database be updated to show correct information</p> <p>summary of expenditure claim forms to be retrospectively completed and signed</p> <p>specific objectives and performance indicators are clearly laid out in Letters of Offer for reasons of clarity and performance measurement</p> <p>relevant policies on Retention of Documentation, Equal Opportunities, Health & Safety, Data Protection, Travel & Subsistence and Hospitality be obtained and held on file</p> <p>sufficient Insurance cover for life of project be obtained and held on project file.</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
38	No	<p>Recommendation - the scoring matrix should be retrospectively signed by the appraising Board Members to assure the scoring process.</p>	N/A
7	No	N/A	N/A

21	No	<p>General recommendations made</p> <p>CFNI advised to perform Article 4 check.</p> <p>place on file reason for late acceptance of Letter of Offer</p> <p>ensure the Project has a documented policy to ensure retention of project documentation until 31/12/2015.</p> <p>obtain documented project policy to ensure that assets purchased, would be retained for periods which reflect their economic life.</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
RDD NRRTI measures 1.2b, 4.2b and 6.2a. 54 problems	No	N/A	£35,050.38

6. FOLLOW UP OF PREVIOUS YEARS' AUDIT ACTIVITY

Information on the follow up of outstanding audit findings or results of expenditure checks from earlier years is detailed below by Programme. Where issues have been identified, follow up action is carried out and reviewed on a regular basis by the respective Internal Audit Branch / Service in the relevant Department to ensure that recommendations have been implemented

Building Sustainable Prosperity Programme

<i>Date of audit visit</i>	<i>Name of Body / Project visited</i>	<i>Findings</i>
Dec 2006	Invest NI – E Business	All recommendations implemented
June 2006	NITB - Funding and Monitoring Unit	Majority of recommendations implemented

PEACE II

<i>Date of audit visit</i>	<i>Name of Body / Project visited</i>	<i>Findings</i>
Nov 2006	Invest NI - PSU	All recommendations implemented.
June 2006	DETI European Programmes	All recommendations implemented
June 2006	NITB - Funding and Monitoring Unit	Majority of recommendations implemented

URBAN II

All previous recommendations made on projects relating to declared expenditure 01/01/2004 to 31/12/2004 have now been cleared.

7. CONCLUSION

Audit activity during 2006 conformed with the Audit Strategy with the exception of a full audit of the DFP EUD Structural Funds Database. However, a follow up of the previous audit (DFP EUD Structural Funds Policy Management Branch Follow-up IA 36/05 refers) provided assurance that all previous recommendations had been implemented. Results of the full review will be reported in the 2007 Article 13 Report.

All audit activity confirmed the effective functioning of management and control systems and compliance with Regulation (EC) 1260/99 and 438/2001.

In cases where a completed Article 4 report was on file it was made available to the Article 10 Verification Teams and examined as part of the inspection preparation and risk assessment process.

On the basis of systems audit and verification work carried out, Heads of Departmental Internal Audit Branches have provided an overall assurance regarding compliance with relevant EU Regulations. Issues raised were generally isolated and where some systemic weaknesses were identified, these did not have an adverse financial impact and appropriate corrective action has been agreed.

Where recommendations for corrective action have been made, progress towards implementation of these will be monitored during 2007 and follow up information provided in the Article 13 report for 2007.

June 2007