

# **Audit Committee 2015 Annual Report**

**Department of Agriculture, Food and  
the Marine**



Department of  
**Agriculture,  
Food and the Marine**

An tAonm  
**Talmhaíochta,  
Bia agus Mara**

**May 2016**

***Audit Committee 2015 Annual Report***  
***Department of Agriculture, Food and the Marine***

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***Statement by the Chairman of the Audit Committee of the Department of  
Agriculture, Food and the Marine***

It is with great pleasure that I present the Annual Report of the Audit Committee of the Department of Agriculture, Food and the Marine for the year ended 31<sup>st</sup> December 2015.

The Audit Committee has been established to advise independently and objectively on the suitability of the internal control systems within the Department through monitoring the work of the internal audit function. It also has a role in monitoring the implementation of the Department's risk management strategy.

The Committee operates under a charter which states clearly that the Committee has no executive role and is not responsible for any executive functions. This is consistent with the approach set out in the Guidelines for Audit Committees, published by the Department of Public Expenditure and Reform in 2014 which is focused on central Government Departments and Offices.

On the basis of its considerations during the past year, the Audit Committee is satisfied that the controls in place in the Department of Agriculture, Food and the Marine are, in the main, operating satisfactorily. The Committee is also satisfied that the Internal Audit Unit (IAU) continues to make a significant contribution to the overall governance environment through its evaluation and recommendations for improvement of controls across the Department and that its recommendations are appropriately addressed by management.

The Certifying Body, who are appointed to audit the activities of the Department as a Paying Agency, in its report for the 2015 financial year has issued an unqualified audit opinion in relation to the administration of the EAGF funds and an audit opinion in relation to the EAFRD funds, qualified only in respect of an unavoidable time related limitation of scope. There were no major findings in relation to either fund. This is consistent with the view of the Committee that the control systems within the Department are operating in a generally satisfactory manner. The Committee notes that the Certifying Body made particular recommendations regarding the control environment in the EAFRD area, specifically in relation to further improvements on compilation of control statistics and that these recommendations will be addressed by the Department in the coming year.

The Committee met with representatives of the Comptroller and Auditor General (C&AG) and discussed the findings in relation to the controls operated

by the Department. The C&AG also issued an unqualified opinion on the Department's 2014 Appropriation Account.

The Audit Committee set out a number of priorities for its work in 2015. These were:

- Reviewing the work of the Internal Audit Unit and ensuring that the Unit is sufficiently resourced to carry out an appropriate work programme.
- Reviewing the progress of interactions with the EU bodies in relation to the outcome of their audits of the various EU schemes and programmes.
- Monitoring the development of appropriate controls in implementation of the revised the CAP arrangements.
- Reviewing the progress being made in dealing with the issues raised in the Comptroller and Auditor General's report on the 2013 Appropriation Account.
- Focusing on the operation of the Risk Management System within the Department.

I am satisfied that the Audit Committee has achieved the objectives that it set itself for the year. Section 4 of this report outlines the outcomes in relation to each of these priorities. Priorities for 2016 are included in Section 7.

The Audit Committee received presentations from a variety of key units of the Department at its meetings during the year. These made a very important contribution to the Committee's work and assisted in providing appropriate oversight of operations throughout the Department. They also provided the Committee with an opportunity to follow-up on issues raised in audit reports and to stay abreast of developments within the Department. The Committee held one meeting in the Department's office in Cavan and visited the business units based in that office. Further details of the topics covered in 2015 are provided in Section 3 of this report.

I would like to express my thanks to Mr Aidan O'Driscoll, who was appointed Secretary General of the Department in early 2015, for his constant support during the year. I also want to mark my appreciation of the work done by Ms Ann Derwin, Assistant Secretary General with responsibility for Corporate

Functions, for her efforts to facilitate the work of the Committee and to assist in progressing matters throughout the year.

I would also like to once again express my sincere gratitude to my fellow members of the Audit Committee for their considered contributions and constant assistance throughout 2015 and indeed throughout all of my time as Chair of the Committee. I would also like to thank Mr Colm McKiernan, the Head of Internal Audit, and all of the team in the Unit for their work.

*Bill Cunningham*

Bill Cunningham

Chairman

30 May 2016

## 1. Membership of the Audit Committee

The Audit Committee of the Department of Agriculture, Food and the Marine consists of six members. Five of these members are external to the Department itself. The composition of the Committee at the end of 2015 was as follows:

- **Mr Bill Cunningham, Chairman of the Committee.** Mr Cunningham is a Chartered Accountant and is a former partner of Price Waterhouse Coopers Ireland.
- **Mr Leo Martin.** Mr Martin served as Chief Operating Officer of Grafton Group from 2006 to 2011 and was previously Group Chief Executive of Heiton Group. Mr Martin is a Chartered Accountant and served on the Council of the Institute of Chartered Accountants in Ireland.
- **Ms Dairine Walsh.** Ms Walsh has worked and held board positions with Johnson & Johnson and Dunnes Stores. She has an MBA from the Harvard Business School and is also a qualified solicitor. She is a non-executive director of Tote Ireland.
- **Mr Aidan Dunning.** Mr Dunning is the former Secretary General of the Department of Communications, Energy and Natural Resources.
- **Mr Finbarr Kelly.** Mr Kelly is a Principal Officer in the Department of Public Expenditure and Reform. He has responsibility for the Agriculture Food and the Marine and the Transport, Tourism and Sports Votes.
- **Mr Brendan Gleeson.** Mr Gleeson is an Assistant Secretary General in the Department of Agriculture, Food and the Marine with responsibility for Livestock Products, Food Safety and State Body Co-ordination.

The following attended the meetings but are not members of the Committee.

- **Ms Ann Derwin,** Assistant Secretary General in DAFM with responsibility for Corporate Functions attended the Committee meetings as an observer.
- **Mr Colm McKiernan,** Principal Officer, DAFM, is the Director of Internal Audit for the Department.
- **Mr Mark Quinlan,** Higher Executive Officer, DAFM, is the Secretary to the Committee.

## **2. Role of the Audit Committee**

The Audit Committee was established to advise independently the Secretary General on the internal audit policies and the management of risk, appropriate to the functioning of the Department of Agriculture, Food and the Marine. The Committee operates under a Charter which defines clearly the purpose, authority, roles, responsibilities and reporting relationships of the Audit Committee, Internal Audit and management of the Department. This Charter was reviewed by the Committee in 2015 and updated to take account of the Guidance for Audit Committees issued by the Department of Public Expenditure and Reform in 2014.

In line with its Charter the Committee has responsibility for the following:

- Reviewing and advising on the proposed programme of work for Internal Audit within the Department.
- Monitoring the implementation of the Audit Plan.
- Assessing the content and impact of completed internal audit reports, evaluating the effectiveness of internal controls and advising the Secretary General of its conclusions thereon.
- Advising the Secretary General on the effectiveness of the Internal Audit function.
- Requesting special reports from Internal Audit as considered appropriate.
- Assessing the implementation of agreed corrective actions by management having regard to follow-up audits.
- Advising on whether adequate resources and skills are available for the internal audit function of the Department and making recommendations on the allocation of resources where it considers this desirable.
- Fostering the development of best practice in the internal audit function.
- Monitoring the implementation of the Department's risk management strategy and advising the Secretary General on the effectiveness of this process.

The Audit Committee has no executive role in the Department. Whilst the Committee has an important role in the assessment of completed audit reports, it has no role in the detailed audit process or in the signing off of audit reports. Neither does it have any responsibility for or involvement in the review and approval of the Department's National or EU annual financial statements. Whilst the Committee has an important role in monitoring the Department's

Risk Management Programme, the ongoing implementation of the Risk Management Programme is the responsibility of the Department.



### **3. Presentations to the Audit Committee**

The Committee met four times during 2015. The Committee received presentations during the year in relation to:

- Implementation of debt management measures
- Certifying Body Presentation
- Asset management in the Department
- Business Continuity Planning
- Risk Management System Update
- IT Business Continuity Arrangements and Mobile Devices Audit updates
- Work of the Divisions in the Cavan Office
- Presentation on Food-Wise 2025
- Implementation Plans for the new GLAS Scheme
- Comptroller and Auditor General Annual Report

These presentations were in addition to the quarterly reports, plans and other information received from the Internal Audit Unit.

The Committee appreciates the continued support that it receives from the Secretary General and staff of the Department.

#### **4. Audit Committee Objectives for 2015 and Related Outcomes**

The 2014 Annual Report of the Committee set out a number of priorities for its work in 2015. These were:

- Reviewing the work of the Internal Audit Unit and ensuring that the Unit is sufficiently resourced to carry out an appropriate work programme.
- Reviewing the progress of interactions with the EU bodies in relation to the outcome of their audits of the various EU schemes and programmes.
- Monitoring the development of appropriate controls in implementation of the revised the CAP arrangements.
- Reviewing the progress being made in dealing with the issues raised in the report of the Comptroller and Auditor General's report on the 2013 Appropriation Account.
- Focusing on the operation of the Risk Management System within the Department.

##### ***4.1 Reviewing the work of the Internal Audit Unit and ensuring that the Unit is sufficiently resourced to carry out an appropriate work programme***

Throughout the year, the Committee worked with the Unit and monitored its output in order to ensure that a comprehensive body of quality audit work was completed. It provided support to the Unit at all stages of the audit process, with the annual plan for 2015 being agreed by the Committee in December 2014. That plan was then recommended to and approved by the Management Advisory Committee (MAC) and the Secretary General. All audit reports produced by the Unit during 2015 were reviewed and discussed. The Committee also focussed on the timely implementation by management of all outstanding audit recommendations. Where appropriate, the Committee received presentations from Unit Heads on the progress being made in addressing Internal Audit recommendations.

New staff members within the Unit, many of whom were appointed in recent years, are being provided with on the job and formal training to allow them to develop and become effective auditors

within the Department. The Committee takes a keen interest in ensuring that all staff in the Unit are facilitated in their individual training and development.

The Committee is satisfied that the Internal Audit Unit has appropriate resources to carry out its work.

#### ***4.2 Reviewing the progress of interactions with the EU bodies in relation to the outcome of their audits of the various EU schemes and programmes.***

The Department liaises with the EU Institutions on an ongoing basis in relation to all audits conducted by either the EU Commission or the European Court of Auditors. This contact includes responding to requests for information and detail, arranging the logistics of audit visits and dealing with the findings arising from these visits. During 2015 a number of audits by the EU Bodies were progressed with six of these being closed. A number of audits in connection with land eligibility, covering the period from 2008 to 2014 were finalised and these resulted in a reduced financial disallowance to that originally proposed by the Commission.

In addition, five new audits were initiated during 2015, three by the Commission and two from the European Court of Auditors. One of the Commission Audits involved a review of the work of the Certification Body on legality and regularity and this has since been closed. The remaining audits are ongoing and are at various stages of the process at the time of writing.

The Audit Committee ensured that it was updated throughout the year on all significant matters in relation to these audits and discussed the findings with representatives of both the Department and the Certifying Body when it met with the Committee to discuss its work on the 2015 financial year.

#### ***4.3 Monitoring the development of appropriate controls in implementation of the revised the CAP arrangements.***

One of the biggest challenges facing the Department at present is the implementation of the revised CAP measures under both the EAGF and EAFRD. In 2015, the Audit Unit carried out a pre implementation

review of the main schemes to assess likely compliance with EU accreditation requirements.

The Single Payment Scheme has been replaced by the Basic Payment Scheme which was introduced for the first time in 2015. The payment that a farmer now receives under the new direct payment system is no longer a 'single payment' but may be a combination of payments under up to four separate schemes, Basic Payment, Greening Payment (Payment for Agricultural Practices beneficial for the Climate and the Environment), Young Farmers Payment and Aid for Protein Crops. Audit work was carried out on part of the Scheme during 2015 and is continuing in 2016.

A new "GLAS" agri-environmental scheme was also introduced during the year. This 5 year agri-environmental scheme aims to deliver a range of benefits in terms of the rural environment and to address issues of climate change mitigation, water quality and the preservation of habitats and species. The Audit Committee was briefed on this scheme, including the planned controls, at its December 2015 meeting.

The Committee continues to work to ensure that the appropriate level of attention is given to implementing a robust control framework around all of the schemes and measures to deliver these in such a manner that will reduce the likelihood of financial sanctions from the EU Bodies. The Committee Chairman met with the Secretary General and the MAC to emphasise the need for a robust control framework in implementing these schemes

#### ***4.4 Reviewing the progress being made in dealing with the issues raised in the Comptroller and Auditor General's report on the 2013 Appropriation Account***

The Committee met with staff from the Office of the Comptroller and Auditor General (C&AG) to discuss the audit of the Department's 2013 Appropriation Account. The Account was unqualified. However, the associated management letter contained a number of findings, some of which were similar to findings in previous years. The Department's internal audit plan for 2015 addresses a number of issues raised by the C&AG Report. An audit on asset management was completed during the year. This audit looked at operations and procedures used by the central asset management unit and reviewed assets in two locations. Findings were similar to those identified in

the audit of the Appropriation Account and the recommendations set out in that report, when implemented, will address the issues raised. Other matters raised in the Comptroller's management letter included controls over procurement and payroll which are also covered in the Department's audit plan.

#### ***4.5 Focusing on the operation of the Risk Management System within the Department***

The effective operation of a risk management system is a key element in managing the challenges faced by the Department. A risk management system is in place in the Department which was one of the first Government Departments to adopt a formal risk management strategy. That system was the subject of a review by the Internal Audit Unit in 2012. The Department has subsequently implemented a revised approach to identifying and monitoring key risks. The Risk Management Programme will continue to identify and assess the key risks (strategic, operational, financial, reputational) facing the Department in achieving its objectives and to outline measures, at Department and divisional level, to minimise such risks. The Management Committee of the Department has completed a review of the strategic risks facing the organisation and this will inform the future implementation of the Risk Management System.

The Department of Public Expenditure and Reform issued revised Risk Management guidelines in February of 2016 and the Committee has met with the personnel in the Department of Agriculture, Food and the Marine responsible for implementing the updated risk management approach and will monitor the Department's adherence to these new guidelines. A further audit in this area is included in the annual plan for 2016.

Overall the Committee is satisfied that it has achieved the objectives that it set itself for the year.

## 5. Audit Environment of the Department

The Department spends approximately €3 billion each year, a significant proportion of which is funded by the European Union. The Department is highly decentralised, with major facilities in Backweston, Cavan, Clonakilty, Portlaoise and Wexford, as well as a network of local offices.

As well as having its Internal Audit and Scrutiny functions, DAFM has five sources of independent external audit and it is also subject to scrutiny by the EU's Food and Veterinary Office in relation to animal and public health and the animal welfare aspects of its work. The number of audit bodies arises primarily from the large percentage of the Department's expenditure that is funded by the EU. The role of these external auditors is outlined in the following paragraphs:

- ***The Comptroller & Auditor General***

The Comptroller & Auditor General audits all Departmental expenditure and has a full time staff presence based in the Department. The Comptroller & Auditor General reports annually to the Houses of the Oireachtas on findings arising from his audits. The primary responsibility of the Comptroller & Auditor General is in relation to Central Government expenditure and this is examined and reported on by the Public Accounts Committee.

- ***The Certifying Body***

EU Regulations require that an audit certificate and a report on the internal controls of DAFM from an independent 'Certifying Body' must accompany the Annual Accounts that are submitted to the EU Commission. Deloitte were re-appointed as Certifying Body in 2010 following a public tendering process for a three-year period. During 2014, following a competitive tendering process, BDO were appointed to carry out this function for the 2014 financial year.

- ***Commission Audit Services***

Audit Services from the EU Commission also carry out a number of audits annually on the Department's expenditure of EU funded schemes and the related controls.

- ***The Court of Auditors***

The Court of Auditors is required to give an annual statement of assurance on the reliability of the European Communities' accounts and the legality and regularity of the transactions underlying those accounts. On foot of this requirement, it carries out individual audits, including EU related expenditure by the Department.

- ***OLAF (EU Anti-Fraud Office)***

OLAF is the European Anti-Fraud Office. The Office has responsibility for conducting administrative anti-fraud investigations in all member states and also outside the EU. The Department co-operates fully with OLAF and assists in any missions that this body undertakes in Ireland.

An indication of the extent of audit coverage, measured in audit days per year, is shown in the following table.

<b><i>Audit Body</i></b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Comptroller & Auditor General	368	515	372	340
Certifying Body	820	771	756	656
Court of Auditors - mission days in Ireland	0	40	20	34
EU Commission - mission days in Ireland	15	0	33	32
Internal Audit	1,392	1,437	1,312	1,214
<b>TOTAL</b>	<b>2,595</b>	<b>2,763</b>	<b>2,493</b>	<b>2,276</b>

## 6. Review of Internal Audit Unit work in 2015

The Committee reviewed the following aspects of the Unit's work in 2015:

- ***Programme of work***

The 2015 Internal Audit Plan, as prepared by the Internal Audit Unit, was agreed both by the Audit Committee and by the Department's Management Advisory Committee (MAC). Progress in implementing the plan was monitored by the Audit Committee primarily through the quarterly progress reports that were presented by the Internal Audit Unit.

The Internal Audit Unit carried out a considerable body of audit work in 2015, with 13 audit reports finalised and issued during the year.

The Internal Audit Unit is represented in a number of different audit networks, including the Heads of Internal Audit Forum, EU network of audit bodies and the UK Interdepartmental Internal Audit Group. The Director of Internal Audit also attends the Department's Accreditation Review Group and Risk Management Team meetings.

- ***Scrutiny***

DAFM is required by EU Regulations to submit specific information annually to the Commission and to liaise with other Member States in relation to mutual assistance. As in all previous years, deadlines for submission to the Commission of annual programmes, annual reports, quarterly reports on mutual assistance and risk analysis criteria relating to the Scrutiny Regulation have been met. The 2014/15 annual work programme was completed on schedule and it is expected that the 2015/16 programme, which ends on 30<sup>th</sup> June 2016, will also be completed on time.

The 2014/15 scrutiny audit programme comprised of audits of nine commercial organisations, all of which were carried out by the Unit's Scrutiny Audit Team. The calculated minimum number of scrutinies prescribed by the Regulation for the programme was six.

- ***Staffing and Training***

The Committee continues to monitor closely the staffing resources available to the Unit. The Internal Audit Unit comprised a total of 15 staff at the end of 2015.



The Committee is pleased to note that the Unit undertakes an on-going programme of training including Continuous Professional Development for relevant qualified staff members. Overall formal training of staff in the Unit in 2015 amounted to 73 staff days. The major part of the 2015 training programme related to internal audit modular courses run by the Institute of Public Administration, IT audit courses, data protection, computer skills and various other relevant courses, including those held by the Institute of Internal Auditors, Association of Chartered Certified Accountants and the Institute of Chartered Accountants.

## 7. Priorities for 2016

Each year, the Committee sets out a number of priority issues for its own work programme in addition to its normal functions as outlined in the Charter. The priorities identified for 2016 are:

- ***Reviewing the work of the Internal Audit Unit and ensuring that the Unit is sufficiently resourced to carry out an appropriate work programme***

The Committee will continue to monitor the Internal Audit Unit in the delivery of its functions. This will be achieved primarily through the quarterly meetings scheduled for 2016. The Committee will also ensure that the comprehensive training schedule for all staff is maintained during the year, giving all members of the Unit the best opportunity to develop and contribute to the organisation as skilled internal auditors. The Committee will continue to monitor the timely implementation by management of audit recommendations. The audit plan for 2016 which has been approved by the Management Advisory Committee (MAC) has wide ranging targets and the Committee will support the Unit in its efforts to deliver this plan. This plan has a focus on the implementation of the new EU funded schemes which will be monitored closely by the Committee during 2016.

- ***Focusing on the operation of the Risk Management System within the Department***

As referenced earlier in Section 4.5, the Department of Public Expenditure and Reform issued revised Risk Management guidelines to Government Departments in February of 2016. The Committee will monitor the Department's implementation of the updated risk management approach. A further audit in this area is included in the annual plan for 2016 and the Committee will review the outcome.

- ***Focusing on data protection and management in the Department.***

Data Protection may be described as the framework and controls that are put in place in relation to the collection, storage, transmission, disclosure and deletion of data. The Department is required to comply with Data Protection legislation as defined under the Data Protection Act 1988 as amended by the Data Protection (Amendment) Act 2003. When an individual gives their personal details to the Department, the Department has a duty to keep these

details private and safe. The rules of Data Protection apply to automated data, or information held on computer, CCTV or other digital images such as photographs as well as manual data such as information held on paper or in manual forms. For business and legal reasons, the Department is under ever increasing pressure to ensure strong information governance and data protection i.e. that the data held on ICT systems is adequately protected from unauthorised access and disclosure.

The Committee, through the work of the Internal Audit Unit and by interacting with Department management, will monitor the Department's compliance with its obligations under the Data Protection legislation.

- ***Monitoring the progress being achieved by the Department in improving debt management.***

The Department has placed increasing emphasis on improving the management of debt across the organisation. A Central Debt Management Group has been set up to oversee efforts in this area. A debt Collection Management System (CMS) has been developed and rolled out to major business areas that have significant debt to monitor and control. Furthermore, a specific Unit has been set up, as part of the Accounts Division, to manage debts not covered by the rolled out System. The Committee has been actively involved in advising the Department on this initiative and will continue to focus on this in 2016 with the aim of assisting the Department in achieving further improvements in this area.

- ***Examining the Business Continuity plans in place in the Department.***

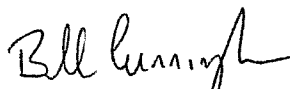
It is of vital importance that the Department has the ability to function and to deliver its critical services to both the agri-food sector and to the economy as a whole. It is therefore necessary to have well developed and documented business continuity arrangements in place to deal with unforeseen or unplanned disruption to Department facilities or staff availability at its network of locations around the country. This area has been the focus of audit work in recent years and the Committee was briefed on progress in this area during 2015. Given the importance of the matter, the Committee intend, in 2016, to continue to monitor the

readiness of the organisation to deal with disruptions in availability and access to key locations.

- ***Improving familiarity with Departmental schemes and operations through presentations and briefing sessions.***

The Committee has regularly, as part of the quarterly meetings, been briefed and received presentations on matters of significance to the operation of the Department which is a large and complex organisation. These briefings help members become familiar with the issues facing the organisation and in developing an appreciation of the context in which the Department and its staff operate.

In the light of the significant changes to the Schemes being administered by the Department, the Committee will allocate additional time in 2016 to meeting with key personnel in the Department to monitor the administration of the schemes and will focus attention on this aspect in 2016.



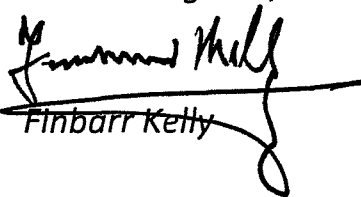
Bill Cunningham, Chairman



Aidan Dunning

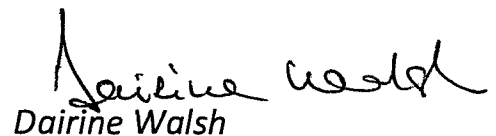


Brendan Gleeson



Finbarr Kelly

Leo Martin



Dairine Walsh