

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**

<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 systems audits 'qualified'	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

4. OVERALL CONCLUSION / OPINION: WHILE SOME SYSTEMS AUDITS RESULTED IN 'QUALIFIED' OPINIONS, THE MAJORITY WERE CONSIDERED SATISFACTORY – PROVIDING REASONABLE ASSURANCE FOR FIFG FUNDS

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. 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 2007 were:

Internal Audit Branch (IAB) of DARD carried out systems audits during 2007. 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.

Systems audits carried out by Programme are detailed below:

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

Date and Department	Bodies Audited	Date report submitted to the Commission
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 26/11/2007 (DFP)	DFP EUD Implementing Body & Low Level Co-Financing Databases (IA 52/07)	Draft issues – some points still outstanding
Fieldwork Complete Jan '08 (DFP)	DFP EUD BSP Financial Tables (IA 68/07)	Final issued 01/05/2008
26/06/2007 (DARD)	Fisheries Division Measure 4.13a - 4.13j	28/11/2007
17/05/2006 and 27/06/2007 (DARD)	NIFHA Measure 4.13f	Report for 17/05/2006 sent on 18/04/2007. Report for 27/06/2007 sent on 28/11/2007
09/01/2007 (DARD)	Paying Authority BSP / FIGG	18/04/2007

PEACE II OPERATIONAL PROGRAMME

Date and Department	Bodies Audited	Date report submitted to the Commission
Fieldwork Complete 31/05/2007 (DFP)	DFP EUD Management of RMA Central Database (IA 97/06)	Final issued – 28/03/2008

Fieldwork Complete 26/11/2007 (DFP)	DFP EUD Implementing Body & Low Level Co-Financing Databases (IA 52/07)	Draft issued 01/05/2008 – some outstanding issues to be addressed
Fieldwork Complete (DFP)	SEUPB EUD Peace II Financial Tables	Fieldwork outstanding on drawdown reconciliation arrangements between Managing / Paying Authority
Fieldwork Complete 20/03/07 (DFP)	SEUPB Central Payments Unit (IA 79/06)	Final issued – 10/05/2007
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 14/12/07 (DFP)	SEUPB Central Payments Unit (IA 44/07)	Final issued 03/04/2008
25/07/2007 (DARD)	Fisheries Division Measure 5.7	November 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 by Programme;

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

Bodies audited	Conclusions on systems (unqualified/qualified/adverse)
DFP EUD Management of RMA Central Database (IA 97/06)	Overall satisfactory however, qualification in relation to two issues to be addresses; namely no testing of Business Continuity Plans, and no documented change control procedures.
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 Management & Data Systems Unit follow up (IA 07/07)	Unqualified
DFP EUD BSP Financial Tables (IA 68/07)	Unqualified
Fisheries Division Measure 4.13a - 4.13j	Unqualified
NIFHA Measure 4.13f	Unqualified
Paying Authority BSP / FIG	Unqualified

PEACE II OPERATIONAL PROGRAMME

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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 Peace II Financial Tables	Unqualified
Fisheries Division Measure 5.7	Unqualified

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.

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	7,952,183	36,542,403	376,023	2,253,070	6.2%
Peace II	0	1,014,690	0	291,128	28.7%

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

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 Article 10(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.

Error rates from Article 10 checks:

BUILDING SUSTAINABLE PROSPERITY 0.0008%
PEACE II

Reported irregularities by Programme

BUILDING SUSTAINABLE PROSPERITY PROGRAMME

Nil

PEACE II OPERATIONAL PROGRAMME

Nil

Any irregularities uncovered were below the reporting threshold (€10,000 EU) and therefore recorded by the Department of Agriculture and Rural Development for follow up action.

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 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.