

Audit Committee 2016 Annual Report

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



May 2017

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

I am delighted to present the 2016 Annual Report of the Audit Committee of the Department of Agriculture, Food and the Marine ('the Department'). This report covers the activities of the Audit Committee (see Section 1 for membership details) for the period 1 January to 31 December 2016.

On the basis of its considerations during the past year, the Audit Committee ('the Committee') is satisfied that the controls in place in the Department are operating satisfactorily. The Committee is also satisfied that the Internal Audit Unit ('the 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 in the main appropriately addressed in a timely fashion by line management.

The Certifying Body (BDO), who are appointed to audit the activities of the Department as a Paying Agency, in its report for the year ended 15th October 2015 issued an unqualified audit opinion in relation to the administration of the Guarantee (EAGF) and Rural Development (EAFRD) funds and also assigned the highest possible rating to the IAU with regard to the conduct of its annual activities. The Committee met with the Certifying Body in March 2016 and was informed that there were no major or intermediate findings regarding EAGF for the 2015 financial year. With regard to EAFRD, there was one intermediate finding regarding the lack of an effective audit trail for the extraction of the data and preparation of the EAFRD Control Statistics report. BDO recommended that the Department should implement a plan to improve and automate the returns.

The Committee also 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.

At its initial meeting in 2016 the Committee set out a number of priorities for its 2016 work including:

- focussing on the operation of the Department's Risk Management Framework,

- considering the Department's Data Protection and Data Management arrangements, and
- reviewing progress on debt management.

I am satisfied that the Audit Committee has achieved the objectives that it set itself for the year with detail in relation to each priority set out in Section 5 of this report.

During the year the Committee received presentations from a variety of key units of the Department at its quarterly meetings. These made a very important contribution to the Committee's work and assisted in providing Committee members with 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. Furthermore, the Committee received training on Governance and Risk Management from a specialist in that area. This was especially timely given the introduction of the revised "Code of Practice for the Governance of State Bodies".

On behalf of the Committee I would like to express my thanks to the Secretary General, Mr Aidan O'Driscoll, Assistant Secretary General, Ms Ann Derwin and the Department's senior management team for their positive internal audit engagements and their implementation of the reports' recommendations.

I would also like to express my sincere gratitude to my fellow members of the Audit Committee for their considered contributions and constant assistance throughout 2016. I would particularly like to thank Mr Bill Cunningham who stepped down at the end of 2016 after a number of years of distinguished service, including four as Chairperson. Finally, I would also like to thank Mr Gordon Conroy, the Director of the Internal Audit Unit and his predecessor Mr Colm McKiernan, and all of the team in the IAU for their work throughout 2016.

Mr Leo Martin
Chairman
11 May 2017

1. Membership of the Audit Committee

The Audit Committee of the Department consists of five members. Four of these members are external to the Department itself. The composition of the Committee at the end of 2016 was as follows:

- **Mr Leo Martin, Chairman of the Committee.** 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 the Irish National Stud and Tote Ireland.
- **Mr Aidan Dunning.** Mr Dunning is the former Secretary General of the Department of Communications, Energy and Natural Resources.
- **Mr Jim O'Brien.** Mr O'Brien is a retired civil servant, having last served at Second Secretary General level in the Department of Finance. He is also Chair of the Audit Committee of the Department of Foreign Affairs and Trade.
- **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 the Department with responsibility for Corporate Functions attended the Committee meetings as an observer.
- **Mr Gordon Conroy** is a Principal Officer in the Department and is the Director of the Department's Internal Audit Unit.
- **Mr Mark Quinlan** is a Higher Executive Officer in the Department and is the Secretary to the Committee.

2. Role of the Audit Committee (the 'Committee')

The Committee was established to provide independent and objective advice to the Secretary General on the internal audit policies and the management of risk appropriate to the functioning of the Department.

The Committee operates under a Charter which defines the purpose, authority and reporting relationships of the Committee, Internal Audit Unit (the 'IAU') and management of the Department. It met four times in 2016. The Charter also sets out the Committee's responsibilities including that of:

- Reviewing and advising on the IAU's proposed programme of work including requesting special reports from the IAU as considered appropriate,
- Monitoring the implementation of the Audit Plan and assessing the implementation of agreed corrective actions by management having regard to follow-up audits,
- 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,
- Monitoring the implementation of the Department's risk management strategy and advising the Secretary General on the effectiveness of this process,
- Advising on whether adequate resources and skills are available for the IAU of the Department and making recommendations on the allocation of resources where it considers this desirable,
- Fostering the development of best practice in the IAU function, and
- Advising the Secretary General on the effectiveness of the IAU function.

While the Committee can request special reports from the IAU as considered appropriate, it has no executive role in the Department 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. Audit Environment of the Department

The Department disburses €2.566 billion annually. In 2016, payments to farmers totalled just over €1.8 billion and included payments under the Basic Payment Scheme, Forestry and various Rural Development Programme Measures. More detail, including the breakdown between National and EU expenditure is contained in the table below.

DAFM Expenditure 2016	
	€m
Voted Expenditure	
Rural Development*	430.4
Structural Measures*	10.6
Market Support Costs*	22.1
State Bodies	211.0
Horse and Greyhound Fund	74.0
Animal Health	77.7
Forestry and Biofuels	103.8
Fisheries	18.9
Research and Training	30.2
Food/Aid/World Food Programme	40.0
Administration	216.1
Other	22.0
Total Voted Expenditure	1256.8
EU Related Expenditure	
Basic Payment/Direct Payment Scheme	1,300.2
Intervention/Aid to Storage	2.6
Market Supports	7.1
Total EAGGF	1309.9
Total DAFM Expenditure	2,566.7
*Total initial payments from the Vote – EU funded elements recouped to the Vote subsequently	

The Department is highly decentralised, with major facilities in Backweston, Co. Kildare, Cavan, Clonakilty, Portlaoise and Wexford, together with a network of local offices.

As well as having its Internal Audit and Scrutiny functions, the Department has five sources of independent external audit. In addition 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 activities. 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 (C&AG) audits all Departmental expenditure and has a full time staff presence based in the Department. He reports annually to the Houses of the Oireachtas on findings arising from his audits. The primary responsibility of the C&AG is in relation to Central Government expenditure as reported on in the C&AG's Annual Report on the Appropriation Accounts. This Report is subject to scrutiny by the Public Accounts Committee (PAC) and the Secretary General of the Department appears before the PAC and is questioned on the Report.

- ***The Certifying Body***

EU Regulations require that an audit certificate and a report on the internal controls of the Department from an independent Certifying Body must accompany the Annual Accounts that are submitted to the EU Commission. During 2014, following a competitive tendering process, BDO were appointed to carry out this function for the three years to 2017. Their work covers the Department's compliance with the accreditation criteria, the existence and functioning of the key internal controls and the procedures for ensuring compliance with EU rules, the legality and regularity of expenditure claimed for reimbursement from the Commission and the procedures for the protection of the financial interests of the EU.

- ***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 the EU's independent external auditor and 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, on the Department's EU related expenditure.

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

OLAF is the European Anti-Fraud Office. The Office has responsibility for conducting administrative anti-fraud investigations involving EU Funds. OLAF fulfills its mission by carrying out independent investigations into fraud and corruption, so as to ensure that all EU taxpayers' money is appropriately spent. It is the only EU body mandated to detect, investigate and stop fraud with EU funds and the Department co-operates fully 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.

Audit Body	2012	2013	2014	2015	2016
Comptroller & Auditor General	368	515	372	340	320
Certifying Body	820	771	756	656	740
Court of Auditors - mission days in Ireland	0	40	20	34	50
EU Commission - mission days in Ireland	15	0	33	32	55
Internal Audit	1,392	1,437	1,312	1,214	1,023
TOTAL	2,595	2,763	2,493	2,276	2,188

4. Review of Internal Audit Unit work in 2016

The Committee reviewed the following aspects of the IAU's work in 2016:

- ***Programme of Work***

The 2016 Internal Audit Plan, as prepared by the IAU, was agreed both by the Committee and by the Department's Management Board. Progress in implementing the plan was monitored by the Committee primarily through the quarterly progress reports that were presented to the Committee by the Director of the IAU.

The IAU carried out a considerable body of audit work in 2016, with 17 audit reports finalised and issued during the year. Each of these reports was presented to the Committee.

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

- ***Scrutiny***

The Department 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, and quarterly reports on mutual assistance and risk analysis criteria relating to the Scrutiny Regulation have been met. The 2015/16 annual work programme was completed on schedule and the 2016/17 programme, which ends on 30th June 2017, is also on target to be completed on time.

The 2015/16 scrutiny audit programme comprised of audits of six commercial organisations, all of which were carried out by the IAU's Scrutiny Audit Team. The calculated minimum number of scrutinies prescribed by the Regulation for the programme was three.

- ***EU Structural Funds – European Fisheries Fund(‘EFF’) (2007-2013) and the European Maritime and Fisheries Fund(‘EMFF’) (2014-2020)***

The IAU is the designated Audit Authority for the EFF (2007-2013) and the EMFF (2014-2020). As such, it has certain audit obligations specified by EU regulations. The EFF closed in March 2017. The results and conclusions arising from the audit work carried out by the IAU in 2016, as Audit Authority, were reported in a final Closure Control Report and Audit Opinion provided to the Commission, as required, before the end of March 2017.

In 2016 audit work relating to the EFF commenced in mid-2016. This work covered the three main areas that are co-funded by the EFF as follows:

- various Bord Iascaigh Mhara schemes,
- various Bord Bia promotional activities, and
- selected harbours capital investment.

Audit work for the EMFF (2014-2020) must be reported to the EU in an Annual Control Report and Audit Opinion in February of each year. To-date, the Department has not submitted any claims to the EU for co-funding under the EMFF and accordingly there has been no audit work to report on. It is anticipated that audit work in relation to the EMFF will commence in 2017.

- ***Audit Resources and Training***

The Committee continues to monitor closely the staffing resources available to the IAU. The IAU comprised a total of 15 staff at the end of 2016. In addition, external IT Audit Consultants – Mazars - provided specialist IT audit expertise to the IT Audit Section. The Director will continue to work closely with HR to ensure the filling of existing vacancies with suitable staff.

The Committee is pleased to note that the IAU undertakes an on-going programme of training including Continuous Professional Development for relevant qualified staff members. Overall formal training of staff in the IAU in 2016 amounted to 114 staff days, up from 73 the previous year. The major part of the 2016 training programme related to internal audit modular courses run by the Institute of Public Administration, IT audit courses and training on the new Governance Code for State Bodies.

5. Audit Committee Objectives for 2016 and Related Outcomes

The 2015 Annual Report of the Committee set out a number of priorities for its work in 2016. The following paragraphs list these priorities and include a short update in respect of activity in 2016.

5.1 Reviewing the work of the Internal Audit Unit (IAU) and ensuring that the IAU is sufficiently resourced to carry out an appropriate work programme

Throughout the year, the Committee worked with the IAU and monitored its output in order to ensure that a comprehensive body of quality audit work was completed. It provided support to the IAU in carrying out its role, with the annual plan for 2017 being discussed and agreed by the Committee in December 2016 prior to its approval by the Secretary General and Management Board in January 2017.

All audit reports finalised by the IAU during 2016 (Appendix 1) were reviewed and discussed by the Committee on a quarterly basis. Critically the Committee also focussed on the timely implementation by management of outstanding audit recommendations. The Committee expressed a degree of concern as to the timeliness of implementation of some previous audit recommendations and agreed to keep this under close review at its quarterly meetings.

Where appropriate, the Committee received presentations from Unit Heads on the progress being made in addressing Internal Audit recommendations, including on Risk and Debt Management.

New staff members within the IAU, 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 IAU are facilitated in their individual training and development needs.

The Committee is satisfied that the IAU has appropriate resources to carry out its work.

5.2 Focusing on the operation of the Risk Management System (RMS) within the Department

Effective Risk Management supports the Department in both assessing the key risks it faces in delivering on its objectives and identifying ways to address

those risks. The Audit Committee monitors the implementation of the Department's risk management strategy and advises the Secretary General on the effectiveness of this process.

In fulfilling this role in 2016, the Committee received presentations from the Department's Finance Division at three of its quarterly meetings. The Committee notes that there is a significant amount of work ongoing regarding the Department's RMS including compressing the number of Strategic Risks to 5 (down from 19). These 5 Strategic Risks will operate as the platform within the system on which all business and operational risks are identified and addressed. These revised Department Strategic Risks have been uploaded onto the RMS and all divisions will shortly be requested to relate their risks to the revised Strategic Risks.

The Committee has requested that it is updated on Risk Management on a regular basis and will continue to play an active monitoring role in this area.

5.3 Focusing on Data Protection and Data Management in the Department

The Department published a Data Retention Policy in January 2016 and subsequently Data Officers were assigned to each Division and trained to assist with its implementation. Training has also commenced in Data Protection generally to assist staff in understanding the importance of data retention within the overall context of Data Protection. Progress for delivering Data Retention Schedules is ongoing.

The Committee received an update from the Department's Data Retention Unit at its fourth quarterly meeting in December 2016. The Committee noted that a significant amount of work has been completed to date and noted the commitment of the Department to progress all related issues throughout 2016. The Committee has requested a further update at its quarter 2 meeting in June 2017 and continues to keep this area actively under review.

5.4 Monitoring the progress being achieved by the Department in improving Debt Management

The Committee received a presentation from the Department's Accounts Division at the 2016 quarter 2 meeting outlining the steps that are in place to recover outstanding debts. This incorporated the establishment of a Central Debt Monitoring Unit and the proactive and timely pursuit of outstanding debts.

The Committee supports this enhanced approach to debt collection; however it considers that there is still further work to be undertaken. Accordingly the Committee has recommended that the Department liaise with Department of Public Expenditure and Reform (DPER) regarding the write off of certain debts deemed either uneconomical or non collectable. The Committee requested that it receives regular updates on Debt Collection in 2017 so as to clearly focus on the live debt position.

5.5 Examining the Business Continuity Plans (“BCP”) in place in the Department

Throughout 2016 the Committee received updates on progress in respect of Business Continuity Planning including a presentation from the Director of IAU at the quarter 2 meeting. While significant progress has been reported to the Committee throughout the year, much remains to be done and the IAU will continue to follow up with Corporate Affairs Division.

It is expected that the IAU will carry out an audit in this area in 2017, which will involve sample testing of the areas that have BCPs in place. The Committee will review the findings of this audit and continue to monitor progress on BCP in 2017.

5.6 Improving familiarity with Departmental schemes and operations through presentations and briefing sessions

The Department administers a significant and extensive number of schemes ranging from small one-off nationally funded schemes, such as the €2 million Fodder Aid Scheme delivered in response to the fodder crisis of late 2015/early 2016, to the €1.2 billion EU funded Basic Payment Scheme involving over 130,000 Irish farmers.

It also provides Information and Communication Technology (‘ICT’) services and the structures to allow the Department to operate at the highest possible level and to support the continued implementation of appropriate systems of accountability and controls. To assist the Committee better understand the challenges and risks associated with delivering these schemes presentations were made to the Committee in a number of critical areas including:

- Scheme Administration,
- Risk Management,
- Debt Management,

- Business Continuity Planning & Data Retention, and
- Corporate Governance.

Overall the Committee is satisfied that it has achieved the objectives that it set itself for the year and has undertaken to continue to monitor progress in respect of these and other priorities set for 2017.

6. Priorities for 2017

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 2017 are as follows:

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

The Committee will continue to monitor the IAU in the delivery of its functions. This will be achieved primarily through the quarterly meetings scheduled for 2017 at which the Committee will continue to closely monitor the timely implementation of audit recommendations by line management.

The audit plan for 2017, which has been approved by the Management Board, has wide ranging targets and the Committee will support the IAU in its efforts to deliver this plan. The plan has a focus on the implementation of the new EU funded schemes and a more enhanced focus on the operation of state bodies under the Department's remit both of which will be monitored closely by the Committee in 2017.

The Committee will continue to take a keen interest in the provision of a comprehensive training schedule for all staff during the year so that all members of the IAU are given the best opportunity to develop and contribute to the Department as skilled internal auditors.

- ***Reviewing the operation of the Risk Management System ('RMS') within the Department***

The Department of Public Expenditure and Reform issued revised Risk Management guidelines to Government Departments in February 2016. Alongside this, the Department continued a comprehensive review of its RMS. The review process is nearing finalisation and, as outlined earlier, includes the reduction in the number of strategic risks to better reflect the Department's business areas.

IAU are also finalising an audit of the Department's RMS and the Committee will continue to monitor the Department's implementation of its new framework for managing risk throughout 2017.

- ***The Governance of State Bodies***

There are twelve State Bodies under the aegis of the Department. These bodies are established by statute and while the respective Boards/CEOs have specific responsibility for day to day operations, substantial Exchequer funding is provided to several of these State Bodies from the Department's Voted Expenditure and the Secretary General of the Department is the Accounting Officer for this funding. The Department has a role in guiding policy and in seeking assurance in relation to compliance with the provisions of the *Code of Practice for the Governance of State Bodies*.

This area has been the focus of audit work in recent years and the Committee has endorsed the 2017 work plan which plans for enhanced IAU activity in this area in the form of an additional horizontal audit across a number of State Bodies. The Committee intends, in 2017, to continue to monitor the Governance of State Bodies.

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

As outlined earlier, the Committee is regularly 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 2017 to meeting with key personnel in the Department to monitor the administration of the schemes and will focus attention on this aspect in 2017.

- ***Focusing on Data Protection/data retention and data management in the Department***

Data Protection may be described as the framework and controls that are put in place in relation to the collection, use, 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.

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 IAU 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 CMS.

The Committee has been actively involved in advising the Department on this initiative and will continue to focus on this in 2017 with the aim of assisting the Department in achieving further improvements in this area.

- ***Cybersecurity***

Cyber Security is about protecting data that is found in electronic form and the technologies to protect it. Cyber Threats are risks to data held in electronic form and are mitigated by the use of cyber security measures. Cyber Security Breaches can have significant financial and reputational cost for an organisation.

In 2017 the IT Audit Unit will, at the request of IMT Division, carry out a risk assessment of the Department's Cyber Security framework. This arises from a Government initiative (The National Cybersecurity Strategy 2015) which is being driven by the EU.

The Committee will review the outcome of this assessment and will continue to monitor future developments in this area.

Leo Martin, Chairman

Aidan Dunning

Brendan Gleeson

Jim O'Brien

Dairine Walsh