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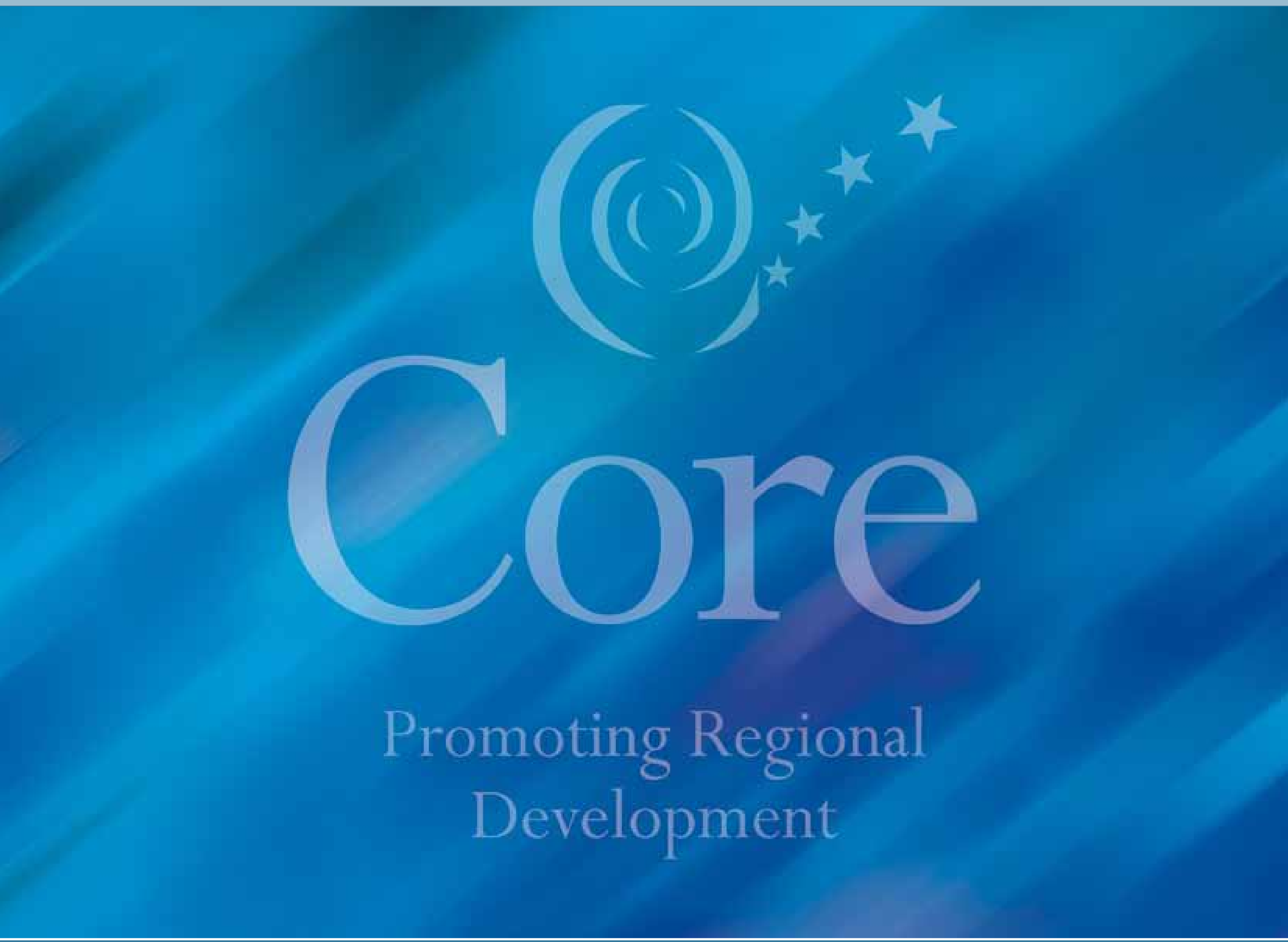
CORE: A Case Study in the management and control of a local economic development initiative



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

27 October 2010

Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

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CORE: A Case Study in the management and control of a local economic development initiative

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Comptroller and Auditor General

Northern Ireland Audit Office
27 October 2010

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Abbreviations

BSP	Building Sustainable Prosperity
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
EDO	Economic Development Officer
ERDF	European Regional Development Fund
LGA	Local Government Auditor
NISP	Northern Ireland Single Programming Document

Preface

Introduction

1. This report is largely based on a case study of a local economic development project, the CORE initiative, established and run by a group of eight Councils in the North East of the province. The initiative, which involved the setting-up and operation of a new external delivery organisation, was jointly-funded by the District Councils and the Department of Enterprise, Trade and Investment (DETI), with DETI's funding being channelled through the District Councils, in support of their Local Economic Development Action Plans. CORE's primary activities involved working with small and medium enterprises to help them access new customers and markets and to increase networking among participating businesses.

2. Although the CORE initiative was a relatively small-scale operation, there are a number of useful lessons from the case that can be applied to a wide range of organisations and situations, including:

- projects or initiatives that are funded singly, or jointly, by central and/or local government
- bodies that distribute grant funding
- projects managed by more than one organisation
- intermediary funding bodies that distribute grants to external delivery organisations.

Areas where we consider these lessons could be of particular relevance include the various urban and rural regeneration initiatives, many of which involve partnership arrangements between central government, District Councils and the voluntary and community sector.

3. At the end of each Part of the report, we have included a summary of the 'key lessons' which we consider constitute good practice in handling initiatives of this nature. As these are not intended to be wholly prescriptive, nor to cover every conceivable situation, funding bodies and delivery organisations should consider how best to apply these lessons to their own circumstances. In doing so, they should apply the lessons proportionately, bearing in mind the size of the organisations, the amounts of money involved and the nature of the work being undertaken. There will also be some differences in procedures when dealing with delivery organisations (such as CORE), set up specifically by the public sector, compared with bodies from a private or voluntary and community-based background, that have simply been contracted by Government to deliver services.

Part One:
Introduction and Background

Core

Promoting Regional Development

Part One: Introduction and Background

Background

1.1 Since 1992, District Councils have had legislative authority[1] to develop economic plans and proposals for their areas and to apply for economic development funds from the EU, Central Government and the private sector. In Northern Ireland, responsibility for economic policy falls to the Department of Enterprise, Trade and Investment (the Department). Its remit includes supporting local economic development. Following an approach by District Councils, the Department made European Regional Development Fund (ERDF) monies available, from 1997, for approved local economic development projects and plans.

1.2 ERDF funding was provided by the Department under the Northern Ireland Single Programming Document (NISP), which ran from 1994-99, and Building Sustainable Prosperity (BSP), from 2000-06. Under NISP and BSP, funding totalling some £48 million was provided by the Department to the 26 Councils in Northern Ireland, under the Local Economic Development Measure[2], to support approved projects and plans submitted by District Councils.

CORE was a collaborative economic development initiative involving eight Councils

1.3 In 1996, economic development officers (EDOs) from the eight North East Councils – Antrim, Ballymena, Ballymoney, Carrickfergus, Coleraine, Larne, Moyle and Newtownabbey - began meeting to discuss economic development matters and share best practice. This group became the Antrim Area Network. By 1998, the Network was supporting projects that were jointly-funded by the Councils and EU monies, made available through the Department. In the same year, the Network took on a new corporate identity, renaming itself 'CORE'.

1.4 There was a further change in September 2002, when CORE was registered as a limited company. However, following concerns about the legality (at that time) of Councils forming limited companies, it was reorganised in April 2003 as a multi-Council 'Joint Committee', with Ballymena acting as the lead Council. CORE was eventually wound up, in June 2007, by the partner Councils. Throughout its existence, all eight Councils were represented on its management board.

Concerns were raised about the activities of CORE

1.5 In October 2002, NIAO received an anonymous allegation that CORE had "*wasted a mass of public money*". The allegation was referred to the Chief Local Government Auditor[3]. In December 2002, following a review of CORE's activities, he expressed concern at the lack of financial controls. However, although there were indications of loss and some waste, he did not conclude that a "mass" of public money had been wasted. He recommended that:

1 The Department of the Environment (DOE) sets the broad statutory framework within which Councils are required to operate.
2 The aim of this measure was to provide local businesses, particularly in Targeting Social Needs (TSN) areas, with opportunities to become more competitive and sustainable and to increase employment.
3 The Local Government Auditor performs a scrutiny role in respect of Council-funded initiatives.

- CORE take immediate steps to investigate the issues raised in his report and to put in place proper controls and approvals for its future operation

- the company should initially be the subject of audit by Council Internal Auditors

- arrangements should be put in place for audit by LGA and also audit by Central Government, as it too was providing funds.

1.6 Arising from the Chief Local Government Auditor's recommendations, Ballymena Borough Council commissioned its Internal Auditors, in June 2003, to review CORE expenditure. The Internal Audit final report, in April 2007, concluded that there had been significant failings in the management of CORE, during the period to 2003.

1.7 The Department told us that it had not been provided with copies of the LGA and the Internal Audit reports (in its view because it did not have a direct funding relationship with CORE) and had not, therefore, been in a position to respond to the recommendations. It said, however, that it had independently put in place verification arrangements in relation to EU funding for Council Action Plans (see Part 4 of this report).

Funding of CORE

1.8 Over the period from 1998 to March 2003 (the period on which the Local Government Audit and Ballymena Borough Council's Internal Audit reviews were focused), CORE received funding of some £927,000 from the Councils, including £337,000 of EU monies provided by the Department.

The scope of the NIAO review

1.9 We examined the setting-up and financial management and control of CORE and reviewed the findings of the Internal Audit report (paragraph 1.6) commissioned by the Councils. We also reviewed the outcomes of CORE's economic development activities. Our work was hindered by the absence of certain records and the loss of a computer, stolen during a break-in at CORE's office in May 2002 – it did not have back-up records. To reduce the effects of this, we obtained documentation from the Department, the Councils and CORE's auditors, to help us reconstruct CORE's financial records.

1.10 In the course of our audit, we also carried out a high level review of the Department's oversight of the EU economic development funding which it had provided to all 26 Councils in Northern Ireland. We focused primarily on the Building Sustainable Prosperity programme.

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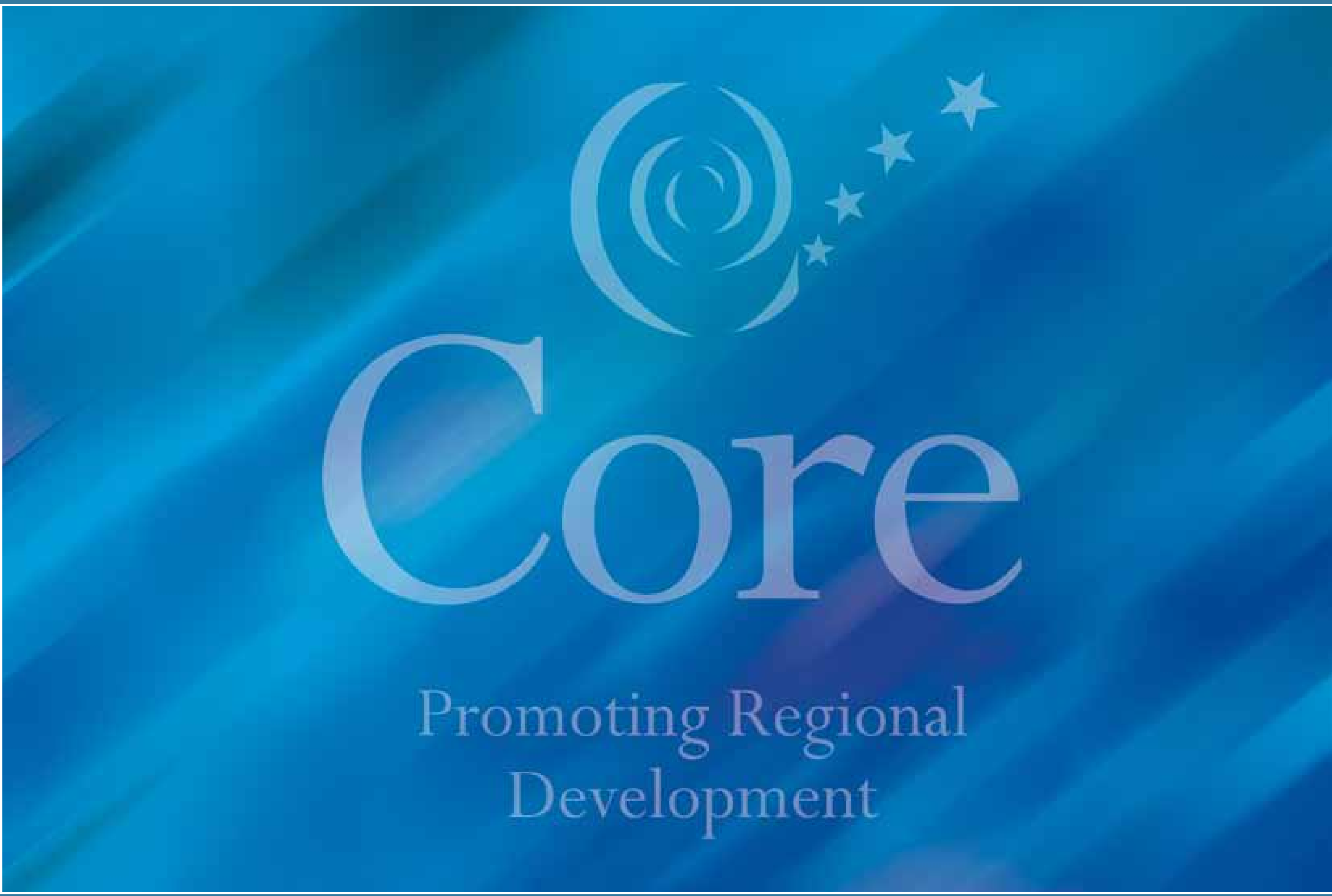
Introduction and Background

1.11 Our findings are set out as follows:

- The Councils' management and control of CORE and their investigation of its activities (**Part 2 of the Report**)
- The economic impact of CORE (**Part 3**)
- The Department's monitoring and control over EU funding to Councils (**Part 4**).

Part Two:
The Councils' management and control of CORE and their investigation of its activities



Part Two: The Councils' management and control of CORE and their investigation of its activities

The Development of CORE

2.1 By 1998, the Antrim Area Network (paragraph 1.3) had developed to the stage where it was supporting local economic development projects for small to medium-sized enterprises. A Programme Manager[4] was appointed and was responsible for the co-ordination and implementation of projects, including those funded by EU monies made available, through Councils, by the Department. Throughout its existence, all eight Councils were represented on CORE's management board. Until November 2001, this was at Economic Development Officer (EDO) level; thereafter, representation was at Chief Executive and Councillor level.

An Internal Audit investigation found significant failings

2.2 The investigations by Ballymena Borough Council's Internal Auditors into the concerns expressed about CORE (paragraph 1.6), began in June 2003. Three draft reports were submitted - in June 2005, June 2006 and December 2006 – with a final report, in April 2007, being formally agreed by the CORE Joint Committee (comprising the Chief Executives and one Councillor each, from the eight participating Councils). The Internal Auditors concluded that there had been significant failings in the management of CORE, due mainly to an absence of a robust management and control framework, coupled with the lack of a challenge function. Their key findings are set out below.

Systems and procedural guidance were inadequate

2.3 As regards the adequacy and effectiveness of CORE's systems of internal financial control, Ballymena Council's Internal Auditors reported that, due to the absence of a clear written record, they were unable to clearly establish how the systems had been set up and what roles were to be taken by the various parties involved. They also reported a lack of clear and documented procedural guidance relating to key administrative functions within CORE, noting that it was unclear how service delivery should be effected, managed and reviewed.

Management arrangements and Council oversight were not effective

2.4 CORE did not report to its funding Councils on a regular and consistent basis. Typically, its work was reported on an 'outputs only' basis and was subsumed within other economic development activities. The Councils told us that, in their view, consistent and regular reporting came into play when CORE was formally constituted as a limited company in September 2002. Internal Audit also found that there was no clear line management responsibility for the CORE employees (the Programme Manager and an administrative officer). Although the records show that two Council EDOs were allocated this responsibility in early 1999, both EDOs said during interview with Internal Audit that they did not consider this responsibility to be theirs. The Internal

4 Two individuals held the post of Programme Manager. The first was appointed in 1998 and resigned later the same year. All references in this report are to the second individual (who held the post from 1999 to 2004).

Auditors also noted that there was little evidence of line management oversight or control, within Councils, of the EDOs themselves in carrying out their CORE role.

Financial control was inadequate

2.5 Internal Audit identified the following examples of common weaknesses found across all categories of CORE expenditure:

- purchase orders were authorised on dates prior to the date they were raised
- there were purchase orders missing
- there were payments where the required number of signatories had not endorsed the purchase order
- there was inadequate documentation in support of expenditure, such as invoices not being provided or with pages missing, and unsigned claims for travel and expenses.

2.6 During our own review, we noted that, from CORE's inception, cheques were to be signed by any two of three nominated EDOs. In September 2001, following the resignation of one of these EDOs, it was decided to authorise the Programme Manager as an additional cheque signatory. In our view, this was a dilution of control. As regards the approval of payments and signing of cheques, instances of poor control that we noted included:

- an EDO acted as a co-authoriser of five separate payments to his wife (a temporary employee), totalling £1,033
- the Programme Manager signed his own salary cheques
- cheques were cashed without the required two cheque signatures.

2.7 Internal Audit noted that, although the approval of payments rested in most cases with the Council EDOs, the procedures followed were not those mandated for use within Councils. As regards the CORE cheque journal, they found that it was incomplete, that numerous bank transactions had not been recorded and that several entries did not match the cheque stubs. They also noted that, while CORE had operated two bank accounts, they could not ascertain a satisfactory explanation for this. Further areas of concern included unusually high expenditure levels on telephone costs, hospitality and stationery and poor control over mobile phone costs, travel expenses and rent and rates payments. They also reported that there were no available petty cash records (due to the theft of IT equipment during a break in – paragraph 1.9), and noted that draw-downs (which averaged over £100 per month) appeared high, with no apparent upper limit on the value or type of items to be funded.

2.8 During our own review, we also noted two areas where weak financial control had led CORE to incur additional costs.

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Office relocation:

- In 1999, CORE cut short its occupation of its then premises in Ballyclare and relocated to Ballymena. Although the annual rent on the new premises was some 25% lower, any potential savings were cancelled out by removal costs and because, for eight months, CORE was paying rent on both premises.

- In 2000, CORE relocated a second time. The Programme Manager advised the CORE Management Committee that the lease on the Ballymena unit had expired and could only be renewed for a three-year period. CORE moved to an adjacent unit where, although the rent was higher (and almost the same cost as the Ballyclare rent), the lease was for 18 months. It appears that the vacated premises were subsequently used by the Programme Manager to run his own private business (of which the Councils, at that time, were unaware). In July 2003, Ballymena Council learned that CORE had not actually signed a lease for either of the Ballymena units.

Purchase of a lease car:

- In February 2002, the CORE Steering Group approved a budget allocation to procure a leased car for use by the Programme Manager. This was on the proviso that, "*the application should be ratified by an appropriate finance committee. Business Case to be presented to this Committee.*" The car was leased, in September 2002, for £18,778 over three years. However, contrary to the agreed arrangements, no further approval was sought. The Programme Manager later told Ballymena Council that further approval was not required as the budget had been discussed, circulated and approved by all eight Councils. The Programme Manager added that the business case for the lease had been discussed with CORE's auditors (a private firm of accountants). However, no evidence of any such discussion was available.

- The Programme Manager had projected that savings of between £3,500 and £4,000 would be made on mileage claims, as a result of car leasing. We noted, however, that his annual mileage expenses had averaged only £2,230 over the three previous years. It is not clear to us, therefore, how such savings would have been achieveable, even with a very substantial increase in mileage.

- In October 2002, the Programme Manager was awarded 'essential user' allowances worth £3,158, backdated to April 1999. However, there is no evidence that the payment was reduced to reflect the fact that the mileage allowances already paid to him had been at the full 'casual user' rate, rather than the 'essential users' mileage rate which was 22% less.

- The car remained in the Programme Manager's possession after he went on long-term sick leave in August 2003. He only returned the car in June 2004, prior to his resignation in August 2004. The £18,778 cost of the lease was to be offset by contributions of between £6,300 and £7,200 from the Programme Manager, to cover his private use of the car - ie by £2,100 to £2,400 a year (the basis on which the actual payment would be calculated was not made clear). However, the Programme Manager contributed only £1,888, through deductions from salary between June 2003 and May 2004, while on the Ballymena Council payroll. There was no evidence of any employee contributions for the eight months that he had the vehicle prior to this period. It appears, therefore, that his contributions from salary were between some £1,600 and £2,100 less than agreed.

The appointment and remuneration of staff did not always follow best practice

2.9 Ballymena Council's Internal Auditors were unable to obtain CORE's job descriptions, details of organisational responsibilities, evidence of the appointment process for staff and the checks undertaken. The procedures for the pay and pensions of CORE staff were markedly different from those used by Councils and sometimes contrary to good or best practice. Internal Audit reported that:

- CORE's salary records did not provide authorisations for the amounts paid and, in many cases, pay calculations were missing
- the Programme Manager opted to be responsible for the personal calculation of tax, instead of operating through the PAYE scheme
- pension contributions were met entirely by the employer (in District Councils, employees make a pension contribution at 6% of their salary)
- contribution rates varied between employees and also over the period examined
- pension contributions did not go directly into a superannuation scheme. Instead, payment was by cheque to the employees – a breach of Inland Revenue rules.

During our own review, we noted that the Programme Manager received an additional salary payment of £1,468 in October 1999. We saw no evidence that this overpayment was ever recovered.

Tendering for and management of contracts did not follow best practice

2.10 The Internal Auditors reported that the system for tendering was not robust. In particular, they noted that the use of a generic scoring methodology for all goods and services, coupled with the issue of tenders by post to the evaluation

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panel in advance of their meeting, did not comply with best practice. Moreover, they considered the weaknesses to be such that it could be perceived that one panel member had excessive influence over the others, or that information could be leaked that would prejudice the outcome of the evaluations.

2.11 In the course of our own review, we noted two cases where consultants had invoiced CORE for a significant proportion of the costs of the overall assignments - some 50% (£4,400) in one case and 40% (£4,000) in the other - *before* the contracts for the assignments had been issued. Moreover, CORE also *paid* the invoice for £4,400 before the contract was agreed. We asked the Councils for details of the procurement standards and procedures in place within CORE during the period under review. We were told that an agreed set of standards and procedures had not been applied within CORE, because there were eight participating Councils with differing systems, interpretations, understanding and competencies; they said, however, that the basic parameters for procurement operations were laid out in legislation[5].

There were concerns about conflicts of interest

2.12 Extensive guidance dealing with actual, potential and perceived conflicts of interest is widely available to public sector bodies. For most of the period under review, the EDOs were, in effect, the executive management group of CORE, through their membership of the management board and their responsibility to authorise expenditure. Any public sector officer who exercises such authority should be aware of the potential for conflicts of interest and the requirement to disclose and address them promptly. However, there were concerns noted in relation to a CORE initiative called 'Animateur'. This was set up to generate interest in economic development across the catchment area, through research, awareness raising and an event (the CORE Consultation Forum).

The 'Animateur' Event:

- To help prepare for the Animateur event, CORE recruited a temporary member of staff through an employment agency. The successful candidate was the wife of one of the EDOs who sat on the CORE management group. Even though the EDO concerned was not a member of the interview panel, the recruitment process created a conflict of interest situation for him that required careful management. However, we found that it was poorly handled. For example, we saw evidence that the EDO had been involved in discussions about the recruitment with his own Council, while it was still in progress, and also that he had corresponded on this with the Chair of the CORE management group. In our opinion, it was inappropriate to allow the EDO to become involved in any aspect of the process.

5 The Local Government Act (Northern Ireland) 1972 and the Local Government (Miscellaneous Provisions) (NI) Order 1992.

- The Animateur event was held in September 2000. A firm which advertised itself as specialists in corporate development and events management was appointed by the CORE management board in July 2000 to run the event and was paid £5,640. Three years later, in August 2004, CORE's own auditors told Ballymena Council that the CORE Programme Manager, together with a relative, were partners in the appointed firm. This conflict of interest had not been disclosed by the Programme Manager to the EDOs. By the time CORE's auditors informed the Council, however, the Programme Manager had already resigned from CORE. (CORE's auditors also told Ballymena Council that they had provided accountancy services to the Programme Manager's firm, which had run the Animateur event, and to the Programme Manager as a private individual. They said that they had not previously raised any concerns about this relationship because they had not considered that these activities impacted on the running of CORE.)

2.13 In the course of our own review, we noted that, although the Animateur event did not take place until September 2000, an EDO processed the claim (for £16,615) in August 2000 and declared that the event had already taken place. The rules for Departmental funding were that expenditure had to be incurred before a claim could be made. Due to the time limits on the scheme, expenditure incurred in September would not have been eligible for grant funding. The Internal Auditors recommended that the relevant Council may wish to consider the need for disciplinary action. We were told that no disciplinary action was taken (see also paragraph 2.18).

A number of concerns were noted in relation to the audit of CORE

2.14 CORE appointed a firm of accountants, in December 1998, *"to provide audited accounts"*. Ballymena Council's Internal Auditors also noted that, in the audited accounts for 2001 and 2002, CORE's auditors had reported that CORE was operating a pension scheme for its employees. However, the Internal Auditors (while noting that pension contributions had been charged to CORE's accounts - see paragraph 2.9), were unable to find any evidence of a formal pension scheme and recommended that this matter be clarified with CORE's auditors.

2.15 Ballymena Council's Internal Auditors also expressed concern that CORE's auditors had provided both accountancy and internal audit services, noting that this ran contrary to the principles of good corporate governance. During our own review, we noted that CORE had paid its auditors for external audit, internal audit and a range of other financial services, including maintenance of ledgers and payroll. CORE's auditors told us their records indicated that, with the exception of one member of staff, there had been separate personnel working on the external audit and the internal audit and

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other finance functions; they also said that there had been separate partners on each. Best practice, however, dictates that the same firm should not provide both external and internal audit. Moreover, it is not acceptable in our view that even one member of staff should have been engaged in both of these areas with CORE.

2.16 Also during our review, we noted that in March 2000 (two years into CORE's operation), there were not yet any audited accounts. CORE's auditors told us that this was because CORE had not provided them with the necessary information. Financial statements were subsequently produced for 1998-99 and 1999-00 financial years. The accounts for 2000-01 and 2001-02 were not submitted until March 2003. They were audited and certified around August/September 2003 and, surprisingly in our view, given a 'clear' audit opinion. CORE's auditors told us that the late submission of the accounts was again due to CORE not providing them with the necessary information. They also said that their clear audit opinion was based on their judgment that CORE's financial statements gave a 'true and fair view'[6] of the organisation's affairs.

2.17 In 2004, during the review by Ballymena Council's Internal Auditors, CORE's auditors provided the Council with copies of its CORE audit files for the three years to 2002-03. However, they were unable to locate any of their files for the 1998-99 and 1999-00 audits. CORE's auditors told us that they believed these files may have been lost when they moved offices.

Most of Internal Audit's recommendations have been accepted

2.18 Ballymena Council said that 16 of Internal Audit's 19 recommendations had been adopted and applied to CORE, from 2003 (when Internal Audit's review began). The three remaining recommendations are:

- Pension and payroll:

  (1) Seeking clarification from CORE's auditors on the nature of the company-operated pension scheme (paragraph 2.14); and

  (2) Advising HM Revenue and Customs of CORE's pension payments and how they were paid (paragraph 2.9).

- Grant to the Animateur event:

  (3) Considering the need for disciplinary action in connection with the Department having been misled on the timing of the Animateur event (paragraph 2.13).

2.19 In relation to pension and payroll, Ballymena Borough Council told us that they had contacted CORE's auditors in February 2009 seeking details of the company-operated pension scheme, but were informed that these were no longer held. As a result, no further action will be taken on these two recommendations. As regards disciplinary action in connection with the Animateur event, we were told

6 The 'true and fair view' concept requires the auditor to exercise a professional judgment in considering whether the financial statement being approved, taken in the round, is appropriate.

that this had been considered by the Council's former Chief Executive and no action was taken. The Council also said that a number of the staff connected to the issue were no longer employed by the Council and that, given the passage of time since the incident, it did not wish to use resources to pursue the matter further.

Key Lessons

2.20 Although CORE was small both in terms of its expenditure and its number of employees, even small organisations require appropriate internal controls and governance arrangements. It is clear, however, that these were not in place during much of CORE's existence. We commend Ballymena Council's Internal Auditors for their investigation of CORE's activities and we welcome the improvements in control from 2003.

2.21 In our view, there are a number of important management and control lessons which arise from this case. While the points highlighted below have been framed around a situation in which a new delivery organisation, such as CORE, is being set up, many of the lessons have an equal relevance to existing delivery bodies. In all cases, the procedures and controls to be agreed with delivery organisations should be proportionate (that is, in keeping with the level and complexity of the activities being undertaken). The agreed procedures are likely to differ, to some degree, when dealing with delivery organisations set up specifically by the public sector, compared with bodies from a private or voluntary and community background that have simply been contracted by Government to deliver services.

2.22 Where there is more than one funder involved, there may also be differences in the roles and responsibilities assumed by each. In the case of CORE, the Councils were responsible for the direct management of the project, in contrast to DETI which did not directly interface with the project.

Key Lessons

General

1. Funding bodies must ensure that comprehensive policies and procedures have been prepared and formally agreed *before* the delivery organisation begins operations. Moreover, these policies and procedures should be clearly documented and be of a standard that is acceptable to the funding bodies.

2. Assurance that policies and procedures and management and control mechanisms are being actively applied within the delivery organisation should be obtained by the funders directly managing the project at an early stage, following the setting-up of the body.

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3. Funding bodies directly managing the project should ensure that the delivery organisation has proper legal standing.

Management and oversight by funders and Governance arrangements

4. Clear roles and responsibilities, both within the delivery organisation and within the funding bodies, must be defined and documented, and protocols established for effective communication. This is especially important where more than one body is involved in funding and oversight.

5. The representatives from each of the funding organisations directly managing the project should make clear to one another the extent of their authority to bind their parent organisation to partnership decisions.

6. Parent organisations must ensure that their staff have the necessary skills, knowledge and resources to fulfil their oversight role.

7. There must be a formal and transparent system of accountability. Funding bodies directly managing the project need to develop a scrutiny function that encourages constructive challenge and enhances the delivery body's performance.

8. There must be an effective risk management system.

9. Procedures should be agreed on how decisions are to be taken, ensuring that the appropriate level of authority is involved. There should be an effective mechanism for documenting decisions, including the criteria and rationale upon which they are based.

10. Specific arrangements should be put in place to safeguard employees and management board members against conflicts of interest. The handling of any conflict of interest that does arise should be fully documented. Should a case of improper behaviour (actual or suspected) arise, it must be reported to the senior management of the funding bodies directly managing the project, investigated and action taken as appropriate. This should also be reported to any other funders which do not have a direct interface with the project.

Financial management and control

11. Where a number of bodies, with differing financial control systems, are jointly responsible for funding and overseeing the operations of the delivery organisation, a single system of financial management and control must be formally agreed for that organisation.

12. The nature and levels of delegated authority should be defined and particular attention should be paid to establishing clear guidelines around higher risk areas, such as payment authorisation procedures and hospitality.

13. A system of periodic checks by the funding bodies managing the project, including internal audit review, should be agreed. They must also ensure that their own staff, tasked with monitoring the delivery organisation's financial operations, have the necessary skills and experience to do so effectively.

14. Arrangements for the back-up of the delivery organisation's management and accounting records must be established.

Monitoring and reporting

15. There should be regular and frequent reporting of financial and other performance. Report content should be agreed and presented on a consistent basis. Summary reports should be provided periodically to the senior management of the funding bodies.

16. There should be systems in place to produce the necessary reporting information and care should be taken to ensure that data is of good quality, accurate and timely.

17. Where a significant problem in the delivery organisation is detected, the senior management of the funding bodies directly managing the project should be informed and they, in turn, should ensure that the requisite action is taken.

Appointment and remuneration of staff in delivery organisations set up by the public sector

18. Appointments to new posts should be by open competition and the process that was followed should be properly documented. Each post should have a formal job description.

19. The terms and conditions for each post should be agreed in advance by the funding bodies directly managing the project and should be commensurate with equivalent posts elsewhere in the public sector. It is also important to ensure that payroll arrangements, covering areas such as taxation and pension contributions, are in compliance with the appropriate statutory and regulatory requirements.

20. There should be a formal system of annual performance assessment of key personnel in the delivery body. Where middle-ranking staff from the funding bodies are tasked with managing and monitoring the delivery organisation, their effectiveness in this role should also be assessed.

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Procurement procedures

21. It is important to follow best practice in procurement. Moreover, because the highest levels of integrity are expected in the use of public funds, standards must be visibly maintained. Departures from standard procedures should be authorised at an appropriate level and the reasons for doing so clearly documented.

22. Proportionate to the value of the contract, delivery organisations should aim to separate the main elements of the procurement function, such as identifying need, selecting the supplier, approving the award of a contract and payment approval. This will be difficult where delivery organisations are very small; in such cases, it may be helpful to involve staff from the funding bodies managing the project – for example, in opening and assessing tenders.

Audit arrangements

23. Delivery organisations should be able to demonstrate that their audit arrangements are in line with best practice. These should not be subject to conflicts of interest - the same firm should not be appointed to undertake both the internal and external audit functions as this can lead to a loss of objectivity and independence. Where the delivery organisation has been set up by the public sector, audit appointments should normally be through competition, as with any other form of Government procurement.

24. Annual accounts for the delivery organisation or funded programme should be produced and audited in accordance with an agreed timetable. Arrangements should also be made to ensure that audit files and working papers are secured, especially where an investigation has commenced.

Part Three:
The economic impact of CORE

Part Three: The economic impact of CORE

3.1 It is recognised good practice that, when operating a grant scheme, funding bodies ensure the organisations being supported set clear performance measurement criteria for the grants they receive.

Northern Ireland Single Programme, 1997-1999

3.2 In their applications for Departmental funding, five of the eight Councils that collaborated on CORE referred to a number of outputs and impact indicators for the initiative. These included:

- an average employment growth of 10% per participating company
- average turnover growth of 15% per participating company.

However, the timeframe over which this growth was to be achieved was not specified, and what was to constitute a 'participating company' was not defined.

3.3 During NISP (1997-1999), progress reports from the Councils were sent to the Department on a six-monthly basis, to the end of 2000. These included statements on whether employment and turnover targets had been achieved. The Department told us that these reports were monitored, queried where relevant, and any matters arising were followed up. It also said that, in addition, claims for funding were certified by the Chief Financial Officer of each Council, with a further certification by the Local Government Auditor. The LGA also provided the Department with an annual audit certificate and opinion in relation to expenditure on local economic development (based on a sample inspection of vouchers, covering not less than 5% of expenditure).

CORE commissioned a Review of its activities which identified certain impacts, but was unclear as to whether targets were achieved

3.4 In 2000, CORE appointed consultants to identify the impact of CORE to date and to establish the future direction of its economic development activities. The consultants reported in June 2001 that there had been no formal process within CORE, when planning or implementing activities, to assess need, demand, additionality and displacement. As regards achievement of the growth targets in turnover and employment (which had been included in the action plans submitted to the Department – paragraph 3.2), they noted that:

"A pivotal weakness identified in this evaluation exercise was the lack of detailed Performance Indicators integrated into a comprehensive monitoring and evaluation methodology. As a result of this it has not been possible to evaluate performance of CORE relative to agreed targets. In this respect the evaluation report represents a narrative on performance rather than a relative assessment."

3.5 Despite this, the consultants concluded that CORE had made an acceptable level of impact, given its expenditure levels and time in operation. Based on a survey[7], they reported a minimum of £1,167,000 of increased sales, which they said companies had attributed to their participation on a CORE programme or activity. They also reported that a minimum of 28 new jobs (20 full-time, 8 part-time) had been created.

3.6 In our view, however, the consultants' figures should be treated with some caution. We reviewed the data collected for their report, focusing particularly on the increases in turnover and employment (see **Appendix 1**). While they reported that participating companies had increased turnover of some 15% - in line with target (paragraph 3.2) - our assessment, based on the consultants' own figures, is that the increase was 10%. Moreover, these figures relate only to the 15 companies that reported an increase in sales. There were 8 other firms which did not report an increase; had these been included in the calculation, the overall average percentage achievement in increased sales would have been further reduced.

3.7 As regards job outcomes, the consultants said that 4 of the 23 companies surveyed reported employment increases following participation in CORE activities. However, there was no indication as to the quality or durability of the new jobs. We have concerns as to whether the consultants' employment claims can be fully substantiated. No job figures were available for one of the four companies reporting an increase in employment. In the case of two of the other companies, for which the consultants reported an increase of 16 full-time and 6 part-time jobs, we noted that a separate analysis of sales in that area had reported increases in turnover for individual businesses of between £25,000 and £34,000. It is difficult, in our view, to reconcile the claimed increases in employment with the increased sales figures reported as being due to participation in CORE activities.

Building Sustainable Prosperity, 2000-2006

A Post-Programme Evaluation of local economic development under BSP reported a range of benefits across Northern Ireland; it also recommended several improvements for consideration in future programmes

3.8 More widely, the Department commissioned consultants to carry out a post-programme evaluation of the local economic development measure funded under BSP, covering Northern Ireland as a whole. The consultants' June 2008 report noted that the strong message coming from their consultations was that, by and large, local economic development plans could not have been delivered in the absence of ERDF funding; around one third of Councils, however, did consider that some activities may otherwise have gone ahead, but in a reduced scale and with an extended timeframe. Many Councils considered

7 The consultants sought information through questionnaire and telephone interviews from the 66 companies which had been targeted by CORE. Of these, 33 companies completed the survey, of which 23 had participated in a CORE programme or activity.

Part Three: The economic impact of CORE

that economic development activity was now afforded a higher priority within Councils, suggesting that the ERDF programme had raised awareness of the benefits to be had. Overall, the consultants assessed that around 17,000 jobs and approximately 320,000 square feet of workspace had been created as a result of the programme. Based on an investment of some £26 million ERDF funding, they considered that this represented good value for money.

3.9 As regards areas for improvement, the consultants highlighted that the Councils' quarterly monitoring reports to DETI lacked a consistent approach and showed considerable differences in the level of detail provided. This had made it difficult to assess achievements. It was also apparent that an absence of baseline information in a number of cases prevented an assessment of whether targets had been achieved. Moreover, many of the targets assessed focused on activity, rather than outcomes or impact. They also noted that, although targets were generally 'SMART' (specific, measurable, achievable, relevant, time-bounded), there was an acknowledgement that 'measurable' was difficult in some cases. As well as the lack of baseline information, there was concern over double counting – i.e. how many new jobs could be attributed to participation on the programme, as distinct from general economic buoyancy. The consultants recommended that:

- in future, the Department decides on a range of key metrics and collects this information annually from each Council in a standardized, electronic format
- future targets are outcome-focused
- the Department could facilitate regular training events to increase the consistency of reporting and monitoring.

Key Lessons

3.10 A number of important lessons emerge from both the CORE initiative and the Department's post-project evaluation of BSP as a whole. We have also included below several lessons that were highlighted by Councils themselves, during the post-programme evaluation, which we consider to be of particular relevance.

Key Lessons

Performance monitoring and evaluation

1. When a delivery organisation, such as CORE, is planning its programme activities, it must apply a formal appraisal process, proportionate to scale, to assess matters such as need, demand, additionality and displacement.

2. Delivery organisations have to be able to demonstrate the extent to which they have achieved value for money. A comprehensive set of 'SMART' performance indicators, with a strong focus on outcomes, should be agreed in advance and included in all Letters of Offer issued by the funding bodies directly managing the project.

3. Baseline information, to facilitate the measurement of achievements, should be established at the beginning of the programme.

4. There must be an effective system to produce the necessary monitoring information, including controls to ensure that data is accurate and timely.

5. Where performance evaluations are commissioned, care must be taken to ensure that the findings stand up to close scrutiny; for example, that the various data sets produced are consistent with one another.

Key Lessons highlighted by Councils

6. Ensure that appropriate resources (people and funds) are in place to effectively deliver activities.

7. Ensure that proficient delivery organisations are recruited and maintain good lines of communication with them.

8. Increase the extent of collaboration with other bodies to share best practice.

9. Ensure clarity and consistency in relation to monitoring and administration procedures.

Part Four:
The Department's monitoring and control over EU grants to Councils

Part Four: The Department's monitoring and control over EU grants to Councils

4.1 Long-standing guidance from the Department of Finance and Personnel (DFP) on providing grant support states that, *"arrangements for monitoring, evaluation and financial control are essential components of Departments' relationships with all grant receiving bodies"*[8]. We reviewed DETI's monitoring and control arrangements for the BSP programme across Northern Ireland.

Checks by the Department's EU Programmes Branch

4.2 The Department told us that it had stringently followed DFP guidance on reporting irregularities under EU regulations and, in turn, ensured that District Councils were made aware of their responsibilities through the issue of guidance notes, workshops, one-to-one meetings and vouching visits. It said that amendments to DFP guidance were promptly communicated to Councils and that it had consistently made them aware that all Letters of Offer issued to 'third party' projects must follow the guidance on the treatment of irregularities, laid down by DFP. In particular, they should:

- keep details of non-reportable irregularities from the start of the BSP programme
- put suitable systems in place immediately to record non-reportable irregularities
- ensure that a process was in place to collate all non-reportable irregularity information from the start of the programme.

The Department also said that, while additional DFP formal guidance on management and control systems requirements did not issue until 2004, it had, on its own initiative, developed and disseminated guidance to Councils in 2003 covering eligibility and expenditure that could be claimed.

4.3 During our own review, we noted that the Department's EU Programmes Branch checks all funding claims by Councils, looking for 'irregularities' – i.e. failures to comply with EU regulations. The most frequent type of irregularity detected was ineligible expenditure. We reviewed the irregularities reported in two sample periods covering a total of 12 months. Overall, the Department detected irregularities totalling some £480,000, in 19 projects that had claimed EU funding of £9.5 million. The Department told us that the irregular sums were either not paid, deducted from subsequent claims, or recovered. The nature of the irregularities detected is set out at **Figure 4.1**.

Article 4 checks

4.4 Under 'Article 4' of the EC Regulations[9], bodies who issue Letters of Offer should have management and control systems to verify that products and services co-financed by EU funds were delivered. Article 4 also requires the verification of individual operations on the spot, at least once during the lifetime of the

8 DAO 15/93, Departmental Relationships with Grant-Receiving Bodies, December 1993
9 EC Regulation 438/2001

Figure 4.1: Sample of irregularities detected by EU programmes Branch

Type of Irregularity	Number of irregular claims	Value[1] of Irregularities (£)
• Ineligible items	4	275,676
• Erroneous claims	3	46,771
• Invoice previously paid	2	46,567
• Expenditure not incurred	3	38,750
• Incorrect calculations	2	19,474
• Payment outside qualifying period	1	19,375
• Claim based on estimates, not actual	3	17,950
• Budget already spent	1	15,170
Totals	**19**	**£479,733**

Source: DETI
Note 1. Where claims were valued in euros, we have assumed 1.45 euros/ £1.

programme. DFP guidance[10] recommends that a minimum of one visit be made close to project commencement, to form an opinion on the control systems. Accordingly, this required the Department to visit each Council and, in turn, Councils to visit each of their funded projects.

4.5 The Department undertook a series of annual Article 4 checks on Councils, beginning in 2003. One of the recurrent issues highlighted by these checks was the widespread failure, by Councils, to carry out their Article 4 checks on funded projects. A review of progress in January 2007 indicated that the majority of Councils – 19 out of 26, including 6 of the 8 North East Councils - had still not undertaken their Article 4 checks. By November 2008, the position had improved, but the visits by 5 Councils remained outstanding. The Councils' Article 4 checks were finally completed in June 2009.

Article 10 checks

4.6 There was also a separate verification check, required under 'Article 10' of the EC Regulations. This was to cover a representative sample of at least 5% of total eligible expenditure on an annual basis, carried out by an entity independent of those undertaking the Article 4 checks. Each grant recipient was to be checked at least once before the winding-up of each programme.

10 Department of Finance and Personnel: EU Structural Funds, Operating Manual for Northern Ireland, January 2002.

Part Four:
The Department's monitoring and control over EU grants to Councils

Over the course of the programme, the Department's Article 10 checks examined expenditure totalling some £3.3 million (13% of the £26 million total grant to the 26 Councils) and detected ineligible claims totalling £73,000 (just over 2% of the total examined).

Key Lessons

4.7 It is clear that a significant level of error was detected across the BSP programme. While it is reassuring that the external control systems prevented these sums from being paid, the results serve to highlight that there were failures in the management and control of projects. Again, a number of useful lessons emerge.

Key Lessons

1. It is important that inspection visits to funded projects are carried out on a timely basis by the funders directly managing the project. As recommended in DFP guidance, there should be a minimum of one visit, close to project commencement, to enable funders to form an opinion on the delivery organisation's control systems.

2. Given past experience on the nature and value of irregularities detected in claims under BSP, bodies submitting claims must have an effective system of management and control over the preparation of those claims.

3. Given the nature of irregularities detected by the Department's checks, it would be useful to consider whether further guidance could usefully be issued in schemes of this nature on what constitutes eligible/ineligible expenditure.

Appendices

Appendix One:
(paragraphs 3.6)

Consultants' June 2001 evaluation of the impact of CORE on participating companies' sales and employment

1. The methodology for the evaluation included a survey of small to medium enterprises (SME) targeted by CORE. From a survey population of 66, on a database provided by the CORE Programme Manager, some 33 companies completed the survey. The remaining 33 companies were recorded as 'refusals'.

2. Of the 33 companies which completed the survey, 10 had not actually taken part in a CORE programme or activity. Those CORE programmes or activities (many of which were facilitated by consultants) mentioned by the 23 participating companies were as follows:

   - Southern Ireland "Access to Market Cluster" – mentioned by 14 businesses
   - Building/Construction Cluster – mentioned by 9 businesses
   - Meet the Buyer Event (Larne) – mentioned by 8 businesses
   - CORE Connections IT Business Link System – mentioned by 5 businesses
   - Retail development Cluster – mentioned by 4 businesses
   - Craft Cluster/On-line Web shop – mentioned by 2 businesses
   - Large Company Mentoring, (i.e. a large company acts as a mentor to an SME) – mentioned by 2 businesses
   - Organic Cluster Feasibility Study – mentioned by 1 business
   - Other Events – mentioned by 4 businesses.

Sales

3. 15 of the 23 companies had experienced an increase in their sales which they attributed to their participation on a CORE programme or activity. Overall, these companies reported a total increase in sales of £1,167,000. The consultants reported that, when firms were asked to estimate this increase in sales as a percentage, the average percentage was 15%.

4. NIAO could not independently verify the survey results. However, we scrutinised the consultants' estimates using the information available in their report and supporting documentation and calculated estimates of turnover pre- and post-CORE. The results indicated an increase in sales of some 10%, rather than the 15% reported by the consultants. Moreover, we noted that these figures exclude 8 businesses that participated in a CORE programme or activity, but which had not experienced any increase in sales as a result of that participation. Were these 8 businesses to be included in the calculations, the overall reported percentage increase in sales would be further reduced.

Council Area	Number of firms with increase	Turnover pre-CORE £'000	Turnover post-CORE £'000	Total Increase £'000	Average increase by Council area/ overall (%)
Ballymena	5	1,013	1,165	152	15
Ballymoney	3	5,889	6,419	530	9
Larne	0	0	0	0	0
Carrickfergus	1	500	545	45	9
Coleraine	4	1,708	1,913	205	12
Antrim	0	0	0	0	0
Moyle	1	74	109	35	47
Newtownabbey	1	4,000	4,200	200	5
Totals	**15**	**12,184**	**13,351**	**1,167**	**10%**

Source: CORE

Employment

5. We also noted some concerns in relation to the increases in employment, claimed as a consequence of participation in a CORE activity. The 33 firms who responded to the survey reported that they employed 345 full-time and 142 part-time staff. However, there was no disaggregation of the figures to disclose the numbers, at individual company level, before and after participation in CORE activity.

6. Four of the 23 companies that participated in a CORE activity reported an increase in employee numbers. Oddly, one of these could not provide figures; however, the other 3 companies reported an additional 20 full-time and 8 part-time staff. We noted that two of these firms were reported as having recruited an additional 16 full-time and 6 part-time staff as a result of CORE activity. However, in a separate analysis of sales for the same area in which these companies were located, the businesses surveyed (including these two companies) reported an overall increase in sales of £152,000, with increases for individual businesses ranging from £25,000 to £34,000. In our view, it appears unlikely, therefore, that the consultants' employment claims can be fully substantiated.

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