

## **Chapter 5**

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### **European Union – Financial Transactions 2010**

**Central Government**



## European Union – Financial Transactions 2010

5.1 Ireland is a net beneficiary of EU funding. In 2010, Ireland contributed €1.35 billion to the EU budget and benefited from EU budget expenditure of €1.88 billion. Receipts from and payments to the EU budget over the past five years are set out in Figure 24.

**Figure 24 Ireland's Receipts from and Payments to the EU Budget 2006 - 2010**

| Year         | Receipts<br>€bn | Payments<br>€bn | Surplus/ (deficit)<br>€bn |
|--------------|-----------------|-----------------|---------------------------|
| 2006         | 2.20            | 1.53            | 0.67                      |
| 2007         | 2.08            | 1.57            | 0.51                      |
| 2008         | 2.06            | 1.59            | 0.47                      |
| 2009         | 1.81            | 1.49            | 0.32                      |
| 2010         | 1.88            | 1.35            | 0.53                      |
| <b>Total</b> | <b>10.03</b>    | <b>7.53</b>     | <b>2.50</b>               |

Source: Department of Finance

### Chapter Focus

This chapter has been compiled to present an overview of the financial transactions between Ireland and the European Union, the procedures for the allocation of EU funds and the various audit arrangements relating to those transactions.

## Contribution to EU Budget

5.2 The Irish contribution to the EU budget for 2010 was €1.35 billion. The component elements of this total are shown in Figure 25.

**Figure 25 Ireland's Contribution to EU Budget 2010**

| Contribution element                          | 2010 determination base <sup>a</sup> | €000             |
|---|--------------------------------------|------------------|
| Traditional own resources                     | 75% of total received into Exchequer | 185,644          |
| VAT-based contribution                        | 0.3% of established VAT base         | 193,781          |
| GNI-based contribution                        | 0.789% of established GNI            | 908,232          |
| UK correction mechanism <sup>b</sup>          |                                      | 56,078           |
| Netherlands/Sweden GNI reduction <sup>c</sup> |                                      | 8,634            |
| <b>Total</b>                                  |                                      | <b>1,352,369</b> |

Source: Department of Finance

- Notes:
- a The rates presented for the VAT and Gross National Income (GNI) based contributions are those agreed at the beginning of the budget year. These can alter during the year as amending budgets are agreed. GNI is the sum of incomes of residents of an economy in a given period and is conceptually identical to Gross National Product (GNP).
  - b Since 1985, the UK has received a partial refund of its EU budget contributions. The refund is financed by contributions from all other member states in proportion to their national percentage of EU GNI.
  - c The Netherlands and Sweden benefited from reductions in their GNI-based contributions to the EU budget in 2010 amounting to €651 million and €162 million respectively. The reductions were financed by contributions from all member states in proportion to their national percentage of EU GNI.

## Receipts from EU Budget Funds

5.3 Receipts of €1.88 billion from the EU in 2010 were sourced from particular EU funds and programmes. The 2010 receipts were applied by Ireland as amounts voted by Dáil Éireann of €416 million, Central Fund payments of over €46 million and amounts paid directly to implementation agencies and beneficiaries amounting to €1.3 billion as specified in Figure 26.

**Figure 26 Ireland's 2010 Receipts by Source<sup>a</sup>**

| Source of EU receipts   | Total receipts   | Application of funds |                |                     |
|---|------------------|----------------------|----------------|---------------------|
|   |                  | Votes                | Central Fund   | Direct <sup>b</sup> |
|   | €000             | €000                 | €000           | €000                |
| <b>Agriculture and Rural Development Funds</b>                        |                  |                      |                |                     |
| European Agricultural Guarantee Fund (EAGF) <sup>c</sup>              | 1,305,000        | —                    | —              | 1,305,000           |
| European Agricultural Fund for Rural Development (EAFRD) <sup>d</sup> | 381,000          | 327,000              | 54,000         | —                   |
| <b>Structural Funds<sup>e</sup></b>                                   |                  |                      |                |                     |
| European Regional Development Fund (ERDF) <sup>f</sup>                | 67,400           | 1,200                | 66,200         | —                   |
| European Social Fund (ESF)  | 52,100           | 52,100               | —              | —                   |
| <b>Other Funds/Receipts</b>   |                  |                      |                |                     |
| Other receipts  | 76,700           | 35,800               | 26,100         | 14,800              |
| <b>Total</b>  | <b>1,882,200</b> | <b>416,100</b>       | <b>146,300</b> | <b>1,319,800</b>    |

Source: Department of Finance

- Notes:
- a European Commission figures show that between 2007 – 2009 the State received over €150 million in research and development funding from the FP7 Framework Programme for Research and Technological Development. 2010 funding is estimated at €85 million. These amounts have not been verified by the national authorities and are not included in the table as the funds are paid directly by the Commission to the beneficiaries.
  - b These receipts are held separately from State or Voted funds and paid to recipients on behalf of the EU.
  - c The principal component consists of single farm payments amounting to over €1.2 billion. The figure of over €1.1 billion for the single farm payment scheme and amounts for export refunds and intervention reported in note 6.1 to the Department's Vote account, relate to expenditure claims rather than receipts, which do not reconcile to this table as expenditure claims are recouped over two months in arrears.
  - d An amount of €54 million was received in 2010 due to increased financial ceilings and advance funding and is retained in a suspense account. The Vote amount figure of €327 million includes receipts of €21 million paid to the Department of Community, Rural and Gaeltacht Affairs.
  - e The structural funds consist of the ERDF which provides financial support for the development and structural adjustment of regional economies and the ESF which provides for education, training and employment supports.
  - f Includes receipts from the Programme for Peace and Reconciliation of €14.4 million.

5.4 The €76.7 million in other receipts set out in Figure 26 is comprised of the funds detailed in Figure 27.

**Figure 27 Estimated EU Receipts from Other Sources<sup>a</sup>**

| Source of other EU receipts  | Total receipts | Application of funds |               |               |
|--|----------------|----------------------|---------------|---------------|
|  |                | Votes                | Central Fund  | Direct        |
|  | €000           | €000                 | €000          | €000          |
| European Globalisation Adjustment Fund <sup>b</sup>                                  | 24,800         | –                    | 24,800        | –             |
| European Fisheries Fund (EFF)  | 14,700         | 14,700 <sup>c</sup>  | –             | –             |
| Veterinary Fund  | 14,000         | 14,000               | –             | –             |
| Education programmes   | 14,500         | –                    | –             | 14,500        |
| Fisheries protection/ EAGF fish markets and conservation and management of fisheries | 2,300          | 2,300 <sup>c</sup>   | –             | –             |
| European Refugee/Integration/Return Funds <sup>d</sup>                               | 3,500          | 3,500                | –             | –             |
| EEA/TENs/other <sup>e</sup>  | 1,300          | –                    | 1,300         | –             |
| CSO – Eurostat receipts  | 800            | 800                  | –             | –             |
| Life+ <sup>f</sup>   | 500            | 500                  | –             | –             |
| Customs and Fiscalis receipts <sup>g</sup>   | 300            | –                    | –             | 300           |
| <b>Total</b>   | <b>76,700</b>  | <b>35,800</b>        | <b>26,100</b> | <b>14,800</b> |

Source: Department of Finance

- Notes:
- a Some EU Funds from other sources may be paid by the EU Commission directly to private firms or individuals and therefore the term estimated is used.
  - b These receipts relate to three Irish applications for assistance from the Fund in relation to redundancies at Dell Computers, Limerick and eight of its suppliers and downstream producers, at Waterford Crystal and three ancillary companies, and at SR Technics, Dublin Airport.
  - c These receipts of €17 million in total may be reconciled to the Department of Agriculture, Fisheries and Food's Vote account amount of €23 million for fisheries as the Vote includes an additional €6 million approximately in receipts received in 2008 and 2009 which were held in a suspense account and lodged in 2010.
  - d €3.2 million was received in respect of the European Refugee Fund and the Integration Fund for Third Country Nationals. The balance comprises receipts from the European Return Fund.
  - e These receipts relate principally to transport, energy and telecommunication projects.
  - f These receipts relate to a funding programme for environmental projects.
  - g These receipts relate principally to payment for expenses for staff engaged in customs work and in the Fiscalis 2013 programme which relates to the operation of the taxation system.

## Allocation of EU Funds

5.5 EU funding is allocated for multi-annual programming periods. The current programme period is 2007-2013. An associated financial framework for this period was agreed between the European Parliament, the EU Council and the European Commission (the Commission) under an Inter-Institutional Agreement adopted in May 2006. An annual EU budget of expenditure and receipts governs the allocation of funds in each year within the programming period.

5.6 The annual EU budget is decided by the EU Council and the European Parliament on the basis of a budget proposal from the Commission, which is also responsible for implementing it. The two principal elements of the 2010 budget were payments for

- agriculture and rural development – which accounted for over 47% of the budget
- sustainable growth – which includes structural and cohesion funding and accounted for a further 39% of the budget.

## Sources of EU Funding

5.7 The main sources of EU funding to Ireland are agriculture and rural development funds and structural funds. Each of the funds is governed by different rules for financial management, control and accountability. A principal difference is that independently certified annual accounts of expenditure must be submitted each year for the agriculture and rural development funds, whereas for structural funds certified accounts must be submitted at the end of the programme period.

### *Agriculture and Rural Development Funds*

5.8 EU expenditure on agriculture and rural development is financed out of two funds

- the European Agricultural Guarantee Fund (EAGF), which, with a few exceptions, fully funds direct aid payments to farmers as well as a range of market support measures
- the European Agricultural Fund for Rural Development (EAFRD), which came into operation in 2007 and is used for co-financing measures implemented under Ireland's Rural Development Programme 2007-2013.

5.9 EAGF and EAFRD expenditure is paid by accredited paying agencies<sup>53</sup> in member states. In Ireland, the Department of Agriculture, Fisheries and Food is the sole accredited paying agency and Managing Authority<sup>54</sup> for the EAFRD. The authority to make rural development payments in respect of specific measures of the EAFRD relating to LEADER<sup>55</sup> is delegated to the Department of the Environment, Community and Local Government.

5.10 At year-end, independently certified annual accounts of EAGF and EAFRD expenditure must be submitted to the Commission. The Secretary General of the Department of Agriculture, Fisheries and Food is required to provide annually a statement of assurance regarding the EAGF and EAFRD accounts and control systems. In the case of EAFRD, the Department submits an annual report on its implementation.

5.11 The Commission clears both of the annual accounts in two stages – by an annual clearance decision based on the independent certification of the annual accounts and by ad-hoc clearance decisions arising from follow up audit work by the Commission. The Commission undertakes an annual programme of audits on specific schemes and areas following certification of the annual accounts. It conducted three audit missions in Ireland in 2010.

<sup>53</sup> Paying agencies are accredited by member states if they comply with specific requirements on financial control and accountability over EU expenditure as set out in Community legislation (EU Reg. 885/2006).

<sup>54</sup> The Managing Authority is responsible for managing and implementing the programme in an efficient, effective and correct way.

<sup>55</sup> The LEADER initiative is designed to aid the development of sustainable rural communities.

## **Structural Funds**

5.12 Ireland's receipts from the structural funds (ERDF and ESF) peaked during the 1993-1999 financial framework period and have declined in each subsequent programming period. Structural funds accounted for 6% of EU budget payments to Ireland in 2010.

5.13 The regulations governing the structural funds require member states, in conjunction with the Commission, to prepare and agree operational programmes to implement strategic priorities and impose financial management and control requirements relating to the implementation of co-funded assistance.

5.14 Each member state is required under the regulations to designate a Managing Authority for each operational programme. The member state must also designate a Certifying Authority and an Audit Authority for each structural fund. The functions and responsibilities of these bodies include the following

- The Certifying Authority is responsible for drawing up and submitting certified statements of expenditure and applications for payment. It is responsible for ensuring the accuracy and probity of these statements of expenditure.
- The Managing Authority is responsible for managing and implementing the operational programme in accordance with the principles of sound financial management and for ensuring that activities selected for funding match the operational programme criteria. It is also responsible for verifying that co-financed projects are delivered, that expenditure declared by the beneficiaries has actually been incurred and complies with EU and national rules and that an adequate audit trail exists.
- The Audit Authority functions include ensuring that audits are carried out to verify the effective functioning of the management and control system of the operational programmes. It must present an audit strategy to the Commission and submit an Annual Control Report setting out the findings of audits carried out and provide an annual audit opinion as to whether the management and control systems function effectively.

5.15 The Department of Finance has overall policy responsibility for the structural funds and is also the Certifying Authority for the ERDF. There are two Managing Authorities for the ERDF in the 2007-2013 programming period - the Regional Assembly for the Border, Midlands and Western region and the Regional Assembly for the Southern and Eastern region. The Department of Education and Skills<sup>56</sup>, as Managing Authority and Certifying Authority, has primary responsibility for the ESF.

5.16 The Secretary General of each department involved in the implementation of co-financed projects is required to sign a declaration annually and submit it to the Department of Finance to confirm compliance with all applicable EU regulations. An Implementation Report is submitted annually to the Commission by each Managing Authority which sets out the financial implementation of the operational programmes in terms of targets and outlines the monitoring and evaluation procedures in place.

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<sup>56</sup> Responsibility for the functions of the ESF Policy/Operations and ESF Audit Authority transferred to the Department of Education and Skills on 1 May 2010 from the Department of Enterprise, Trade and Innovation.



## Audit of EU Funds

5.17 The audit arrangements in place within each of the relevant departments in relation to EU funds are outlined below together with an outline of the roles of my Office, the EU Commission and the European Court of Auditors (ECA).

### Audit Authorities

#### Agriculture and Rural Development

5.18 The Department of Agriculture, Fisheries and Food appoints a firm of auditors to provide an independent annual certificate and report on internal controls to the Commission. In addition, the Department's Internal Audit Unit finalised and issued eleven system audit reports on the EAGF and EAFRD funded schemes in 2010.

#### Structural Funds

5.19 Audit Authorities for ERDF and ESF have been established in the Departments of Finance and Education and Skills. These units are required to perform audits of operations<sup>57</sup> and to verify<sup>58</sup> eligible expenditure declared to the Commission within managing authorities, intermediate bodies and beneficiaries in operational programmes in the 2007-2013 programming period. The audit activity performed by the ERDF and the ESF units for the 2000-2006 and 2007-2013 rounds is shown in Figure 28.

**Figure 28 Audit Authority Activity in 2010**

|   | Programming Period |       |             |     |
|---|--------------------|-------|-------------|-----|
|   | 2000 – 2006        |       | 2007 – 2013 |     |
|   | ERDF <sup>a</sup>  | ESF   | ERDF        | ESF |
| Number of organisations visited/operations in 2010  | 16                 | 26    | 63          | 45  |
|   | €m                 | €m    | €m          | €m  |
| Amount verified in 2010                             | 55                 | 61    | 132         | 47  |
| Cumulative verified expenditure at 31 December 2010 | 495                | 284   | 132         | 65  |
| Cumulative eligible expenditure at 31 December 2010 | 4,155              | 1,981 | 189         | 283 |
| Cumulative expenditure verified at 31 December 2010 | 12%                | 14%   | 70%         | 23% |

Source: Departments of Finance and Education and Skills

Note: a The ERDF Audit Authority is also responsible for performing 15% verification on eligible expenditure from the Cohesion Fund. At 31 December 2010, it had verified €319 million or 41% of cumulative expenditure of €777 million declared to the Commission.

<sup>57</sup> EU regulations require that the sample of operations to be audited each year is based on a random statistical sampling method. A non-statistical method may be used where the number of operations is insufficient to allow the use of a statistical sampling method.

<sup>58</sup> 'Verifying' means that there is supporting evidence for EU co-financed expenditure and that the expenditure complies with relevant national and Community rules.

5.20 Systems-based audits are also performed at each level in accordance with a Commission guidance document<sup>59</sup> on a common methodology for the assessment of management and control systems. The ESF Audit Authority coordinates an annual plan of systems-based audits to be completed by Internal Audit Units in bodies involved in the management and administration of the operational programmes. The ERDF Audit Authority carried out these systems-based audits in respect of ERDF operations from the Certifying Authority level down to the public beneficiary body level in accordance with EU regulations<sup>60</sup>.

### ***Audit by the Comptroller and Auditor General***

5.21 Where a Department or State body audited by the Comptroller and Auditor General is in receipt of EU funds, the receipt and application of the funds are audited in like manner to national funds and to all other transactions by that body. Audit planning has regard to the audit tasks undertaken by others including the ECA, the Audit Authorities, the independent external Certification Body for agricultural supports and Internal Audit units. Audit work includes testing of compliance with national rules that have been transposed from EU directives and regulations. However, the transposition process is outside the remit of the audit.

### ***Audits by EU Commission***

5.22 Audit services from the Commission carry out a number of audits annually in member states and have the right to carry out on-the-spot audits or may request a member state to audit specific programmes or projects.

### ***European Court of Auditors***

5.23 Ireland contributed €1.35 billion in 2010 towards the total EU budget of approximately €123 billion which amounted to about 1% of the Gross National Income (GNI) of its 27 member states. Because Ireland's financial contribution is pooled with that of other member states, it shares an interest that the common funds are managed to good effect. At EU level this assurance is provided by the ECA.

5.24 The ECA is required to give an annual Statement of Assurance (an audit opinion) on the reliability of the accounts of the European Union and of the legality and regularity of the transactions underlying those accounts. In carrying out these functions, ECA staff visit member states to review management structures, test systems of control and to examine in detail a sample of applications submitted in support of payments to final beneficiaries.

5.25 Liaison arrangements provide for ECA visits to Ireland to be organised by my Office and all correspondence including the ECA audit findings and management responses are addressed to my Office for transmission to the audited body. Nine such visits were carried out in 2010. Following consultation with the certifying authority, the findings will be incorporated into the annual report of the ECA for 2010.

5.26 The Statement of Assurance provided by the ECA addresses two separate matters

- whether the accounts are reliable
- whether the transactions undertaken with EU budget moneys were legal and regular.

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<sup>59</sup> EU Commission Guidance Document (COCOF 08/0019/01).

<sup>60</sup> Article 60 of General Regulation 1083/2006.

5.27 For the third consecutive year, the ECA gave a positive Statement of Assurance, without qualification, on the reliability of the 2009 accounts<sup>61</sup>. However, for the sixteenth successive year, the ECA did not give a positive Statement of Assurance on the legality and regularity of most categories of EU expenditure. It reported that payments from the budget continue to be materially affected by error<sup>62</sup> (estimated to be between 2 and 5% overall) for the policy groups

- Agriculture and Natural Resources
- Cohesion
- Research, Energy and Transport
- External Aid, Development and Enlargement
- Education and Citizenship.

5.28 Two policy groups were reported not to be materially affected by error – Economic and Financial Affairs and Administration. The ECA reports that there was a significant decrease in its estimate of the most likely error in Cohesion spending compared with previous years and that for the budget as a whole, the estimate of error had fallen over recent years.

## Conclusion

Ireland contributed €1.35 billion to the EU budget in 2010 while €1.88 billion was received from EU funds.

Ireland, like other member states, has an interest in how the EU budget is used. While the European Court of Auditors noted that the estimate for material error in the budget had fallen in global terms across the EU, it was unable to give positive assurance on the legality and regularity of most elements of EU expenditure.

Financial corrections in Ireland are lower than the EU average. In particular, in relation to the 2000-06 and the 2007-13 programming periods, there have to date been no financial corrections in respect of Structural Funds received. Agricultural disallowances in the last decade are of the order of 0.12% which is considerably lower than the EU average.

<sup>61</sup> The audit of the 2010 accounts is not yet completed.

<sup>62</sup> The ECA treats an error in excess of 2% of total expenditure in a policy area as material.

