

Public Spending Code

Quality Assurance Report for 2013

Department of Jobs, Enterprise & Innovation

Date: 5 January 2015

Certification

This Annual Quality Assurance report reflects the Department of Jobs, Enterprise & Innovation's assessment of compliance with the Public Spending Code. It is based on the best financial, organisational and performance related information available across the various areas of responsibility.

Specifically, the Quality Assurance checks have been successfully carried out in the case of Enterprise Ireland, IDA Ireland, Science Foundation Ireland, and Shannon Development, and in the case of expenditure on the Higher Education Authority's Programme for Research in Third Level Institutions ('PRTL').

John Murphy

Accounting Officer,

Department of Jobs, Enterprise & Innovation

Date: 5 January 2015

Executive Summary

In accordance with the requirements of the Public Spending Code, a Quality Assurance review of the appraisal of projects approved for grant aid by the following agencies has been carried out at the direction of the Department of Jobs, Enterprise & Innovation:

Enterprise Ireland

Higher Education Authority Programme for Research in Third Level Institutions

IDA Ireland

Science Foundation Ireland

Shannon Development

The Quality Assurance reviews in respect of Enterprise Ireland and IDA Ireland were carried out by their internal auditors, Ernst & Young and Deloitte respectively. The Quality Assurance review of the PRTL programme run by the Higher Education Authority was carried out by Mazars, chartered accountants, as part of their audit of capital projects to be submitted for ERDF funding. The Quality Assurance reviews in respect of Science Foundation Ireland and Shannon Development were carried out by a professional accountant employed by the Department.

There is a requirement in the Public Spending Code for a Cost Benefit Analysis to be prepared in the case of projects approved for grant aid in excess of €20m and for a financial analysis to be prepared in the case of projects approved for grant aid below this threshold. The Code, however, provides an exception for situations where significant costs or benefits associated with a project cannot be quantified or valued. Where this occurs the Code provides that a

Cost Effectiveness Analysis may be relied upon instead of a Cost Benefit Analysis.

In the case of Research, Development & Innovation grant aid approved by the agencies, and the PRTLTI projects, a Cost Benefit Analysis or financial analysis has not been prepared given that it was not possible to estimate with any reasonable degree of accuracy the likely revenues and future costs that might arise from identified projects / research programmes when, and if, these result in marketable products or viable businesses in the future. Instead, a robust cost effectiveness analysis has been carried out by the agencies.

In summary, the Quality Assurance reviews concluded that each of the agencies complied with the requirements of the Public Spending Code.

Inventory of Projects / Programmes

Section A.04 of the Code requires that an organisation should publish, annually on its website, summary details of all procurements (capital and current) where the value exceeds €2m.

Enterprise Ireland and IDA Ireland do not publish details of the recipients of grant aid in excess of €2m on their websites due to this being commercially sensitive information. Details of the recipients of grant aid are published by the Higher Education Authority, Science Foundation Ireland, and Shannon Development in their annual reports which can be accessed on each agency's website.

The Department's Appropriation Account includes the following amounts in respect of programme expenditure incurred and relating (with the exception of €3m in Subhead B.4) to the five agencies included in the Quality Assurance reviews:

<u>Programme Expenditure by Subhead</u>	<u>2013</u>
	€000
A.5 IDA Ireland	126,360
A.6 Shannon Development	8,117
A.7 Enterprise Ireland	128,041
B.4 Science & Technology Development (Note 1)	286,243
B.5 Programme for Research in Third Level Institutions	45,203

(Note 1: Science Foundation Ireland accounts for €161.55m and Enterprise Ireland accounts for €121.68m)

Checklists

Checklist 1 has been completed by the Department of Jobs, Enterprise & Innovation and Checklist 4 has been completed by each of the five agencies. One of the general obligations listed in Checklist 1 refers to training on the Public Spending Code being provided to relevant staff. On 8th December a training course was run by the Department of Public Expenditure & Reform for members of this Department with a view to providing training in relation to novel aspects of the revised Code as published in November 2013. The Department of Public Expenditure & Reform has agreed to provide further training on technical aspects of the Code and this Department will continue to liaise on this training.

No significant compliance issues in relation to the Code have been identified in any of the completed Checklist forms.

Detailed Quality Assurance Checks and Findings

The main findings of the Quality Assurance reviews carried out in respect of the following agencies are outlined below:

(i) Enterprise Ireland

Quality Assurance reviews of the appraisal of grant aided projects by Enterprise Ireland were carried out by Ernst & Young, internal auditors to Enterprise Ireland, in 2013 and 2014. In accordance with the requirements of the Public Spending Code, only grant approvals in excess of €500,000 were included in the population from which the sample was selected for checking.

The recent Quality Assurance review by Ernst & Young involved checks on three projects approved in 2013 for grant aid totalling €19.6 million. No significant adverse findings were noted in either of the Quality Assurance reports completed in 2013 and 2014. As already referred to, the reports noted that Enterprise Ireland does not publish on its website details of all procurements (capital and current) where the value exceeds €2 million as required by the Code. The reports states that Enterprise Ireland does not comply with this requirement because details of the recipient of grant aid, is commercially sensitive information.

In the case of Research, Development & Innovation grant aid approved by Enterprise Ireland, no financial appraisal is carried out given that it is not possible to estimate with any reasonable degree of accuracy the likely revenues and future costs that might arise from identified projects/programmes when, and if, these result in marketable products or viable businesses in the future. Instead, a robust cost effectiveness analysis is carried out.

(ii) Higher Education Authority – Programme for Research in Third Level Institutions

The Quality Assurance review in respect of the Programme for Research in Third Level Institutions operated by the Higher Education Authority was carried out by Mazars, chartered accountants. The review was carried out in conjunction with Mazars appointment by the Higher Education Authority to conduct PRTL Cycle 5 European Regional Development Fund Article 13 checks as part of the process of certification of expenditure to the European Commission under EU and National Regulations and circulars.

In mid 2012, Mazars commenced a Quality Assurance review of the appraisal, planning and implementation stages of two large capital projects in receipt of funding from the Higher Education Authority under the PRTL programme -- (i) the construction of the new Trinity College Biosciences Building and (ii) the LERO Industrial Enterprise Centre Building funded by the University of Limerick. Given the considerable length of time taken to obtain planning permission for the Trinity Biosciences Building and the existence of post contract change orders, Mazars sought a professional opinion from an independent Quantity Surveyor, AECOM, as to whether all aspects of the project were in compliance with National and EU Procurement Guidelines in existence throughout the construction phase of the project. The independent Quantity Surveyors Report confirmed that Trinity College complied with National and EU Procurement Guidelines regarding the post contract change orders.

As both of the above building projects were commenced prior to the publication of the Public Spending Code, Mazars examined whether each project complied with the Department of Finance Capital Appraisal Guidelines and with National and EU Procurement Guidelines in existence throughout the construction phase of the project. The Mazars report on the examination of the Trinity College Biosciences Department concluded that the requirements of the Department of Finance Capital Appraisal Guidelines and National and EU Procurement Guidelines were followed by Trinity College in all material aspects.

The Mazars report on the University of Limerick Lero building concluded that there were no significant findings which should be brought to the attention of the University of Limerick or Higher Education Authority management.

Mazars has recently completed a PRTL Cycle 5 ERDF Procurement Article 13 review of two separate projects at the National University of Ireland, Galway. The two projects involve work on the Science Research Building (Advanced Medicine) and the Arts Humanities and Social Sciences Research Building. The audit by Mazars confirmed that the requirements of the Public Spending Code were followed by the National University of Ireland, Galway, in all material aspects.

(iii) IDA Ireland

The Quality Assurance review in respect of IDA Ireland was carried out by Deloitte, internal auditors to IDA Ireland. A separate review was carried out by Deloitte in each of the last three years. The 2014 review examined 12 projects, two approved for grant aid in 2011, four in 2012, and six in 2013. No significant issues concerning compliance with the Public Spending Code were identified by Deloitte in the three annual reviews.

As already referred to, IDA Ireland does not publish on its website details of all procurements where the value exceeds €2 million as required by the Public Spending Code, because details of the recipient of the grant aid, is commercially sensitive information.

The Deloitte reviews state that IDA Ireland uses an economic appraisal system prior to the approval of Capital and Employment grants to assess their suitability for grant aid. No such economic appraisal is carried out in respect of Research, Development and Innovation grants because it is not possible to estimate with any reasonable degree of accuracy the likely revenues and future costs that might arise from identified projects / programmes when, and if, these result in marketable products or viable businesses in the future. Instead, a robust cost effectiveness analysis is carried out.

(iv) Science Foundation Ireland

The Quality Assurance review in respect of Science Foundation Ireland was carried out by a professional accountant employed by the Department. The

Quality Assurance procedure was to examine the appraisal by Science Foundation Ireland of two large research centre projects, Advanced Materials and BioEngineering Research Centre (AMBER) and Marine Renewable Energy Ireland (MaREI), approved in 2013 for grant aid of €35.1m and €18.9m respectively. The two projects account for approximately 5.9% of the total value of Science Foundation Ireland grant approvals that were incurring expenditure at the end of 2013 and for 13% of the outstanding approved grant balance at the end of 2013.

The Quality Assurance review found that Science Foundation Ireland carried out a rigorous technical assessment of the proposed Research Centre projects. Each proposal was evaluated by an international Impact Assessment panel, and one of two international scientific peer-review panels. The Impact Assessment Panel comprised seven individuals with strong scientific / engineering track records. The Panel rated the AMBER project highly and recommended funding. The Panel identified certain risks associated with the MaREI project and recommended that MaREI be awarded funding by Science Foundation Ireland with certain modifications to the project as highlighted by the Panel.

As the significant benefits associated with the two proposed Research Centres could not be quantified or valued, it was therefore not possible for Science Foundation Ireland to prepare a Cost Benefit Analysis or a financial analysis. Instead Science Foundation Ireland carried out a detailed assessment of the costs associated with the proposed Research Centres.

Quality Assurance reviews in respect of 2012 and 2013 concluded that Science Foundation Ireland complied with the requirements of the Public Spending Code.

(v)Shannon Development

The Quality Assurance reviews in respect of Shannon Development were carried out by a professional accountant employed by the Department. Only three projects were approved for grant aid in excess of €500,000 in 2013 by the Board of Shannon Development. One of these was selected for checking under the Quality Assurance Procedures. This project, which was approved for a Research, Development and Innovation grant, amounting to €1,116,888, and an employment grant of €240,000, complied with the requirements of the Public Spending Code.

The Quality Assurance review in respect of 2012 concluded that Shannon Development complied with the requirements of the Public Spending Code.