

EXECUTIVE SUMMARY

1. IDENTIFICATION

BODY RESPONSIBLE FOR THE AUDIT: DEPARTMENTAL VERIFICATION UNITS

AND DEPARTMENTAL INTERNAL AUDIT UNITS

CCI No: 1999GB161PO007

2000RG161PO001

2000GB050PC002

PROGRAMME TITLE: BUILDING SUSTAINABLE PROSPERITY

PEACE II

EQUAL C.I.

FUND: ESF

AUDITED BODIES¹:

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. 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 ESF 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 & 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).

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 overall audit strategy in respect of 2006, however, a full audit of the DFP EUD Structural Funds Database was planned for late 2006, but due to other commitments this review was rolled forward to 2007.

4. SYSTEMS AUDITS

The bodies which have carried out audits are shown below;

Systems audits are carried out by Departmental Internal Audit Services, however, systems audits in DEL are carried out by the Department of Enterprise, Trade and Investment's (DETI's) Internal Audit Service. DFP Internal Audit provides the internal audit service to DFP, OFMDFM and SEUPB.

The summary list below – by Programme - shows the audits carried out and indicates the date of transmission of the audit report to the Commission;

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>
June 2006	DEL European Unit	3 July 2006
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
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>
May 2006	DEL Sectoral Development Branch –I Measure 1.3	12 May 2006
August 2006	DEL Higher Education Research Policy Branch (HERPB)	30 March 2007
February - April 2006	SEUPB PEACE II - IA 66/05 MA, Article 4 Team & M6.1 & 6.2	09.02.07
February 2006	SEUPB Central Payment Unit - IA 76/05 Payment processing system for Peace II	04.05.06
December 2006	OFMDFM Victims Unit - IA 10/06 M2.4b	Draft Report - Awaiting Finalisation

No systems audits were carried out for the Equal Community Initiative during 2006

The basis for selection of the audits in the context of the audit strategy is set out below;

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.

Audit assignments are selected based on risk analysis carried out as an integral part of an Audit Needs Assessment. EU funding was one of a number of risk factors deployed as part of the overall risk analysis for DEL. Priority one audits are carried out every other year in the audit cycle with a follow-up normally scheduled in interim years. Priority two audits are carried out once in the audit cycle (four years) with a follow-up assignment scheduled for approximately one year after the full assignment.

The principal findings and the conclusions drawn from the audit work for the management and control systems, including the sufficiency of the audit trail and compliance with Community requirements and policies are detailed below – 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>
DEL European Unit	Yes	N/A
DFP EUD Structural Funds Policy Management Branch Follow-up - IA 36/05 Structural Funds database	Yes - recommendations implemented	N/A
DFP EUD Structural Funds Policy Management Branch Follow-up	Yes - some isolated issues raised but these have now been implemented -	N/A

- IA 56/05 BSP MA & Technical Assistance	see IA 57/06 below	
DFP EU Verification Unit - IA 80/05 Article 10 function for DFP, OFMDFM and DCAL	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>
DEL Sectoral Development Branch –Measure 1.3	Yes	N/A
DEL Higher Education Research Policy Branch (HERPB)	No – limited assurance	IAS considers that management have established a limited system of control over Peace II projects and Proteus on the basis of the documentation held by HERPB. However, IAS takes some assurance that DEL's Financial Audit Support Team (FAST) – Article 10 body - has carried out visits to PROTEUS under the main Peace II programme and has advised that no significant issues were identified.

Potential financial consequences;

No amounts were ordered to be recovered

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

Where weaknesses in the system of control have been identified these were raised in the specific audit report for the assignment concerned. Recommendations were made in respect of the expenditure and control of EC funds in the areas of the European Unit, Sectoral Development Branch and HERPB covering issues of date stamping documents, evidence of checking and authorisation, internal appraisals, examination of the results of Article 4 checks and clear definition of various roles and responsibilities.

In all cases management accepted IAS recommendations and are implementing – or have implemented these. Follow-up reviews for all EU related recommendations will be completed during 2007 and details will be reported in the 2007 Article 13 Report.

5. SAMPLE CHECKS ON EXPENDITURE

The bodies which have carried out the checks are;

EU Verification Units within Departments (Financial Audit and Support Team (FAST) in DEL) - with DFP EU Verification Unit providing Article 10 checks for DFP, OFMDFM and DCAL. There is also a Service Level Agreement between DFP and DSD EU Verification Unit for Peace II Measures 2.4B, 2.8 and 2.11.

The summary list below indicates the number of checks carried out and the amount of expenditure checked broken down by Programme/Fund, 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 PROGRAMME

A	B	C	D	E	F
<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>% of expenditure examined (Col C as %)</i>	<i>Amount (£) of 2006 expenditure (Col B) vouched</i>	<i>% Error rate (Col E/Col C*100)</i>
8 (DEL Measures)	£8,705,303	£28,424,565	13.70%	£8,705,303	0%
Measure 2.43 (1 IB and 2 projects)	£207,530	£207,530	4.8%	£204,340	1.54%
Overall total 11 for 2006	£8,912,833	£28,632,095		£8,906,643	0.07%

PEACE II PROGRAMME

A	B	C	D	E	F
<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>% of expenditure examined (Col C as %)</i>	<i>Amount (£) of 2006 expenditure (Col B) vouched</i>	<i>% Error rate (Col E/Col C*100)</i>
7 (DEL Measures)	£555,456	£1,552,821	3.47%	£555,456	0%
Measure 3.219 (cumulative 47)	£430,014	£1,540,647	5.75%	£425,551	1.04 %
Measure 2.4B8 (cumulative 10)	£86,662	£317,455	6.13%	£76,783	*11.40%

20 (DSD Measures) (cumulative 44)	£171,606	£617,763	5.6%	£161,660	5.79%
Measure 2.2 10	£44,215	£758,051	5.2%	£41,421	6.32%
Overall Total 64 for 2006	£1,287,953	£4,786,737		£1,260,871	2.1%

*The 11.40% error rate for measure 2.4B was arrived at due to no original documentation being available for inspection and, incorrect salary calculations in respect of two projects. Further testing was carried out and confirmed that these issues were not systemic. The projects have been advised to obtain the relevant documentation otherwise the funding will be recouped.

EQUAL COMMUNITY INITIATIVE

A	B	C	D	E	F
<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>% of expenditure examined (Col C as %)</i>	<i>Amount (£) of 2006 expenditure (Col B) vouched</i>	<i>% Error rate (Col E/Col C*100)</i>
8	£233,607	£571,818	7.48%	£233,607	0%

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

While ensuring an appropriate mix of projects and expenditure to meet the minimum 5% required, 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;

BSP

Visits completed during 2006 provided a satisfactory assurance overall.

Peace II

Visits completed during 2006 confirmed compliance with Article 10 requirements with only 2 cases where a qualified assurance was provided. After the provision of additional information the issues relating to these particular projects were resolved. These were not reported as irregularities as they fell below the reportable threshold.

Equal

A total of 8 visits were completed during 2006. In all cases a satisfactory assurance was provided.

Details of the number of irregularities uncovered as a result of visits are set out below:

Recorded

A number of small value (below the reporting threshold) irregularities were uncovered and these were recorded as appropriate.

Reported

A total of 3 reportable irregularities under Peace II were uncovered. These are shown below:

CAN NI (Measure 2.3)	€23,965 at risk (<i>discovered before payment</i>)
Prison Service Trust	€32,788 at risk (<i>discovered before payment</i>)
Old Warren (Measure 2.4A)	€32,324

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

In the majority of visits carried during 2006 the Management and Control systems within projects were found to be satisfactory. In 5 of the 7 DEL

Peace II projects visited a satisfactory assurance was provided. In the remaining 2 cases there was a qualified assurance. After the provision of additional information the issues relating to these particular projects were resolved. In all cases where weaknesses were noted these were reported, accepted by management and addressed – or are being addressed. Overall there is a substantial assurance as to control systems.

The follow up of previously notified irregularities;

50 irregularities below the threshold were identified and recorded appropriately. These will be followed up within the respective Departments.

Indicate whether any problems identified were considered to be of a systemic character, and the measures taken, including a quantification of any financial corrections.

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>
46 Measure 2.4B	1	Recommended that various policy documents be obtained and held on file.	N/A
69 Measure 3.2	8	Recommended that all future Article 4 on-site checks performed earlier in the life of a project Recommended retrospective signing and dating of all assessment matrices by appropriate officers/individuals. Recommended that projects are closed sooner. Recommended that database be updated to show correct information. Recommended Summary of expenditure claim forms to be	N/A

		<p>retrospectively completed and signed.</p> <p>Recommended that specific objectives and performance indicators are clearly laid out in Letters of Offer for reasons of clarity and performance measurement.</p> <p>Recommended that evidence of sufficient Insurance cover for life of project be obtained and held on file.</p>	
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Recommendations will be followed up during 2007 and actions recorded in the 2007 report

6. FOLLOW UP OF PREVIOUS YEARS' AUDIT ACTIVITY

Details of the follow up of outstanding audit findings or results of expenditure checks from earlier years are set out below.

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

In 2005 a total of 8 irregularities were noted in respect of University of Ulster projects. Five of these were reported – as indicated * below (over EU element -€10,000 threshold).

Details are as follows:

UU – Geographic Information Systems - £18,059.41 *

UU – Food Biotechnology - £40,514.01 *

UU – International Business - £19,543.71 *

UU – Bioinformatics - £5,543.99

UU – Biotechnology - £36,921.57 *

UU - Pathways to Education for Women - £5,407.73

UU – Telecommunication and Internet Systems Project - £18,103.92 *

UU – Master of Research - £6,381

Recovery action was completed on all but one of the projects by 31 December 2006. Recovery on the remaining project (Food Biotechnology) was completed on 11 January 2007.

All other recommendations made on projects relating to earlier declared expenditure have now been cleared.

PEACE II

Peace II ESF recommendations made following previous Article 10 visits in 2005 were examined and it was confirmed that recommendations had been implemented and outstanding documentation was now on file.

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.

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