



Northern Ireland Audit Office

**IDENTIFYING, REPORTING AND FOLLOWING  
UP ON IRREGULARITIES IN EU STRUCTURAL  
FUNDS IN NORTHERN IRELAND**

**A GOOD PRACTICE GUIDE**

April 2007

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## Introduction

In 2006, the Northern Ireland Audit Office (NIAO) conducted a review of the processes in place for identifying, reporting and following up on Irregularities in relation to EU Structural Funds within Northern Ireland. Further details on the background of this review are detailed at page 4.

The results of this review were reported to the National Audit Office who acted as a coordinator in putting together a UK report of findings in relation to England, Scotland, Wales and Northern Ireland.

This UK report, together with reports of other participating EU Member States, was combined to form a composite report of the EU Member States Working Group. This was presented to and approved by the Contact Committee of Supreme Audit Institution presidents in December 2006. Further details on the structure of the EU Member States Working Group are detailed at page 4.

## Scope of work performed in Northern Ireland

Our review began with a detailed understanding of the systems in place within Northern Ireland and the processes in place at the Co-ordinating Body (DFP: EU Structural Funds Division).

Based on the number of reported irregularities to date (in the 2000-2006 funding round) up to and including the quarter ended 30 September 2005, we chose a sample of reported irregularities from the two Accountable Bodies which reported the largest number of irregularities (86 per cent by value) during the review period to date. We used this sample as the basis of our detailed work and conducted a number of visits to these bodies, talked to key personnel responsible for reporting irregularities, and scrutinised records in relation to reporting irregularities.

As a result of this review we have put together the following guide with the aim of improving the reporting structures within Northern Ireland in relation to identifying, reporting and following up on Irregularities in relation to EU Structural Funds. The guide details areas of good practice that are currently in operation in Northern Ireland and also highlights certain areas of recommended good practice for the future.

## Background to the review

In 2000 the Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States and the European Court of Auditors (the 'Contact Committee') established a Working Group to carry out an exploratory survey of EU structural funds. A questionnaire was sent to the Supreme Audit Institutions (SAIs) to gain an understanding of how these funds were controlled and managed by the various countries and to identify possible risk areas. Work was planned to coincide with the 2000-2006 funding cycle and revision of the regulations covering the funds, most notably Council Regulation 1260/1999 and Commission Regulation 438/2001. The Working Group reported its findings from this work to the Contact Committee in November 2002.

The Working Group recommended to the Contact Committee that a parallel audit should be conducted which aimed to identify parts of the controls that need to be improved, and provide an overview of Good Practice. The Working Group proposed that the work should be focussed on the area of "the Audit Trail" and "the 5%-check" which it was considered offered the best opportunity for continuing the existing widely inclusive approach. The final report on this review was presented to the December 2004 Contact Committee<sup>1</sup>.

The December 2004 Contact Committee gave the Working Group a mandate to continue its reviews of Structural Funds issues and specifically; *"To carry out a review of the processes in place for identifying, reporting and following up on Irregularities"*. In order to comply with the 2004 mandate the Working Group developed an Audit Plan, to be used by SAIs in carrying out their respective national audits.

## Audit approach across the participating EU Member States

The overarching objective of this work and report was to capture the SAIs' judgments in identifying good practice in the implementation of the regulations governing the identification, reporting and follow-up of irregularities. In order to ensure a consistent approach, the Working Group developed an audit programme to be used by all SAIs, which addressed the key requirements for the identification, reporting and follow-up of irregularities as set out in Commission Regulations. The audit programme consists of a series of audit objectives, supplemented by more detailed guidance under each objective, although it was left to each SAI to decide on the most appropriate audit approach to address those objectives.

**We have used these objectives to provide the structure for the commentary on the identification, reporting and follow-up of irregularities in this report.**

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<sup>1</sup> While the UK presented a report on the 5% check, this was conducted by the NAO and based on England and Wales only. This did not include any findings from Northern Ireland.

## Conclusions of the United Kingdom audit report on identifying, reporting and following up on Irregularities

The examination in the United Kingdom covered the implementation of the EU Regulations in England, Wales, Scotland and Northern Ireland and covered all four EU Structural Funds. The examinations were conducted by the respective audit offices of each country.

The main conclusions of the UK audit are:

- We<sup>2</sup> were unable to place full reliance on the procedures in place within the various UK authorities for accurately and effectively identifying, recording, reporting and taking the appropriate financial correction action on irregularities. A prime concern was over the completeness of the process;
- There was a lack of consistency of approach across the UK, in particular in terms of the detailed guidance used to interpret the EC Regulations. As a result, some authorities were unclear as to what constitutes an irregularity, and in what cases an irregularity should be recorded, or later reported to OLAF. There were particular difficulties in interpreting the guidance on exempt cases;
- The UK still does not report electronically to OLAF; a situation which, when linked to the internal reporting systems, heightens the risk of transposition errors and generally slows down the process. Accordingly, we will recommend that the central UK focal point takes urgent action to finalise an arrangement with OLAF for full electronic reporting;
- We were satisfied with the robustness of the procedures in place to investigate and follow-up on recorded and reported cases. There was recognition of the potential threats to the annual expenditure targets (N+2), and to the Programmes, from a high incidence of irregularities and consequent financial corrections;
- We were pleased to note that good practice guidance was issued by two of the Managing Authorities in April 2005, which, if supported by adequate training for all staff involved with irregularities, and if disseminated to all other UK authorities, should improve the level of compliance with the Regulations through 2006 and beyond;
- Similarly, we concluded that the UK-wide process would benefit from a greater sharing of information and knowledge between all involved administrations and authorities; in particular leading up to the closure process for the 2000-2006 Programme;

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<sup>2</sup> 'We' refers to the NAO findings in relation to the combined reports of the UK audit offices.

## Background to EU Structural Funding in Northern Ireland

In Northern Ireland EU Structural Funds are distributed under two multi-fund operational programmes; Building Sustainable Prosperity (BSP) and Peace II. Within each of these programmes there are four EU Funds (ERDF, ESF, EAGGF and FIFG). In addition there are four Community Initiatives (Urban II, Equal, Leader+ and Interreg IIIA).

There are five Managing Authorities within Northern Ireland, one for each operational programme / Community Initiative (CI). These are:

<u>Programme / CI</u>	<u>Managing Authority</u>
BSP	Department of Finance and Personnel (DFP)
PEACE II	Special EU Programmes Body (SEUPB)
Equal	Department for Employment and Learning (DEL)
Urban II	Department for Social Development (DSD)
Leader+ (DARD)	Department for Agriculture and Rural Development
Interreg IIIA	Special EU Programmes Body (SEUPB).

A Paying Authority is assigned to each EU Fund as follows:

<u>Fund</u>	<u>Paying Authority</u>
ERDF	Department of Finance and Personnel (DFP)
ESF	Department for Employment and Learning (DEL)
EAGGF (DARD)	Department for Agriculture and Rural Development
FIFG (DARD)	Department for Agriculture and Rural Development

*Note: SEUPB is the paying authority for Interreg IIIA.*

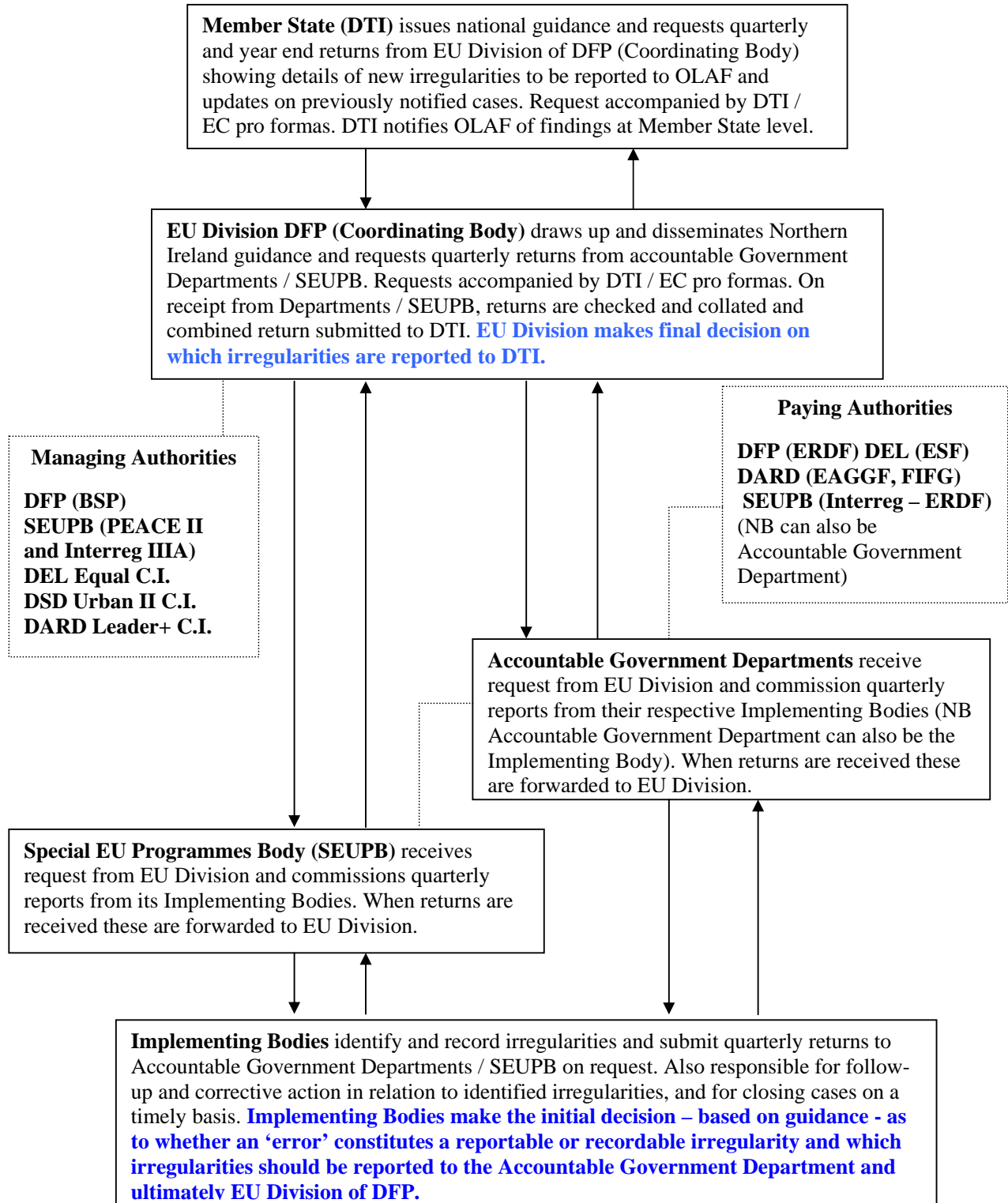
Programmes are administered by more than 50 Implementing Bodies, ie any public or private body, acting under the responsibility of a Managing Authority, designated to perform tasks on their behalf in relation to final beneficiaries. In some cases the Accountable Government Department<sup>3</sup> may also act as Implementing Body (eg certain measures under PEACE II), Paying Authority and / or Managing Authority, depending on what programme is being administered.

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<sup>3</sup> Accountable Government Departments are all Government Departments implementing BSP projects and, for PEACE II, those Government Departments that are accountable for voted monies passed via grants to SEUPB to facilitate payments to projects.

SEUPB plays a similar role to that of Accountable Government Departments in relation to gathering irregularity information from Implementing Bodies and reporting this to DFP: EU Division. In this report the term "Accountable Bodies" will be used to refer to Accountable Government Departments and / or SEUPB.

## Northern Ireland System for Identifying, Recording and Reporting Irregularities under EC Regulation 1681/94



## **Findings in relation to Key Audit Areas:**

### **Areas of Good Practice Identified and Good Practice Recommendations**

## Key Area 1: Guidance on the application and interpretation of EC rules on irregularity reporting

*This area included a description of the systems in operation within the Member State<sup>4</sup> and an investigation into the interpretation of the EC regulations and the level of guidance given within the Member State.*

### **Areas of Good Practice Identified in Northern Ireland**

- Dissemination of centralised guidance and DTI pro formas to ensure consistency and uniformity of reporting.
- Close working relationship between DFP: EU Division and DTI.
- Continuity of staff in DFP: EU Division resulting in high level of knowledge and experience of EC Regulations / guidance on the system for recording and reporting irregularities.
- Commitment of senior staff within DFP: EU Division to the improvement of the Northern Ireland reporting system demonstrated by their willingness to share knowledge and their open and cooperative approach to this review.
- Close working relationship with Accountable Bodies and willingness of all parties to meet and / or discuss and clarify requirements and procedures.

### **Good Practice recommendations**

1.1 The Accountable Bodies should ensure that guidance has been disseminated to all Implementing Bodies. They should also obtain confirmation of what steps have been taken by Implementing Bodies to ensure that responsible officials understand what constitutes an irregularity (in particular, administrative irregularities) and the procedures to be adopted to identify, record and report them. This is particularly important where there are changes in staff responsible for administering EU funds. The effectiveness of dissemination should be reviewed on a regular basis by the Accountable Bodies.

1.2 There should be more frequent training for staff involved in administering EU funds within the Accountable Bodies. Training should include highlighting examples of various types of irregularities and how they should be dealt with by administrative staff.

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<sup>4</sup> The UK is a Member State. However, for the purposes of the remainder of this report, reference to the Member State refers to Northern Ireland.

1.3 The provision of training for Implementing Bodies should also be considered as it is these organisations that take the initial decisions as to what constitutes an irregularity and which irregularities are reported. Again this area should be reviewed regularly, particularly where staff have changed.

1.4 The Accountable Bodies should collate, on a quarterly basis, details of *all* irregularities and compare the number and type of irregularities recorded and reported by the various administrative bodies. This would allow the identification of measures, programmes or administrative bodies where the number of irregularities recorded and / or reported would appear to be unreasonable, and to instigate further investigation where appropriate. Analysis would also enable the identification of types of errors, for example administrative errors, and whether they meet the definition of an irregularity as set out in the guidance. This review should also be used to assess the quality of decision making at Implementing Body level.

#### Recommendations made to the Commission

1.5 The Commission should consider whether an alternative to the term “Irregularity” might encourage a more open approach to recording and reporting.

1.6 A computerised system should be introduced within the UK to enable the Coordinating / Regional reporting bodies to input data to DTI. Once established this might be devolved to the Regions to enable the uploading of data to the Coordinating / Regional reporting Bodies by the Accountable Bodies.

## Key Area 2: Overview of the characteristics of irregularities found

*This area looked at the format and database(s) used to record irregularities, the number of irregularities reported to date, and the characteristics of the (potential) irregularities identified.*

Responsibility for recording potential irregularities is devolved to the respective Implementing Bodies, most of which record irregularities in computerised spreadsheet or database format. In June 2004 DFP: EU Division formally notified Accountable Bodies that Implementing Bodies must be able to provide “non-reportable” irregularity information from the start of the current programme (2000).

### **Areas of Good Practice Identified in Northern Ireland**

- Dissemination and utilisation of DTI pro formas to ensure consistency and uniformity of reporting irregularities.
- Northern Ireland results are reported to DTI in a format which is compatible with EC reporting systems.
- Pro formas completed to a high standard with sufficient information to enable a good understanding of the nature of irregularities, how they arose and action taken by Implementing Body.
- Pro formas and supporting documentation are readily available for inspection.

### **Good Practice recommendations**

2.1 A standard methodology for both recorded and reported irregularities should be adopted across all Implementing Bodies. This should include a standard recording format and the allocation of a unique code to each irregularity identified.

2.2 The Accountable Bodies should request information on all recorded irregularities on a quarterly basis and review these with a view to assessing the adequacy and appropriateness of the recording methodology. Corrective action should be taken where weaknesses are identified.

**Note:** Of the reported irregularities examined, 82% related to claims for costs to which the beneficiary was not entitled, or to cases where false claims or false supporting documents had been submitted. Implementing Bodies should be mindful of this when processing claims.

## Key Area 3: Examination and Decision Making on Recorded Irregularities

*This area reviewed recorded irregularities and decision making on whether or not reporting to OLAF is required, together with an analysis of irregularities.*

### **Areas of Good Practice Identified in Northern Ireland**

- Dissemination of good quality guidance to Implementing Bodies by Accountable Bodies/Managing Authorities, including examples of irregularities, pro formas etc.
- Stringent checking procedures for validating claims.
- Regular attendance at fraud awareness seminars by Departmental staff responsible for irregularity reporting.
- Continuity of staff in DFP: EU Division promotes expertise and sound advice to Accountable Bodies / Managing Authorities.

### **Good Practice Recommendations**

3.1 The Accountable Bodies / Managing Authorities should collate information on all recorded irregularities on a quarterly basis and review these with a view to assessing the quality of decision making and identifying poor or incorrect decisions. Assessment should be based on a review of the recorded irregularities that were not reported to ensure that correct decisions are taken as to what irregularities should be reported.

3.2 The Accountable Bodies should introduce specific procedures at Implementing Body level for the identification of fraud or misappropriation of funds especially in relation to the validation and authorization of claims. Given the high number of fraudulent related irregularities reported, specific procedures should be introduced to ensure that staff dealing with funding applications are mindful of fraud and consider fraud at each stage of the funding process.

3.3 The Accountable Bodies should liaise with the official in DFP responsible for collating information on fraud cases on a regular basis to ensure that all frauds or suspected frauds involving EU funds have been included in the quarterly irregularity reports submitted to DTI.

*Note: GANI (5.1.9) requires that all 'NICS Departments let the Department of Finance and Personnel and the NI Comptroller and Auditor General (C&AG) have details of all discovered fraud proven or suspected relating to the Department, or its Agencies and NDPBs.'*

3.4 Periodic review of irregularities identified should be undertaken at Accountable/ Implementing body level to ensure exemptions<sup>5</sup> are recorded correctly and that no systemic irregularities have occurred.

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<sup>5</sup> Irregularities below €4,000 are not required to be reported to OLAF per Regulation (EC) No 1681/94. This was increased to €10,000 in December 2005 by Regulation (EC) No 2035/2005.

## Key Area 4: Systems in place to capture and report details of irregularities to DTI (and ultimately to OLAF) in accordance with EC Regulations, rules and guidance

*This area addressed how information on recorded irregularities is captured, who formally reports findings to OLAF, whether irregularities are reported electronically, and what checks are carried out within Member States to ensure that all reports to OLAF are complete and accurate.*

### **Areas of Good Practice Identified in Northern Ireland**

- Strict control by the DFP: EU Division over the format of reporting, resulting in sufficient, uniform information being notified to DTI.
- Requirement that returns submitted to the DFP: EU Division by the Accountable Bodies are certified at an appropriate level.
- Although in previous years information was often not submitted to DTI within the target date, there has been significant improvement during 2005.
- Accountable Bodies are notified of annual OJEC exchange rates on a timely basis ensuring correct rates used.
- DFP: EU Division challenges nil or negligible irregularity returns and seeks assurances that the Accountable Body concerned fully understands what constitutes an irregularity.
- One Accountable Body examined receives *monthly* irregularity returns from Implementing Bodies and checks these against “clawback reports” for the period, thereby identifying irregularities which may not have been reported.
- Retrospective corrective action instigated where there have been inaccuracies / omissions.

## Good Practice recommendations

4.1 The Accountable Bodies should collate details of all recorded irregularities on a quarterly basis and review these with a view to assessing the quality of decision making at Implementing Body level and identifying poor or incorrect decisions.

4.2 Where returns / pro formas are submitted electronically, the name and grade of the certifying officer, together with the date certified, should be typed in the relevant boxes to demonstrate that they have been cleared at the required level.

4.3 DFP: EU Division should seek to ensure that returns are submitted to DTI within the DTI target date, and certainly before the OLAF deadline. Investigation of cases still marked as open should not delay returns to DTI or OLAF.

4.4 Where necessary, DFP: EU Division must ensure Accountable Bodies comply with the requirement to submit returns on a timely basis to enable DFP: EU Division to meet the DTI target dates for submission.

4.5 Independent spot checks by the Accountable Bodies should be carried out on a sufficiently timely basis to allow any necessary corrective action to be taken prior to quarterly reports being submitted to DTI.

## Key Area 5: Follow-up / investigation by the Commission and the Member States of the Irregularities Reported to OLAF

*This area focused on the follow up of irregularities that were reported to OLAF, whether further reports to OLAF include detailed information about the progress made in the follow-up of reported irregularities, how completed Irregularity investigations are reported to OLAF, and the length of time taken to finalise the processing of identified irregularities.*

### Areas of Good Practice Identified in Northern Ireland

- Irregularities, once detected, are followed-up on a timely basis with appropriate further investigations instigated quickly following discovery.
- Investigations are rigorously pursued until recovery secured (recovery procedures had not been abandoned in any of the cases examined).
- Police are informed of suspected fraud where appropriate and involved in investigations at an early stage.
- Update reports are largely completed to a high standard with good understanding of the information required.
- Reports containing insufficient detail are returned to the Accountable Body concerned by DFP: EU Division for amendment.
- Corrective action taken by Implementing Bodies and noted on update reports was appropriate in light of the causes underlying irregularities.

### Good Practice Recommendations

5.1 Accountable Bodies must require Implementing Bodies to ensure that update reports are submitted on a timely basis to cover each subsequent reporting period following that in which the irregularity was first reported.

5.2 Accountable Bodies should ensure that Implementing Bodies enter all of the required information on pro formas. Where this is not the case pro formas should be returned to Implementing Bodies for correction / completion prior to submission to DFP: EU Division.

5.3 Accountable Bodies must respond promptly to requests for advice from Implementing Bodies on suspected irregularities. This is particularly

important where fraud is suspected to ensure that funding is stopped / appropriate action is taken on a timely basis.

5.4 Accountable Bodies should place more pressure on Implementing Bodies to provide updates on open cases on a timely basis. Where cases remain open for extended periods, Accountable Bodies should discuss what action has been taken to recover funds, and decide (and evidence decision) whether difficult cases should be written off.

## Key Area 6: Financial Corrections

*This area looked at what financial corrections have been made by the Member state, how such corrections have been documented and reported, and what measures, if any, the Commission has taken in these cases.*

It was not possible to readily ascertain the value of financial corrections made in respect of irregularities reported during the period. This is because the amounts of claims for drawdown from the Commission are submitted to the relevant Fund Paying Authority by Accountable Bodies net of financial corrections<sup>6</sup>.

### Good Practice Recommendations

6.1 Accountable Bodies should show the gross amount of drawdowns, together with the amount to be netted off in respect of financial corrections, on claims submitted to the relevant Fund Paying Authority.

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<sup>6</sup> These were the findings of the NIAO at the date of submission of the Northern Ireland (NIAO) report to the NAO (April 2006). However, we have been informed by DFP: EU Division that as a result of changes in procedures by the Commission claims now detail separately the recovery amounts deducted before the claim is submitted.