

EXECUTIVE SUMMARY

1. IDENTIFICATION

BODY RESPONSIBLE FOR THE AUDIT: DEPARTMENTAL VERIFICATION UNITS

AND DEPARTMENTAL INTERNAL AUDIT UNITS

CCI No: 1999GB161PO007

2000RG161PO001

**PROGRAMME TITLE: BUILDING SUSTAINABLE PROSPERITY
PEACE II**

FUND: FIFG

AUDITED BODIES¹: IMPLEMENTING BODIES AND PROJECTS

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 FIFG 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. It concentrates on the Fund FIG.

The Managing Authorities are Department of Finance and Personnel (BSP) 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 DARD Finance and Departmental Internal Audit Branches.

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

No changes were made to the audit strategy.

4. SYSTEMS AUDITS

Names of bodies carrying out systems audits during 2006 were:

Internal Audit Branch (IAB) of DARD carried out systems audits during 2006. Staff are qualified to the standards required by UK Treasury and the Branch is functionally and financially independent of the Managing Authority and the Paying Authority and all Implementing Bodies.

Below is a summary list of the audits carried out indicating the date of transmission of the audit report to the Commission;

<i>Date of audit visit</i>	<i>Name of Body / Project visited</i>	<i>Date Report provided to the Commission</i>
Report dated 17/05/06 (ref: EU16/2005/06)	Northern Ireland Fishery Harbour Authority (NIFHA) BSP Measures 4.13F and 4.13J (FIFG)	April 2007
Report dated 02/11/06 (ref: EU4/2006/07)	Review of Verification Unit	April 2007

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

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.

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;

<i>Name of Body / Project audited</i>	<i>Sufficient assurance ? Yes / No</i>	<i>If 'No' give details</i>
Northern Ireland Fishery Harbour Authority (NIFHA) BSP Measures 4.13F and 4.13J (FIFG) (ref: EU16/2005/06)	Yes	N/A
EC Paying Authority function (ref: EU5/2006/07)	Yes	N/A
Review of Verification Unit (ref: U4/2006/07)	Yes	N/A

No financial consequences / amounts to be recovered.

The follow up of the audit findings, in particular any corrective and preventive measures applied is detailed below:

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.

5. SAMPLE CHECKS ON EXPENDITURE

The EU Verification Unit, based in Dundonald House, DARD Headquarters, carries out the (Article 10) 5% sample checks in respect of BSP, Peace II measures for which the Department of Agriculture and Rural Development are the Accountable Department. The EU Verification Unit is not responsible for checks on PEACE II cross border measures, which are performed by SEUPB appointed consultants.

A summary list is shown below indicating 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);

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>
BSP: 7 Visits	£784,762.29	£1,351,163.44	6.84%	£784,748.29	0.00%

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 Article10(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 carried out from June 2004 to date are as shown in the Table below.

In addition to the findings listed in the Table, recommendations were made in reports regarding the current arrangements regarding document retention. The arrangement whereby some DARD Implementing Bodies rely on the projects to retain documents necessary for a sufficient audit trail carries the risk that documents will go missing after DARD's contact with the projects diminishes after the last instalment of grant has been paid. Internal Audit Branch has therefore recommended the development of document retention policies and supported the Department's initiative to have project documentation returned to Divisions at closure.

Measure/ Fund	Report Reference Number	Details
BSP 4.13A FIFG	V12-15/2004	N/A
BSP 4.13H FIFG	V64-65/2006	The Project submitted a claim for reimbursement of purchase of a crab washer. Amount claimed included Bankers commission which was paid by Fisheries Division resulting in a small (recorded) irregularity of £14.00
BSP 4.13K FIFG	V59-63/2006	N/A

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

While in some cases Implementing Bodies appeared to lack knowledge of specific EU legislative requirements (e.g. legislation relating to revenue generation and audit trail requirements), the low error rates detected support the conclusion that, overall, management and control systems are satisfactory.

Follow up of irregularities;

Recorded (under €10,000)

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 evidence of expenditure is not provided classifying the specific item as ineligible and withholding payment.

No major problems uncovered would indicate systemic errors.

Reported (over €10,000 – including those discovered before payment was made)

No problems identified were considered to be of a systemic character. Details are provided below.

BUILDING SUSTAINABLE PROSPERITY:

Project	Problem	Amount	Cleared Yes/No	How discovered
NIFHA – Portavogie Princess Anne Road Refurbishment	Included in error an invoice from another project. Irregularity fully vouched from subsequent claims.	€10,061.48	Yes	Normal financial controls – no systemic

<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>
Fisheries Division BSP 4.13. (FIFG) 4 irregularities	No	N/A	£3,136.26 2 of the irregularities have been resolved before the end of 2006.

None for the Peace II Programme

6. FOLLOW UP OF PREVIOUS YEARS' AUDIT ACTIVITY

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

7. CONCLUSION

The Head of DARD Internal Audit Branch has confirmed that the audit activity for the year concerned was in conformity with the audit strategy presented to the Commission.

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 Internal Audit Branch 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 recommendations 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 Internal Audit Services is satisfied that the management authorities have / are in the process of making the necessary financial corrections.

June 2007