

## 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 BODIES<sup>1</sup>:**

### **2. AUDIT SCOPE AND OBJECTIVES:**

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

<b><u>3. SUMMARY OF MAIN FINDINGS:</u></b>	<b><u>FOLLOW-UP ACTIONS:</u></b>
1. majority of audit findings satisfactory	Annual follow up as outlined in audit plan
2. some weaknesses identified	Recommendations for improvement / change made. Follow up work being carried out during 2008
3. irregularities identified and reported	Reported and followed up in compliance with Regulation 1681/94 as amended by Regulation 2035/2005
<b>4. OVERALL CONCLUSION / OPINION: Systems in place are operating to ensure reasonable audit assurance for ESF activities</b>	

<sup>1</sup> 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 2007 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 30<sup>th</sup> 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 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. Department of Education provide the Internal Audit service to DCAL.

Summary lists of audits carried out and date of submission of the reports to the Commission – by Programme are shown below:

### **BUILDING SUSTAINABLE PROSPERITY PROGRAMME**

<b>Date and Department</b>	<b>Bodies audited</b>	<b>Date report submitted to the Commission</b>
2007 (DETI)	DEL European Unit - follow up to 2006 Report	23/06/2008
Fieldwork Complete 31/05/07 (DFP)	DFP EUD Management of RMA Central Database (IA 97/06)	Final Report issued 28/03/2008
Fieldwork Complete 26/11/07 (DFP)	DFP EUD Implementing Body & Low Level Co-Financing 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
Dept of Education	DE Funding Unit Measure 2.4	Draft report stage – awaiting finalisation.

### **PEACE II OPERATIONAL PROGRAMME**

<b>Date and Department</b>	<b>Bodies audited</b>	<b>Date report submitted to the Commission</b>
2007 (DETI)	DEL European Unit	01/06/2007
2007 (DETI)	DEL - HERPB. Follow up to 2006 Report	23/06/2008
2007 (DETI)	DEL _ Sectoral Development. Follow up to 2006 Report	23/06/2008

Fieldwork Complete 20/03/2007 (DFP)	SEUPB Central Payments Unit (IA 79/06)	Final issued – 10/05/2007
Fieldwork Complete 31/05/2007 (DFP)	DFP EUD Management of RMA Central Database (IA 97/06)	Final issued – 28/03/2008
Fieldwork Complete 30/10/07 (DFP)	SEUPB Peace II Measure 4.1, 5.2 and 6 stats (IA 33/07)	Final issued – 23/11/2007
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 Database (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
Jan 2007 (DHSSPS)	DHSS & PS	28/01/2008.
Dept of Education	DE Funding Unit Measures 2.2 and 5.5	Measure 2.2 – draft report stage, awaiting finalisation. Measure 5.5 – SEUPB's Audit & Compliance completed a systems audit review – final report issued 09/07/2007.

## **EQUAL C.I.**

None carried out in 2007

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**

<b>Bodies audited</b>	<b>Conclusion on systems (unqualified/qualified/adverse)</b>
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 Implementing Body & Low Level Co-Financing Databases (IA 20/07)	Draft Report issued - awaiting management response in order to confirm overall assurance rating
DFP EUD BSP Financial Tables	Unqualified
DE Funding Unit Measure 2.4	Satisfactory assurance – some concerns raised about the arrangements for closure – at draft report stage, awaiting finalisation.

## PEACE II OPERATIONAL PROGRAMME

<b>Bodies audited</b>	<b>Conclusion on systems (unqualified/qualified/adverse)</b>
DEL European Unit	Qualified
DEL - HERPB. Follow up to 2006 Report	Unqualified
DEL _ Sectoral Development. Follow up to 2006 Report	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.
SEUPB Peace II Measure 4.1, 5.2 and 6 stats (IA 33/07)	Unqualified
SEUPB Central Payments Unit (IA 44/07)	Unqualified
DFP EUD Implementing Body & Low Level Co-Financing Database (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.
DHSS & PS	Adverse
DE Funding Unit Measures 2.2 and 5.5	Measure 2.2 – satisfactory assurance – some concerns raised about the arrangements for closure – at draft report stage, awaiting finalisation. Measure 5.5 – SEUPB’s Audit & Compliance completed a systems audit review – final report issued 09/07/2007.

## 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.

Article 10 checks carried out in 2007 by Programme:

Programme	Expenditure declared (in €) in 2007 (a)	Cumulative exp. declared (in €) up to 30.12.2007 (b)	Exp. Checked (in €) in 2007 (c)	Cumulative exp. Checked (in €) up to 30.12.2007 (d)	Checks as % of cumul. exp. declared (d/b)
BSP	111,669,744	416,581,019	4,121,069	46,109,156	11.1%
Peace II	13,842,211	236,800,159	1,758,118	10,424,953	4.4%
Equal CI	3,302,575	14,374,336	241,088	1,079,641	7.5%

Error rates uncovered during Article 10 checking:

BUILDING SUSTAINABLE PROSPERITY	0.29%
PEACE II	DSD Measure 2.3 22.61%
	2.4a 3.54%
	OFMDFM Measure 2.4b 2.14%

EQUAL

0.00%

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;

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

## **BUILDING SUSTAINABLE PROSPERITY PROGRAMME**

Nil

## **PEACE II OPERATIONAL PROGRAMME**

Organisation	Amount	Status
Three Steps to Employment	€ 277,056.60	Open
Domino Project	€ 23,716.08	Open
Moving Forward	€ 14,489.72	Detected before payment was made
Gingerbread NI - On Course	€ 53,183.68	Open
Pobail an Chaistil – Childcare Strategy	€ 26,341.46	Open
Time Associates – Inspire Programme	€ 64,911.01	Open
Time Associates – Advance Programme	€ 18,579.34	Open
Time Associates – Hospitality Programme	€ 226,993.56	Open
Time Associates – Community Training & Skills Development Programme	€ 277,056.60	Open
Time Associates –	€ 166,901.57	Open

Skills Enhancement Programme  
WAVE Trauma Centre – € 77,902.44 Detected before payment was made  
Members' Training Support  
Programmes

## **EQUAL 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 for inclusion in the report for 2008.

June 2008