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4th December 2017

Meeting of Public Accounts Committee (PAC) on 19 October 2017

Dear Ms Falsey,

Thank you for your letter dated 22nd November 2017 regarding the PAC meeting on the 16th November 2017. I am more than happy to answer the questions raised and in doing so I would like to address a misunderstanding that seems to have arisen in relation to the contract (now expired) between IDA and Connect Ireland.

The misunderstanding relates to an attempt to compare the verification processes used by IDA Ireland in respect of its expenditure of public monies under the Connect Ireland contract, with the methodology of a statistical survey (Annual Employment Survey) conducted by the Department of Business Enterprise and Innovation (DBEI). This is not valid as it is not comparing like with like.

In its Annual Employment Survey, DBEI undertakes an annual census of employment in all client companies of the enterprise development agencies that are active within manufacturing, internationally traded and financial services sectors. The survey has been carried out each year since 1972, providing a time-series of longitudinal data. The 2016 Annual Employment Survey report looks at employment trends over the 10-year period 2007-2016. The report provides breakdowns of full-time and part-time employment of agency client companies by ownership, sector and region. A briefing note on the Annual Employment Survey is attached to this letter (**Attachment 1**). This report is for statistical purposes only.

I understand that the Committee wants to make a valid comparison in relation to the verification processes used by IDA with respect to the expenditure of public monies under the Connect Ireland contract. In this regard, a comparison of the verification processes used by IDA in respect of payments to Connect Ireland, with the verification processes used by IDA in respect of grant payments to its client companies, represents the most meaningful comparison as it compares two processes which both relate to the expenditure of public monies. A full comparison of both

processes is detailed in the following page and I hope that this will address all of the queries raised by the Committee.

Verification processes used by IDA in respect of payments of grants to its client companies

The verification processes used by IDA before it pays a grant to a client company under a grant agreement are extremely thorough and include obtaining:

- A signed report from an independent auditor certifying that the company has incurred the expenditure in respect of which a grant is being claimed. This report is issued in accordance with Miscellaneous Technical Statement M45, issued by Chartered Accountants Ireland (**Attachment 2**).
- A Statement of Claim signed by a director of the grantee company.
- A General Declaration Form signed by two directors (or the managing director) of the grantee company.
- Tax clearance
- The most recent audited annual accounts
- Evidence of insurance
- A solicitor's letter confirming the company's title to its premises.
- A letter from auditors or solicitors confirming that the equity/equity equivalent provision in the grant agreement has been satisfied.
- Written confirmation from the appropriate IDA executive that any special conditions in the grant agreement have been complied with.

I attach the detailed IDA checklists in respect of what must be furnished to IDA before payment of the different grant types (**Attachment 3**). You will see that in respect of employment grants IDA requires, in addition to the documents outlined above, a list of the employees' names in respect of whom the grant payment is being sought, and an Employment Record Form which details the number of total eligible posts in the company.

A sample (c.10%) of the employment grant claims also include a visit by an IDA Grant Executive to the client company's premises to inspect the company's records. The records inspected include original employment contracts, HR and financial records and detailed payroll reports showing gross pay, tax deductions, other deductions, net pay and the total number of employees at the site. The inspection also includes an examination of payslips and establishing the identity, employment status and role of individual employees.

It is only when all of these steps have been completed that a grant payment is approved by both the Grant Payments Manager and the IDA's Chief Financial Officer.

In addition to the stringent processes outlined above, which are periodically reviewed by IDA's internal auditors, the C&AG each year inspects a significant sample of IDA's grant payment files for review, both at interim audit and final audit stages.

Verification processes used by IDA in respect of payments to ConnectIreland

Under the contract between Connect Ireland and IDA, Connect Ireland is paid a fee for each job created on the ground. The contract sets out the information that IDA will require when it conducts an inspection to verify the job numbers claimed. I attach a copy of the relevant appendix to the contract which sets out the verification process (**Attachment 4**).

These requirements are the minimum necessary to ensure that a job, in respect of which a claim for payment has been made under the contract, exists in reality. The information required in these cases is considerably less detailed than what IDA requires of its client companies seeking payment of a grant. The actual work of verifying that the jobs exist is undertaken by IDA itself, and not ConnectIreland. The verified job numbers are reviewed quarterly by IDA to determine whether a further payment is due to the contractor, or whether monies already paid to the contractor need to be repaid to IDA Ireland in accordance with the contract. I should also note that IDA has found that all companies it has met with as part of this process have been extremely gracious, engaging and freely giving of their time.

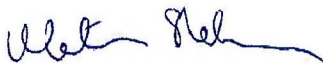
The specific questions raised in your letter:

1. *What checks are made by IDA to identify whether the job figures returned in the employment survey actually exist?* Where a response to the survey represents a significant deviation from the previous year's figures for a particular company, and if the reason for this deviation is not already known to the relevant IDA Project Executive, he or she will seek an explanation from the company.
2. *Does the IDA undertake site visits to check employment figures?* While site visits do not form part of the Annual Employment Survey, they are part of IDA's grant verification processes, as set out above.
3. *Does the IDA view payroll reports showing number of employees and remuneration paid?* While viewing payroll reports does not form part of the Annual Employment Survey, it is part of IDA's grant verification processes, as set out above.
4. *Does the IDA view company bank statements showing salary payments?* While viewing company bank statements does not form part of the Annual Employment Survey, it is part of IDA's grant verification processes, as set out above.
5. *Does IDA view P30 returns?* While viewing P30 returns does not form part of the Annual Employment Survey, it is part of IDA's grant verification processes, as set out above.

ConnectIreland's dispute with IDA arises from a commercial contract. It is purely a contractual dispute. ConnectIreland formally invoked the dispute resolution procedure under the contract, which provides that, unless the parties otherwise agree, disputes are to be resolved by arbitration. In October 2017, IDA agreed to the appointment of an independent arbitrator suggested by ConnectIreland. However, since then, no further steps have been taken by ConnectIreland to progress the resolution of their dispute in accordance with the contract.

I hope the above information will be of assistance to the Committee.

Yours sincerely,



CEO, IDA Ireland