

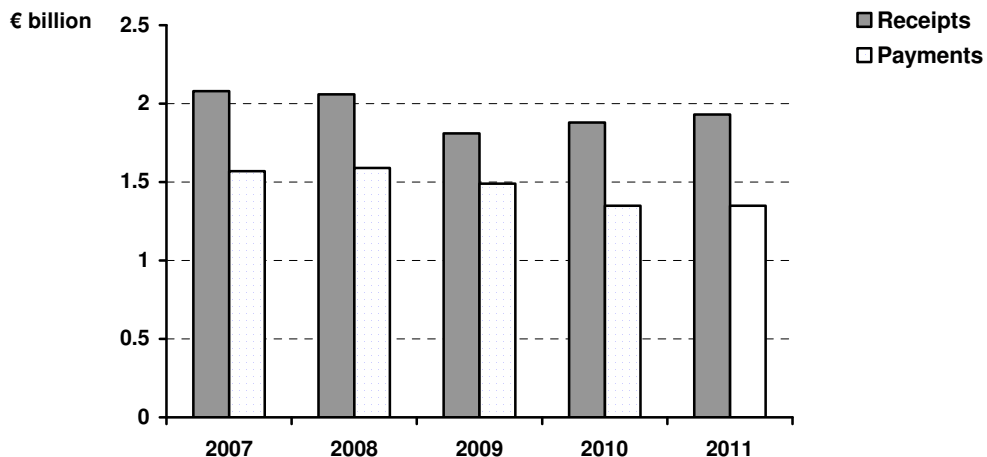
5 EU Financial Transactions

- 5.1 Arising from its membership of the European Union (EU), Ireland is obliged to contribute to the EU's budget. However, it also benefits from a wide range of payments made by the EU.
- 5.2 Ireland's contribution to the EU budget and payments received into the Central Fund are accounted for in the Finance Accounts. Most EU Funding is paid directly to implementation agencies and beneficiaries. EU funding provided through Government departments is noted in the appropriation account of the relevant votes. This chapter has been compiled to present an overview of the financial transactions between Ireland and the EU, the procedures for the allocation of EU funds and the various audit arrangements relating to those transactions.
- 5.3 The information in this chapter was obtained from the Departments of Finance, Public Expenditure and Reform, Education and Skills, and Agriculture, Food and the Marine. Verification testing was carried out on payments to the EU, receipts from the EU and their application in those Departments. Where applicable, the receipts were also verified with departments' appropriation accounts.

Net Receipts from the EU

- 5.4 Ireland is a net beneficiary of EU funding. In 2011, Ireland contributed €1.35 billion to the EU budget and benefited from EU budget expenditure totalling €1.93 billion. Between 2007 and 2011, Ireland has benefited from net EU receipts of €2.4 billion. Receipts from and payments to the EU budget over the past five years are shown in Figure 5.1.

Figure 5.1 Ireland's Receipts from and Payments to the EU Budget 2007 to 2011



Source: Department of Finance

Contribution to the EU Budget

5.5 The budget of the EU is mainly financed by own resources contributions from each member state. These comprise

- 'traditional own resources' – principally customs duties collected on behalf of the EU. 75% of the amount collected is paid over to the EU with the balance retained by the member state to fund the costs of collection and administration.
- a VAT-related payment of 0.3% of the established VAT base.¹
- a payment based on a percentage of each member state's Gross National Income (GNI).

5.6 The component elements of Ireland's contribution in each of the last four years are shown in Figure 5.2.

Figure 5.2 Ireland's Contribution to EU Budget 2008 to 2011

Contribution element	2008	2009	2010	2011
	€m	€m	€m	€m
Traditional own resources	202	176	186	200
VAT-based contribution	260	163	194	194
GNI-based contribution	984	1,001	908	895
UK correction mechanism	141	115	56	53
Netherlands/Sweden GNI reduction	—	31	8	8
Total	1,587	1,486	1,352	1,350

Source: Department of Finance

¹ The value of goods and services to which VAT was applicable with compensating adjustments to harmonise the VAT base among all EU countries. The base is subject to a cap level equal to 50% of Gross National Income. That is the sum of incomes of residents of an economy in a given period and is conceptually similar to Gross National Product.

Receipts from EU Budget Funds

5.7 Receipts of €1.93 billion from the EU in 2011 were sourced from various EU funds and programmes. The source of receipts in each of the last four years is set out in Figure 5.3.

Figure 5.3 Ireland's Receipts of EU Funds 2008 to 2011^a

Source of EU Receipts	2008	2009	2010	2011
	€m	€m	€m	€m
<i>Agriculture and rural development funds</i>				
European Agricultural Guarantee Fund (EAGF)	1,450	1,319	1,305	1,298
European Agricultural Fund for Rural Development (EAFRD)	355	329	381	348
	1,805	1,648	1,686	1,646
<i>Structural funds</i>				
European Regional Development Fund (ERDF)	129	60	70	50 ^b
European Social Fund (ESF)	80	43	52	112
Cohesion Fund	—	23	—	9
	209	126	122	171
<i>Other funds/receipts</i>				
European Globalisation Adjustment Fund	—	—	25	36
Veterinary Fund	8	6	14	20
European Energy Plan for Recovery (EEPR)	—	—	33 ^c	18
European Fisheries Fund (EFF)	3	3	15	—
Education Programmes	14	11	15	14
EU Solidarity Fund Flood Relief ^d	—	—	—	13
TENs/EEA ^e	2	12	1	1
Other receipts	25	7	7	16
	52	39	110	118
Total	2,066	1,813	1,918	1,935

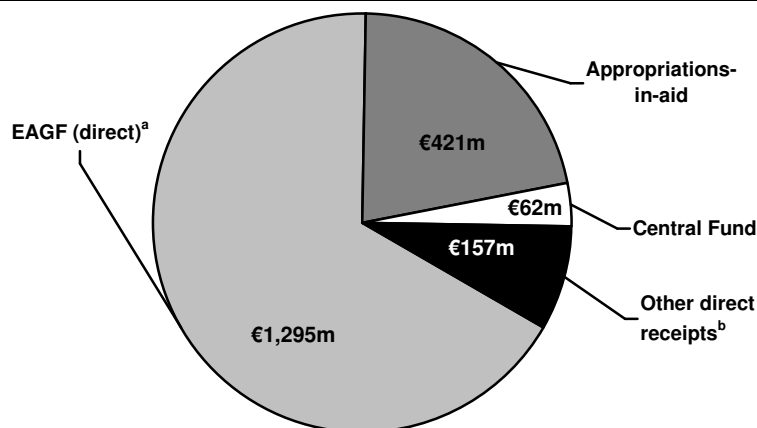
Source: Departments of Agriculture, Food and the Marine, Finance, Public Expenditure and Reform, and Education and Skills

- Notes:
- a An estimated €85 million was paid in 2011 directly to beneficiaries under the Framework Programme for Research and Technological Development. As this amount has not been verified by the National Authorities, it is not included in the receipts figures.
 - b Includes receipts from the Programme for Peace and Reconciliation of €9.6 million and €9 million in respect of the Ireland-Wales Territorial Cooperation programme.
 - c Figure has been restated from 2010 chapter to reflect direct payment received in relation to electricity interconnection that was not notified to Department of Finance until November 2011.
 - d These receipts relate to a grant from the EU Solidarity Fund following flooding in Ireland in 2009.
 - e These receipts relate principally to transport, energy and telecommunication projects.

5.8 Funds received are routed to final recipients in a variety of ways, as set out in Figure 5.4

- The majority of European Agriculture Guarantee Fund receipts of almost €1.3 billion are held separately from State or voted funds and comprise reimbursement of amounts that have been previously paid directly to beneficiaries.
- A substantial amount (€421 million) is received as appropriations-in-aid of various votes.
- Receipts received directly into the Central Fund accounted for only 3% of the total received in 2011.

Figure 5.4 Ireland's 2011 Receipts of EU Funds by Source



Source: Departments of Agriculture, Food and the Marine, Finance, Public Expenditure and Reform, and Education and Skills

Notes: a €3 million of EAGF receipts are included in vote receipts.

b Includes ESF receipts into the National Training Fund, and European Globalisation Adjustment Fund receipts held in a suspense account.

Management of EU Funds

5.9 EU funding is generally 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.

5.10 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 2011 budget were payments for

- agriculture and rural development – which accounted for around 45% of the budget
- sustainable growth – which includes structural and cohesion funding and accounted for a further 42% of the budget.

5.11 Each of the EU 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

- 5.12** 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 and
 - 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.
- 5.13** EAGF and EAFRD expenditure is paid by accredited paying agencies in member states.² In Ireland, the Department of Agriculture, Food and the Marine is the sole accredited paying agency for EAGF and EAFRD and is the managing authority for the EAFRD.³ The authority to make rural development payments in respect of specific measures of the EAFRD relating to LEADER is delegated to the Department of the Environment, Community and Local Government.⁴
- 5.14** 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, Food and the Marine is required to provide annually a statement of assurance regarding the EAGF and EAFRD accounts and control systems. Also, in the case of EAFRD, the Department submits an annual report on its implementation.
- 5.15** The Commission clears the annual accounts of both EAGF and EAFRD 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 2011.

Structural Funds

- 5.16** 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.
- 5.17** Each member state is required under the regulations to designate a managing authority, a certifying authority and an audit authority for each operational programme. 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.

2 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).

3 The managing authority is responsible for managing and implementing the programme in an efficient, effective and correct way.

4 The LEADER initiative is designed to aid the development of sustainable rural communities.

- 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 on operations to verify expenditure declared to the Commission and to verify the effective functioning of the management and control systems of the operational programme. It must present an audit strategy to the Commission and also submit an annual control report setting out findings of audits that have been carried out. The control report must provide an annual opinion as to whether the systems function effectively so as to provide reasonable assurance that the expenditure declared is correct and that the underlying transactions are legal and regular.⁵

5.18 The Department of Public Expenditure and Reform 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, as managing authority and certifying authority, has primary responsibility for the ESF.

5.19 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 that sets out the financial implementation of the operational programmes in terms of targets and outlines the monitoring and evaluation procedures in place.

Audit of EU Funds

5.20 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 the EU Commission, the Office of the Comptroller and Auditor General and the European Court of Auditors (ECA).

Departmental Audit Arrangements

Agriculture and Rural Development Funds

5.21 The Department of Agriculture, Food and the Marine 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 eight system audit reports on the EAGF and EAFRD funded schemes in 2011.

5 Article 62 of General Regulation 1083/2006

Structural Funds

- 5.22** Audit authorities for ERDF and ESF have been established in the Departments of Public Expenditure and Reform, and Education and Skills respectively. These perform audits of operations on the basis of an appropriate sample to verify eligible expenditure declared to the Commission within managing authorities, intermediate bodies and beneficiaries in operational programmes in the 2007–2013 programming period.⁶ The audit activity performed on operations by the ERDF and the ESF units in 2011 is shown in Figure 5.5.

Figure 5.5 Audit Authority Activity in 2011

	Programme period			
	2000 – 2006		2007 – 2013	
	ERDF ^a	ESF	ERDF	ESF
Number of operations audited in 2011	—	—	18	34
Claims verified in 2011 ^b	—	—	€34m	€17m
Cumulative verified claims at 31 December 2011	€495m	€284m	€167m	€82m
Cumulative eligible claims at 31 December 2011	€4,155m	€1,981m	€226m	€465m
<i>Verification Rate</i>	<i>12%</i>	<i>14%</i>	<i>74%</i>	<i>18%</i>

Source: Departments of Public Expenditure and Reform, and Education and Skills

Notes: a The ERDF audit authority is also responsible for performing 15% verification on eligible expenditure from the Cohesion Fund. At 31 December 2011, it had verified €318 million or 41% of cumulative expenditure of €779 million declared to the Commission.

b No verification audit activity was undertaken in 2011 in respect of the 2000 – 2006 round as the final claims for the various operational programmes were submitted in 2010 and were closed in 2011 or awaiting closure.

- 5.23** System-based audits are also performed at each level in accordance with the EU regulations and a Commission guidance document on a common methodology for the assessment of management and control systems.⁷ The ERDF audit authority carried out these system-based audits in respect of ERDF operations from the certifying authority level down to the public beneficiary body level. 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 programme.
- 5.24** Both the ERDF and the ESF audit authorities concluded that the internal control systems and procedures in the respective managing and certifying authorities were generally satisfactory.

Audits by EU Commission

- 5.25** 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.

⁶ Operations are individual co-financed activities or projects implemented by beneficiaries.

⁷ EU Commission Guidance Document (COCOF 08/0019/01).

Audit by the Comptroller and Auditor General

- 5.26** 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.

European Court of Auditors

- 5.27** The total EU budget for 2011 was approximately €127 billion representing about 1% of the Gross National Income of the 27 member states. Because Ireland's financial contribution (1% of the total EU budget) 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.
- 5.28** The ECA is required to give an annual statement of assurance (an audit opinion) on the reliability of the accounts of the EU 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, to test systems of control and to examine in detail a sample of applications submitted in support of payments to final beneficiaries.
- 5.29** Liaison arrangements provide for ECA visits to Ireland to be organised by the Office of the Comptroller and Auditor General and all correspondence including the ECA audit findings and management responses are addressed to this Office for transmission to the audited body. Ten such visits were carried out in 2011. Following consultation with the relevant national authorities, the findings from those audits will be incorporated into the annual report of the ECA for 2011, which has not yet been completed.
- 5.30** The ECA reported on the implementation of the 2010 EU budget in November 2011. The ECA concluded that the 2010 accounts fairly presented the financial position at the end of 2010 and the results of operations for the year. However, the ECA gave an adverse opinion on the legality and regularity of payments underlying the accounts. It concluded that the payments as a whole were materially affected by error and estimated the most likely error rate to be 3.7%. The overall supervisory and control systems were assessed as being partially effective in ensuring the legality and regularity of payments but two policy groups – Agriculture and Natural Resources, and Cohesion, Energy and Transport – were found to be materially affected by error. The ECA's assessment of the supervisory and control systems for EU payments as a whole, together with the estimated level of error for payments under each policy group, is set out in Figure 5.6.
- 5.31** The estimated error rate for payments in 2010 of 3.7% represents an increase over the rate for 2009 of 3.3%. Prior to 2010, the estimated error rate had declined in each year since 2006 when it was estimated at just over 7%.

Figure 5.6 ECA Opinion on Regularity of EU Payments 2010

Policy Group	Estimated level of error	Assessment of supervisory and control systems
Agriculture and Natural Resources	2.3%	Partially effective
Cohesion, Energy and Transport	7.7%	Partially effective
External Aid, Development and Enlargement	1.7%	Partially effective
Research and other Internal Policies	1.4%	Partially effective
Administrative and other Expenditure	0.4%	Effective
Overall	3.7%	Partially effective

Source: European Court of Auditors, Annual Report 2010

Corrections and Recoveries

- 5.32** The EU Commission relies on member states for the implementation of EU programmes that account for over four fifths of the total EU budget. Where errors or irregularities are detected, financial corrections are made by the EU Commission to exclude from EU funding expenditure that is not in accordance with applicable rules and regulations. In some cases, other expenditure may be allowed to replace the excluded expenditure, resulting in no reduction in the overall EU receipt. Financial corrections may also be applied following the detection of serious deficiencies in the management and control systems of member states.
- 5.33** The EU Commission reported that it had implemented financial corrections and recoveries totalling €4.4 billion on member states during 2010. Of this EU wide total, just €23 million related to Ireland. This represents just over 1% of Ireland's EU receipts in 2010. The corrections and recoveries implemented in 2010 can relate to earlier years.

Conclusions

- 5.34** Ireland contributed €1.35 billion to the EU budget in 2011 while €1.93 billion was received from EU funds.
- 5.35** Ireland, like other member states, has an interest in how the EU budget is used. The European Court of Auditors gave an adverse opinion on the legality and regularity of payments by the EU in 2010. It estimated that the error rate for EU payments as a whole increased from 3.3% in 2009 to 3.7% in 2010, interrupting a previous downward trend in the error rate.
- 5.36** Corrections and recoveries implemented by the EU Commission in 2010 amounted to over €4 billion across all member states with Ireland accounting for €23 million of that total, or 1% of the total amount of EU funds administered by Ireland.