Comptroller and Auditor General
Special Report

Ireland's Transactions with the EU in 2017

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Report of the Comptroller and Auditor General

Ireland's Transactions with the EU

This report compiles information on Ireland's financial transactions with the EU and aims to provide a comprehensive overview of those transactions.

I have prepared this report under the provisions of Section 11 of the Comptroller and Auditor General (Amendment) Act 1993. The report was prepared on the basis of EU reports, and information, documentation and explanations obtained from departments referred to in the report. The draft report was sent to the Department of Finance, the Department of Public Expenditure and Reform, the Department of Education and Skills, the Department of Agriculture, Food and the Marine, and the Department of Justice and Equality. Where appropriate, comments received from each Department were incorporated in the final version of the report.

I hereby submit my report for presentation to Dáil Éireann in accordance with Section 11 of the the Comptroller and Auditor General (Amendment) Act 1993.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

18 December 2018

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Summary

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Membership of the European Union (EU) gives rise to obligations on member states to contribute to the EU budget. At the same time, member states receive funding from the EU through a number of channels.

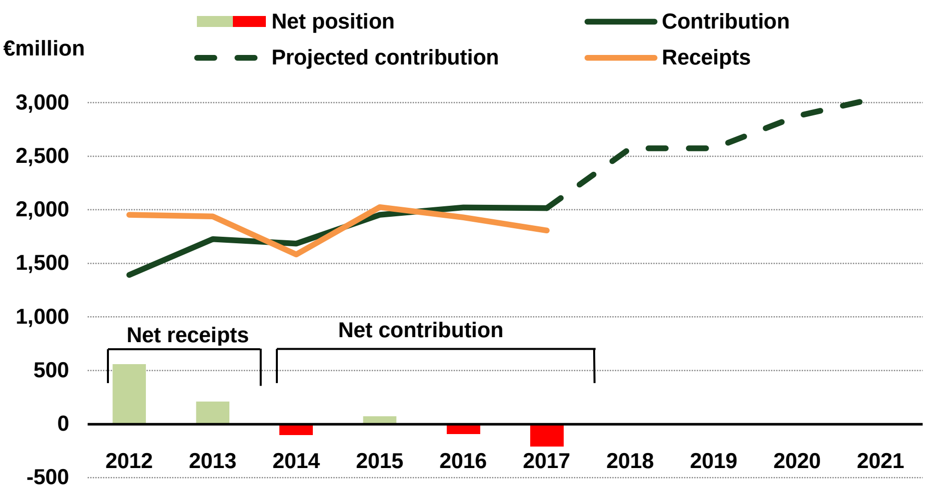
There is no single source that provides an overview of Ireland's financial transactions with the EU, including Ireland's contribution to the EU budget, the funding it receives, and financial corrections and other matters impacting on the flow of funds. This report compiles information on financial transactions between Ireland and the EU, with the aim of providing a comprehensive overview.

The EU budget is funded mainly (more than 90% in most years) from 'own resources' sourced from member states. The rate of contribution of own resources by member states is capped — currently at a maximum of 1.23% of the aggregate of member states' gross national income.

Financially, Ireland was a net beneficiary of the EU until 2014. Since then, Ireland has received marginally less than it has contributed, as shown in Figure 1. Ireland's contribution to the EU budget in 2017 was €2 billion. Financial projections suggest that the contribution will increase significantly in future years.

Long-term commitments also arise from Ireland's membership of the EU. The value of these is subject to inherent uncertainties. Although they are likely to be significant, there is no estimate of the value of those commitments.

Figure 1 Ireland's EU contribution and funding receipts, 2012 to 2017[a]



Source: Finance Accounts, Department of Finance and the European Commission.

Note: a Includes receipts by bodies outside the public sector.

The EU has committed to spending €1,087 billion (at 2018 prices) for the period 2014 to 2020 under the current multiannual financial framework (MFF). Negotiations have commenced on the MFF for the period commencing 2021. These are key, as the outcome of these negotiations will set the financial relationship for the medium to long term.

Ireland received €1.8 billion in EU funding in 2017. Over 80% of this was in respect of agriculture and rural development. This funding makes a significant contribution to the viability of farming in Ireland.

Approximately 90% of EU funding received in 2017 was administered through central government departments. The remaining 10% goes directly to public bodies, the private sector and EU bodies. There is no consolidated overview of the receipts, and the accounting treatment for EU transactions is inconsistent across schemes.

A European Commission (the Commission) review indicates that Ireland made relatively more progress than the EU average in selecting projects for structural funding. Ireland is also relatively good at drawing down available structural funds.

While the Commission is ultimately responsible for managing the EU budget, many bodies have oversight and audit responsibilities. Compared to other member states, Ireland incurs a relatively low level of financial corrections as a result of audits of EU transactions. For example, corrections imposed in respect of Ireland’s EAGF spending in the period 1999 to 2017 amounted to 0.4% of the funding received. The Commission reported that in the period 2007- 2013, Ireland had a relatively high level of financial corrections (2.9%) of ERDF and ESF funding received. However, the full allocation of such funding was drawn down by Ireland because expenditure deemed ineligible was replaced by other eligible expenditure.

Ireland’s Transactions with the EU in 2017

1 Introduction

1.1 Membership of the European Union (EU) gives rise to obligations on member states to contribute to the EU budget. At the same time, member states receive funding from the EU through a number of channels.

1.2 There is no single source that provides an overview of Ireland's financial transactions with the EU, including Ireland's contribution to the EU budget, the funding it receives, and financial corrections and other matters impacting on the flow of funds. This report compiles information on financial transactions between Ireland and the EU, with the aim of providing a comprehensive overview.

What is the EU budget?

1.3 The EU budget is set annually within the terms of a seven-year agreement known as a multiannual financial framework (MFF).[1] The MFF sets the maximum annual amounts which the EU can spend on different activities. The current MFF contains commitments of €1,087 billion (at 2018 prices) for the period 2014 to 2020.[2]

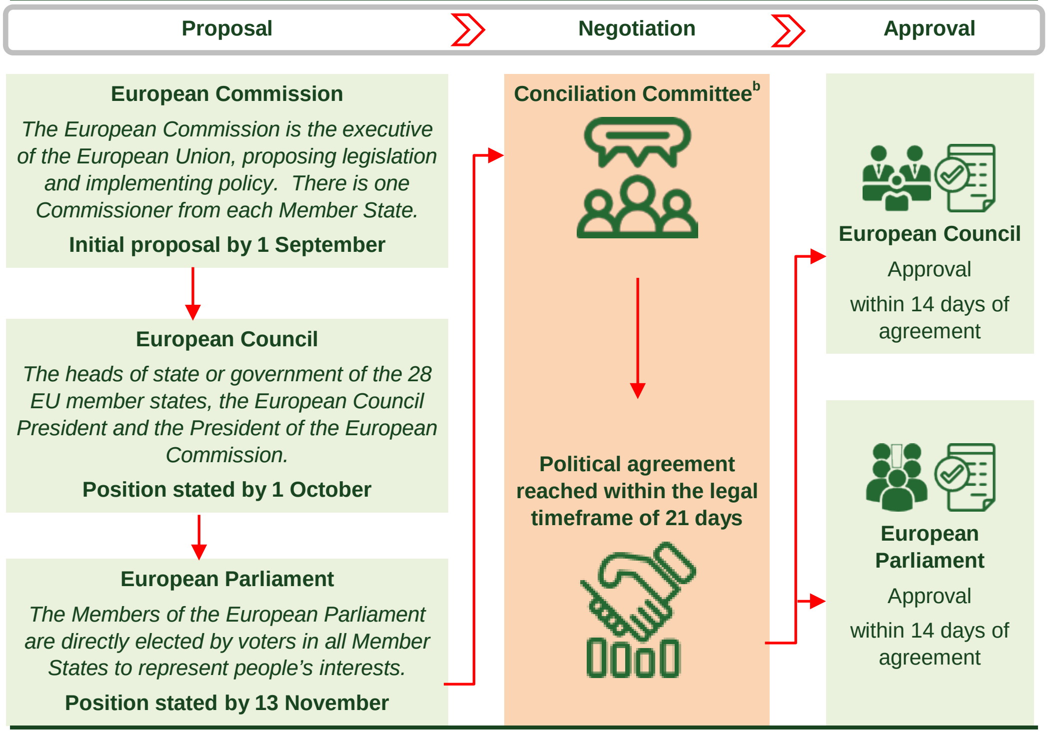
1.4 Preparations for the MFF for the period from 2021 have commenced. The European Commission (the Commission) published its proposal for the period 2021 to 2027 in May 2018.

1.5 The Commission proposes an annual budget — within the limits set by the MFF — to the European Council and European Parliament. The budget receives final approval when passed by the European Parliament. Figure 1.1 sets out key dates in the process.

1 Each MFF must be at least five years. The practice is to cover seven years.

2 The original budget was framed on 2011 prices and set at €963.5 billion.

Figure 1.1 Development of the EU budget[a]



Source: European Commission

Notes: a The dates indicated are in the year prior to the budget year.

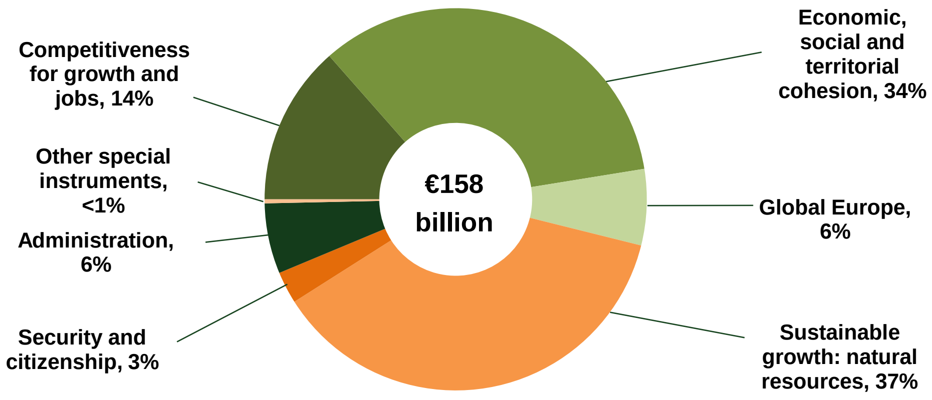
b The Conciliation Committee is convened when there is a divergent position between the Council and Parliament.

1.6 The EU and International Division in the Department of Finance represents Ireland's interest in the EU budgetary process and EU policy formulation. It also manages Ireland's contributions to the EU which are made monthly, following receipt of a payment request.

How is the budget spent and managed?

1.7 The budget sets an annual ceiling for each activity (referred to as 'headings'), expressed as 'commitment appropriations' — these are legally binding promises to allocate money which may be disbursed over several financial years.[1] A breakdown of the 2017 commitment appropriations budget is shown in Figure 1.2.

Figure 1.2 EU commitment appropriations budget for 2017



Source: European Commission

Note: a Commitment appropriations to activities in both cash and percentage terms can vary from year to year.

1.8 Commitment appropriations made in a financial year may not result in payment in full in that year. A limit is also set on the total amount authorised for disbursement in a given year — referred to as 'payment appropriations'. For example, the 2017 budget for payment appropriations was set at €134 billion, while the commitment limit was €158 billion. A comparison of commitment and payment appropriations for 2017 is shown in Figure 1.3.

1.9 A number of schemes or programmes may operate under individual budget headings. For example, in 2017 over €58 billion of the EU budget was allocated to sustainable growth: natural resources, which funds the European Agricultural Guarantee Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund (EMFF) and other programmes.

Figure 1.3 EU Budget for commitment and payment appropriations, 2017

Budget heading	Commitments € million	Payments € million	Payments as percentage of commitments
Competitiveness for growth and jobs	21,312	19,321	91%
Economic, social and territorial cohesion	53,587	37,200	69%
Sustainable growth: natural resources	58,584	54,914	94%
Security and citizenship	4,284	3,787	88%
Global Europe	10,162	9,483	93%
Administration	9,395	9,395	100%
Other special instruments	534	390	73%
Total	**157,858**	**134,490**	**85%**

Source: European Commission

1 The EU budget and financial years end on 31 December, except for funding under the common agricultural programme which ends on 15 October.

How is EU spending managed and controlled?

1.10 Member states, the Commission and the European Court of Auditors each have a role in ensuring that spending rules are observed and expenditure is correctly accounted for.[1] Around 80% of the EU budget is managed by national or regional governments. Ineligible expenditure and funds that are incorrectly accounted for must be repaid to the EU by the member state or party responsible for managing those payments.[2]

Focus of this report

1.11 The aim of this report is to compile information on Ireland's financial transactions with the EU, including receipts from the EU by organisations outside the public sector. The report examines

- payments made by Ireland to the EU (Chapter 2)
- receipts of EU funds by Ireland (Chapter 3)
- reporting and systems of assurance on the use of EU funds, and funding recovered by the EU from Ireland (Chapter 4)
- conclusions and recommendation (Chapter 5).

1.12 This examination reviewed information published by the EU including EU payments to Ireland. The examination also met with five departments with significant responsibility for managing EU funds — the Department of Finance, the Department of Public Expenditure and Reform, the Department of Justice and Equality, the Department of Education and Skills, and the Department of Agriculture, Food and the Marine.

1.13 This examination did not consider the impact of the Commission conclusion that Ireland granted undue tax benefits of up to €13 billion to Apple which constituted illegal State aid. The examination also did not consider in any detail the potential impact of Brexit on Ireland's payments to and receipts from the EU, due to the current uncertainty around the terms of a Brexit agreement.

1 The European Court of Auditors (ECA) was established under the Treaty of Brussels in 1975. It is the EU's external auditor. It conducts financial audits, compliance audits and performance audits.

2 The member state may recover ineligible or incorrectly accounted for expenditure from beneficiaries.

2 Funding the EU budget

2.1 The EU budget is funded mainly (more than 90% in most years) from 'own resources' sourced from member states (see Figure 2.1). There is a maximum rate of contribution of own resources by member states — the current ceiling rate is 1.23% of the sum of member states gross national income (GNI).[1] The remaining budget is funded by 'other revenue' which includes any surplus from the prior year.

2.2 Where actual EU expenditure is less than revenue, the surplus arising is carried forward to the following year as 'other revenue'. In effect, the surplus is indirectly refunded to member states by reducing the amount they must transfer to the EU in the subsequent year. Equally, a deficit arising will increase the contribution required from member states the following year, though this has not occurred for more than twenty years.

Figure 2.1 Sources of EU revenue in 2017

Source	2017 revenue		Basis of contributions
	€billion	%	
Own resources			
Value added tax	17	12%	0.3% of the VAT base in each member state, calculated using the total VAT collected and the weighted average rate of VAT.[a]
Traditional own resources	20	15%	Traditional own resources (TOR) principally comprise custom duties and sugar levies collected on behalf of the EU, of which member states may retain 20%.[b]
Gross National Income contributions	78	56%	GNI-based contributions to the EU budget bridge the gap between EU expenditure and amounts collected under other sources of revenue.[c] For 2017, the actual rate of contribution was 0.516% of GNI for each member state.
Other revenue[d]	24	17%	Other revenue includes any surplus from the prior period, pension deductions from EU staff salaries, and fines and levies imposed by the EU — for example, on companies for infringing EU competition rules or the milk superlevy.

Source: European Commission

Notes:
a The VAT base is adjusted to obtain a harmonised VAT base. A reduced rate of 0.15% is applied for Germany, the Netherlands and Sweden. The VAT base is limited to 50% of GNI.

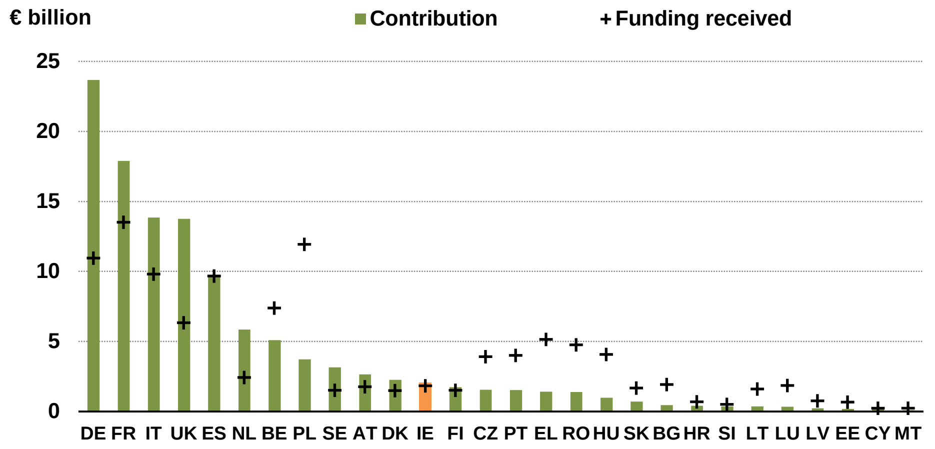
b The retention rate was 25% between 2001 and 2013 (inclusive).

c Gross National Income (GNI) is Gross Domestic Product (GDP) minus primary income payable by resident units to non resident units plus primary income receivable by resident units from the rest of the world. For budget purposes, GNI contribution is based on forecast figures, with adjustments in following years where outturn figures differ. Data compiled by the Central Statistics Office is submitted to Eurostat to enable the calculation of Ireland's budget contribution.

d Other revenue of €24 billion in 2017 was a greater percentage of the EU revenue than in most years, due to the repayment to the EU of unused funding in the areas of cohesion and natural resources (€6.6 billion in 2017), a surplus from the prior year (€6.4 billion), and fines and default interest (€3.6 billion). Other revenue in 2016 was €13 billion.

1 In 2017, Ireland's own resources contributions were 0.85% of Irish GNI.

Figure 2.2 EU contribution and funding receipts by member state in 2017[a]



Source: European Commission

Note: a Fund flows are shown on an accruals basis.

2.3 Three adjustments are made in calculating the GNI contribution required from each member state.

- Since 1985 a 'UK correction' has lowered the contribution made by the UK by way of a rebate which is replaced by additional contributions from all other member states.[1] The rebate is 66% of the amount that UK payments exceed UK receipts. In 2017, this mechanism reduced the UK contribution by €4.9 billion and increased Ireland's contribution by €135 million. Figures quoted in this report are after deduction of that rebate.
- Denmark, Ireland and the UK do not participate in certain justice and home affairs (JHA) policies of the EU so the contribution of each of these countries is reduced. In 2017, Ireland's contribution was reduced by €9 million due to the 'JHA adjustment'.
- Annual lump sum GNI reductions are provided for the Netherlands (€695 million), Sweden (€185 million) and Denmark (€130 million) for the period 2014 to 2020.[2] A smaller reduction for Austria was phased out in 2016.

2.4 Figure 2.2 shows the 2017 contribution made by each member state and the funding they received. Four member states (Germany, France, Italy and the UK) account for 60% of EU member state contributions (€69 billion). Total receipts in 2017 were €140 billion, with funding of €137 billion distributed.

2.5 Ireland's EU contributions and receipts in recent years are shown in Figure 2.3. Ireland was a net beneficiary until 2014, when a contribution was made. In 2015, Ireland was again a net beneficiary. In 2016 and 2017, Ireland was a net contributor to the EU budget. [3]

Ireland's contribution to the EU

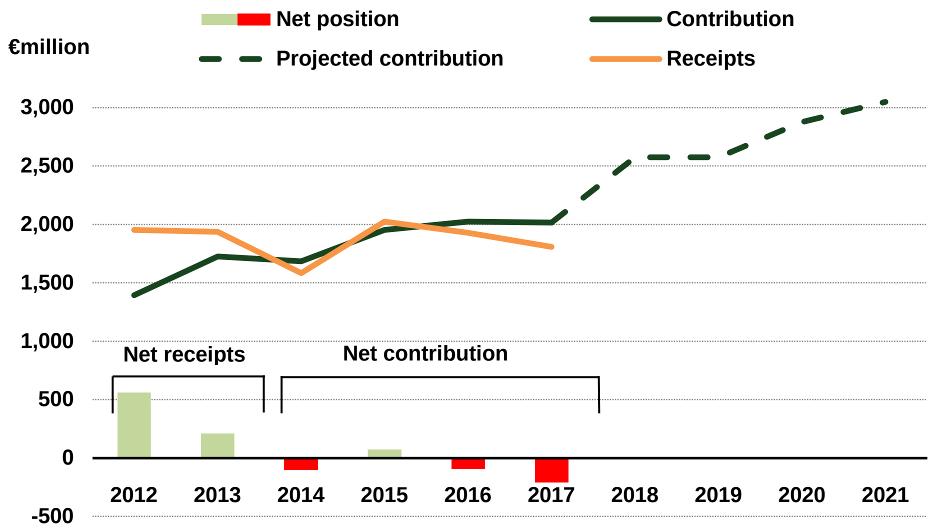
2.6 Ireland's contribution to the EU budget is accounted for in the Finance Accounts — Figure 2.4 shows contributions in the period 2012 to 2017. Ireland contributed €2 billion in 2017. The figures exclude payments by Ireland arising from disallowed expenditure and fines imposed by the EU.

1 The additional contribution of Germany, the Netherlands, Sweden and Austria is capped at one quarter of their calculated share.

2 Values are stated in 2011 prices.

3 The Department of Finance publish statistics on Ireland's contribution to the EU budget and public sector receipts from the EU budget. This report also includes receipts by Irish bodies outside the public sector, so reported receipts are higher than those included in Department of Finance published reports.

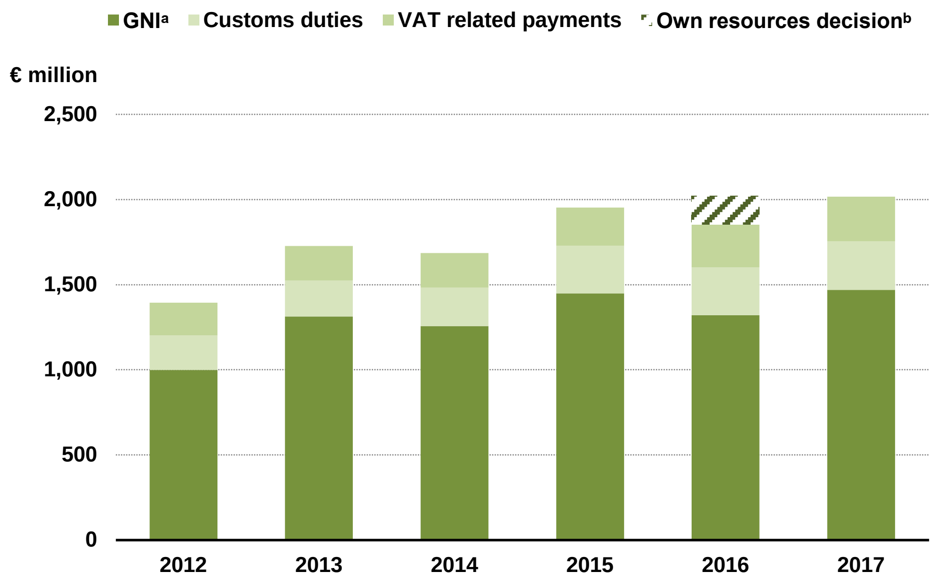
Figure 2.3 Ireland's EU contribution and funding receipts, 2012 to 2017[a]



Source: Finance Accounts, Department of Finance and the European Commission.

Note: a Fund flows are shown on a cash basis.

Figure 2.4 Ireland's contribution to the EU, 2012 to 2017



Source: Finance Accounts 2012 to 2016

Notes: a GNI shown is after adjustment for the UK correction and the JHA adjustment.

b In 2016, a retrospective and once-off 'own resources decision' payment of €171 million was made for 2014 and 2015. The decision gave legal effect to a permanent change in the financing of the EU budget as part of the multiannual financial framework 2014-2020. It entered into force on 1 October 2016.

2.7 VAT, GNI and customs duty information submitted by each member state is subject to revision for four years, after which it becomes time-barred.[1] For example, following the submission of data by Ireland showing a 24% increase in GNI in 2015 compared to 2014, the Commission sought information from each member state regarding research and development and other activities of multinational companies. The Commission concluded that member states had insufficient information in this regard. The European Court of Auditors (ECA) noted in its annual report for 2016 that GNI data in relation to these activities is not yet final and member states' contributions may require adjustment.

Projected future contributions to the EU

2.8 The basis for Ireland's contribution to the EU budget is fixed until the end of the current MFF (in 2020). The Department of Finance has stated that EU budget contribution forecasts evolve over the course of each year and are volatile due to the number of factors involved (including Irish GNI, EU GNI, and EU budget expenditure levels). However, based on current assumptions — including Irish GNI growth of 26% between 2017 and 2021 — the Department of Finance has projected that Ireland's contribution will increase to €3.1 billion by 2021 — an increase of 51% from 2017.

2.9 The impact of Brexit (and the loss of the UK net contribution which was €7 billion in 2017) on the EU budget will depend on the nature of the final withdrawal agreement, the details of which are still subject to negotiation.

2.10 In 2021, the current MFF will be replaced by its successor, which may vary the rate of contribution and the value of EU funds available to Ireland.

2.11 Long-term commitments also arise from Ireland's membership of the EU, but the value of these commitments is subject to inherent uncertainties. The Brexit negotiations have highlighted such costs and commitments that are met from the EU budget on an ongoing basis, including

- outstanding financial commitments — referred to by the EU as *reste à liquider* (RAL) — estimated at €267 billion at end 2017
- liabilities and contingent liabilities, such as guarantees to support the financial operations of the European Investment Bank
- accrued pension and other post-employment benefits of staff of the European Commission and agencies — €73 billion in 2017.[2]

2.12 Ireland's share of the estimated long-term commitments to the EU have not been quantified.

1 Unless reservations are set by the Commission.

2 *Annual Accounts of the European Union 2017*, European Commission, June 2018. EU pensions are funded on a pay-as-you-go basis.

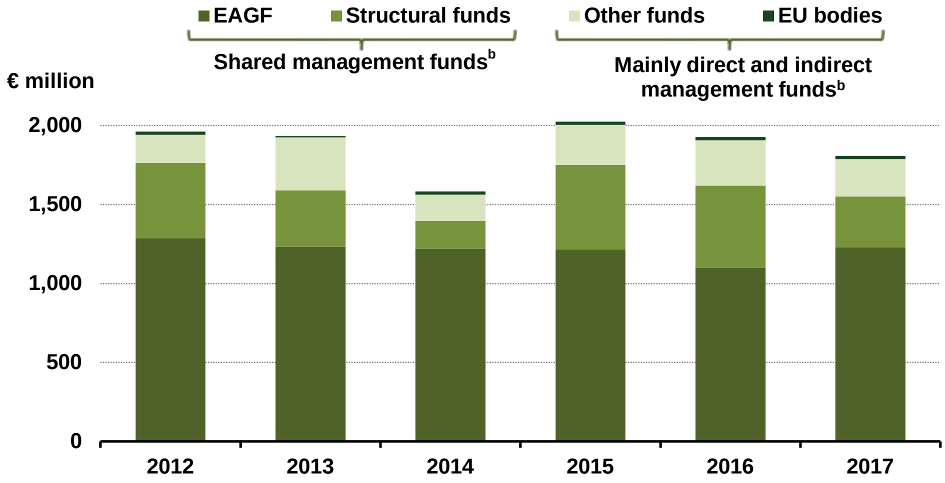
3 EU expenditure in Ireland

3.1 This chapter examines receipts of €1.81 billion by Ireland in 2017 and the management systems for those receipts.[1]

- The European Agricultural Guarantee Fund (EAGF) accounted for 68% of Ireland's receipts, funding direct payments to farmers and other agricultural market supports.
- Structural and investment funding, for example supporting rural and regional development, accounted for 18% of receipts.
- Other funding and payments to EU bodies based in Ireland, accounted for 14% of receipts.

3.2 Ireland's receipts from the EU over the last six years are shown in Figure 3.1. These include payments under two consecutive MFFs (2007-2013 and 2014-2020).

Figure 3.1 Ireland's receipts from the EU, 2012 to 2017[a]



Source: European Commission and the Finance Accounts.

Notes: a Figures shown on a cash basis.

b Further details on how funds are managed (shared, direct and indirect) are provided in Chapter 4.

1 Including receipts that did not pass through the Exchequer.

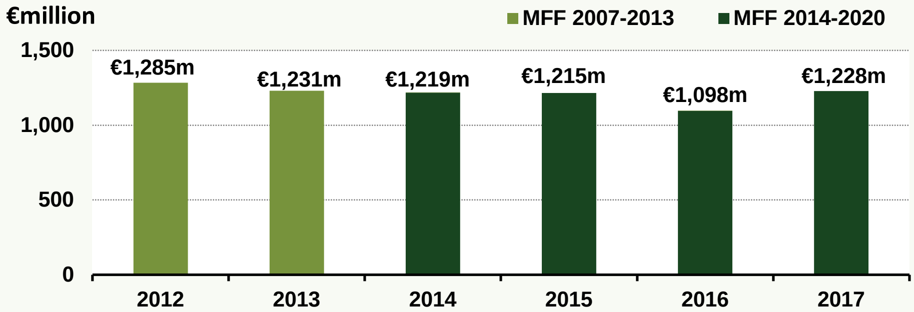
European Agricultural Guarantee Fund

3.3 Direct payments to farmers and market-related expenditure to support agricultural prices are made through the European Agricultural Guarantee Fund (EAGF). Figure 3.2 shows key indicators of EAGF support to Ireland.

Figure 3.2 EAGF in Ireland

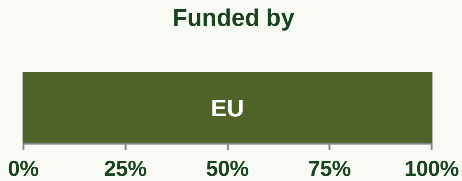
Used for…

EAGF receipts in Ireland 2012 to 2017, by MFF[a]

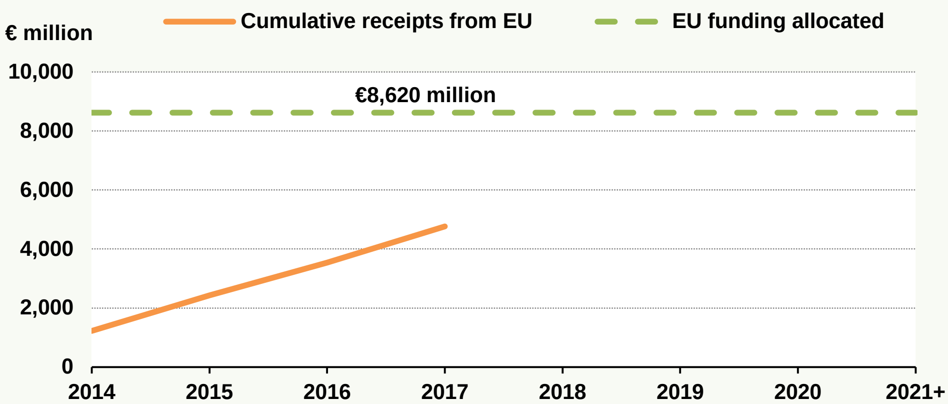


EAGF budget in Ireland for MFF 2014 to 2020

€8,620 million



Profile of EU receipts under MFF 2014 to 2020



Source: European Commission

Note: a Receipts before deductions for financial corrections.

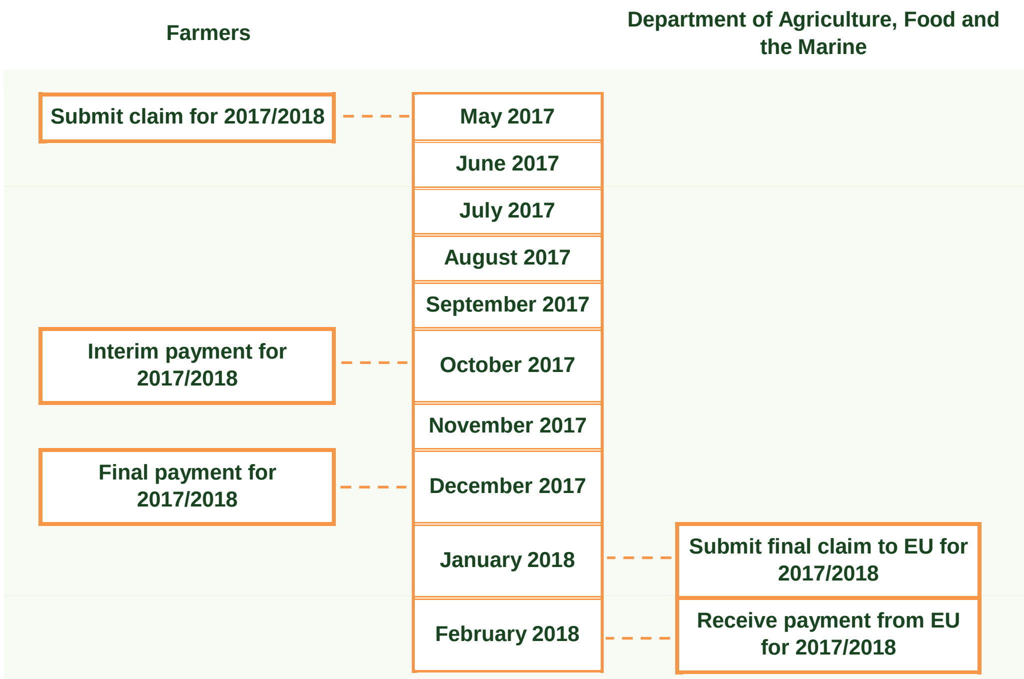
Direct payments to farmers

3.4 Direct payments to farmers under the EAGF— such as the basic payment and 'greening' payment — are made by the Department of Agriculture, Food and the Marine (DAFM), who then recoup the payments from the EU. The EAGF accounting year commences on 16 October, when interim payments under the basic payment scheme are allowed to commence. Figure 3.3 shows the timing of payments under the basic payment scheme and the recoupment of those payments from the EU.[1]

3.5 The timing of payments results in DAFM being due money from the EU at the end of its financial year (31 December). At 31 December 2017, DAFM had paid €1.15 billion to farmers for the 2017/2018 EAGF financial year, which the EU reimbursed to Ireland in early 2018.

3.6 A fixed rate is withheld from direct payments to farmers and placed in a temporary reserve for use in agricultural crises — the 'financial discipline' procedure. In 2016, the rate was 1.4% of payments exceeding €2,000. Where the reserve is not used — and it had never been used up to December 2017 — it is reimbursed to eligible farmers. The reserve collected in respect of 2016 was €13.2 million, and this was reimbursed to farmers in July 2018.

Figure 3.3 Timing of basic payment scheme payments and recoupment[a]



Source: Department of Agriculture, Food and the Marine

Note: a Payment for agricultural practices beneficial for the climate and environment (the 'greening' payment) and the young farmers payment are made at the same time as basic payments.

1 In Ireland, the basic payment is capped at €150,000 to any one farmer.

Other EAGF supports

3.7 The EAGF also supports market prices by operating a market intervention scheme. If the price of certain agricultural produce falls to the extent that farm viability is affected, a member state may petition the EU to approve a market intervention — for example, skimmed milk powder is currently the subject of intervention. The EU sets a price and volume ceiling for each member state to buy the product and store it. When markets recover, the product can be sold on the open market — profit or loss on the sale of intervention produce is borne by the EU.

Impact of EAGF funding

3.8 The impact of EAGF direct payments is evident from an analysis of the contribution it makes to average farm income, as shown in Figure 3.4.

3.9 The data show a heavy reliance on farm direct payments by farmers — accounting for an average of 56% of farm income in 2017. The average farm in the sheep and cattle rearing sectors would be loss-making without EU direct payment support.

Figure 3.4 Impact of EU direct payments on average farm income, 2016 and 2017

2016	**Average farm income[a]**	**Average direct payment**	**Contribution to income[b]**
Dairy	€52,155	€19,735	38%
Cattle rearing	€12,516	€14,400	115%
Cattle (other)	€16,853	€16,209	96%
Sheep	€15,708	€17,946	114%
Tillage	€30,840	€26,331	85%
All	**€23,848**	**€17,804**	**75%**
2017			
Dairy	€86,069	€19,328	22%
Cattle rearing	€12,529	€14,242	114%
Cattle (other)	€17,199	€16,436	96%
Sheep	€16,856	€19,145	114%
Tillage	€37,027	€23,239	63%
All	**€31,412**	**€17,659**	**56%**

Source: Teagasc National Farm Survey, 2016 Results and 2017 Results

Notes: a Farm income is gross output plus direct payments less direct costs and overheads.

b Where the contribution to income exceeds 100%, the farm would have been loss making without direct payments.

European Structural and Investment Funds

3.10 The European Structural and Investment Funds (structural funds) are the EU's instrument for reducing disparities in the level of development of its various regions and for helping less developed regions to 'catch up' (see Figure 3.5).[1] Ireland is split into two regions, both of which are classified as more developed regions.

Figure 3.5 EU classification of economies

Classification	% of EU average GDP per person
Less developed regions	Less than 75%
Transition regions	More than 75% but less than 90%
More developed regions	More than 90%

Source: European Commission categorisation based on Eurostat data

3.11 There are five structural funds with a single set of rules

- the European Agriculture Fund for Rural Development (EAFRD) which supports the common agricultural policy (Pillar 2)
- the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund[2] which support cohesion policy
- the European Maritime and Fisheries Fund (EMFF) which supports common fisheries policy and integrated maritime policy.

3.12 Ireland has been allocated €3.5 billion under the EU structural funds (Figure 3.6).

Figure 3.6 Structural funding allocations in Ireland under MFF 2014-2020[a]

Fund	EU allocation €million	National funding €million	Total allocation €million
European Agriculture Fund for Rural Development (EAFRD)	2,191	1,834	4,025
European Social Fund (ESF) and Youth Employment Initiative (YEI)	612	545	1,157
European Regional Development Fund (ERDF)			
— regional assemblies	411	411	822
— cross-border programmes[b]	169	—	169
European Maritime and Fisheries Fund (EMFF)	147	92	239
Total allocations	**3,530**	**2,882**	**6,412**

Source: European Commission

Notes: a The total EU allocations are shown in Appendix A.

b Cross-border funding supports programmes in Ireland, Northern Ireland, Scotland and Wales. Annual financial reports by the Interreg and PEACE bodies do not disaggregate funding by government body or expenditure by jurisdiction. Figure 3.10 provides further details of cross-border programmes.

1 Under the EU Common Provisions Regulation, the European Structural and Investment Fund (ESIF) comprises the ERDF, EAFRD, ESF, EMFF and Cohesion Fund, and the term 'structural funds' is used to refer to only the ERDF and ESF. The term 'the funds' refers to the ERDF, ESF and Cohesion Fund. For simplicity, in this report, the term 'structural funds' is used to refer to all five ESIF.

2 Ireland is not eligible for support under the Cohesion Fund, which targets less developed and transition regions, in the period 2014 to 2020.

Allocation of structural funds

3.13 Structural fund regulations require the development (by member states) and approval (by the Commission) of an operational programme to identify how the allocated funds will be spent. Under shared management arrangements, funds are allocated by the relevant managing authority in Ireland. Figure 3.7 summarises the process from allocation of funding to Ireland, to the allocation of funding to a specific project.

Figure 3.7 Allocation of funding for a structural fund

Ireland is allocated structural funding, on a co-financing basis i.e. an Irish Exchequer contribution is required.

Ireland submits a proposed partnership agreement to the EU, which sets out the strategic focus of MFF funding priorities in Ireland. The Commission approved the partnership agreement in November 2014.

Ireland submits an operational programme to the Commission for each fund that addresses the priorities of that fund.[a] Each priority is made up of specific investment priorities which are further broken down into individual schemes. Each scheme funds individual projects (or operations).

The Commission approve the operational programmes. Ireland can start allocating funds.

Projects or operations are selected and approved by the managing authority.[b]

Expenditure is funded up front by the Exchequer in the first instance and the permitted co-financing recouped subsequently from the Commission.[c]

Source: Department of Public Expenditure and Reform

Notes: a PEACE and Interreg programmes are called cooperation programmes, not operational programmes.
b In the case of the ERDF, programmes have individual selection and approval mechanisms.
c Initial or annual pre-financing may be received in advance of a claim.

Rural development funding

3.14 Rural development is funded under the European Agriculture Fund for Rural Development (EAFRD). Figure 3.8 shows key indicators of the EAFRD in Ireland.

Regional development funding

3.15 Funding for regional development is provided by the ERDF. Figure 3.9 shows key indicators of the ERDF in Ireland.[1]

1 Figure 3.9 excludes funding relating to PEACE and Interreg programmes supported by the ERDF — details on these programmes are shown in Figure 3.10.

Figure 3.8 EAFRD in Ireland

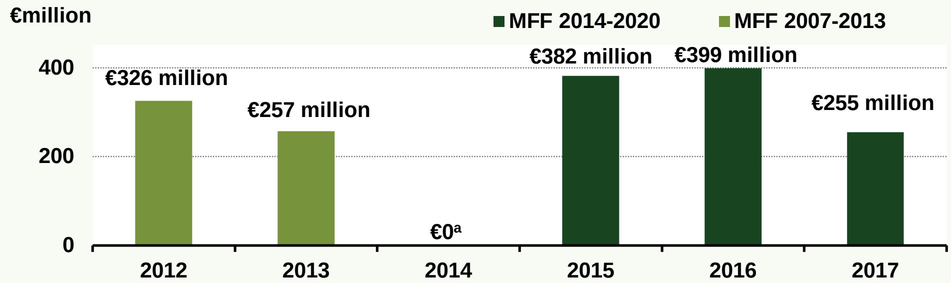
Used for…

competitiveness of agriculture

sustainable management of natural resources and climate action

development of rural economies and communities

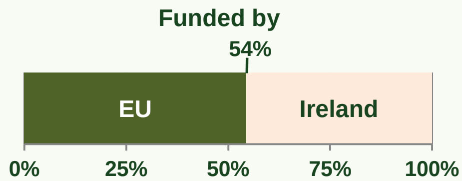
Rural development receipts, by MFF



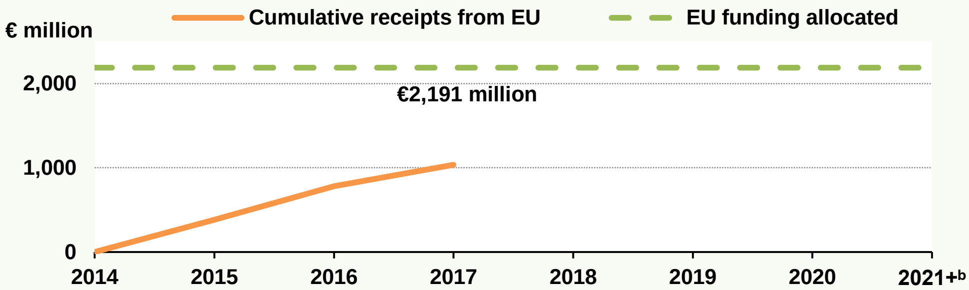
Note: a The EAFRD programme for 2014-2020 was not approved by the EU until May 2015. Claims for reimbursement can only be made after approval of the programme.

Rural development budget in Ireland for 2014 to 2020

€4,025 million

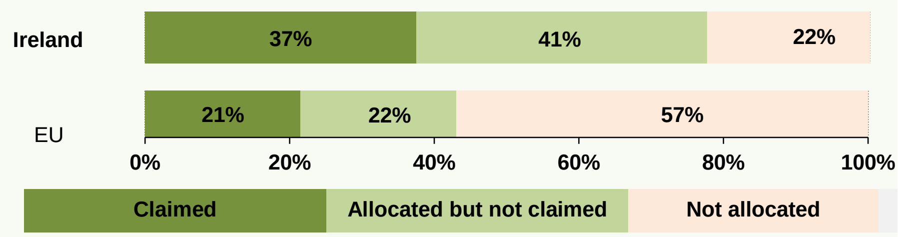


Profile of EU receipts under MFF 2014 to 2020



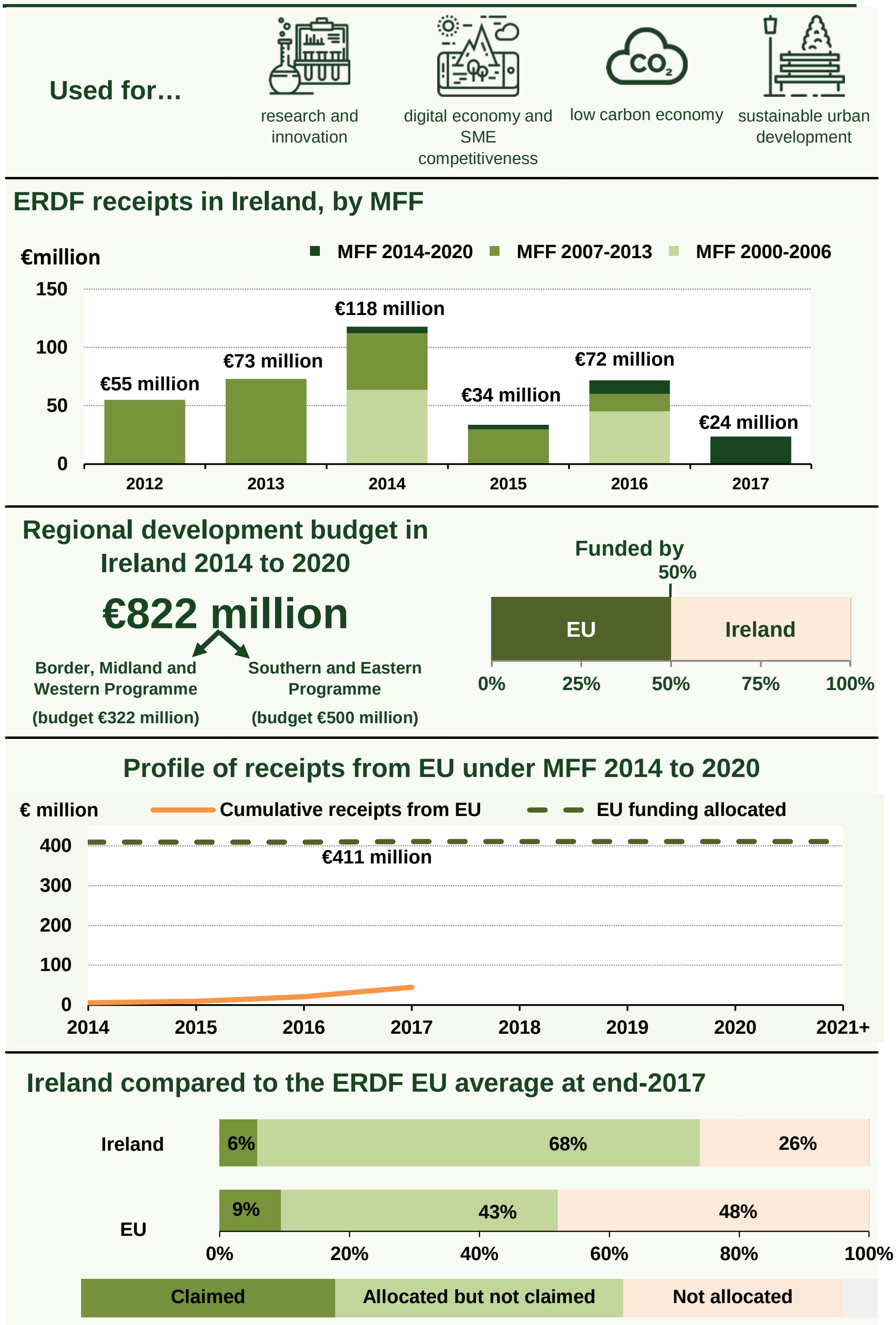
Note: b A proportion of funds are not paid until the performance objectives for that member state have been achieved — this 'performance reserve' will be paid after the completion of the MFF in 2020.

Ireland compared to the EAFRD EU average at end-2017



Source: European Commission

Figure 3.9 ERDF in Ireland



Source: European Commission

PEACE and Interreg programmes supported by the ERDF

3.16 The ERDF also supports cross-border, transnational and interregional cooperation under the European Territorial Cooperation (ETC) objective.

3.17 The information presented in Figure 3.9 in relation to the ERDF excludes funding under ETC, as the nature of the programmes means much of the expenditure occurs outside Ireland.

3.18 There are three programmes of significant relevance to Ireland funded under the 2014-2020 MFF (see Figure 3.10).

- PEACE IV, for which the Special EU Programmes Body (SEUPB) is the managing authority.
- Interreg VA Ireland-Wales, for which the Welsh European Funding Office is the managing authority.
- Interreg VA Ireland-Northern Ireland-Scotland, for which the SEUPB is the managing authority.

3.19 There are further programmes from which Irish entities are eligible to apply for funding

- Northern Periphery and Arctic — programme budget of €79 million
- Atlantic Area — programme budget of €185 million
- North-west Europe — programme budget of €649 million
- ESPON — programme budget of €49 million
- Interact — programme budget of €46 million
- Interreg Europe — programme budget of €426 million
- Urbact — programme budget of €96 million.

3.20 Under the 2014-2020 programmes, the SEUPB submits each claim and reimburses the accountable department from which match funding was drawn.[1] Under previous MFF, the SEUPB returned receipts to the sponsoring department (DPER in Ireland) and the majority of those receipts were returned to the Exchequer.

Social and youth employment funding

3.21 The ESF focuses on improving employment and education opportunities, enhancing social inclusion, and tackling poverty. The YEI tackles youth unemployment and supports job, education and training opportunities. Figure 3.11 shows key indicators of the ESF and YEI in Ireland.[2]

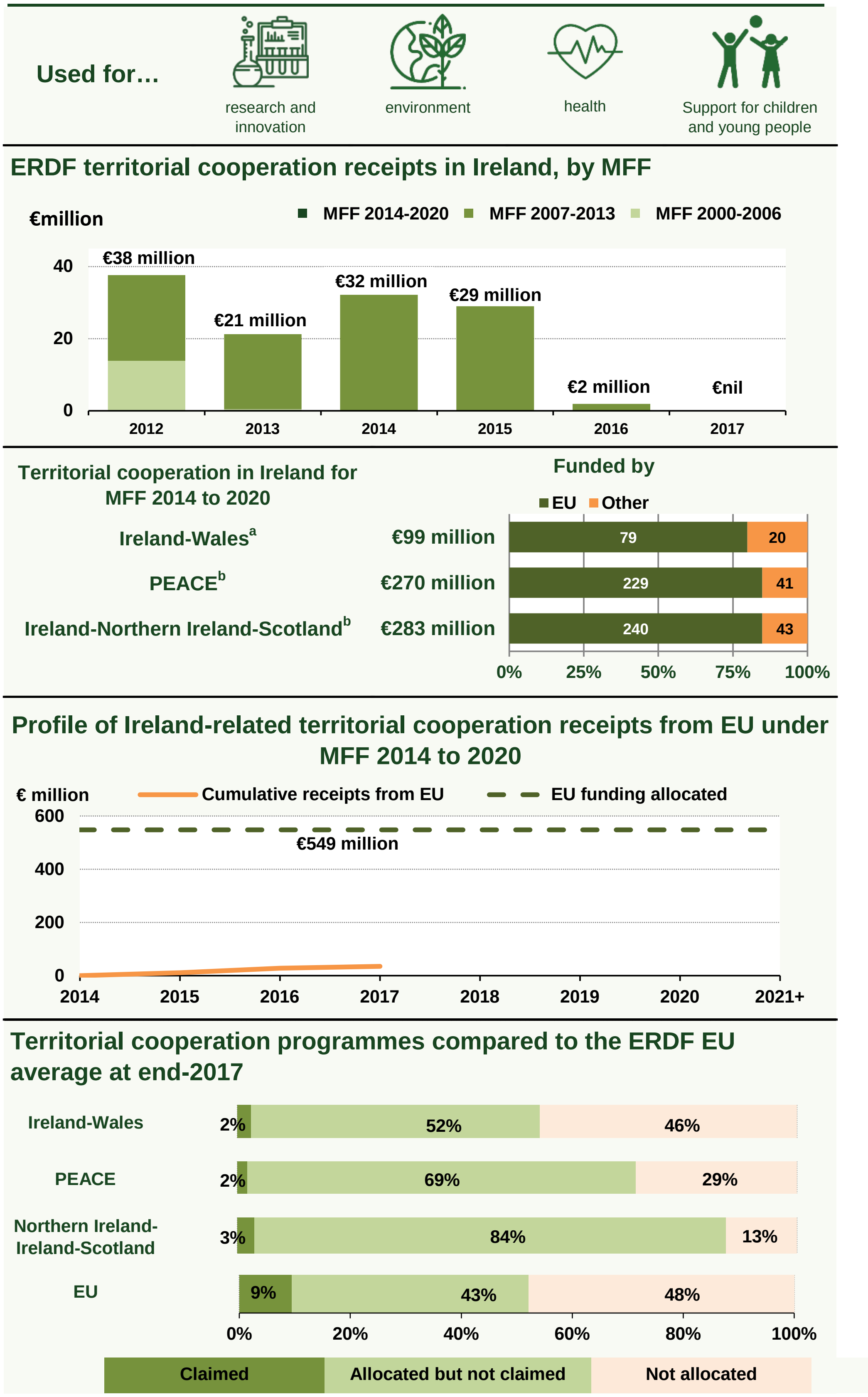
Fisheries funding

3.22 Support for maritime and fishing industries is provided by the European Maritime and Fisheries Fund (EMFF). Figure 3.12 shows key indicators of the EMFF in Ireland.

1 For PEACE, accountable departments include the Department of Education and Skills, the Department of Children and Youth Affairs, Department of Rural and Community Development, and the Department of Public Expenditure and Reform. For the Interreg programme, accountable departments include the Department of Business, Enterprise and Innovation, Department of Housing Planning and Local Government, Department of Health, Department of Public Expenditure and Reform, and the Department of Transport, Tourism and Sport.

2 Countries with youth unemployed of more than 25% in 2012 were eligible for additional funding under the Youth Employment Initiative (YEI). Ireland was eligible as youth unemployment was 33% in 2012. Ireland was not eligible for a further funding allocated in 2015, as youth employment was less than 25%.

Figure 3.10 ERDF territorial cooperation programmes in Ireland

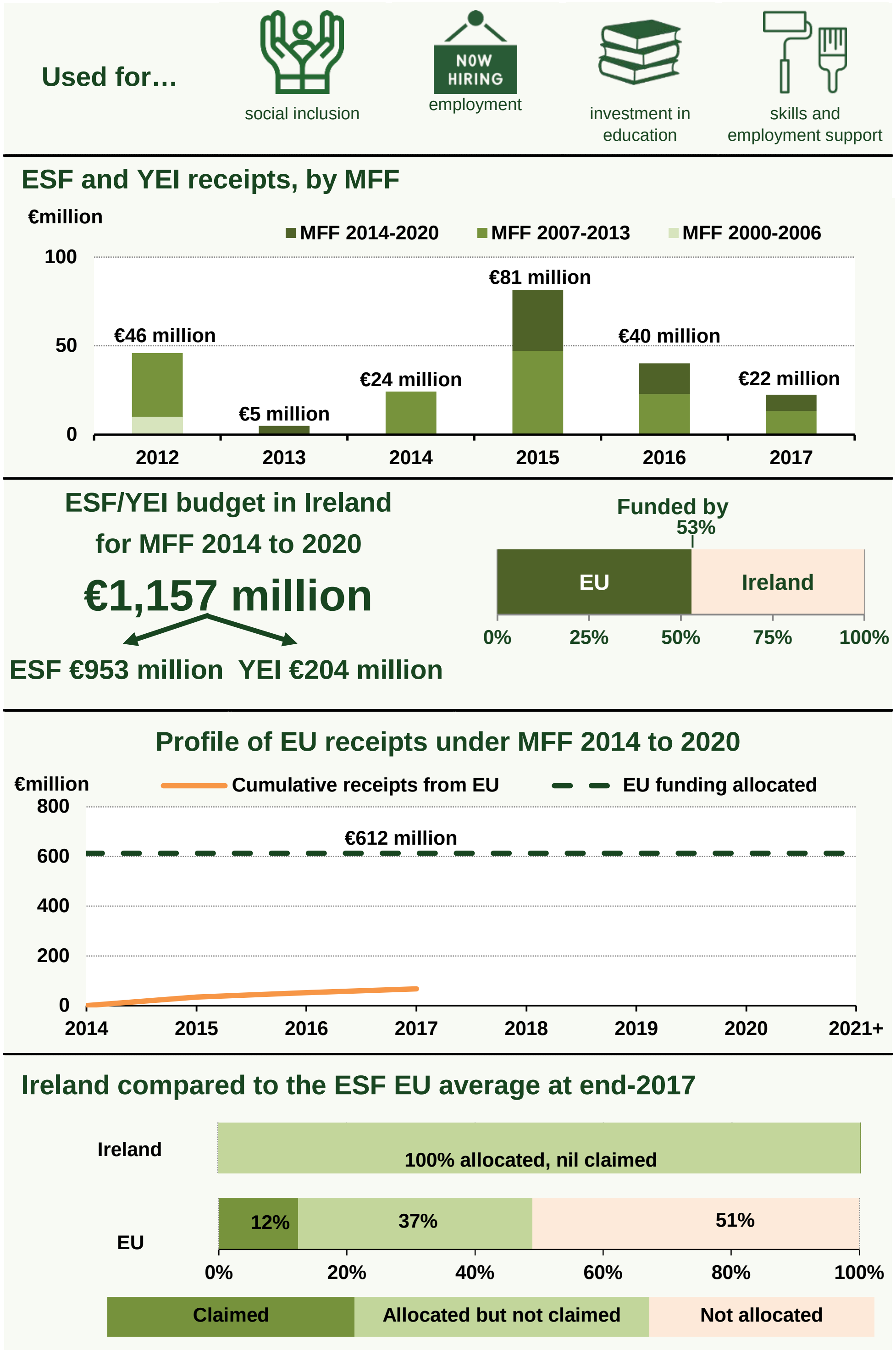


Source: European Commission

Notes: a Other funders are Ireland, the UK and the private sector.

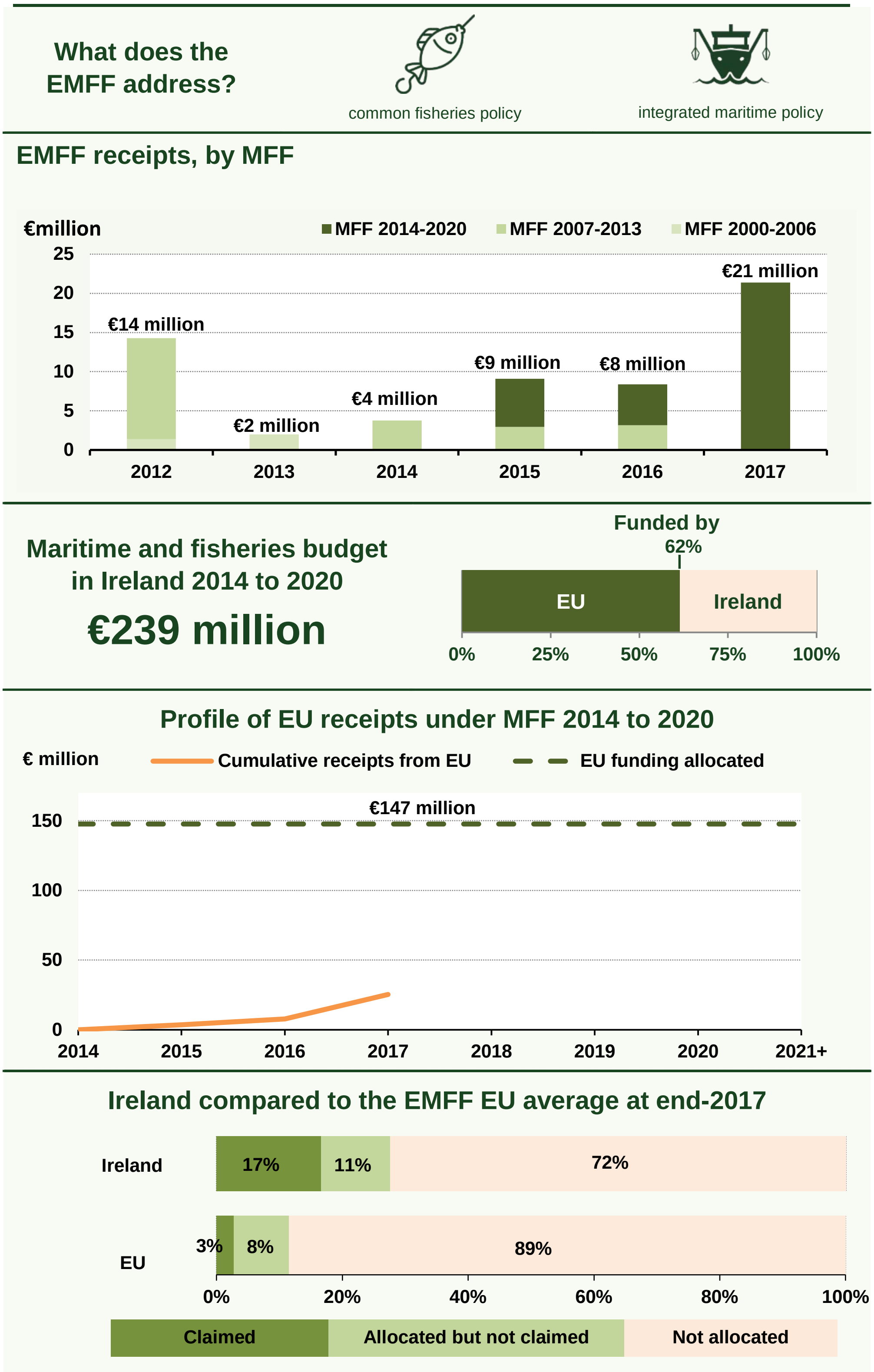
b Other funders are Ireland and the UK.

Figure 3.11 ESF/YEI in Ireland



Source: European Commission

Figure 3.12 EMFF in Ireland



Source: European Commission

Other EU funding received by Ireland

3.23 A range of other EU programmes are in place to achieve EU policy objectives — 14% of EU funding received by Ireland in 2017 did not relate to the EAGF or structural funds. Three programmes of significant financial interest to Ireland are Horizon 2020, Erasmus+, and the Asylum, Migration and Integration Fund.

Research and innovation

3.24 The EU support research and innovation under Horizon 2020, which is directly managed by the EU. Horizon 2020 payments are made to the beneficiary based on proposals submitted to the EU (see Figure 3.13).

Education and training support

3.25 Almost €170 million in Erasmus+ funding has been allocated to Ireland for the duration of the current MFF — key indicators are shown in Figure 3.14.

3.26 Most receipts are managed by two State bodies — in 2017, the Higher Education Authority received €9.5 million and Léargas received €15.1 million.[1] Other recipients of funding from the EU include the Qualifications and Quality Assurance Authority of Ireland and certain education bodies.

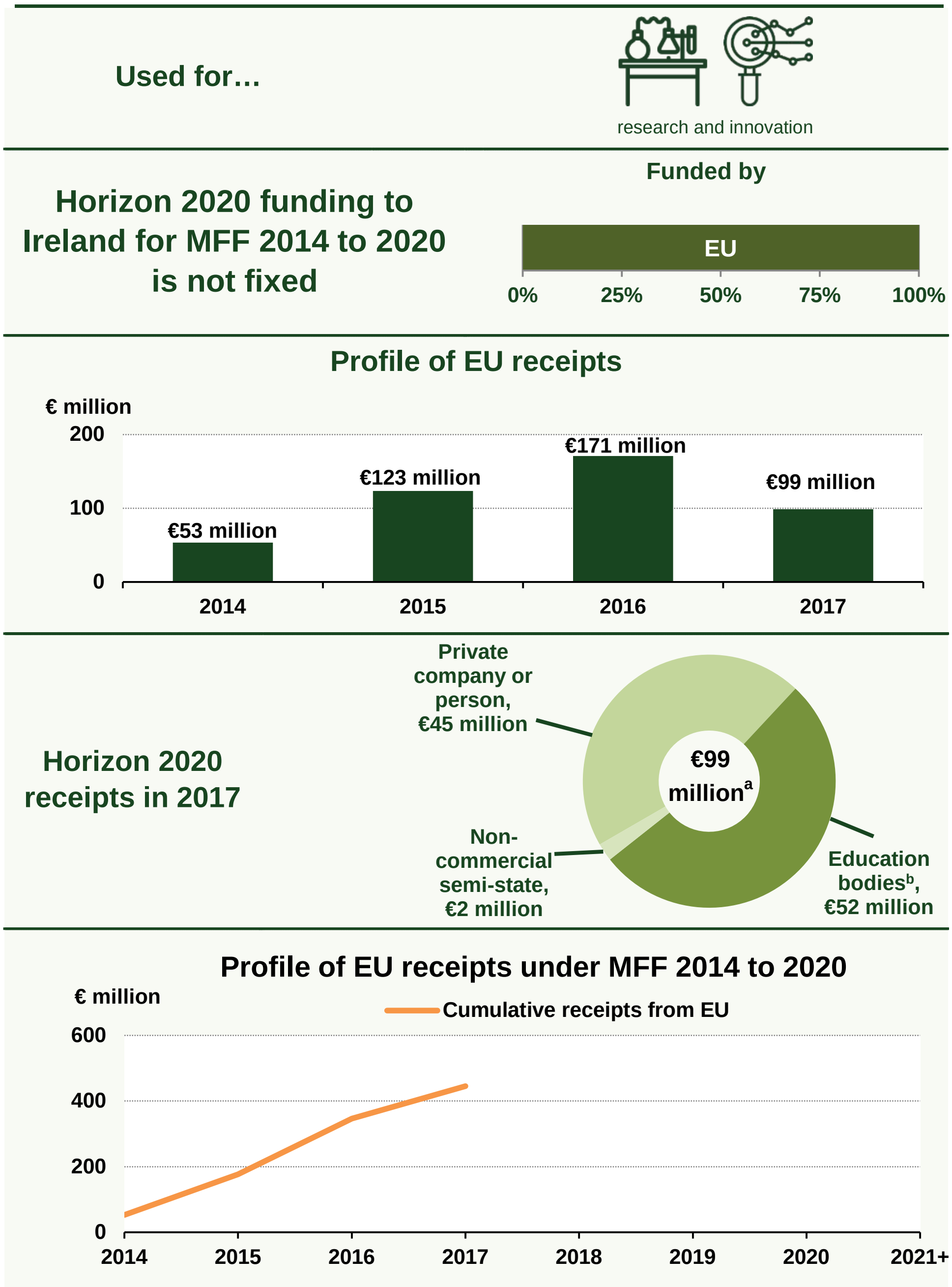
Funding for asylum, migration and integration

3.27 The Asylum, Migration and Integration Fund (AMIF) promotes efficient management of migration flows, and asylum and migration systems. AMIF is administered by the Department of Justice and Equality (DJE) in Ireland under shared management arrangements (Figure 3.15).

3.28 Projects commenced after the AMIF programme in Ireland was approved by the Commission in March 2016.

1 Léargas is a not-for-profit organisation, wholly owned by the Department of Education and Skills. It is not subject to audit by the Comptroller and Auditor General.

Figure 3.13 Horizon 2020 in Ireland



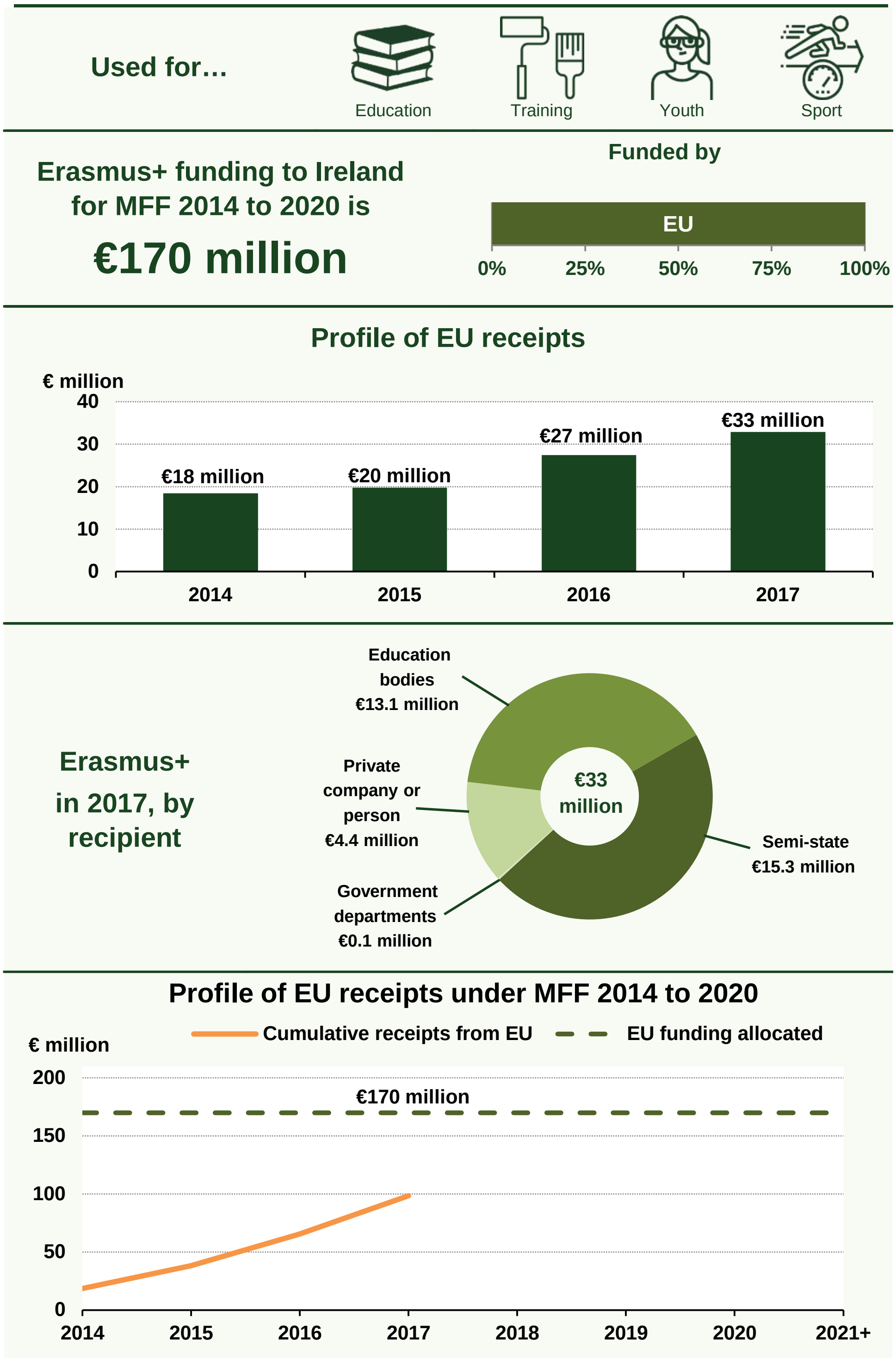
Source: European Commission

Notes:

a This figure represents payments to a company or coordinating institute in Ireland — many projects involve collaboration with bodies in other countries.

b Education bodies in receipt of Horizon 2020 funds in 2017 include Trinity College Dublin (€11 million), University College Cork (€12 million), University College Dublin (€9 million) and NUI Galway (€8 million).

Figure 3.14 Erasmus+ in Ireland



Source: European Commission

Figure 3.15 AMIF in Ireland

Used for…

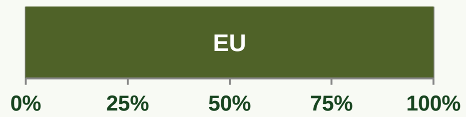
Management of migration flows

Common EU approach to asylum and immigration

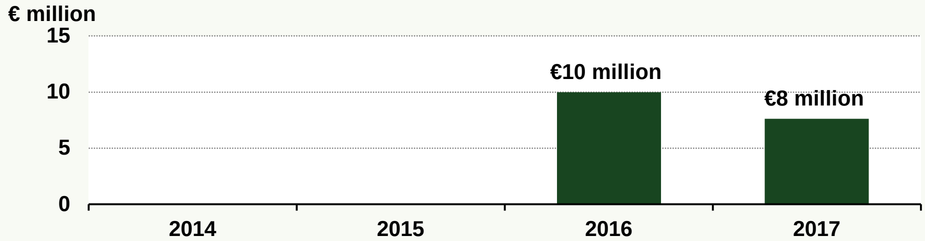
AMIF funding to Ireland for MFF 2014 to 2020 is

€53 million

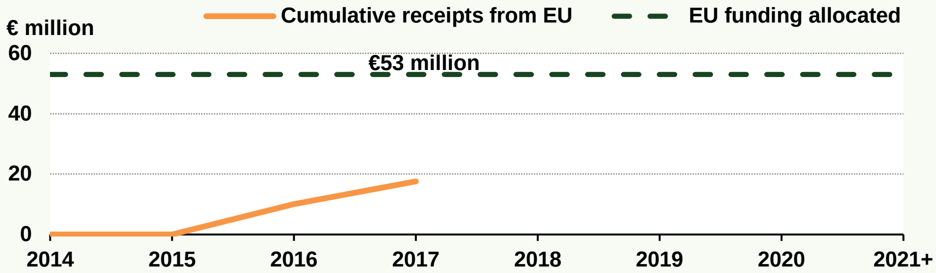
Funded by



Profile of EU receipts



Profile of EU receipts under MFF 2014 to 2020



Source: European Commission

Other EU payments to Irish entities

3.29 There were other payments of €119 million not shown above. These payments relate to

- receipts of €54 million, arising from the auction by a centralised EU facility of the emission allowance allocated by the EU to Ireland
- €20 million to the European Foundation for the Improvement of Living and Working Conditions (Eurofound), an EU decentralised agency based in Loughlinstown, County Dublin
- €11 million under the EU Food and Feed programme to DAFM, in support of the Bovine Tuberculosis Eradication programme (ERAD) in Ireland
- €10 million for the administration expenses of the European Commission in Ireland
- €24 million for a range of other programmes, each of which had receipts of less than €5 million.

4 Financial Reporting and Assurance

4.1 This chapter presents an overview of

- operational and reporting arrangements required in relation to EU funding received by Ireland
- reporting of EU expenditure
- external assurance on the use of EU funds
- compliance and penalties imposed for non-compliance with EU rules.

Operational and reporting arrangements

Management of EU funds

4.2 The EU operate three funding management models[1]

- Shared management, where funding is managed under programmes jointly administered by the Commission and national authorities — each member state prepares an agreement setting out how the funding will be used. All Irish shared management receipts — €1,609 million in 2017 — pass through accounts managed by government departments.
- Direct management, where the Commission implements all budget tasks[2] — the Commission, EU delegations or executive agencies are the contracting authority and take decisions on behalf of partner countries. The majority of Irish direct management receipts — €152 million in 2017 — do not pass through accounts managed by government departments.
- Indirect management, where budget implementation is entrusted to national authorities (inside or outside the EU), international organisations or member state development agencies. The majority of Irish indirect management receipts — €47 million in 2017 — do not pass through accounts managed by government departments.

4.3 Approximately 90% of Irish funding is currently managed under the shared management model. Figure 4.1 shows the management model for each of the main programmes and funds for which Ireland receives EU funding.

1 These are referred to as the management modes. The current three modes replaced four in the prior MFF, which were termed centralised, decentralised, joint and shared.

2 This is performed by a department in EU headquarters, an EU delegation or an EU executive agency.

Figure 4.1 Management model of EU funding to Ireland in 2017

Fund or programme	Management model		
	Direct	Indirect	Shared
European Agricultural Guarantee Fund			●
Structural and investment funds			
European Agricultural Fund for Rural Development			●
European Social Fund			●
European Regional Development Fund			●
European Maritime and Fisheries Fund			●
Other funds			
Horizon 2020	●		
Erasmus+[a]		●	
Asylum, Migration and Integration Fund			●

Source: European Commission

Note: a Around a quarter of Erasmus+ funding in 2017 was under direct management.

EAGF and EAFRD

4.4 The EAGF and EAFRD, which both support the Common Agricultural Policy, are managed by the EU-appointed paying agency (DAFM) and are audited by a certifying body. The certifying body (an external accountancy firm) independently audit payments made and provide an opinion on whether the reimbursement sought for EAGF and EAFRD payments from the EU is legal and regular.

Structural funds

4.5 For each structural fund other than the EAFRD, the member state designates a managing authority, a certifying authority and an audit authority. Figure 4.2 shows the relevant authorities for structural funds in Ireland.

- The managing authority is responsible for managing operational programmes, including the submission of annual and final implementation reports. The managing authority may delegate certain functions to an intermediate body.
- The certifying authority is responsible for certifying that payment applications to the EU result from reliable accounting systems, and the completeness, accuracy and veracity of the accounts.
- The audit authority is responsible for ensuring that sample-based audits are carried out to test the functioning of the management and control system of an operational programme.

Figure 4.2 Structural fund authorities by operational programme[a]

	Operational Programme	Managing Authority	Certifying Authority	Audit Authority
ESF	Programme for Employability, Inclusion and Learning	DES[b]	DES	Internal and EU Audit Unit, DES
ERDF	Border, Midland and Western (BMW)	Northern & Western Regional Assembly	DPER[c]	Internal and EU Audit Unit, DPER
	Southern and Eastern (S&E)	Southern Regional Assembly	DPER	Internal and EU Audit Unit, DPER
EMFF	Seafood Development Programme	DAFM[d]	DAFM	Internal Audit Unit, DAFM

Source: Department of Public Expenditure and Reform

Notes: a The responsibilities for structural funds in Ireland are set out in Circular 13/2015, issued by DPER.

b Department of Education and Skills.

c Department of Public Expenditure and Reform.

d Department of Agriculture, Food and the Marine.

4.6 The Department of Public Expenditure and Reform (DPER) is responsible for Ireland's input into EU cohesion policy and structural and investment funds. DPER chairs the National Coordinating Committee of the Funds (NCCF) and the Partnership Agreement Monitoring Committee (PAMC).

4.7 The main functions of the NCCF are to[1]

- co-ordinate the assistance from structural funds and the interventions of the European Investment Bank and other financial instruments
- avoid duplication between the funds being received and highlight synergies arising between the structural funds and other instruments
- provide an outlet for the fund managers to discuss issues in relation to overlapping measures and ensure clear demarcation lines between the funds.

4.8 The main functions of the PAMC are to[2]

- promote awareness of the use of structural funds
- monitor progress and receive updates from managing authorities on the implementation of the structural fund operational programmes
- provide advice and guidance to managing authorities in order to support Ireland in drawing down its structural fund allocations in full
- act as a forum for discussion on, and resolution of, cross cutting issues
- in cooperation with the NCCF, ensure consistency and co-ordination across the Funds.

1 Membership of the NCCF comprises the managing authorities for the four structural funds along with the Asylum, Migration and Integration Fund (AMIF) and the Fund for European Aid to the most Deprived (FEAD).

2 Membership of the PAMC comprises members of the NCCF along with national representatives of the economic and social partners. The European Commission is represented on the Committee in an advisory capacity.

4.9 The Secretary General of each department involved — either directly or through agencies and bodies under their aegis — in the implementation of EU co-funded projects is required to submit a return each year to DPER. The return confirms that the department and relevant agencies and bodies are informed of, and bound by, the relevant EU regulations and DPER circulars. At end July 2018, DPER had received all nine submissions required for 2017.

Other funds

4.10 Management arrangements for other funds are determined by their management mode. Funding under shared management have similar arrangements to structural funds. For example, the Department of Justice and Equality (DJE) is the managing authority for the AMIF, and the DJE internal audit unit are the audit authority.

4.11 The Commission has overall responsibility for indirect funding but can delegate some responsibilities. For example, management of some Erasmus+ funding is delegated to national agencies in EU countries.

4.12 Funding under direct management, such as Horizon 2020, is managed by the EU and the State has no management or audit role.

Financial reporting

EAGF

4.13 Financial statements are prepared by DAFM on a cash basis, for each financial year (16 October to 15 October) and submitted to the Commission. They are not presented to the Houses of the Oireachtas, and are not subject to audit by the Comptroller and Auditor General.

4.14 A summary of EAGF transactions, including the amount borrowed at year-end, is included in a note to the appropriation account for Agriculture, Food and the Marine.

4.15 At December 2017, DAFM had paid €1.15 billion to farmers under the EAGF — funded by

- €740 million borrowed from the Central Fund of the Exchequer (and reflected in the 2017 Finance Accounts)
- €476 million in the capital reserve of the EAGF, EAFRD and EMFF Irish operations.[1]

4.16 DAFM submitted a final claim to the EU in January 2018 and the EU reimbursed Ireland in February 2018.[2] EAGF funding due from the EU is not recorded as an asset in the appropriation accounts of DAFM or in the Finance Accounts.

4.17 The cost of borrowing to fund EAGF payments is not recoverable from the EU, but must be borne by member states. Interest costs for Ireland for payments in 2017 were €157,000 and are charged to the appropriation account of DAFM.

1 In 1999, the Minister for Finance repaid borrowings of €476 million (£375 million) that DAFM had negotiated to fund the long term working capital requirements associated with operating the Guarantee schemes. These funds are the capital reserve in the EAGF, EAFRD and EMFF – Irish Operations financial statements.

2 A claim for interim payments to farmers was submitted in December 2017 and reimbursed to Ireland in January 2018.

Structural funds

4.18 EU structural funding is reported in the accounts of the relevant departments.

- Funding received where the related expenditure has been incurred is accounted for as appropriations in aid, except ERDF receipts which are accounted for in the Finance Accounts.
- Where funding is received but the related expenditure has not yet been incurred, the receipt is accounted for as an advance — for example in the accounts of the Department of Agriculture, Food and the Marine for EMFF funding.
- Funding due from the EU following the submission of a claim is recognised as accrued income in the statement of financial position of the appropriation accounts. Exceptions are
  - claims in respect of ERDF expenditure, which are not recognised as an asset in the Finance Accounts, as those accounts do not include a Statement of Financial Position
  - claims in respect of ESF expenditure are not recognised until the payments are received.

Other funds

4.19 The Department of Justice and Equality accounts for AMIF receipts in its appropriation accounts as appropriations-in-aid, where related expenditure has been incurred. In 2017, DJE accounted for €1.4 million in expenditure. It also accounted for €14.2 million as an advance, as the related expenditure had not been paid by DJE.

4.20 Almost 75% of Erasmus+ funding was managed by the Higher Education Authority (HEA) and Léargas, under the indirect management mode. The accounts of the HEA are laid before the Oireachtas. The appropriation account of the Department of Educations and Skills discloses the revenue of Léargas.

4.21 Direct funding, such as Horizon 2020, is accounted for by recipients.

Current consolidation of financial statements

4.22 As recommended by the *Steering Group on Systems Review of the Department of Agriculture, Food and Rural Development Final Report* (1999), receipts and payments under the EAGF, EAFRD and EMFF are consolidated in a combined set of financial statements called the *Financial Statements of the European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development and the European Maritime Fisheries Fund — Irish Operations*. Those financial statements are audited by the Comptroller and Auditor General and are laid before the Oireachtas.

External assurance on the use of EU funds

4.23 In addition to the oversight provided by the management and control framework in each member state, including the audit authority for each fund, there are further structures in place to provide assurance on the use of EU funds. This assurance is provided by the

- Office of the Comptroller and Auditor General
- European Court of Auditors (ECA)
- European Commission
- European Anti-Fraud Office (OLAF).

4.24 Reports generated by each of the above institutions and entities highlight issues that have arisen in Ireland and in other member states.

Office of the Comptroller and Auditor General

4.25 Where a department or State body audited by the Comptroller and Auditor General accounts for EU funds or transactions in their financial statements, the receipt and application of EU funds are audited in the same way as other transactions by that body. Audit planning takes account of work done and concerns raised by others including the Commission, ECA, audit authorities, internal audit units and the certification body for agricultural supports. Audit work includes testing of compliance with national rules that have been transposed from EU directives and regulations.

European Court of Auditors

4.26 The European Court of Auditors (ECA) is the Commission's external auditor. Its aim is to improve the way the Commission's finances are managed and to contribute to public accountability regarding the raising and spending of the EU budget through assurance and advice. It conducts its work through financial audits, compliance audits and performance audits.

4.27 The ECA audits EU revenue and expenditure, reports findings and recommendations for EU institutions (such as the Commission) and member states, reports suspected fraud to OLAF and recommends how EU funds could be better managed. Appendix B lists the ECA reports issued in 2017.

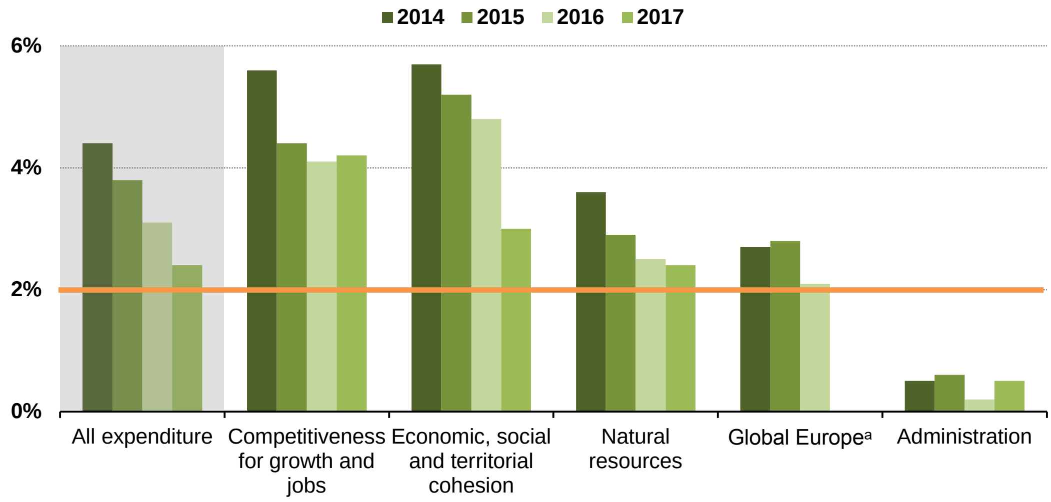
Reports of the ECA — EU Financial Statements

4.28 For each year in the period 1994 to 2015, the ECA issued an adverse audit opinion on the regularity of EU payments, on the basis that the ECA concluded payments each year were materially affected by error. No errors were found in relation to collection of revenue.

4.29 For the years ended 31 December 2016 and 2017, the ECA issued a qualified audit opinion, reflecting its assessment that there had been improvements in the management of EU finances and a sustained improvement in the estimated level of error in payments made by the EU.

4.30 The level of error within the various categories of EU payment show considerable variance, highlighting variations in the risk of a disallowance (Figure 4.3).

Figure 4.3 Estimated level of error of EU payments by sector, 2014 to 2017



Category	**% EU budget in 2017**	**Funds supported**	**Principle source of error and issues noted**
Competitiveness for growth and jobs	14%	▪ Horizon 2020 ▪ European Fund for Strategic Investments ▪ Erasmus+	▪ reimbursement of ineligible personnel and other (direct and indirect) costs calculation errors ▪ a lack of supporting evidence ▪ costs being incurred outside the allowed time period ▪ member states had sufficient information to prevent or detect a significant proportion of errors.
Economic, social and territorial cohesion	34%	▪ ERDF ▪ ESF	▪ regularity of expenditure declared by managing authorities ▪ financial instruments contributed most to the error level[b].
Natural resources	37%	▪ EAGF ▪ EAFRD ▪ EMFF	▪ there has been continued improvement in control systems to measure agricultural land area [c] ▪ non-compliance with eligibility conditions — member states had sufficient information to prevent or detect a significant proportion of errors.
Global Europe	6%	▪ European Neighbourhood Instrument ▪ Development Cooperation Instrument	▪ Control weaknesses affecting procurement procedures and the reimbursement of salaries of advisors seconded to projects.

Source: European Court of Auditors

Note:

a A representative error rate could not be calculated for this sector for 2017 due to the small size of the audit sample.

b Ireland (and Luxembourg) had not set up any financial instruments by end 2016.

c A disallowance of €68 million imposed on Ireland in 2015 resulted, in part, from issues with the land parcel identification system (see Comptroller and Auditor General *Annual Report on the Accounts of the Public Services 2015*).

4.31 The ECA report suspected fraud to the European Anti-Fraud Agency, OLAF. In 2017, the ECA examined over 700 transactions and referred 13 instances of suspected fraud to OLAF. [1]

4.32 The ECA also expressed concern about the difficulty certain member states encountered in absorbing available structural funds. Ireland is one of the better performing member states, with outstanding structural fund commitments of 1% of general government expenditure at end-2017. Ten member states had more than 10% outstanding at end-2017. The ECA also noted that the record amount of financial commitments at the end of 2017 (€267 billion) increased the risk that available payment appropriations will be insufficient to settle all payment claims.

Other reports of the ECA — mid-term review of the MFF

4.33 During 2016, in addition to publishing special reports on specific aspects of EU expenditure, the ECA also conducted a mid-term review of the MFF 2014-2020 to identify opportunities to improve financial management and accountability within the EU budgetary system and the MFF regulation. It recommended

- reconsideration of the timetable for developing the next MFF
- conducting a comprehensive EU spending review
- developing clearer, simpler and more coherent funding arrangements
- making EU budget priorities the subject of a high-level debate.

European Commission

4.34 The European Commission is ultimately responsible for managing the EU budget. An Annual Activity Report is produced by each Commission department and includes a declaration of assurance, signed by the Director-General of the department, that the transactions of the department were legal and regular.

4.35 The Commission operates a conformity clearance process to verify, primarily by means of on-the-spot inspections, whether the member states have made correct use of the funds and have functioning management and control systems capable of ensuring that payments to beneficiaries are regular. The Commission carries out over 100 such audits each year for EAGF and EAFRD alone.

European Anti-Fraud Office

4.36 The European Anti-Fraud Office (OLAF) is an EU body mandated to detect, investigate and prevent fraud in relation to EU funds. It is independent and can investigate matters relating to EU income and expenditure. In 2017, OLAF opened 215 investigations.

1 A further 6 cases referred to OLAF were based on information provided by third parties.

Compliance with EU directives and regulations

4.37 The EU operates substantially through a system of decisions and acts, with varying implications for member states (see Figure 4.4).

4.38 Where a member state does not comply with an EU regulation or does not transpose an EU directive within the required timeframe, it is open to the Commission to take the member state to the European Court of Justice, where financial penalties may be imposed.

4.39 There can be a significant period between the EU notifying a member state of an issue and a fine being imposed. For example, in 2012, the European Court of Justice imposed a fine of €2.6 million on Ireland for a failure to control septic tanks — the Commission had issued a letter of formal notice to Ireland in December 2003, noting its concerns.[2]

4.40 At December 2017, there were 56 active infringement notices in relation to Ireland, reflecting an increase over previous years (see Figure 4.5 over).

Figure 4.4 Summary of EU secondary legislation and implications for member states[a]

- A **regulation** is a binding legislative act. It must be applied in its entirety across the EU by each member state. It does not require transposition into Irish legislation. An example is the General Data Protection Regulation (GDPR).[1]
- A **directive** is a legislative act that sets out a goal that all EU countries must achieve. However, it is up to the individual countries to devise their own laws on how to reach these goals — this is referred to as transposing the EU directive into Irish legislation. An example of a directive is the EU Consumer Rights Directive.
- A **decision** is binding on those to whom it is addressed (e.g. an EU country or an individual company) and is directly applicable. For example, when the Commission issued a decision on EU participation in the work of various counter-terrorism organisations, the decision related to these organisations only.
- A **recommendation** is not binding but allows an EU institution to make its views known or to propose a line of action, without imposing any legal obligation on those to whom it is addressed. For example, the Commission issued a recommendation that EU countries' law authorities improve their use of video-conferencing to help judicial services work better across borders.
- An **opinion** is an instrument that allows an EU institution to make a non-binding statement that does not impose a legal obligation on those to whom it is addressed. For example, the Committee of the Regions issued an opinion on the clean air policy package for Europe.

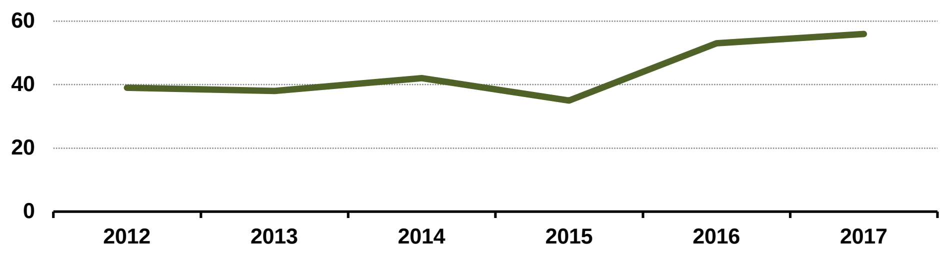
Source: European Commission

Note: a Secondary legislation is derived from the principles and objectives set out in EU treaties (which are the primary legislation).

1 One of the purposes of the Data Protection Bill 2018 is to give further effect to the GDPR in areas in which member state flexibility is permitted.

2 *Report on the Accounts of the Public Services 2013*, Chapter 7, Office of the Comptroller and Auditor General.

Figure 4.5 Active infringement notices for Ireland, 2012 to 2017



Source: European Commission

4.41 Three cases referred to the European Court of Justice and awaiting judgement are

- urban waste water treatment (referred in February 2017) — see case study below
- excise duty on fuel used for private pleasure navigation (referred in November 2014)
- a failure to transpose the EU Accounting Directive (referred in April 2017).

Irish case study — wastewater management

In February 2017, the European Commission announced that it was taking a case against Ireland in the European Court of Justice for a failure to ensure that waste water was managed and treated in relation to 38 areas (towns, cities or settlements) with inadequate wastewater infrastructure.

Member states had until 2005 to ensure that wastewater discharges were treated appropriately. The Commission initiated the infringement against Ireland in 2013, with further warnings issued in September 2015 and September 2016.

4.42 Other recent cases where a judgement has been delivered are

- (C552/15) the taxation of vehicles leased from other member states, which was referred to the European Court of Justice in July 2015 with a judgement issued in September 2017 (Ireland found to have failed to comply)
- (C87/14) the working time of doctors in training, where Ireland was found to be in compliance (judgement delivered in July 2015).

Financial corrections and fines

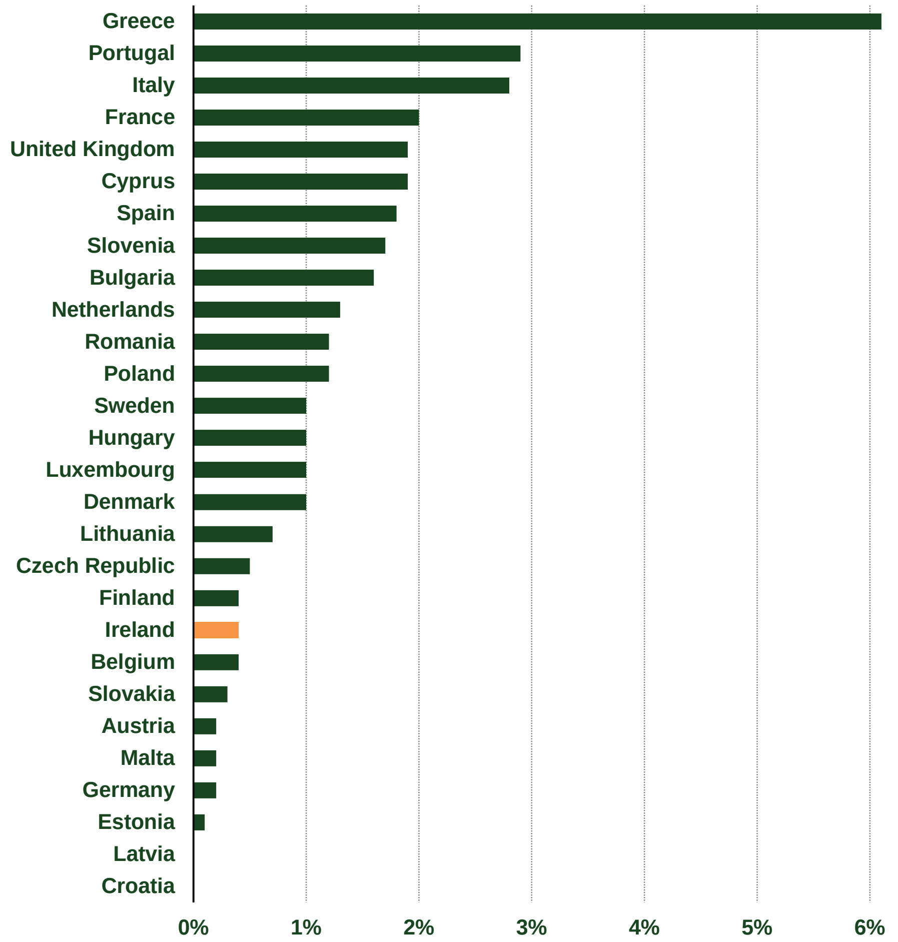
4.43 The Commission can seek to recoup funding which has not been properly utilised. Refunds are calculated by assessing the risk to the total funds or by applying a flat-rate disallowance of between 2% and 100% depending on the nature and seriousness of the error.

4.44 Not all disallowed expenditure results in reduced drawdown of funds (loss of potential receipts), as some funds incur expenditure in excess of the allocated amount ('overbook' expenditure) in case some of the planned expenditure is disallowed.

EAGF

4.45 In the period 1999-2017, the Commission imposed financial corrections of 1.8% of EAGF expenditure. In that period, Ireland performed relatively well, with 0.4% of expenditure being recovered as a financial correction (see Figure 4.6).

Figure 4.6 EAGF financial corrections as a percentage of expenditure, 1999 to 2017



Source: European Commission

4.46 The Comptroller and Auditor General previously reported on[1]

- a financial disallowance of €68 million due to non-compliance with EAGF and EAFRD scheme regulations during the period 2008 to 2014
- a levy of €71 million as a result of Irish milk production exceeding national milk quota which was recovered from milk producers and is not a financial correction.

1 *Report on the Accounts of the Public Services 2015.*

4.47 The 2016 Department of Agricultural, Food and the Marine (DAFM) appropriation account records two disallowances due to failures to meet payment deadlines

- a disallowance of €233,000 related to exceeding a payment limit
- payments of €311,000 could not be recovered as it fell outside of the deadline for submission to the Commission.[1]

4.48 The DAFM 2017 appropriation account discloses a potential disallowance by the EU. In October 2017, the Commission notified DAFM of its findings of weaknesses in three key controls and one ancillary control — a flat-rate correction of 10% (later reduced to 5%) of area-based aid (under EAGF and related area-based aid under EAFRD) was proposed by the Commission for each year from 2015. The issues were not resolved by November 2018.

EMFF

4.49 In July 2017, the Commission advised DAFM that payments to Ireland in relation to one element of the EMFF was being withheld, due to a failure to transpose legislation in relation to masters of shipping vessels. The funding withheld (€2.6 million at end 2017) will be released when the relevant legislation is passed. This matter was subject of a Supreme Court judgement in 2017 and a Statutory Instrument was signed to address part of the obligations arising in 2018, but was subsequently annulled by the Oireachtas.

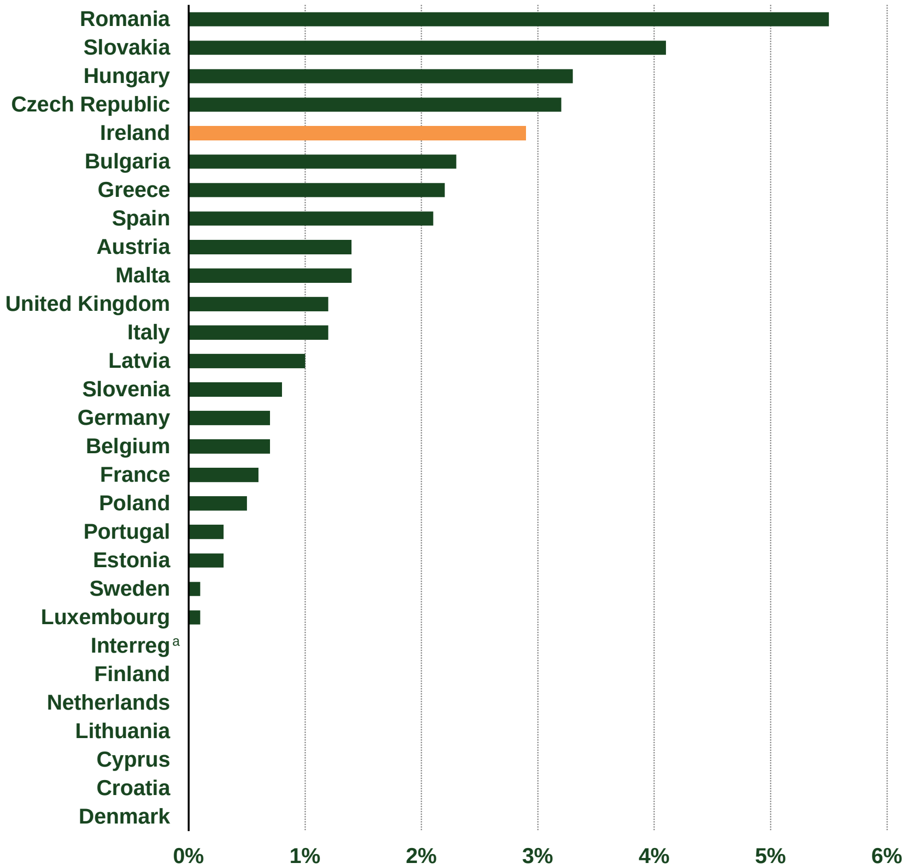
Other structural funding disallowances

4.50 For the 2007 to 2013 MFF, the Commission reported financial corrections of 1.7% of EU-wide ERDF, Cohesion Fund (CF) and ESF expenditure. In that period, 2.9% (€22 million) of Irish expenditure was reported as a financial correction (see Figure 4.7). This correction related to ESF expenditure. The full allocation of ESF funding to Ireland was still drawn down, as expenditure subject to correction is replaceable by other eligible expenditure so long as the member state accepts the financial correction.[2]

1 DAFM is obliged to make the payments to beneficiaries where scheme conditions have been met but the payment cannot be recovered if made after the EU deadline. An example is where payment by DAFM is delayed until probate is complete.

2 If the member state does not accept the financial correction, it will be the subject of a Commission decision resulting in a decommitment of funding.

Figure 4.7 ERDF, CF and ESF financial corrections as a percentage of expenditure, 2007 to 2013



Source: European Commission

Note: a Interreg is interregional funding.

5 Conclusions and recommendation

Funding the EU budget

5.1 Historically, Ireland has been a net recipient of EU funding. However, due to increased contributions, it has become and is likely to remain a net contributor.

5.2 Negotiations have commenced on the MFF for the period commencing 2021. These are key, as the outcome of these negotiations will set the financial relationship for the medium to long term.

5.3 Long-term commitments also arise from Ireland's membership of the EU, the value of which is subject to inherent uncertainties. Although they are likely to be significant, there is no estimate of these commitments.

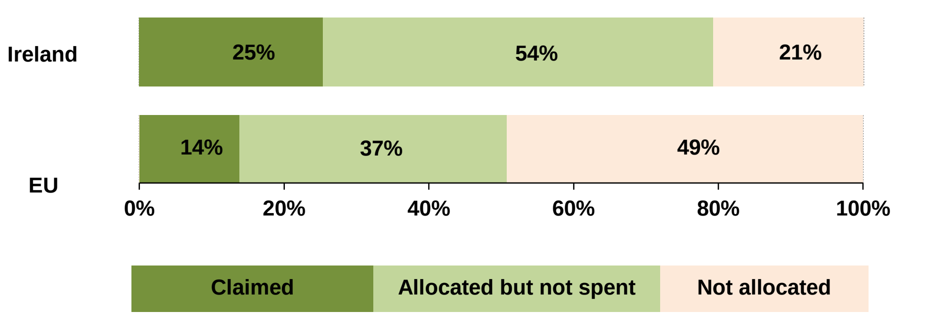
EU expenditure in Ireland

5.4 Ireland received €1.8 billion in EU funding in 2017. Over 80% of this was in respect of agriculture and rural development. This funding makes a significant contribution to the viability of farming in Ireland.

5.5 Approximately 90% of EU funding received in 2017 was administered through departments. The remaining 10% goes to public bodies, the private sector and EU bodies. There is no consolidated overview of the receipts, and the accounting treatment for EU transactions is inconsistent across schemes.

5.6 Under the current MFF, there is a requirement to submit an annual implementation report (AIR) for each structural fund in each year from 2016 until 2023 to report on the progress of operational programmes. The Commission review of the AIRs indicates that Ireland made relatively more progress than the EU average in selecting projects — see Figure 5.1. Ireland is also relatively good at drawing-down available structural funds. However, there is no annual reporting within Ireland of these metrics.

Figure 5.1 Progress in selecting structural fund projects, December 2017



Source: European Commission

Assurance, compliance and penalties

5.7 There is combined annual reporting of EU receipts — and disallowances — in Ireland for the agricultural and fisheries sectors, but not for other sectors, including receipts by organisations outside the public sector.

5.8 According to the ECA annual reports, the estimated level of error in EU expenditure is reducing, although still above the 2% materiality threshold.

5.9 Ireland has a relatively low level of financial corrections, at 0.4% of funding received, for EAGF in the period 1999 to 2017. The Commission reported that in the period 2007-2013, Ireland had a higher level of financial corrections (2.9%) of ERDF and ESF funding received. However, the full allocation of such funding was drawn down by Ireland because expenditure deemed ineligible was replaced by other eligible expenditure.

5.10 Where a member state does not comply with EU regulations or does not transpose an EU directive within the required timeframe, there is potential for significant costs on foot of infringement notices.

Recommendation 5.1

There should be annual reporting, on a consolidated basis, of all contributions to and receipts from the EU. This reporting should include estimated long-term commitments, disallowances and fines. Performance metrics should also be included.

Such consolidated annual reporting would obviate the need for the current composite reporting of EU funding to the agriculture and fisheries sectors.

Response of the Accounting Officer, Department of Finance

A consolidated report along the lines recommended would be a considerable administrative undertaking. Given the existing availability of information at domestic and European Commission level, I am not convinced of the need for additional annual reporting at this stage, but I am open to further discussions on this.

My Department already publishes data on contributions and receipts to/from the EU budget in the *Annual Budgetary Statistics* report. Data on contributions is also published annually in the Finance Accounts. Furthermore, our longer term forecasts of contributions are published as part of the domestic budget.

The management of, financial reporting of, and the external assurance on the use of EU funds are a matter for the relevant government departments — who report to the Oireachtas on EU budget receipts and payments for which they are responsible. Similarly those departments are responsible for any fines and disallowances related to EU budget funds within their remit.

Appendices

Appendix A

Figure A.1 Structural funds in MFF 2014-2020 — EU and member state contribution

Fund	EU funding	Member state funding	Total allocation
	€billion	€billion	€billion
European Agriculture Fund for Rural Development (EAFRD)	99	52	151
European Regional Development Fund (ERDF)	199	81	280
European Social Fund (ESF)	84	37	121
Youth Employment Initiative (YEI)	9	1	10
Cohesion Fund	63	12	75
European Maritime and Fisheries Fund (EMFF)	6	2	8
Total allocations	**460**	**185**	**645**

Source: European Commission

Note: a Allocations are shown in 2017 prices.

Appendix B

Figure B.1 Reports issued by the European Court of Auditors in 2017[a]

Report Name	Was Ireland referenced in the report?	Date of issue
Annual Reports		
Annual Reports concerning the Financial Year 2016 and related "2016 EU Audit in brief"	Yes	28/09/2017
Special Reports		
01/2017: More efforts needed to implement the Natura 2000 network to its full potential	Yes	21/02/2017
02/2017: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion	Yes	05/04/2017
03/2017: EU Assistance to Tunisia	No	28/03/2017
04/2017: Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period	Yes	27/04/2017
05/2017: Youth unemployment – have EU policies made a difference?	Yes	04/04/2017
06/2017: EU response to the refugee crisis: the 'hotspot' approach	No	25/04/2017
07/2017: The certification bodies' new role on CAP expenditure: a positive step towards a single audit model but with significant weaknesses to be addressed	Yes	04/05/2017
08/2017: EU fisheries controls: more efforts needed	No	30/05/2017
09/2017: EU support to fight human trafficking in South/South-East Asia	No	20/06/2017
10/2017: EU support to young farmers should be better targeted to foster effective generational renewal	Yes	29/06/2017
11/2017: The Bêkou EU trust fund for the Central African Republic: a hopeful beginning despite some shortcomings	Yes	31/08/2017
12/2017: Implementing the Drinking Water Directive: water quality and access to it improved in Bulgaria, Hungary and Romania, but investment needs remain substantial	No	12/09/2017
13/2017: A single European rail traffic management system: will the political choice ever become reality?	No	03/10/2017
14/2017: Performance review of case management at the Court of Justice of the European Union	No	26/09/17
15/2017: Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments	Yes	23/11/2017
16/2017: Rural Development Programming: less complexity and more focus on results needed	Yes	14/11/2017
17/2017: The Commission's intervention in the Greek financial crisis	Yes	16/11/2017
18/2017: Single European Sky: a changed culture but not a single sky	No	30/11/2017
19/2017: Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU	No	05/12/2017
20/2017: EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed	No	07/12/2017
21/2017: Greening: a more complex income support scheme, not yet environmentally effective	Yes	12/12/2017
22/2017: Election Observation Missions – efforts made to follow up recommendations but better monitoring needed	No	13/12/2017
23/2017: Single Resolution Board: Work on a challenging Banking Union task started, but still a long way to go	No	19/12/2017

Source: European Court of Auditors

Note: a Specific annual reports on the accounts of the EU's various agencies, bodies and joint undertakings are not included in this summary — 55 such reports were issued in 2017.