

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 / unqualified	Where issues have been identified, annual follow up will be carried out as outlined in audit plan
2. some weaknesses identified	Recommendations for improvement / change made. Will be followed up during 2008 in the approach to closure
3. irregularities identified and reported	Reported and followed up in compliance with Regulation 1681/94 as amended by Regulation 2035/2005
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

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 2007 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 2007

4. SYSTEMS AUDITS

Names of bodies carrying out systems audits during 2007

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). Department of Education provide the Internal Audit service to the Department of Culture, Arts and Leisure (DCAL).

Summary lists of audits carried out and date of submission of the report(s) to the Commission – by Programme are shown in the following pages:

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

Date and Department	Bodies audited	Date report submitted to the Commission
2007(DETI)	DETI - European Programmes Measure 1.4 (District Councils) and general controls - follow up audit	11/09/2007
2007(DETI)	NITB - Measure 1.3b - review of monitoring arrangements	11/09/2007 (re-sent 20/06/2008)
2007(DETI)	Invest NI Client Groups Monitoring -Measures 1.1a,b and c	To be sent 30/06/2008
2007(DETI)	Invest NI - E Business follow up Measure 1.5	To be sent 30/06/2008
2007(DETI)	Invest NI - Sustainable Development follow up Measure 1.2	To be sent 30/06/2008
2007(DETI)	Invest NI - National Programmes follow up Measure 1.2	To be sent 30/06/2008
2007(DETI)	DEL - European Unit follow up to 2006 report	23/06/2008
Fieldwork Complete 31/05/2007 (DFP)	DFP EUD Management of RMA Central Database (IA 97/06)	Final Report issued 28/03/2008
Fieldwork Complete 06/07/2007 (DFP)	DFP EUD Management & Data Systems Unit follow up (IA 07/07)	Final Report issued 10/08/2007
Fieldwork Complete 26/11/07 (DFP)	DFP EUD Implementing Body & Low Level Co-Financinf Databases (IA 52/07)	Draft issued – some points still outstanding

Fieldwork Complete Jan 08 (DFP)	DFP EUD BSP financial Tables (IA 68/07)	Final issued 1/05/2008
Oct 2007 (DRD)	EHS - Systems Review	24/10/2007
Dept of Education	DE Funding Unit Measures 2.5 and 3.4	At draft report stage – awaiting finalisation.

PEACE II OPERATIONAL PROGRAMME

Date and Department	Bodies audited	Date report submitted to the Commission
2007(DETI)	DETI - European Programmes Measure 1.1 and general controls	11/09/2007 (re-sent 20/06/2008)
2007(DETI)	NITB - Measure 4.2a and 4.2b - review of monitoring arrangements	11/09/2007 (re-sent 20/06/2008)
2007(DETI)	Invest NI - PSU follow up Measure 1.1a	To be sent 30/06/2008
Fieldwork Complete 20/03/07 (DFP)	SEUPB Central Payments Unit (IA 79/06)	Final issued – 10/05/2007
Fieldwork Complete 31/05/07 (DFP)	DFP EUD Management of RMA Central Database (IA 97/06)	Final issued – 28/03/2008
Fieldwork Complete 13/06/07 (DFP)	OFMDFM European Policy and Coordination Unit follow up Measure 4.1 (IA 03/07)	Management letter issued 29/06/2007
Fieldwork Complete 06/07/07 (DFP)	DFP EUD Management & Data Systems Unit follow up (IA 07/07)	Management letter issued 10/08/2007

Fieldwork Complete 30/10/07 (DFP)	SEUPB Measures 4.1, 5.2 and 6 stats (IA 33/07)	Final issued – 23/11/2007
Fieldwork Complete (DFP)	OFMDFM Community Relations Unit Measure 2.1	Final issued 28/04/2008
Fieldwork Complete 14/12/07 (DFP)	SEUPB Central Payments Unit (IA 44/07)	Final issued 03/04/2008
Fieldwork Complete 26/11/07 (DFP)	DFP EUD Implementing Body & Low Level Co- Financing Databases (IA 52/07)	Draft issued 1/05/2008 – some outstanding issues to be addressed.
Fieldwork Not Yet Complete (DFP)	SEUPB Peace II Financial Tables	Fieldwork outstanding on drawdown reconciliation arrangements between Managing / Paying Authority
27/03/2007 (DARD)	RDD Measures 1.2b, 4.2b and 6.2a	28/11/2007
Dept of Education	DE Funding Unit Measures 2.1 and 2.8	At draft report stage – awaiting finalisation.
Sept 2007 (DCAL)	Inland Waterways and Inland Fisheries	Report provided to Commission in September 2007.

URBAN II COMMUNITY INITIATIVE

None carried out in 2007

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

Bodies audited	Conclusions on systems (unqualified/qualified/adverse)
DETI - European Programmes Measure 1.4 (District Councils) and general controls - follow up audit	This area had previously a limited opinion due to lack of Article 4 checks over implementing bodies. This limitation was lifted and a satisfactory opinion given as a result of this follow up audit.
NITB - Measure 1.3b - review of monitoring arrangements	Unqualified
Invest NI Client Groups Monitoring - Measures 1.1a,b and c	Unqualified
Invest NI - E Business follow up Measure 1.5	Unqualified
Invest NI - Sustainable Development follow up Measure 1.2	Unqualified

Invest NI - National Programmes follow up Measure 1.2	Unqualified
DEL - European Unit follow up to 2006 report	Unqualified
DFP EUD Management of RMA Central Database (IA 97/06)	Overall satisfactory however, qualification in relation to two issues to be addressed; namely no testing of Business Continuity Plans, and no documented change control procedures.
DFP EUD Management & Data Systems Unit follow up (IA 07/07)	Unqualified
DFP EUD Implementing Body & Low Level Co-Financing Databases (IA 52/07)	Draft Report issued - awaiting management response in order to confirm overall assurance rating
DFP EUD BSP financial Tables (IA 8/07)	Unqualified
EHS - Systems Review	Unqualified. This was a follow-up as the area had previously been provided with a limited opinion due to delays in processing applications and claims. The audit opinion has been upgraded to satisfactory as a result. Two previous recommendations have been fully implemented and the other 2 partially implemented.
DE Funding Unit Measures 2.5 and 3.4	Satisfactory assurance – some concerns raised about the arrangements for closure – at draft report stage, awaiting finalisation.

PEACE II OPERATIONAL PROGRAMME

Bodies audited	Conclusions on systems (unqualified/qualified/adverse)
DETI - European Programmes Measure 1.1 and general controls	Unqualified
NITB - Measure 4.2a and 4.2b - review of monitoring arrangements	Unqualified

Invest NI - PSU follow up Measure 1.1a	Unqualified
SEUPB Central Payments Unit (IA 79/06)	Unqualified
DFP EUD Management of RMA Central Database (IA 97/06)	Overall satisfactory however, qualification in relation to two issues to be addressed; namely no testing of Business Continuity Plans, and no documented change control procedures.
OFMDFM European Policy and Coordination Unit follow up Measure 4.1 (IA 03/07)	Unqualified
DFP EUD Management & Data Systems Unit follow up (IA 07/07)	Unqualified
SEUPB Measures 4.1, 5.2 and 6 stats (IA 33/07)	Unqualified
OFMDFM Community Relations Unit Measure 2.1	Unqualified but some minor issues raised
SEUPB Central Payments Unit (IA 44/07)	Unqualified - TBC
DFP EUD Implementing Body & Low Level Co-Financing Databases (IA 52/07)	Draft Report issued - awaiting management response in order to confirm overall assurance rating.
SEUPB Peace II Financial Tables	Fieldwork outstanding on drawdown reconciliation arrangements between Managing / Paying Authority.
RDD Measures 1.2b, 4.2b and 6.2a	Satisfactory opinion
DE Funding Unit Measures 2.1 and 2.8	Satisfactory assurance – some concerns raised about the arrangements for closure.
Inland Waterways and Inland Fisheries	Satisfactory assurance. Some concerns raised about the lack of requirement for selection panel members to complete conflict of interest declarations/project outputs, results and impacts not being specific.

5. SAMPLE CHECKS ON EXPENDITURE

Names of bodies carrying out sample checks during 2007

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.

Article 10 checks carried out in 2007 by Programme

Programme	Expenditure declared (in €) in 2007 (a)	Cumulative exp. declared (in €) up to 31.12.2007 (b)	Exp. Checked (in €) in 2007 (c)	Cumulative exp. Checked (in €) up to 31.12.2007 (d)	Checks as % of cumul. exp. declared (d/b)
BSP	63,126,568	730,376,638	5,435,110	56,924,605	7.8%
PEACE II	22,933,886	355,628,190	5,175,831	40,115,686	11.3%
URBAN II	3,460,195	5,589,543	438,236	1,216,061	21.8%

Error rates uncovered are shown below:

BUILDING SUSTAINABLE PROSPERITY	DETI Measures	6.97%
	DSD Measures (3.2)	8.03%
	(3.3)	0.4%
PEACE II	DETI Measures	1.09%
	DSD Measures	0.00%
URBAN II	Measure 1.1	0.00%
	1.3	42.7%
	2.1	1.71%
	2.2	0.00%
	2.3	0.00%

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 2007 confirmed that Implementing Bodies were complying with Article 10 of Commission Regulation (EC) No 438/2001.

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

Reported irregularities by Programme

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

Organisation	Amount	Status
Mellon Country Inns Ltd	€ 242,256.80	Open
Golfkeel SC	€ 54,547.19	Cleared
Killyhevlín Hotel Extension	€ 129,439.55	Cleared
Landmark Hotel	€ 177,193.26	Cleared
Largy SC	€ 46,242.40	Cleared
Silverbirch Hotel	€ 10,797.29	Cleared
Marketing Communications	€ 100,037.94	Cleared
Fermanagh Lakeland Lodges	€ 31,069.97	Cleared
Start a Business Programme (SABp)-All Councils	€ 11,573.99	Cleared
Castlereaugh Borough Council	€ 34,150.16	Detected before payment was made
Dungannon District Council	€ 12,290.43	Detected before payment was made
Magherafelt District Council	€ 11,307.96	Detected before payment was made
Development of a Hybrid Electric Rapid Transit System for Export Markets	€ 17,599.85	Detected before payment was made
Disruptive Innovation – Research to Address the Data Storage Demands of the Consumer Electronics	€ 36,617.68	Detected before payment was made
Novel Estrogen Compounds	€ 19,780.35	Detected before payment was made

for Use in Contraception		
Project 3/II Cone Crusher	€ 10,794.51	Detected before payment was made
1/II Front Illuminated PIN (FIP) Photohide Array for CT Detectors	€ 10,499.84	Detected before payment was made
Advanced Fuselage Technology Friction Stir Welding (1)	€ 10,147.46	Detected before payment was made
Advanced Fuselage Technology Friction Stir Welding (2)	€ 27,949.43	Detected before payment was made
Business Competitiveness	€ 17,235.08	Detected before payment was made
Coleraine Borough Council – Think Big Business Support	€ 18,347.40	Cleared
Strabane District Council – Dunamanagh & District Community Association	€ 30,905.08	Detected before payment was made
Ards Borough Council – Ards New Capital Build	€ 62,792.86	Detected before payment was made
Dungannon Borough Council - Workspace Development (Prefab Engineering)	€ 27,765.43	Detected before payment was made
Dungannon Borough Council - Programme Management	€ 12,518.46	Detected before payment was made
C2K - Classroom 2000	€ 15,400,000.00	Cleared
DE001	€ 21,865.02	Detected before payment was made

PEACE II OPERATIONAL PROGRAMME

Organisation	Amount	Status
Rehabilitation of Redundant Interpretation at MAGNI	€ 24,008.64	Detected before payment was made
Centre for Excellence – Institute for Electronics, Communications and Information Technologies (ECIT) (4)	€ 54,766.75	Detected before payment was made
Centre for Excellence – Enhanced System Integration and Test Centre (3)	€ 618,280.54	Detected before payment was made
Sandy Row CDA – Tackling Misperception Through Reconciliation	€ 11,106.11	Detected before payment was made
AAI Construction Ltd – Social Economy Project (1)	€ 32,176.02	Open
AAI Construction Ltd – Social Economy Project (2)	€ 20,985.94	Open
YANI - Community Links	€ 11,659.03	Cleared
Time Associates – Retail Skills Development Programme	€ 44,395.82	Open
Nerve Centre - Tri (GET) Project (Girl Power)	€ 10,623.00	Detected before payment was made
Castledearg Youth Forum - Moving On	€ 0.00	Fraud investigation underway

Trauma Recovery Network	€ 19,633.60	Open
- TRN Capital		
Cunamh – Deis	€ 10,951.42	Open

URBAN II Community Initiative

Nil

Financial corrections applied.

Where necessary, recoveries were effected from Projects by way of reimbursement or offset of the amount against the next payment due. No systemic errors were identified during 2007.

6. FOLLOW UP OF PREVIOUS YEAR'S AUDIT ACTIVITY.

In accordance with agreed procedures within Departmental Internal Audit Units, all findings are reviewed and followed up as part of the ongoing audit cycle within Departments. Follow up findings are reported as appropriate within the 'Systems Audit' section of this report.

7. CONCLUSION

Audit activity during 2007 conformed with the Audit Strategy. 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, these will be closely monitored during to ensure full assurance can be provided in the run up to BSP ERDF closure during 2008.

June 2008