



IRELAND

ERDF & COHESION FUND FINANCIAL CONTROL UNIT

Annual Report 1999



A Unit established by the
Department of Finance
with the support of the European Commission

May 2000



IRELAND

ERDF & COHESION FUND FINANCIAL CONTROL UNIT

Annual Report 1999

A Unit established by the
Department of Finance
with the support of the European Commission





ERDF & Cohesion Fund Financial Control Unit

8th Floor,
Lansdowne House,
Ballsbridge,
Dublin 4,
Ireland.

Telephone: 353 - 1 - 604 5047

Facsimile: 353 - 1 - 660 3142

E-mail:

eucontrol@cmof.finance.irlgov.ie



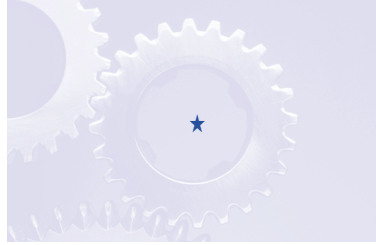


Table of Contents

<p>★ Foreword 4</p> <p>1 EXECUTIVE SUMMARY</p> <p>1.1 Background 5</p> <p>1.2 Key function of Unit 5</p> <p>1.3 Control checks completed 5</p> <p>1.4 Organisations visited 5</p> <p>1.5 Key findings 5</p> <p>1.6 Key recommendations 6</p> <p>1.7 Irregularity reports 7</p> <p>1.8 Response to findings and recommendations 7</p> <p>2 INTRODUCTION</p> <p>2.1 Background 8</p> <p>2.2 Financial Control Unit 8</p> <p>2.3 Key Objectives 8</p> <p>2.4 Staff and Location 9</p> <p>2.5 Key functions 9</p> <p>2.6 Format of control check reports 10</p> <p>2.7 Remit of the Financial Control Unit 10</p> <p>3 PLANNING</p> <p>3.1 Introduction 11</p> <p>3.2 FCU Multi-annual Plan 11</p> <p>3.3 Operational Programme funding structures 11</p> <p>3.4 Year Plan – 1999 12</p>	<p>4 REVIEW OF PERFORMANCE – 1999</p> <p>4.1 Business plan 13</p> <p>4.2 Operational Programme funding flowcharts 13</p> <p>4.3 Internal Control Questionnaires 13</p> <p>4.4 Audit programmes 13</p> <p>4.5 Training and seminars 13</p> <p>4.6 Proposed Structural Fund computer system 14</p> <p>4.7 European Commission and European Court of Auditors 14</p> <p>4.8 Participation in Interdepartmental Committees 14</p> <p>4.9 Accounts – 1998/99 14</p> <p>5 CONTROL CHECK RESULTS</p> <p>5.1 Control checks completed 15</p> <p>5.2 Findings and recommendations 15</p> <p>5.3 Progress on Systems-Based Audits 21</p> <p>5.4 Progress on 5% verification of transactions 22</p> <p>5.5 Irregularity reports – Regulation 1681/94 22</p> <p>5.6 Response to recommendations 22</p> <p>★ APPENDICES</p> <p>A Organisations visited during control checks 24</p> <p>B Commission Regulation (EC) 2064/97 25</p> <p>C ERDF financial controls in Ireland 30</p> <p>D Financial Control Unit – Progress in 1999 31</p> <p>E Operational Programme – funding flowchart 32</p>
---	---



Foreword

This Report outlines the background to the establishment of the ERDF & Cohesion Fund Financial Control Unit and the environment in which it operates. The Report also indicates the outputs of the Unit during 1999 and the findings and recommendations which have been disclosed in confidential control check reports issued by the Unit.

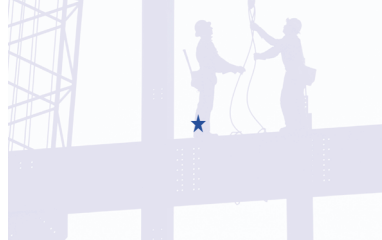
The principal function of the Unit is to monitor and report on the adequacy of financial management and control of ERDF and Cohesion Fund projects in Ireland. The Unit has right of access to the books and records of all organisations in the funding cascade of Operational Programmes. The Unit visited 58 organisations during the year, in the course of examining 6 Operational Programmes.

We would like to record our appreciation of the co-operation received from staff in the organisations which we have visited. The primary function of the reports is to disclose clear findings and make constructive recommendations

which contribute to improved financial management and control. By the nature of the findings and the organisations involved, the contents of the reports remain confidential and distribution is limited to the European Commission, the Department of Finance and the Lead Department responsible for the strategic management of the Programme or Initiative.

It is intended that this Report will bring the findings and recommendations in the confidential reports to a wider audience in order to highlight common weaknesses or problems which the Unit has found in the course of its work. It is hoped that management and staff of organisations which play a role in administering Structural Fund aid will find the Report helpful in the continued development of their financial management and control systems.

Dermot Byrne CPFA
Head of Unit
8 May 2000



1 Executive Summary

1.1 Background

The Financial Control Unit (FCU) was established by the Department of Finance on 1 December 1998 under the Community Support Framework and is 75% funded by the Technical Assistance Operational Programme.

1.2 Key Function of Unit

The Unit carries out control checks (audits) on each of the Operational Programmes under its remit as well as a sample of Cohesion Fund projects and Community Initiatives. (see 2.7)

1.3 Control checks completed

In the period February -- December 1999, the FCU completed control checks on 6 Operational Programmes/ Initiatives as follows:

- ★ Tallaght Hospital
- ★ Industrial Development OP
- ★ Fisheries OP
- ★ Tourism OP
- ★ Human Resources Development OP
- ★ LEADER II Community Initiative

1.4 Organisations visited

Staff of the Unit have carried out control checks in a total of 58 organisations in the period February - December 1999. This comprised the Department of Finance (the national designated authority) and the following bodies (see schedule of organisations at Appendix A):

Lead Departments	6
Implementing Bodies	17
Final Beneficiaries (project sponsors)	34
	57

The Unit encountered a high level of co-operation from bodies and individuals visited during the control checks, both in the public and private sector. We have had ready access to all records and documents requested and to premises selected for visits in the course of control checks. Similarly, internal audit units in government departments and agencies have facilitated the efficient conduct of our audits.

1.5 Key findings

(a) Control Environment

The Unit has found that, in general, there was a sound control environment operating in Government and Semi-State organisations. Subject to some exceptions, there was a clear audit trail from European Regional Development Fund (ERDF) claims submitted to the European Commission back to original supporting documentation. Control weaknesses tended towards a lack of clearly defined organisational responsibilities and procedures for Structural Fund activities.

(b) Expenditure return errors

Errors were found in the compilation of expenditure returns by Implementing Bodies and Lead Departments. The errors were due to omissions and duplications in claims from implementing bodies and to misinterpretation by organisations of financial data returned by bodies at a lower level in the cascade.

It was our view that the use of different formats of expenditure returns and a lack of formalised checking and supervisory controls contributed to the incidence of errors detected by the Unit.

(c) Expenditure actually incurred

EU regulations stipulate that only actual expenditure incurred and paid is eligible for aid. During control checks advance payments, accrued expenditure and unpaid invoices were detected in expenditure claims and returns. Such expenditure is not eligible under Structural Fund regulations.

(d) Ineligible Expenditure

Cases of ineligible expenditure were noted, together with a number of instances where we have requested Lead Departments to seek clarification of eligibility from the European Commission.

(e) Budgeting and cost control

In the case of two similar large scale capital projects we found that budgeting and cost control procedures had been poor, resulting in cost overruns and the requirement for further State funding in order to successfully complete the projects.

(f) Progress on Controls – EU Regulation 2064/97

We noted slow progress, particularly during the control checks carried out in the earlier part of 1999, in the implementation of the systems-based audits and 5% verifications required by Commission Regulation 2064/97 (*see 2.1*). This position improved significantly as the year went on and we will, in any event, be reviewing progress regularly during 2000.

1.6 Key recommendations**(a) Control environment**

Organisations should ensure that documentation to support expenditure claims/returns is adequate and clearly identifiable.

Organisations should ensure that there are documented procedures for the financial management and control of EU funding. These procedures should outline the duties and responsibilities of staff and ensure adequate checking of financial information.

(b) Expenditure Return Errors

Standardisation of the format of expenditure returns would help to eliminate errors and facilitate verification of financial information. More stringent checking procedures in the compilation of expenditure claims/returns are desirable to eliminate errors in the compilation of returns. Similarly, expenditure returns from the level below in the cascade should be reconciled to previous returns and explanations sought for any discrepancies.

(c) **Expenditure actually incurred**

Claims from final beneficiaries should only include expenditure incurred and paid. Where implementing bodies are concerned about possible breaches of this regulation, they might consider requesting supporting schedules of payments to accompany grant claims (amount, payee, date, date cashed etc.). This information would be subject to spot-checks by the implementing body.

(d) **Ineligible Expenditure**

The Unit's findings in relation to eligibility of expenditure point to a lack of awareness by a number of final beneficiaries of the specific eligibility criteria as outlined in the Structural Fund Factsheets. We recommended that Lead Departments and implementing bodies ensure that all final beneficiaries are made aware of eligibility and other EU regulations.

(e) **Budgeting and cost control**

In the case of innovative projects undertaken by relatively small or inexperienced organisations or groups, we recommended that Lead Departments and implementing bodies should ensure, at the planning stage, that the necessary project management expertise and financial and cost control procedures are in place prior to commencement of the project. We also recommended that, in such cases, more stringent monitoring by implementing bodies is required.

(f) **Progress on Verifications - Regulation 2064/97**

We have requested all organisations to furnish details of their plans for both systems-based audits by internal audit functions and the 5% transaction testing by operational units. The roll-out of audits for 2000 has been completed in that the Department of Finance Internal Audit Unit has informed Lead Departments of the systems-based audits that they are required to perform.

1.7 **Irregularity reports**

As the result of findings of control checks, we have requested Lead Departments to submit Irregularity Reports pursuant to Regulation 1681/94 in 8 cases where errors or irregularities occurred (*see 5.5*)

1.8 **Response to findings and recommendations**

We have had a satisfactory and encouraging response from audited bodies to our findings and recommendations. Organisations have indicated proposed improvements and corrections, in many cases implemented prior to completion of the relevant Control Check Reports.

The Department of Finance has also communicated with Lead Departments regarding our findings and has found corrective measures have been, or are in the course of being, implemented. The Unit will continue to monitor implementation of its recommendations.

2 Introduction

2.1 Background

In May 1997, a firm of consultants was engaged by the Department of Finance to review the financial management and control systems relating to the ERDF, the EU Cohesion Fund and the EFTA Cohesion Fund.

One of the aims of the review was to establish a financial control and auditing structure which would enable the Department of Finance to comply with the requirements of Commission Regulation (EC) No. 2064/97 of 15 October 1997. The Regulation set out the detailed arrangements required as regards the financial control by Member States of operations co-financed by the Structural Funds (*See Appendix B*).

Broadly speaking the consultant's report (March 1998) findings reflected a need to formalise procedures rather than indicating any major problems in the system of financial management and control.

2.2 Financial Control Unit (FCU)

Section 3.1.5 of the Report recommended that a separate ERDF Control Unit be established "to further strengthen this system of interlocking controls between responsibility levels, and to properly authenticate the final certification to the Commission", looking not just at the Department of Finance and Lead Department elements of the overall system but "down through all levels" of the 'Cascade'.

Appendix C illustrates the 'Cascade' structure and the financial controls and audit arrangements operating at each level. The

detailed arrangements to implement the Commission Regulation were set out in Department of Finance Circular 23/98 (December 1998).

The Report further proposed that, given the Department of Finance's role as the national designated authority for ERDF expenditure, it was appropriate that the FCU be functionally independent of the Department in order to ensure, and demonstrate, transparency and objectivity in its work.

2.3 Key objectives

The key objectives of the Unit are to:

- ★ independently examine and report on the level of compliance of EU funded projects with Structural and Cohesion Fund regulatory requirements
- ★ contribute to the promotion of best practice in the financial management and control of EU aided programmes.

The Unit is committed to carrying out audits to the highest professional standards and to providing good quality, fair and balanced reports in a timely manner.



2.4 Staff and location

The Unit has a staff of 4, comprising the Head of Unit and two Controllers* with a clerical officer providing administrative support. It is based on the 8th floor, Lansdowne House, Ballsbridge, Dublin 4.

Head of Unit

Dermot Byrne CPFA
Phone: 353 - 1 - 604 5014
E-mail: dermot_byrne@cmod.finance.irlgov.ie

Controllers

Michael Ryan B.E (Civil), ACA
Phone: 353 - 1 - 604 5145
E-mail: michael_ryan@cmod.finance.irlgov.ie

Ian Drennan FCCA
Phone: 353 - 1 - 604 5023
E-mail: ian_drennan@cmod.finance.irlgov.ie

Administrative support

Frank O'Byrne
Phone: 353 - 1 - 604 5047
E-mail: eucontrol@cmod.finance.irlgov.ie

*Note: The Head of Unit and Controllers are on secondment to the Department of Finance from the Office of the Comptroller and Auditor General for the duration of their contracts.

One of the Controllers, Ian Drennan, was temporarily reassigned to the C&AG's Office for a 24 week period ending 23 July 1999.

2.5 Key functions

In line with the key objectives outlined at 2.3, the key functions of the Unit are as follows:

- ★ To review adherence to best practice by the Department of Finance, Lead Departments, Implementing Bodies and Final Beneficiaries, by reviewing the systems of financial management and control at each level.
- ★ For each form of assistance, to review the implementation of systems-based audits by internal audit units in line with Finance Circular 23/98 in order to comply with EU Regulation 2064/97 (Article 3.1(a)).
- ★ To review the implementation of the 5% transaction verification in line with Finance Circular 23/98 in order to comply with EU Regulation 2064/97 (Article 3.1(b)).
- ★ The principal work of the Unit is to carry out control checks (audits) on expenditure claims under ERDF and Cohesion Fund measures in order to:
 - ★ determine the level of compliance with eligibility and other regulatory requirements of the Structural Funds.
 - ★ establish the effectiveness of the financial management and control systems in place, i.e. to prevent, detect and correct errors and irregularities and establish compliance with Finance Circular 23/98.



- ★ test the audit trail for selected expenditure, by tracing amounts from the ERDF claim back to the original expenditure.
- ★ advise the Lead Department and other auditees of any irregularities or system weaknesses identified in the course of audit. This is communicated, in accordance with best practice, by way of management letter to the bodies concerned.
- ★ furnish a Control Check Report to the Department of Finance, EU Commission and Lead Department outlining the findings, conclusions and recommendations of the control check.

2.6 Format of control check reports

Control check reports will comprise the following sections:

1. Executive Summary
2. Objectives of Control Check
3. Methodology and Scope of the Control Check
4. Findings and Conclusions
5. Recommendations

2.7 Remit of the Financial Control Unit

The following are the 1994-99 Structural Fund expenditure programmes which fall under the remit of the Unit:

(a) **European Regional Development Fund Operational Programmes:**

1. Transport
2. Tourism
3. Economic Infrastructure
4. Environmental Services
5. Local Urban & Rural Development
6. Human Resources Development
7. Industrial Development
8. Fisheries
9. Technical Assistance
10. Tallaght Hospital (single project)

(b) **Cohesion Fund**

1. Transport Infrastructure Projects
2. Environmental Projects

(c) **Community Initiatives**

1. Interreg: Ireland-Northern Ireland
2. Interreg: Ireland-Wales
3. Leader II
4. Peace & Reconciliation Special Support Programme
5. PESCA
6. SME (Small & Medium Enterprises)
7. URBAN
8. RETEX



3 Planning

3.1 Introduction

As the professional staff of the Unit have been appointed on a 30 month contract basis, the planning and execution of control checks is based on an equivalent operating period.

3.2 FCU Multi-annual plan

The Unit is required to audit its remit of Programmes (as outlined in section 2.7) during the 30 month period from December 1998 to May 2001. It is planned to carry out control checks in two cycles over this period, as outlined in Table 3.2.

3.3 Operational Programme Funding Structures

Operational Programmes are, with the exception of Tallaght Hospital, subdivided into Sub-programmes, which in turn are subdivided into Measures and Sub-measures.

The selection of Measures and projects for examination by the Unit is in line with the requirements of Article 3 of EU Regulation 2064/97 (*Appendix B*) i.e. on the basis of risk analysis having regard to the conditions that the sample of projects to be audited shall take account of:

Table 3.2 **Multi-annual Plan (1998 - 2001)**

Phase	Duration (months)	Planned activity
Phase 1 December 1998 – January 1999	2	Establishment and Planning ★ Establishment of Unit ★ Procurement and planning ★ Office / financial control ★ Structural Fund Information systems.
Phase 2 February 1999 – June 2000	17	Cycle 1 Control Checks ★ Control check in respect of each of the 10 OP's and a sample of Cohesion fund projects and Community Initiatives ★ Annual Report
Phase 3 July 2000 – May 2001	11	Cycle 2 Control Checks ★ Follow-up control checks on selected programmes and projects based on Cycle 1 results and ongoing risk assessment. ★ Annual Report

Source: FCU Business Plan

- ★ the need to audit an appropriate mix of types and sizes of projects or actions.
- ★ any risk factors which have been identified by National or Community controls.
- ★ the requirement that the projects selected for audit include the main implementing authorities and final beneficiaries before closure of each form of assistance.



3.4 Year plan - 1999

Based on the above long term approach, the Unit works to a year plan for each calendar year outlining the control checks and other work planned on a week by week basis. The key work areas and assignments scheduled for 1999 were as follows:

- ★ Establishment of Unit's office and information systems
- ★ Preparation of Business Plan for Unit
- ★ Liaison with Court of Auditors and European Commission Directorates
- ★ Liaison with Internal Audit and Structural Fund Operational Units

- ★ Control Checks on Operational Programmes:-
 - ★ Tallaght Hospital Project
 - ★ Industrial Development
 - ★ Tourism
 - ★ Human Resources Development
 - ★ Fisheries
 - ★ Local Urban and Rural Development
- ★ Community Initiative control check
- ★ Cohesion Fund control check
- ★ Liaison with Structural Fund Computer System User Group

A Chart outlining the progress of the Unit in 1999 is at Appendix D.



4 Review of Performance – 1999

4.1 Business plan

A Business Plan for the Unit was completed and agreed with the Department of Finance in May 1999. The plan addresses the strategic approach and key issues relating to its review of the financial management and control of ERDF and Cohesion Fund projects in Ireland.

The plan outlines:

- ★ Key objectives and functions of the Unit
- ★ Guiding principles
- ★ Critical success factors
- ★ Approach to control checks (audits)
- ★ Responsibilities and duties of members of the Unit
- ★ Risk assessment model
- ★ Multi-annual plan
- ★ Year plan - 1999

4.2 Operational Programme funding flowcharts

In order to address the requirement for a risk assessment approach to the planning of audits, the Unit completed funding flowcharts for each of the Operational Programmes and other funding mechanisms under its remit. These diagrammatic models facilitated a thorough examination of all the funding audit trails. An example of a funding flowchart (the Operational Programme for Tourism) is at Appendix E.

4.3 Internal control questionnaires

The Unit has developed internal control questionnaires (ICQ's) for (i) Lead Departments/Implementing Bodies, and; (ii) Final

Beneficiaries, in order to facilitate the recording and evaluation of financial control systems in the organisations under review. The content of the ICQ's is based on the approach taken in the European Commission's Management and Control Systems Audit Manual (April 1999).

4.4 Audit programmes

Based on the ICQ's (4.3 above) the Unit draws up audit programmes for each of the control checks (audits) carried out in organisations administering funding in a particular Operational Programme. The programme records the audit tests carried out in the course of the control check and the results thereof.

4.5 Training and seminars

The Unit has been involved in a number of training and advisory activities relating to audit and financial control of Structural Funds.

(a) Ireland

The Unit takes part in training and information seminars for operational divisions and internal audit units as requested. The focus of the Unit's input is on the approach taken by Ireland in implementing EU Regulation 2064/97 in relation to financial controls by Member States for EU co-financed operations.

(b) Accession Countries

The Unit has also participated in training seminars organised for visiting delegations from EU accession countries. These visits have been organised in conjunction with the Department of Finance and, in some cases, the Institute of Public Administration.



Input of the Unit focuses on an outline of:

- ★ the auditing relationships in Europe and Ireland
- ★ Ireland's approach to implementation of Commission Regulation 2064/97 in 'Cascade' bodies
- ★ the relationships and functions of the various audit entities
- ★ the approach taken by the ERDF & Cohesion Fund Financial Control Unit to monitor financial controls in Ireland.

The Unit has also been invited to visit accession countries to take part in training seminars as outlined above.

4.6 Proposed Structural Fund computer system

The Unit is contributing to the development phase of a proposed Structural Fund computer system which is scheduled for implementation as part of the financial management and control system for projects planned under the National Development Plan 2000-2006.

4.7 European Commission and the European Court of Auditors

The Unit has met with officials of the European Commission and the European Court of Auditors (ECA) visiting Ireland to carry out audits. Staff of the Unit accompanied Commission and ECA officials on audits carried out during early 1999 in order to establish the audit approach taken by them.

The Unit participated in 'Co-ordination of Controls' meetings in Brussels in January 1999 and February 2000 in line with the requirements of Article 6 of Regulation 2064/97.

The purpose of these meetings was to outline the Irish audit programme for 1999 and 2000 respectively for each of the Structural Funds and to co-ordinate Ireland's audit plans with those of the various European Commission Directorates and the ECA.

4.8 Participation in Interdepartmental Committees

The Unit, on its establishment, became a member of ICSEM (Interdepartmental Committee on Sound and Efficient Management) which meets regularly to discuss issues arising from Ireland's approach to financial management of the Structural Funds.

The Unit is also a member of the Protocols Internal Audit Units (PIAU) Committee. This Committee deals with issues relating to the protocols for management and closure of the Operational Programmes in terms of audit and control requirements.

4.9 Accounts – 1998/99

The total expenditure of the Unit for the 13 month period from 1 December 1998 to 31 December 1999 was £157,615. This expenditure is analysed in Table 4.9.

Table 4.9 Unit Expenditure 1998/99

Expenditure heading	€	IR£
Payroll	148,421	116,891
Computer equipment	25,265	19,898
Furniture and fittings	5,898	4,645
Travel and subsistence	12,426	9,786
Telecommunications services	2,769	2,181
Training	1,484	1,169
Subscriptions	930	732
Other office expenses	2,937	2,313
Total	200,130	157,615

Source: FCU Records



5 Control Checks Results

5.1 Control checks completed

Up to 31 December 1999, control checks have been completed in respect of the following Operational Programmes:

- ★ Tallaght Hospital
(report outstanding)
- ★ Industrial Development
(July 1999 report)
- ★ Tourism
(September 1999 report)
- ★ Fisheries
(November 1999 report)
- ★ Human Resources Development
(January 2000 report)
- ★ LEADER II Community Initiative
(February 2000 report)

At that date, control checks were in progress on the Operational Programme for Transport and selected Cohesion Fund projects. The reports are planned for May 2000. At the date of this report, detailed planning in respect of the Operational Programmes for (i) Local Urban and Rural Development, and; (ii) Environmental Infrastructure is underway.

5.2 Findings and recommendations

As outlined in the introduction to this Report, the findings and recommendations resulting from control checks on each Operational Programme remain confidential to the European Commission, the Department of Finance and the Lead Department involved.

The purpose of this report is to broadly outline the issues raised by the Unit in order to increase awareness of possible problem areas in

relation to the financial control of Structural funding. Therefore, this report makes no reference to the organisations which were the subject of the findings outlined.

(a) Audit trail

A key control examined during the control checks is the adequacy of the audit trail – the clarity and availability of supporting documentation at each level in the cascade to support expenditure returns forming the basis for funding claims submitted to the European Commission.

Of the 58 organisations visited, the audit trail was found to be inadequate in 13 instances due to the following:

Supporting Records

In 5 cases there was either no supporting documentation or supporting records did not reconcile to expenditure returned.

Organisations were requested to provide the required documentation or to perform reconciliations as required.

Furthermore, organisations were asked to ensure that there is adequate supporting documentation and information retained for all expenditure returned for EU aid purposes.

It was noted in 4 cases that there were no documented financial management and control procedures detailing the duties and responsibilities of personnel dealing with EU funding. It was recommended that procedures manuals be drawn up in such cases.



Computer programmes

In one instance, the expenditure returned was incorrect due to errors in the computer programme used to extract expenditure figures from the grants system. In another case errors in spreadsheet formulae, used to compile the return, caused an overstatement.

We recommended that the computer programmes and spreadsheets be reviewed and corrected and that steps be taken to formalise computer programme amendment procedures in future.

(b) Expenditure return errors

There were 5 instances of errors in the compilation of expenditure returns due mainly to misinterpretation and incorrect summaries of information supplied by bodies at a lower level in the cascade. In one case, expenditure was returned twice in error in consecutive months.

It was found that actual expenditure returns were in various formats which, this Unit considers, contributed to the misinterpretation of figures.

Organisations were asked to ensure that the format of expenditure returns documentation be standardised to help eliminate the possibility of misinterpretation of financial information submitted to them.

In particular, it was recommended that returns should show cumulative expenditure to the start of the period of the claim, expenditure returned for the period, and cumulative expenditure to the end of the period.

Checking procedures e.g. formal rechecking and countersigning of returns should be introduced where necessary to detect and correct any errors in expenditure returns before they are submitted to the next level above in the cascade.

Expenditure returns received from levels below in the cascade should be reconciled to those of the previous period and explanations sought for any differences.

In the case of one body where errors resulted in an overstatement of expenditure of £9.6m, it was also recommended that previous returns be rechecked to ensure that any previously undetected errors were identified and corrected. The Unit recommended that an irregularity report be submitted in respect of the overstatement.

(c) Ineligible expenditure*Rent Subsidies*

It was noted that grant payments in the form of rent subsidies were paid under the Fixed Asset Support Measure of the Operational Programme for Industrial Development.

The Unit formed the view that this expenditure did not appear to be in accordance with the type of expenditure envisaged for this Measure in the Operational Programme and recommended that confirmation of its eligibility be sought from the European Commission. A response is awaited.



Value Added Tax (VAT)

Where a final beneficiary can recover input VAT, the tax paid on purchases and expenses is not eligible for EU aid. In 2 cases grant payments inclusive of VAT were paid by two implementing agencies.

Second-hand Equipment

Structural Fund regulations require, in order that second-hand equipment may qualify as eligible, that the purchaser should satisfy a number of criteria including the receipt from the vendor of a declaration as to the origin of the equipment and confirmation that it has not previously been in receipt of EU assistance. The Unit noted second-hand equipment purchased for £20,000 which did not have the required declarations. In this case, the final beneficiary was not aware of such obligations.

We recommended that the implementing body should ensure that all grant recipients are notified of eligibility criteria and should obtain written confirmation to this effect. The implementing body undertook to obtain the necessary documentation in this case.

(d) Inadequate cost control

Two major capital projects (A and B), examined by the Unit, received aid of approximately £1.6m each from the Tourism Operational Programme. Both projects, of a similar nature, experienced serious cost overruns.

In the case of Project A, this was due mainly to a decision to upgrade the build specifications without the approval of the implementing body or Lead Department, thereby imposing significant cost increases. Work on the project

was at a standstill at the date of the control check pending a request for additional Exchequer funding, which has since been received.

In the case of Project B, the revised estimated cost was approximately £1.8m over the original approved projected cost of £2.33m. Financial consultants engaged by one of the funding parties reported that monitoring of costs against budget was informal and that fundamental controls over assets were lacking.

Our report recommended that, prior to committing EU funding to major projects, implementing bodies should ensure that adequate cost control procedures are in place in order that projects be completed to budget. Any variations from original applications should require the prior approval of the implementing body. The implementing body should be in a position to ensure that the costs of amendments to original proposals are accurately quantified and justifiable.

(e) Financial management procedures

With reference to the projects at (d) above, it was found that financial management and monitoring procedures were poor at both locations. For Project A, independent accountants reported that financial difficulties were only seriously considered when the project ran into debt.

In the case of Project B, it was noted that the implementing body involved was not aware of the existence of a consultant's report prior to it being brought to their attention by this Unit.

The control check report found that adequate



financial control procedures were not established prior to commencement of the projects. Given the size, complexity and risks involved, the project promoters were not adequately prepared for the financial management of such undertakings. The lack of financial management procedures operated by suitably qualified personnel was a contributory factor in allowing costs to escalate beyond the original budget.

This Unit considers that the implementing bodies in each case did not adequately monitor the financial and physical progress of the projects. There were no formal arrangements for reporting progress to the implementing bodies.

The control check report recommended that implementing bodies should ensure that adequate financial management and control procedures, operated by suitably qualified personnel, are in place prior to committing EU funds and that regular progress reports incorporating the latest information on costs to date and costs to completion should be a minimum requirement.

It was also recommended, given the similarity in the nature of the two projects, that co-ordination between the two implementing bodies would have been desirable from a project management viewpoint.

(f) **Competitive tendering**

Two instances were noted where competitive tenders were not sought for buildings works.

The Unit accepts that in the cases examined, competitive tendering having been waived, the

contracts were approved on the basis of reasonable value for money. However, we consider that competitive tendering is essential in order to demonstrate efficient use of Community and National funds, having regard to accountability, transparency and value for money issues.

(g) **Breach of grant conditions**

Sale of EU aided project

In the course of a control check, it was noted that an enterprise which had received EU aid had been sold by the final beneficiary contrary to grant conditions i.e. without the prior consent of the implementing body.

The control check report recommended that a refund of the grant be sought and an irregularity report be submitted.

Uninsured Asset

In the course of a control visit to a final beneficiary it was noted a grant-aided asset costing £4,500 was accidentally damaged but had not been insured as required by Commission regulations. The implementing body was satisfied that there was no infringement of grant conditions where the company replaces the asset from its own resources.

Notwithstanding the relatively low value of the grant in this case, this Unit considered that insurance of grant-aided assets is a fundamental condition of fixed asset support, particularly where the cost of the asset might be such that the final beneficiary would have difficulty in replacing the item(s) in the absence of adequate insurance cover.



(h) **Publicity requirements**

Commission regulations require that contributions made to projects by the ERDF should be publicly acknowledged by grant recipients. In 21 out of 22 final beneficiaries visited, there was no signage to publicise the contribution of the ERDF. In some cases, grant recipients were not aware of this requirement. In one case, the grant recipient was not aware that the project was aided by EU Structural Funds. We recommended that the appropriate signage be erected.

(i) **Trigger point calculations**

The drawdown of funds from the EU is based on a system whereby cumulative expenditure returned on an Operational Programme reaches various stipulated levels which trigger drawdowns of funds from the European Commission. However, in one instance it was noted that the Lead Department was not performing trigger point calculations at regular intervals and that the failure to do so could result in cash flow losses to the State caused by a delay in making drawdowns.

(j) **Advance payments**

Only expenditure actually incurred by final beneficiaries can be considered as eligible expenditure. It was noted in 2 cases that implementing bodies were returning advances / grant instalments paid to final beneficiaries as eligible expenditure and not the actual expenditure incurred and paid by the final beneficiary. One body also included accrued advances i.e. payment had not issued prior to the end of the period.

In one case, the implementing body took the view that, as it was 'the body responsible for commissioning works', it should qualify as a final beneficiary under this definition. It was the view of this Unit that it is the body which, (i) enters into legal agreements with contractors to carry out capital works, and; (ii) is responsible for the issue of payments to contractors, that should be deemed to be the final beneficiary.

We recommended that clarification on this particular issue be sought from the European Commission. A response is awaited.

(k) **Unpaid invoices**

In 3 cases a number of expenditure items were included in claims by the final beneficiary but were not paid at the date of submission of the claim as is required by Commission regulations. There were delays of up to 7 months before cheques were cashed.

We recommended that claims from grantees should include a schedule of payments to support the claim incorporating the date of payment and date of encashment (Note: encashment is not a requirement, but delayed clearance may indicate the holding of cheques). These claims could then be the subject of spot checks by the implementing body as part of their 5% verification of transactions.

We recommended that the implementing body submit an irregularity report in respect of the cases identified during the control check.

(l) Serious breach of regulations

During a control visit to the final beneficiary for a major capital project (budget cost of £4.2m), it was noted that an invoice in the amount of £100,000 and a cheque for the corresponding amount formed part of a grant claim. The control check established that no goods were supplied in respect of this invoice and the cheque never issued.

The Unit considered that the inclusion of the amount in the grant claim represented a deliberate misrepresentation in order to claim funding in advance of payment and was a serious and fundamental breach of EU regulations.

We recommended that the Lead Department carry out an investigation into how the serious breach occurred and that an irregularity report be submitted in accordance with Commission Regulation 1681/94.

(m) Duplicate claims

In 1 case examined, expenditure returned for aid under Community Initiatives was also returned under another Operational Programme. The organisation was requested to verify that other instances of this type had not occurred. Expenditure was returned twice in error in subsequent claims in 2 cases.

(n) Project overheads

A number of research projects included an amount for overheads at a standard rate of 20%. The European Commission does not allow artificial multipliers to be used for the allocation of overheads. Only real and incurred expenditure can be funded from the ERDF.

(o) Legal agreements

It was noted that a final beneficiary, awarded a grant allocation of £850,000 in respect of three projects, was paid 70% of the funding prior to legal grant agreements being signed with the implementing agency.

The Government Department which funded the implementing agency had issued directions that legally binding contracts should be drawn up for grants in excess of £10,000 and that for grants in excess of £50,000, in addition to a legal agreement, the encumbrance should be registered with the Registry of Deeds (or Land Registry where land was involved). None of the projects were registered with the Registry of Deeds.

We recommended that the Department take steps to ensure that its directions are complied with.

(p) Changes in the use of grant

A voluntary agency was approved for grant aid of £550,000 and £380,000 for two capital projects, C and D, respectively.

Approval for Project C was for purchase of a site and construction of a training centre thereon. The agency, when requesting the first instalment of the grant (to cover £388,000 already expended), informed the implementing body that, as no sites had proven suitable, they had negotiated the purchase of a new premises. The implementing body was not made aware of the change in the proposed use of the grant prior to the agency entering into the contract to purchase. The implementing body subsequently approved the change in use of the grant.



In the case of Project D, the grant approved was towards the refurbishment of premises owned by the agency to provide training programmes. The implementing body subsequently wrote to the grantee noting that its plans, for the acquisition and development of a new building, deviated from the original approval. The implementing body formed the view that the grantee had committed itself to the latter project which was nearing full completion. The implementing body subsequently approved the partial transfer of the grant allocation, having received assurances from the grantee that no formal contract or undertaking had been entered into by the grantee.

The control check report recommended that procedures be adopted by the implementing body to ensure that grantees obtain approval prior to effecting any changes to the original approved use of grants.

(q) **Responsibility for EU aid operations**

One Government Department receiving significant EU funding did not have a dedicated EU section or designated officer responsible for the financial management and control of EU aid. Responsibility was effectively divided between two sections – one section approving expenditure drawdowns and paying grant claims and the other devising policy and returning expenditure for EU aid.

(r) **Notification of EU regulations**

In general, the control check reports point to a need for Lead Departments and implementing bodies to improve procedures to ensure that EU regulatory requirements are notified to final beneficiaries. It was not uncommon to find final beneficiaries unaware of the detailed eligibility criteria for EU aid e.g. familiarity with the EU Factsheets, awareness of publicity requirements etc.

5.3 **Progress on systems-based audits**

An important feature of the control checks carried out by the Unit is the monitoring of progress on the implementation of the Department of Finance Circular 23/98 requirement regarding systems-based audits (SBA's) to be carried out by internal audit units.

During control checks carried out in the first half of 1999, slow progress was recorded – only 1 of 4 SBA's had been completed. However, in the course of the 4 subsequent control checks it was noted that 7 out of 9 organisations had completed or had firm plans to carry out SBA's.

It was noted that a number of organisations have decided to contract out the systems-based audit function to private firms of accountants.

5.4 Progress on 5% verification of transactions

In line with the requirements of Commission Regulation 2064/97, Department of Finance Circular 23/98 also requires that operational units carry out a 5% transaction testing on expenditure returns submitted to them from organisations at the level below in the funding cascade.

During control checks, progress on the implementation of these checks was monitored. Of the 9 organisations with a requirement to carry out 5% checks, 6 had initiated plans to perform this work.

5.5 Irregularity reports – Regulation 1681/94

Where the Unit established that a material error or irregularity occurred, we have asked that an irregularity report be submitted to the European Commission in accordance with the requirements of Commission Regulation 1681/94 – *Irregularities and the recovery of sums wrongly paid*. The Regulation requires Member States to report errors or irregularities which could result in, or have the potential to result in, an overclaim of ERDF aid.

The Unit has recommended that irregularity reports should be submitted in 8 instances as outlined in Table 5.5.

Table 5.5 Irregularity Reports Recommended

Type of Irregularity/Error	€ '000	IR€ '000
Expenditure return errors	12,239	9,639
Grant refunds not reported	3,602	2,837
Expenditure for Community Initiatives also returned for ERDF in error	508	400
Unpaid invoices included in claims	1,256	989
Irregular invoice included in claim	127	100
Breach of grant conditions	25	20
Payments returned in duplicate	578	455
Eligible expenditure overstated	13	10

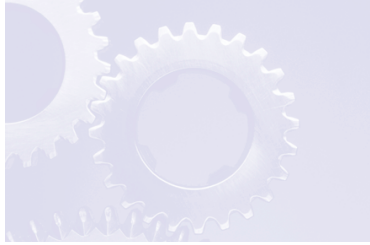
Source: Control check reports

5.6 Response to recommendations

We have had a satisfactory and encouraging response from audited bodies to our findings and recommendations. Organisations have indicated proposed improvements and corrections, in many cases implemented prior to completion of Control Check Reports.

The Department of Finance has also communicated with Lead Departments regarding our findings and has found corrective measures have been, or are in the course of being, implemented.

It is our intention to monitor implementation of recommendations and review action taken by audited bodies during our Cycle 2 control checks (*see table 3.2*).



Appendices



Appendix A

Organisations visited during Control Checks

Operational Programme Control Check	Lead Department	Implementing Bodies	Final Beneficiary (Number Visited)
Tallaght Hospital	Department of Health and Children	Tallaght Hospital	Tallaght Hospital
Industrial Development	Department of Enterprise, Trade and Employment	Shannon Development Enterprise Ireland	5 Limerick / Kerry 7 Galway / Mayo
Tourism	Department of Tourism, Sport and Recreation	Department of Arts, Heritage, Gaeltacht and the Islands Shannon Development Bord Failte Central Fisheries Board	1 Kerry 1 Offaly 2 Wexford 1 Cork
Fisheries	Department of the Marine and Natural Resources	Marine Institute Bord Iascaigh Mhara	1 Dublin
Human Resources	Department of Enterprise, Trade and Employment	Department of Health and Children Midland Health Board Western Health Board Department of Education and Science Higher Education Authority	1 Athlone 1 Galway 3 Meath / Cork 1 Dublin
LEADER II Community Initiative	Department of Agriculture, Food and Rural Development	Meath LEADER II Louth LEADER II Cavan/Monaghan LEADER II	3 Meath 3 Louth 3 Cavan / Monaghan



Appendix B

Commission Regulation (EC) No 2064/97 of 15 October 1997 establishing detailed arrangements for the implementation of Council Regulation (EEC) No 4253/88 as regards the financial control by Member States of operations co-financed by the Structural Funds

Official Journal L 290 , 23/10/1997 p. 0001 - 0007

Article 1 This Regulation shall apply to the forms of assistance provided for in Article 5 (2) of Regulation (EEC) No 2052/88 and administered by the Member States.

Article 2

1. Member States' management and control systems shall:
 - (a) ensure the proper implementation of the forms of assistance in accordance with the objectives of sound financial management;
 - (b) provide satisfactory certification of the validity of claims for advance payments and final payments based on expenditure actually incurred;
 - (c) provide a sufficient audit trail;
 - (d) specify the organization of responsibilities and in particular the controls applied at the different levels to guarantee valid certifications;
 - (e) facilitate the identification of possible weaknesses or risks in the execution of actions and projects;
 - (f) provide for corrective measures to be taken to eliminate weaknesses, risks or irregularities identified in the course of project execution, in particular as regards financial management.
2. For the purposes of this Regulation, a sufficient audit trail is one which permits:
 - (a) reconciliation of the summary amounts certified to the Commission with the individual expenditure records and supporting documents at the various administrative and final beneficiary levels, and;
 - (b) verification of the allocation and the transfers of the available Community and national funds.
3. An indicative description of the information requirements for a sufficient audit trail is given at Annex I.

Article 3

1. Member States shall organize controls of projects or actions (hereinafter referred to as controls) on an appropriate sampling basis, designed in particular to:

- (a) verify the effectiveness of the management and control systems in place;
 - (b) verify selectively, on the basis of risk analysis, expenditure declarations made at the various levels concerned.
2. The controls carried out before the closure of each form of assistance shall cover at least 5 % of the total eligible expenditure and a representative sample of the projects or actions approved, taking account of the requirements of paragraph 3.
For forms of assistance approved before the entry into force of this Regulation, the percentage may be reduced proportionally. Member States shall seek to spread the implementation of the controls evenly over the period concerned.
 3. The selection of the sample of projects or actions to be subject to controls shall take into account:
 - (a) the need to control an appropriate mix of types and sizes of projects or actions;
 - (b) any risk factors which have been identified by national or Community controls;
 - (c) the concentration of projects under certain implementing authorities or certain final beneficiaries, so that the main implementing authorities and final beneficiaries are subject to at least one control before the closure of each form of assistance.

Article 4 Through the controls, the Member States shall seek to verify the following:

- (a) the practical application and effectiveness of the management and control systems;
- (b) for an adequate number of accounting records, the correspondence of those records with the supporting documents at the level of the final beneficiary and the intermediate authorities;
- (c) the presence of a sufficient audit trail;
- (d) for an adequate number of expenditure items, that the nature and timing of the relevant expenditure (commitments and payments) correspond to the Community requirements, to the approved physical characteristics of the project and to the works actually executed;
- (e) that the use or intended use of the project is consistent with the use described in the application for Community co-financing;



- (f) that the Community financial contributions are within the limits provided for in Article 13 of Regulation (EEC) No 2052/88 and any other applicable Community provisions and are paid to final beneficiaries without any reductions or unjustified delays;
- (g) that the appropriate national co-financing has in fact been made available;
- (h) that the co-financed actions have been implemented in accordance with the requirements of Article 7 (1) of Regulation (EEC) No 2052/88.

Article 5

The controls shall establish whether any problems encountered are of a systemic character, carrying a risk for other projects sponsored by the same final beneficiary or administered by the same implementing authority; they shall also identify the causes of such situations, any further examination which may be required and the necessary corrective and preventive action.

Article 6

Each Member State and the Commission shall consult at least once a year with a view to coordinating their programmes of controls so as to maximize the useful effect of the overall resources devoted to controls at national and Community level. These consultations shall cover the risk analysis techniques to be applied and shall take account of recent controls, reports and communications by national authorities, the Commission and the European Court of Auditors.

Article 7

1. Member States shall ensure investigation and satisfactory treatment of apparent irregularities reported following national or Community controls.
2. If an apparent irregularity has not received satisfactory treatment within six months of being reported to the implementing authority concerned, the Member State shall inform the Commission of the situation, unless it has already done so pursuant to Regulation (EC) No 1681/94.
3. For the purposes of paragraphs 1 and 2, 'satisfactory treatment' shall mean the presentation, by the final beneficiary or the implementing authority to the appropriate person or organization responsible for control in the Member State, of sufficient evidence that

the apparent irregularity does not exist or has been corrected. If an irregularity is of a systemic character, satisfactory treatment shall further mean the adoption of the necessary steps for the correction of the cases which have not been individually identified by the controls and for the prevention of recurrence.

4. The evidence referred to in paragraph 3 may consist of copies of the accounting records and supporting documents or any other necessary element.

Article 8

1. No later than at the time of the request for the final payment and the final declaration of expenditure in respect of each form of assistance, Member States shall present to the Commission a statement, of which an indicative model is given at Annex II, drawn up by a person or organization functionally independent of the implementing service. The statement shall summarize the conclusions of the control examinations made in the previous years and provide an overall conclusion as to the validity of the request for the final payment and the legality and regularity of the operations underlying the final declaration of expenditure.
2. If the presence of important management or control weaknesses or the high frequency of irregularities encountered does not allow the provision of a positive overall assurance as to the validity of the request for final payment and the final declaration of expenditure, the statement shall refer to these circumstances and shall estimate the extent of the problem and its financial impact.

In such a case the Commission may ask that a further control be carried out with a view to the identification and rectification of irregularities within a specified period of time.

Article 9

Member States shall inform the Commission by 30 June each year and for the first time by 30 June 1998 of their application of this Regulation in the previous calendar year, with special reference to the requirements of Article 2 and including any necessary completion or updating of the description of their management and control systems required by the second subparagraph of Article 23 (1) of Regulation (EEC) No 4253/88.



Article 10 The Commission and the Member States shall work together to ensure that the objectives of this Regulation are achieved within the framework of the administrative arrangement drawn up with each Member State.

Article 11 In the case of forms of assistance in which more than one Member State participates or where there are beneficiaries in more than one Member State, the Member States concerned and the Commission shall provide one another with any administrative assistance necessary for ensuring proper control.

Article 12

1. The persons or organizations responsible for the implementation of the Community co-financed operations shall ensure that all documents and accounting records required for the controls are supplied to the officials responsible for the controls or to the persons empowered for that purpose.
2. The officials responsible for the controls or the persons empowered for that purpose may require that extracts or copies of the documents or the accounting records referred to in paragraph 1 be supplied to them.

Article 13 Information collected in the course of the controls shall be protected by professional secrecy, in accordance with the relevant provisions of national and Community law. It may not be communicated to any persons other than those who, by reason of their duties in the Member States or in the institutions of the Community, are required to have knowledge thereof for the purposes of performing those duties.

Article 14 In accordance with the relevant national laws, Commission officials shall have access to all documents prepared either with a view to or following the controls carried out under this Regulation and to the data held, including those stored in data-processing systems.

Article 15 Nothing in this Regulation shall prevent Member States applying national control rules more rigorous than those prescribed herein.

Article 16 In so far as they relate to EAGGF Guidance Section, the controls carried out pursuant to Council Regulation (EEC) No 3508/92 (6) and Commission Regulation (EEC) No 3887/92 (7) may also be regarded as carried out pursuant to this Regulation.

Article 17 This Regulation shall enter into force on the 20th day following its publication in the Official Journal of the European Communities.
Article 8 shall apply from 1 January 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 15 October 1997.
For the Commission



Appendix B ANNEX I

INDICATIVE DESCRIPTION OF INFORMATION REQUIREMENTS FOR AUDIT TRAIL (Article 2 (3))

A sufficient audit trail, as referred to in Article 2 (3), is present when, for a given form of assistance:

1. Accounting records kept at the appropriate management level provide detailed information about expenditure actually incurred by final beneficiaries for each co-financed project, including the date of the accounting record, the amount of each expenditure item, the identification of the supporting document and the date and method of payment; the records are supported by the necessary documentary evidence (e.g. invoices).
2. In cases of expenditure items relating only partly to the Community co-financed operation, sufficient justification is present of the accuracy of the allocation of the amount between the Community co-financed and the other operations. Similar justification is present also for types of expenditure which are recognized as eligible within limits or in proportion to other costs.
3. The technical and financial plans of the project, the progress reports, the documents concerning the grant approval, the tendering and contracting procedures, etc., are kept available at the appropriate management level.
4. In reporting expenditure actually incurred to an intermediate authority, the information referred to in paragraph 1 is aggregated in a detailed statement of expenditure indicating for each Community co-financed project all individual expenditure items with a view to composing the total certified amount. These detailed statements of expenditure constitute the supporting documents of the accounting records of the intermediate authorities.
5. The intermediate authorities keep accounting records for each individual project and for the summary amounts of expenditure certified each time by the final beneficiaries. In reporting to the designated authority referred to in Article 21 (5) of Regulation (EEC) No 4253/88, intermediate authorities present a list of the projects approved under each form of assistance, together with information for each individual project comprising at least a complete identification of the project and the final beneficiary, the date of approval of the grant, the amounts committed and paid, the expenditure period covered and the sums of expenditure by measure and by sub-programme. This information constitutes the supporting documentation of the accounting records of the designated authority and is the basis for the preparation of the declarations of expenditure to be presented to the Commission.
6. In cases of final beneficiaries reporting directly to the designated authority, the detailed statements of expenditure referred to in paragraph 4 constitute the supporting documentation of the accounting records of the designated authority, which is responsible for drawing up the list of projects referred to in paragraph 5.
7. In cases of more than one intermediate authority intervening between the final beneficiary and the designated authority, each intermediate authority for its area of responsibility requires detailed statements of the expenditure amounts processed at the lower level to be used as supporting documentation for its own accounting records of which it reports upwards at least a summary of the expenditure amounts for each individual project.
8. In cases of other models of organization of the management and information procedures, including computerized data transfers, all authorities concerned obtain sufficient information from the lower level to justify their accounting records and the sums reported upwards, thus ensuring a satisfactory audit trail from the summary amounts certified to the Commission to the individual expenditure items and the supporting documents at the final beneficiary level.



Appendix B ANNEX II

Indicative model for the statement at the closure of forms of assistance (Article 8)

To the European Commission, Directorate-General

INTRODUCTION

1. I, (state name, title and service), have examined the final declaration of expenditure for (indicate the form of assistance, the Structural Fund concerned and the period covered) together with the request to the Commission for payment of the balance of the Community aid.

SCOPE OF THE CONTROLS

2. I conducted the control examination in accordance with the provisions of Regulation (EC) No 2064/97. I planned and performed the examination with a view to obtaining reasonable assurance about whether the final declaration of expenditure and the request for the payment of the balance of the Community aid are free of material misstatement (Describe briefly the practical steps taken for the execution of the control).

OBSERVATIONS

3. The scope of the control examination has been limited by the following:
 - (a)
 - (b)
 - (c), etc.

(Indicate any limitations to the control examination for example systemic problems, management weaknesses, lack of audit trail, lack of supporting documentation, cases under legal proceedings, etc.; estimate the amounts of expenditure affected by these limitations and the corresponding Community aid).

4. The control examination, together with the conclusions of any other national or Community controls to which I have had access, revealed a low/high (indicate as appropriate; if high, explain) frequency of errors/irregularities. Any reported errors/irregularities have been satisfactorily treated by the management authorities and they do not appear to affect the amount of the Community aid payable, with the following exceptions:
 - (a)
 - (b)
 - (c), etc.

(Indicate the errors/irregularities which have not been satisfactorily treated, and for each case, the possible systemic character and extent of the problem and the amounts of Community aid which appear to be affected).

CONCLUSION

Either

If there are no limitations to the control examination, the frequency of errors found is low and all problems have been satisfactorily treated:

5 (a) In the light of the control examination and the conclusions of any other national or Community controls to which I have had access, it is my opinion that the final declaration of expenditure presents fairly, in all material respects, the expenditure made in accordance with the regulatory and the programme provisions, and the request to the Commission for the payment of the balance of the Community aid appears to be valid.

Or

If there are certain limitations to the control examination but the frequency of errors is not high, or if there are problems which have not been satisfactorily treated:

5 (b) Except for the matters referred to at point 3 above and (or) the errors/irregularities which do not appear to have been satisfactorily treated as referred to at point 4, it is my opinion, based on the control examination and the conclusions of any other national or Community controls to which I have had access, that the final declaration of expenditure presents fairly, in all material respects, the expenditure made in accordance with the regulatory and the programme provisions, and that the request to the Commission for the payment of the balance of the Community aid appears to be valid.

Or

If there are important limitations to the control examination or the frequency of errors found is high, even if the reported errors/irregularities have been satisfactorily treated:

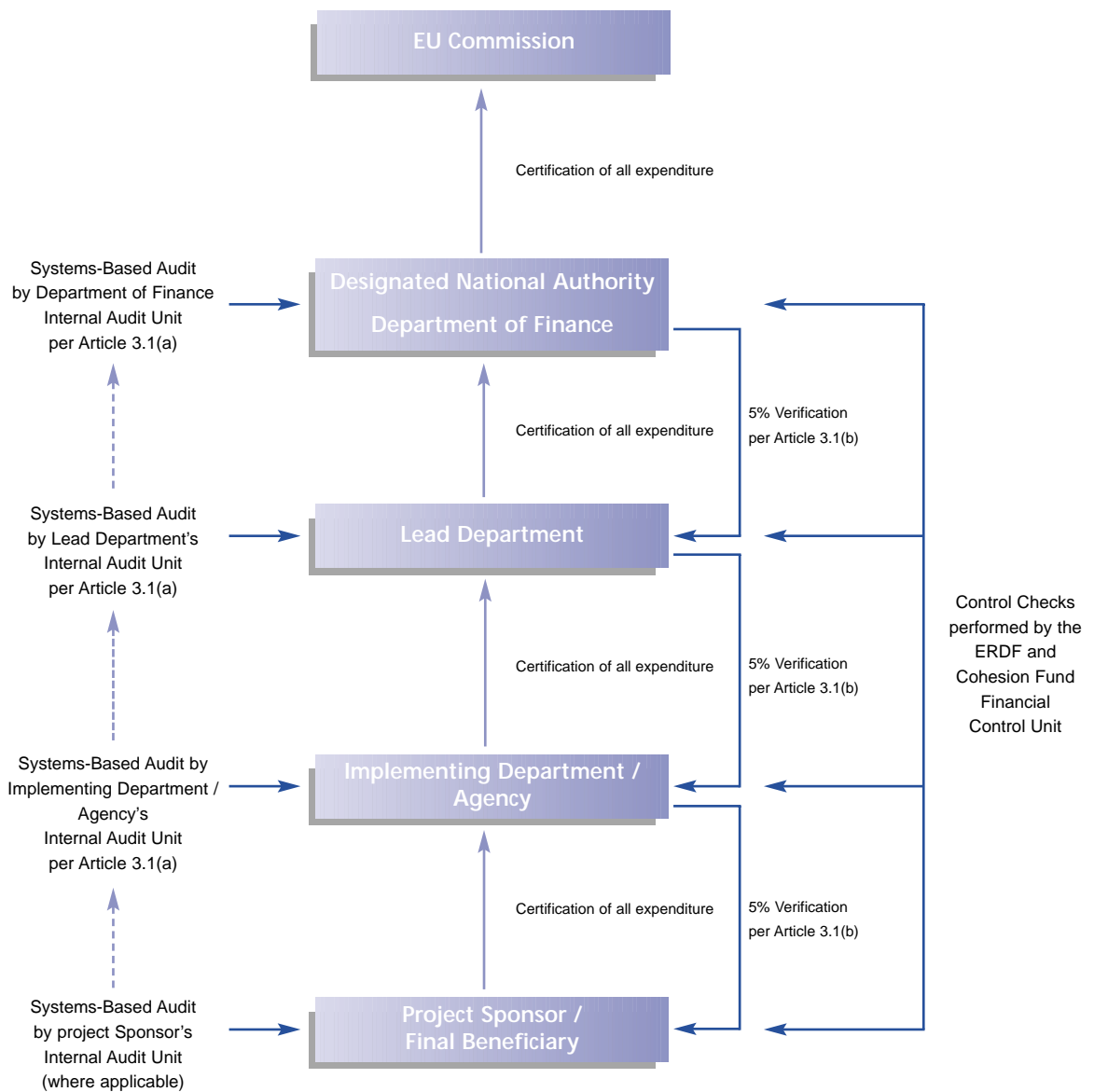
5 (c) In view of the matters referred to at point 3 and (or) given the high frequency of errors revealed at point 4, I am not in a position to express an opinion on the final declaration of expenditure and the request to the Commission for the payment of the balance of the Community aid.

Date, signature

Appendix C

ERDF Financial Controls in Ireland

Diagram of the Structure of Financial Controls to Comply with EU Regulation 2064/97 Article 3.1(a) and 3.1(b) and the Protocol on Internal Audit Co-operation





Appendix D

Financial Control Unit Progress in 1999

Key Task	Progress / Planned Completion
Establishment of Unit's office and information systems	Completed February 1999
Preparation of Business Plan for Unit	Completed May 1999
Liaison with Court of Auditors and European Commission Directorates Auditors and DG XVI. Meeting Brussels (January 1999)	– Accompanied audit visits by Court of – Attended Audit Programme Co-ordination
Compilation of an Audit Trails Information System for each Programme / Measure Development of Internal Control Questionnaires and Audit Programmes	Completed February 1999
Tallaght Hospital Project Control Check	Preliminary fieldwork completed (Project drawdown not yet completed) – awaiting management responses and Final Project Report
Industrial Development OP Control Check	Completed – Report July 1999
Tourism OP Control Check	Completed – Report October 1999
Fisheries OP Control Check	Completed – Report November 1999
Human Resources OP Control Check	Completed – Report January 2000
Leader II Control Check Cohesion Fund Control Check Transport OP Control Check fieldwork to commence in 2000.	Planning phase commenced December 1999 – These audits will be conducted as part of an overall examination of Department of the Environment programmes/projects. – Reports planned for May 2000
Proposed Structural Fund Computer System 2000-2006 – Advice on Financial Controls, Audit Trails, information requirements and the proposed use of computer assisted audit techniques (IDEA).	In progress at present
Participation in training seminars for internal audit units / operational units in the Cascade as well as training and advice on financial controls and audit requested by Government officials from accession countries.	2 training seminars for Irish personnel 3 seminars delivered to accession country representatives.

Appendix E

Operational Programme – Funding Flowchart

Operational Programme for Tourism 1994/99
Diagram of National Designated Authority, Lead Department and Implementing Bodies (by Measure)

