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Tony Murphy, Member
Dean Chamber V

Committee on European Union Affairs

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European Court of Auditors Annual Report Presentation

Opening Remarks - Annual Report 2020

Ladies and Gentlemen,

I am pleased to present to you our annual report for the financial year 2020. Our annual report is the main product of the ECA, and I am here today in my capacity as the Irish Member, Dean of Chamber V (Financing and administering the Union) and ECA Member responsible for the Annual Report.

Before I outline the main findings of our Annual Report, I would firstly briefly like to set out some key information and figures relating to Ireland in the EU.

Irish Facts and Figures 2020:

Revenue for the EU budget in 2020 totalled 174.3 billion euro of which Ireland contributed 2.6 billion euros.

Ireland's contribution stems from several sources. The majority of our contribution is a GNI based contribution (% of our GNI). In 2020, this amounted €1.9 billion euro. The other main sources of our overall contribution relate to Customs contributions of €235million euros and VAT-based contributions of €292 million euros.

In order to put the total EU Budget and related expenditure into perspective – this year total expenditure amounted to 173.3 billion euros, which was an increase of 14.2 billion euros compared to 2019.

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The total EU expenditure budget for 2020 represents just over €385 for each EU citizen and just over 1% of the EU Gross National Income.

Annual Report Findings:

I will now move on to the main findings of the Annual Report. First and foremost, we issue this report in line with our treaty obligations, which is to provide a statement of assurance, which includes opinions on the reliability of the EU accounts and the legality and regularity of the underlying revenue and expenditure.

What are the findings of our audit?

Such as in previous years our opinion on the accounts and revenue are clean. This means we conclude that the EU accounts present a true and fair view of the EU's financial position, while EU revenue for 2020, was free from material error, i.e. legal and regular.

However, for the second year running, our opinion on expenditure for the 2020 financial year is adverse.

So how do we arrive at this audit opinion?

It commences with the question whether we have a material error or not? In simple terms, an error occurs where expenditure has not been spent in line with EU and national spending rules. Our materiality benchmark is 2%.

In 2020 as was the case for 2019, we found that overall the level of error in EU spending is at 2,7 % (above our benchmark), meaning that it continues to be material. The further increase in the high-risk part of our audit population, mainly due to a rise in 'Cohesion', means that material error now affects 59%, a substantial part of our audit population. The error is therefore pervasive which is why we give an adverse opinion on EU spending.

How do we structure the Annual Report?

We structure our work around MFF headings and provide specific assessments for most of them. This allows us to provide detailed information on specific policy areas. This also allows ease in the presenting of the report at discharge.

I will begin with Natural Resources – the largest spending area. We find the level of error in 'Natural resources' to be close to materiality or 2%.

This spending area covers the common agricultural policy (CAP), the common fisheries policy, and part of EU spending on the environment and climate action. The CAP accounts for the majority of spending under 'Natural resources'.

Ireland was part of audit sample this year. Our audit sample under Natural Resources consisted of 218 transactions from 19 Member States. Ireland contributed to four of these transactions. There was one finding from this sample relating to stock density requirements, which lead to a quantifiable error. Ireland received the 10th highest amount of funds from Natural Resources approximately € 1 620 million euros.

Moving onto Cohesion expenditure. The expenditure under cohesion differs somewhat from that of direct payments under CAP. This type of expenditure is predominantly reimbursement-based and often subject to complex rules and therefore we class it as high-risk expenditure. The resulting estimated level of error in 2020 was at 3.5 %.

Irish transactions were not part of the sample this year, however it is worth noting Ireland is among the EU countries that receives the lowest amount of funds from this spending area.

Competitiveness was the third biggest spending area in 2020. It involves a mixture of different policies with research spending being the most prominent element. Again, this is an area where we continue to find errors. Most errors related to ineligible costs, such as overstated personnel costs or costs not actually incurred. In 2020, the error rate in this area was at 3.9 % in 2020.

We also report on budgetary management. A key issue, which we continue to highlight, is the level of outstanding commitments in the EU budget (also known as the 'reste à liquider' or RAL). They have continued to grow year on year, reaching almost 303 billion euros by the end of 2020.

209 billion out of this 303 billion euros of outstanding commitments relates to ESI funds. It is worth noting that the rate of cumulative absorption (amounts paid out against allocations) from the ESI funds remained lower than under the previous MFF: only 55 % of the total ESI fund allocations for the current MFF had been paid out, compared with 62 % by the end of 2013, the corresponding final year of the previous MFF.

As we commence the new MFF with a slow absorption rate it is important to note that the late adoption the new MFF (December 2020), the overlapping of programming periods and the additional availability of EU funds (RFF & BAR) and may further affect absorption rates.

Ireland is performing above average in absorbing ESI funds with 77 % of cumulative payments of the planned ESI fund spent by the end of 2019 (2nd highest in EU after Finland).

That summarizes the main findings of our 2020 annual report. I would also like to highlight that our audit work this year on the Annual Report was conducted in challenging circumstances due to the COVID-19 travel restrictions. It is important to note that COVID-19 travel restrictions prevented us, in almost all cases, from carrying out on-the-spot checks and verifying the physical existence of EU-funded outputs. However, the evidence that we obtained from our auditees enabled us to complete our work and conclude on it.

Performance reports:

In addition to our work for the annual report, we also carry out audits on selected topics across the broad range of EU activities. These Special reports present the results of selected performance and compliance audits of specific spending or policy areas.

In 2020, we published 26 special reports, covering a multitude of topics such as food safety policy, renewable energy, e-commerce, border controls, fiscal governance and child poverty, to name but a few. Biodiversity on farmland, Pesticides, and Energy Efficiency in buildings are the three main performance reports in which Ireland featured.

In 2021, we have published 23 Special reports to date, out of a provisional 34 by the end of the year. Ireland featured in three reports relating to milk production, CAP and Climate and long term Unemployment.

Additional EU funding sources

The RRF will be the main implementing tool for the Next Generation EU' initiative, the EU's 750 billion euro response to the of COVID-19 pandemic. The NGEU initiative, and particularly the Recovery and Resilience Facility (RRF), represents a significant departure from previous EU funding instruments being primarily performance based.

The RRF represents non-repayable financial support from the EU in the form of grants. Ireland submitted Ireland's draft NRRP to the European Commission in May 2021 and September in 2021 Council of Ministers adopted the Implementing Decision on Ireland's NRRP.

The Recovery and Resilience Facility requires for a minimum of 37% of expenditure to be on climate and 20% on digital investments and reforms; the need to address investment and reform challenges identified in relevant Country Specific Recommendations made to Ireland by the EU in recent years.

Ireland's NRRP comprises reforms and investments which support the following three priorities: Priority 1 - Advancing the Green Transition - (€518 million on 7 investments and 2 Reforms) Priority 2 - Accelerating and Expanding Digital Reforms and Transformation - (€291 million on 6 investments and 1 Reform) Priority 3 - Social and Economic Recovery and Job Creation - (€181 million on 3 Investments and 6 Reforms)

Ireland's first payment under the RRF is due in Q3 of 2022.

SURE represents repayable financial support from the EU in the form of loans.

The temporary Support to mitigate Unemployment Risks in an Emergency (SURE) was made available for Member States that need to mobilise significant financial means to fight the negative economic and social consequences of the coronavirus outbreak on their territory.

Loans provided to Member States under the SURE instrument are underpinned by a system of voluntary guarantees from Member States. On 27 October 2020, Ireland requested financial assistance from the Union with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and respond to the socio-economic consequences of the outbreak for workers and the self-employed.

Finally, The Brexit Adjustment Reserve which is non repayable grant of €5.4 billion which has been put in place to support all Member States while ensuring a strong concentration on those most affected.

Financial contribution from the reserve to a Member State will be implemented under shared management.

Ireland is the biggest beneficiary of the Brexit Adjustment Reserve and the first Member State to receive its pre-financing. This funding will help Ireland's economy in mitigating the impact of Brexit, through support to regions and economic sectors, including on job creation and protection, such as short-time work schemes, re-skilling, and training.

Ireland received €361.5 million on 15 December 2021, €276.7 million in 2022 and €282.2 million in 2023.

Closing remarks

To wrap up, over the next seven years, the Union will be able to spend €1.8 trillion, this is significantly more than in the previous programming period. This includes the €750 billion for the NGEU recovery instrument – both loans and grants.

In the years to come, we will continue to contribute actively to accountability and transparency for all forms of EU finances, including the 'Next Generation EU' instrument through financial, performance and compliance audits.

Managing the EU's finances in a sound and effective manner will become even more important for all stakeholders including the ECA in these challenging times.

I would like to thank you for your time and I am open to any questions you may have.