



DEPARTMENT OF FINANCE & PERSONNEL
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DWT/964/98

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PS/PUS (L&B)
PS/Mr Semple
NI Permanent Secretaries
Mr Layberry
Ms Anderson, DTI
Ms Lawlor, UKRep
Mr Neale, HMT
Mr Brett, FCO (RID)
Mr Hopton, FCO (EUD)
Mr Furness, Cabinet Office
Ms Jones, NIO (REL)
Mr Lister, TPU (HO)
Mr Hamilton, DED
Mr Cornick, DANI
Mr Peover, DENI
Mr Sweeney, DOE
Mr Hayes, DOE
Mr Harley, DHSS
Mr McGuckin, NIO
Mr Bain, FCSU
Mr Megahey, FCSU
Mr Hewitt
Mr Thomson
Mr Sullivan
Miss Wilson

FROM: STEPHEN QUINN
DATE: 25 MARCH 1998

1. PS/MR MURPHY (DFP, B&L)
2. PS/SECRETARY OF STATE (B&L)

EU SPECIAL SUPPORT PROGRAMME FOR PEACE AND RECONCILIATION:
LETTER TO SECRETARY OF STATE FROM COMMISSIONER WULF-MATHIES
(SOS 224/98)

1. Commissioner Wulf-Mathies has written to the Secretary of State seeking information about recent press reports that terrorists in Northern Ireland have been seeking to obtain EU funds from the EU Special Support Programme for Peace and

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Reconciliation (the Peace Programme) and from the Structural Funds in general. Her letter states that the press reports draw on statements made by a British delegate at a "Financing of Terrorism" seminar in Luxembourg on 17-18 November 1997. The Commissioner is enquiring what action has been taken to safeguard the Structural Funds if these reports are correct and suggests that, if they are not, Government might wish to issue a statement to this effect. A draft response is attached for the Secretary of State's consideration. The need to consult a wide range of interests has meant that it has taken some time to bring forward this advice.

Background

2. When the Peace Programme was negotiated in 1995, the European Commission proposed the inclusion of a number of devolved delivery mechanisms in the Programme and, as a result, the Programme has a total of 11 Intermediary Funding Bodies and other grant-making bodies in addition to the 26 District Partnerships. This means that grant decisions are highly devolved with, inevitably, greater risk in terms of value for money and fraud. This risk is set off against benefits in terms of wider participation and acceptability, to which the European Commission attach particular priority.
3. During the negotiation of the Programme, we drew attention repeatedly to the potential implications for control, accountability and VFM of these devolved arrangements but the Commission insisted that much of the detailed decision-making should be undertaken at arms length from Government. Consequently, in order to ensure that the funds were safeguarded to the greatest extent possible, a formal and detailed set of arrangements were drawn up governing the relationship between Departments and Intermediary Funding Bodies, and between the DOE, the NI Partnership Board and the 26 District Partnerships. These arrangements were devised to comply with the requirements of Government Accounting.
4. Over recent months a number of concerns about the Programme (all relating to grants made or under consideration by intermediary bodies or District Partnerships rather than Government Departments) have been brought to our attention by the Financial Crime Services Unit (FCSU) of the RUC. John Semple's submissions of 21 October and 8 December 1997 advised Ministers of the cases which had been referred to Departments and of the steps which officials were proposing to take to ascertain whether or not there was evidence that public monies had been misappropriated. My 6 March submission reported on the latest position.
5. We have also consulted with the DTI and UKRep to clarify the legal requirement to report irregularities to the European Commission, which is normally due through quarterly monitoring exercises carried out by DTI. They advised that the normal practice was to notify an irregularity once a robust investigation had been undertaken and provided substantive information regarding the Community provision infringed, the type of irregularity and the amount of funding involved. No such information has been made available to Departments and action taken to date by them has not yet uncovered any evidence of irregularity in the use of Community funds. Investigations are, however, continuing.

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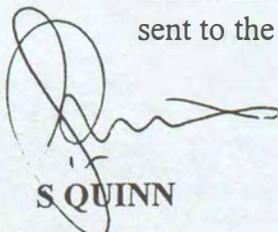
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Luxembourg Seminar

6. At a seminar held in November in Luxembourg, a paper was presented by the UK (Metropolitan Police Service) on the subject of 'Fraud as a means of funding and facilitating terrorist activity'. The paper made a number of references to the Peace Programme and suggested that "there are numerous cases where funds have been applied for by front organisations set up by terrorist groups". When this came to our attention, we referred it to FCSU. They have established that the RUC did not clear the text of that paper, which was prepared by the Metropolitan Police Service and the Security Service. The paper is misleading in that it overstates the case and suggests that there is evidence that fraud is occurring on a widespread scale. The RUC's FCSU has already taken action to prevent any future occurrence of this misunderstanding.

Advice

7. It is recommended that the Secretary of State should remind the Commissioner of the risk attached to these delivery mechanisms and of our reservations about the accountability of these bodies, against the background of the Commission's vigorous advocacy of them. Although Departments have been alerted about a number of projects, we have as yet no firm evidence that funds have been misappropriated. Following on from John Semple's submissions of 21 October and 8 December, Departments are currently examining a number of cases. If these examinations lead us to believe that irregularities have taken place, the European Commission will be notified in the usual way.
8. The Secretary of State may wish to note that DFP will be consulting with Departments shortly on whether the current state of play makes it appropriate for Accounting Officers to brief the C&AG on the position and how Departments are addressing it.
9. Mr Murphy and the Secretary of State are invited to:-
- a. consider the attached draft reply to Commissioner Wulf-Mathies; and
 - b. note that Departments and DFP will be considering whether it is appropriate to brief the C&AG.
10. The attached draft response has been cleared by the DTI, UKRep, the Cabinet Office, the Home Office, the Foreign Office and HMT as well as the FCSU and should be sent to the Commissioner via the UK Permanent Representation in Brussels.



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DRAFT LETTER FOR SIGNATURE BY SECRETARY OF STATE

To: Commissioner Monika Wulf-Mathies Rue de la Loi 200 B 1049 Brussels BELGIUM	Enc:	cc: PS/Mr Murphy (DFP, B&L) PS/Mr Worthington (DENI,DHSS&L) PS/Mr Ingram (DED,B&L) PS/Lord Dubs (DOE,DANI&L) PS/PUS (L&B) PS/Mr Semple NI Permanent Secretaries Mr Quinn Mr Layberry Ms Anderson, DTI Ms Lawlor, UKRep Mr Neale, HMT Mr Brett, FCO (RID) Mr Hopton, FCO (EUD) Mr Furness, Cabinet Office Mr Lister, TPU (HO) Mr Bain, FCSU Mr Megahey, FCSU
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March 1998

Thank you for your letter of 16 February 1998 about recent press reports concerning the financing of terrorist organisations through the EU Special Support Programme for Peace and Reconciliation and asking whether or not we have proof that terrorists have benefited from the Programme. Like you, I find any suggestion that terrorist organisations might benefit from the Programme extremely worrying.

At this point in time, we do not have any firm evidence that any funding has been misappropriated by or for terrorist organisations. However, there have recently been some cases brought to my attention where there are suspicions that there may be some risk that

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funds might be diverted by groups with links to terrorist organisations. Naturally, I am anxious to establish whether these suspicions are justified or not.

We are currently examining these cases. The European Commission anti-fraud authorities will as usual be formally notified if any cases reveal an irregularity. I can assure you that any investigations will be carried out most rigorously as this is an issue to which I attach the highest priority. Knowing the background as you do, you will appreciate that this is a very sensitive area and that any investigation needs to be handled extremely carefully.

On the question of the paper presented by the UK delegate at the seminar on 'Financing of Terrorism', for discussion by counter-terrorist experts only, I can confirm that this was intended as a general paper and did not draw on any specific examples. It appears in my opinion to have given a somewhat exaggerated impression of the real situation. However, given the investigations that are underway, you will understand that I cannot at this stage issue a blanket denial of the suggestion that some terrorists may have benefited from some EU funding.

An important underlying factor here is the potential tension between devolving delivery and responsibility to Intermediary Funding Bodies (IFBs) and District Partnerships and, through them, to large numbers of small local groups and the need to maintain financial control. I know that you are aware of concerns which the NI authorities have had about the Peace and Reconciliation Programme from the beginning in relation to the financial control and accountability of the IFBs and the District Partnerships, which take decisions at some distance from Government. These concerns were made known to the Commission when the

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structure of the Programme was being negotiated. Your officials will recall that the NI authorities put a great deal of effort into devising terms and conditions of grant for intermediary bodies and District Partnerships, in the interests of protecting the funds from misuse as far as practicable.

I share your belief that these devolved delivery mechanisms are important as a way of securing the involvement of local people. However there is no doubt that they do pose greater problems in terms of financial control than is the case where Government Departments disburse the funds. We will continue to monitor the performance of the devolved funding bodies as far as that is practically possible. If misappropriation has occurred, however, we would need to consider together whether the advantages of the continued involvement of the IFBs and the District Partnerships in the Peace Programme outweigh the potential risks to financial control.

I will ensure that you are kept personally informed of the outcome of our investigations. I know that we share an interest in making sure that the very valuable work of the EU Peace Programme should not be undermined in any way by the criminal activities of a few individuals.

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