

# **ELEVENTH ANNUAL REPORT**

**of the Audit Committee of the  
Department of Agriculture and Food**

**for the year ended 31st December 2005**



THE DEPARTMENT OF  
AGRICULTURE & FOOD  
AN ROINN TALMHAÍOCHTA AGUS BIA

**March 2006**

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## Section 1: Membership of the Audit Committee

The Audit Committee of the Department of Agriculture and Food consists of eight members, all but one of whom are external to the Department itself. The composition of the Committee in 2005 was as follows:

**Mr John Donnelly**, Chairman of the Committee. Mr Donnelly is a Chartered Accountant and is Deputy Chairman of Hypo Real Estate Bank International. He was formerly Chairman of the auditing firm Deloitte & Touche and has considerable experience of chairing internal audit committees.

**Professor Niamh Brennan**. Professor Brennan is a Chartered Accountant and Michael MacCormac Professor of Management in the School of Business in University College Dublin.

**Mr Michael Downes**. Mr Downes is the Group Internal Auditor of Coras Iompair Eireann, the National Transport Body.

**Ms M Claire O'Connor**. Ms O'Connor is Chief Financial Officer of West LB Ireland and a member of the WestLB CBB Audit Committee. She is a former Director of the National Disability Authority and ICC Bank plc. Claire is an Authority member of Sustainable Energy Ireland.

**Mr Eamon O'Connor**. Mr O'Connor is the Director of Internal Audit in the Office of the Revenue Commissioners.

**Mr Aidan O'Driscoll**. Mr O'Driscoll is an Assistant Secretary General in the Department of Agriculture and Food (DAF). He has responsibility for accounting, auditing and financial control, together with responsibility for Economics and Planning.

**Ms Helen Nolan**. Ms Nolan is a Chartered Accountant and is the Group Chief Internal Auditor with Bank of Ireland.

**Mr John Thompson**. Mr Thompson is a Principal Officer in the Department of Finance, Public Expenditure Division. He has responsibility for the Agriculture Vote.

**Mr Frank Honan**, Higher Executive Officer DAF, was the Secretary of the Committee for 2005.

**Mr Robert Carey** and **Mr Pól Ó'Duibhir** retired from the Committee in 2005 and the Committee would like to thank them for their contribution to the work of the Committee and to wish him well in the future.



**Department of Agriculture and Food Audit Committee**

l-r: Ms. H. Nolan, Mr. E. O'Connor, Mr. J. Thompson, Mr. M. Downes, Mr. J. Donnelly *Chairman*, Mr. A. O'Driscoll, Ms. C. O'Connor. Missing from the photo is Prof. N. Brennan.

## Section 2: Chairman's Statement

### Statement by the Chairman of the Audit Committee of the Department of Agriculture and Food



It gives me great pleasure to present the Annual Report of the Audit Committee of the Department of Agriculture and Food for the year to 31st December 2005.

Once more I have every reassurance in expressing my satisfaction with, and respect for, the financial management of the demanding and complex programmes operated by the Department of Agriculture and Food. These programmes are administered by skilled and competent officials at the Department.

As in previous years the management of these programmes is overseen by the efficient and effective internal audit programmes conducted by the Department's Internal Audit Unit. This Unit was well led and appropriately resourced for the greater part of the year under review. The report of the External Auditors of the European Union Agricultural Guidance and Guarantee Fund (EAGGF) reinforces my opinion.

#### 2005

This is the sixth successive year in which the External Auditors to the EAGGF rendered a report with no major findings. The number of other non-material matters which came to the External Auditors attention continued to be at a very low level. Thus a clean audit opinion was rendered once again. This is a superb record of robust financial management within the Department.

I have always held the opinion that the financial controls operated within the Department are very strong and are managed by competent people. The officials concerned can take great and justifiable pride in their achievement.

This Department operates a great number of complex schemes. Six successive unqualified reports from the EAGGF Certifying Body demonstrates the commitment of the officials in the Department to the highest standards of financial control.

In the year 2005 the Department's officials ensured the satisfactory completion of decoupling, integration of forestry, training and planning for decentralisation.

#### Decentralisation

In my chairman's statement for 2004 I identified a numbers of matters that must be addressed if this policy is to be implemented satisfactorily and without loss to the funds under the Department's management. The Department has initiated a Decentralisation Implementation Plan. This plan has been presented to the Audit

Committee. While it is still at the planning stage a number of matters are being considered.

In 2004 I identified the following matters which present challenges to those officials operating the Decentralisation Plan. These matters were: -

- Loss of control
- Loss of corporate memory
- Loss of skills
- Replacement of skills

The Department has in the past successfully managed the decentralisation of staff to Cavan, Castlebar and Wexford. However on each of these occasions the number of posts being transferred was smaller than in the current case, a higher proportion of existing staff moved to the new locations and key Head Quarters Divisions were not affected.

Success in decentralisation will be dependent on the response of those officials who move with the programmes. The risks identified above can be managed but not all risks are capable of mitigation.

The Internal Audit Unit is also being decentralised. This Unit consists of experienced and highly qualified people. Their commitment is reflected in the strong financial management in the Department.

At the time of writing the number of people in the Unit opting for decentralisation is of the order of 10%. If that level of response is maintained then in excess of 80% of the Unit's skills, experience and corporate memory could be lost. It would take approximately three years to assemble and train the skills equivalence of those members of the Unit who do not opt to decentralise. It would mitigate the risks if parallel operations within the Unit were conducted until a sufficient level of skills and experience has been developed. The location of the Unit until a sufficient level of skill is available is important in order to achieve an efficient Unit. The cost of parallel operation must be measured against the monetary cost of the risks.

Maintaining morale will be important in the implementation of this policy.

### **Training**

The Department is committed to and operates a high standard of training for the members of the Internal Audit Unit. The benefits of this training are reflected in the successful financial management within the Department. Training is fundamental to success in management. The Department is achieving this success.

### **General**

The Audit Committee continues to receive presentations from key units in the Department. These presentations are an important aspect of the Committee's

oversight of the Department's internal control systems. They constitute a crucial aspect of best practice for the Committee.

The satisfactory result of the audits on the Department's financial management must be of high reassurance to the Department of Finance and the officials at DG Agriculture in the European Commission. In this latter context, the level and intensity of external audit should take account of the development and training of the newly engaged members of the Internal Audit Unit.

### **Role of the Audit Committee**

The role of the Committee is to advise the Minister, the Secretary General and the officials of the Department on the effectiveness of the systems and controls operating within the Department. The number of schemes and programmes within this Department are many and diverse.


I am satisfied that the Audit Committee discharges its obligation in respect of this role.

During this year the skills and experience of the members of the Committee were enhanced by the appointment of Ms Helen Nolan and Ms Claire O'Connor. Their experience and expertise will be of great benefit to the Committee and its work.

I would like to express my thanks to Mr Pól Ó'Duibhir who retired from the Audit Committee for his excellent contribution to our work.

I am pleased to pay tribute to my fellow members of the Audit Committee for their commitment, advice and support of the work of the Audit Committee. Each member of the Audit Committee has many demands on their time from their active professional lives. Despite these demands they give of their time unsparingly. They also ensure that a high level of expertise is available to the Department.

This is the last Report with which I am associated. It has been a great privilege to have been appointed as Chairman to this key Audit Committee. I have gained greatly by my association with key officials in the Department and from the support of my fellow members of the Committee. I thank all involved for this worthwhile experience.



John Donnelly

Chairman

10th March 2006

### Section 3: Role of the Audit Committee

The Audit Committee was established to advise the Minister of Agriculture and Food on the internal audit policies and the management of risk, appropriate to the functioning of the Department of Agriculture and Food. The Charter of the Audit Committee sets out its role and terms of reference. The Committee has three main roles, namely:

- To advise on the operation of the internal audit function within the Department.
- To monitor the application of Council Regulation (EEC) No. 4045/89, as amended, more commonly identified as the Scrutiny Regulation.
- To advise on best practice for risk management.

The Committee has responsibility for the following:

- Reviewing and advising on the proposed programme of work for Internal Audit within the Department.
- Approving and periodically reviewing, a charter for Internal Audit which clearly defines the purpose, authority, roles, responsibilities and reporting relationships of the Audit Committee, Internal Audit and management of the Department.
- Assessing the results of completed internal audit reports, evaluating the effectiveness of internal control and advising the Minister of its conclusions thereon.
- Advising the Minister on the effectiveness of the Internal Audit function.
- Monitoring the implementation of the audit plan.
- Requesting special reports from internal audit as considered appropriate.
- Assessing the implementation of agreed corrective actions by management having regard to follow-up audits.
- Fostering the development of best practice in the internal audit function.

The Scrutiny Regulation deals with the scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF or 'FEOGA' its French acronym). The funds in question are those FEOGA Guarantee funds that are received by commercial companies and other undertakings through their participation in market support systems, such as export refunds, operation of intervention purchases, etc. In addition, the operation of the milk superlevy regime is also included in the scope of scrutiny.

The Audit Committee reviews and monitors the operation of the Department's Risk Management programme and advises the Minister and Secretary General on the extent and effectiveness of this process.

The Audit Committee has no executive functions, nor powers. It has no role in the detailed audit process or in the signing off of audit reports. Neither does it have any responsibility or involvement in the review and approval (on behalf of management) of annual financial statements (either national or EU).

## Section 4: Operation of the Audit Committee

The Committee met four times in 2005. The Committee, as part of its normal operating process, held one of its meetings outside Dublin in Government Buildings in Cavan and had a detailed briefing on the Department work that is carried out there.

The Committee received presentations during the year from the following:

- The Assistant Secretary with responsibility for the Decentralisation programme.
- The Department's Risk Management Team.
- Senior management from the Forest Service,
- Senior management from the Department's offices in Cavan.
- The Management Information Framework Team.
- The Certifying Body.

These presentations were in addition to the quarterly reports, plans and other information received from both the audit and scrutiny functions of Internal Audit.

The Committee appreciates the continuing strong support that it receives from both the Minister and the Secretary General. The Committee's chairman met both the Minister and the Secretary General during 2005 to discuss the work of the Committee.

## **Section 5: Audit Committee Objectives for 2005 and Related Outcomes**

The 2004 Annual Report of the Committee set out a number of priorities for its work in 2005. These were:

- Decentralisation, and in particular, the management of the risks arising from the process.
- The preparations and controls in place for the new Single Payment Scheme.
- Reviewing the external audit process of the Certifying Body.
- Continuing to review the work of the Internal Audit Unit to ensure that a comprehensive body of quality audit work is completed.

### ***Decentralisation***

The Department's headquarter staff will be decentralising from Dublin to Portlaoise on foot of the Government's decentralisation plan. The Committee was kept informed of developments in this matter during the year. The Committee twice met with the Assistant Secretary General responsible for the decentralisation process in 2005 and also received copies of relevant reports. The process of decentralisation continued throughout the year, with the majority of extra staff in Portlaoise deployed on the Single Payment Scheme. This process will continue on a phased basis, with all staff fully decentralised by 2008. Further decentralisation of staff from the Cork city and Mallow offices to Fermoy and from the Cork and Limerick laboratories to Macroom is scheduled to occur in 2009.

The Committee focused on the risk management aspect of the process and, in particular, is concerned how the danger of control failure due to loss of corporate memory and skills will be avoided. The Committee will continue to keep itself informed on progress during the current year and will receive further updates on the decentralisation implementation action plan.

### ***The Single Payment Scheme***

The Committee was kept informed on progress regarding the implementation of the single decoupled farm payment. The introduction of this scheme was a major undertaking for the Department in 2005. Payments totaling over €1 billion were made to over 118,000 farmers in December 2005. The Committee will keep this important scheme under review and will have further meetings with scheme management in this key area during 2006.

### ***Certifying Body's Annual Report***

The Committee received a number of presentations from the FEOGA Certifying Body (Deloitte) during the year and was kept fully informed of the audit process.

The Committee is satisfied with the outcomes of this process, which resulted in an unqualified audit opinion with no major findings in 2005. The Department continues to focus on improving the control regime in order to bring about a reduction in the number of minor audit findings. The Committee will keep this process under review during 2006.

### ***Reviewing the Work of the Internal Audit Unit***

The Committee closely monitors the work of the Internal Audit Unit. The committee is satisfied with the quality of work carried out by the Unit. At the suggestion of the Committee, improvements were made during the year in relation to the monitoring and follow-up of audit findings and recommendations. The Committee place great emphasis on the need to ensure that the Unit is staffed by appropriately trained officers. It is imperative that the forthcoming personnel changes that will result from the decentralisation process do not impact on the high standards set by the Internal Audit Unit of the Department. The Committee will closely monitor staffing issues within the Unit during this process.

The Committee is satisfied that it has achieved the objectives that it set itself in the year under review in relation to the areas indicated above.

## Section 6: Audit Environment of the Department

The Department spends approximately €3 billion each year, approximately two-thirds of which is funded by the European Union. The Department is already highly decentralised, with over three-quarters of its staff outside Dublin. It has major facilities in Cavan, Portlaoise and Wexford, as well as local offices in all counties. Further decentralisation is ongoing in the Department as part of the Government's decentralisation policy.

The Department has sixty-five Divisions in eleven functional areas with each one headed by a member of the Management Committee. These are in turn structured into four main Groups i.e. Policy, Food Safety & Quality of Production, Agriculture Payments and Corporate Development. The Internal Audit Unit is situated in the Economics, Planning and Financial Systems area that is part of the Corporate Development Group. The Director of Internal Audit has a direct reporting line to the Secretary General.

The Department operates in a constantly changing environment and the Single Payment Scheme, which decoupled direct farm payments from production in 2005, was a major change for the Department's operations.

As well as having its Internal Audit and Scrutiny functions, DAF has five sources of independent external audit. 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 has a full time staff presence based in the Department, who audit all Departmental expenditure. The Comptroller & Auditor General reports annually to the Public Accounts Committee on findings arising from his audits. The primary responsibility of the Comptroller & Auditor General is in relation to national expenditure. In addition, from time to time, a separate Value for Money Section in the Comptroller & Auditor General's Office carries out Value for Money audits on the Department's operations.

### ***The Certifying Body***

EU Regulations require that an audit certificate and a report on the internal controls of DAF from an independent 'Certifying Body' must accompany the FEOGA Guarantee Annual Accounts that are submitted to the Commission. Deloitte & Touche were appointed as Certifying Body in 2000 following a public tendering process and were subsequently re-appointed in 2003.

**The Court of Auditors**

The Court is required to give a statement of assurance (similar to a certificate given by the Comptroller and Auditor General) on the reliability of the European Communities' accounts and the legality and regularity of the transactions underlying those accounts. The Court audits the implementation of the general budget of the European Union, the European Development Funds as well as the financial statements of EU bodies and agencies

**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.

**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.

An indication of the extent of audit coverage by these bodies during the year is shown in the following table.

<b>Approximate Audit Coverage in Person Days</b>			
<b>Audit Body</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Comptroller & Auditor General	480	495	500
Certifying Body	444	460	410
Court of Auditors - mission days in Ireland	40	94	55
EU Commission - mission days in Ireland	36	30	32
Internal Audit	1,792	1,897	1,905
<b>TOTAL</b>	<b>2,792</b>	<b>2,976</b>	<b>2,902</b>

One of the key indicators of the adequacy of the control environment in the Department is the level of EU disallowances that are imposed. The Commission imposes disallowances on Member States in instances where there are inadequate control procedures, non-compliance with EU rules on agricultural expenditure or late payments. In the ten year period 1995-2004 inclusive Ireland had the fourth lowest level of disallowances in the EU-15. This level of disallowances was less than one fifth of the EU average for that period.

The Certifying Body issued an unqualified audit opinion for the EAGGF accounts for the year to 15th October 2005 and in its report there were no audit findings classified as major.

## Section 7: Review of Internal Audit Unit work in 2005

### *Programme of work*

The 2005 Internal Audit Plan was agreed both by the Committee and by the Department's Management Advisory Committee. Progress in implementing the plan was monitored by both Committees by means of quarterly progress reports that were produced by the Internal Audit Unit.

The Internal Audit Unit carried out an extensive body of audit work in 2005, with fourteen audit reports issued and another three almost complete. In view of the requirement for ongoing specialist support for the area, the IT audit function tendered in 2005 for new consultancy expertise. A contract was put in place in October 2005 which will provide 100 days support over a two year period. Details of performance indicators for the Unit are shown at Appendix 2.

The Internal Audit Unit is involved in a number of different audit networks, namely, the Heads of Internal Audit Forum, EU networks of EAGGF audit and control bodies and the UK Interdepartmental Internal Audit Group. The Director of Internal Audit also attends the Department's Accreditation Review Group and Risk Management Committee meetings.

### *Structural Funds*

The 2005 Structural Fund audit plan focused on the 5% sample checks and system audit requirements of Regulation 438/01. A dedicated section within IAU carries out this work for the on-farm investment schemes and Forestry Guidance schemes managed within DAF. In the case of the Leader and PEACE programmes this task has been outsourced to the internal audit functions of the Departments of Community, Rural and Gaeltacht Affairs and Environment, Heritage and Local Government. Progress in all these areas was satisfactory in 2005.

### *Scrutiny*

As in all previous years, deadlines for submission of annual programmes, reports and risk analysis criteria relating to the Scrutiny Regulation have been met. The 2004/05 Annual Work Programme was completed on schedule and it is expected that the 2005/06 Programme, which ends on 30th June, will also be completed on time.

The 2004/05 scrutiny audit programme comprised of 45 scrutinies of commercial organisations which were carried out by both Department and Revenue teams. The calculated minimum number of scrutinies prescribed by the Regulation was 34.

Close co-operation with other member states and the Commission services continued during the year, particularly with colleagues in the UK.

***Staffing and Training***

The Committee continues to take an active interest in the staffing resources available to the Unit, particularly in relation to the staff changes that will occur as a result of the decentralisation process. The Internal Audit Unit comprised a total of nineteen staff at the end of 2005.

The Committee is pleased to note that the Unit continues to undertake its usual substantial level of training. The Unit formal training in 2005 amounted to 172 staff days, compared with 189 days in 2004. The major part of the 2005 training programme related to internal audit modular courses run by the Institute of Public Administration, computer skills, languages and various other relevant courses, including those held by the Institute of Internal Auditors, OLAF, the Association of Chartered Certified Accountants and the Institute of Public Finance and Accountancy. Five staff members of the Unit received their Certificate in Audit Skills during the year. This certificate programme has been developed by the Institute of Public Administration and is accredited by the Chartered Institute of Public Finance and Accountancy in the UK. The Unit continues to facilitate training of audit colleagues from the new Member States where possible.

The Director of Internal Audit, Michael Flynn, left the Department in 2005 to take up a new post as National Director of Internal Audit in the Health Service Executive. The Committee wishes to acknowledge the outstanding contribution made by Michael during his eight years in the Department and wishes him well in his new role.

## Section 8: Priorities for 2006

The Committee each year, 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 2006 are set out below.

### **Decentralisation:**

The decentralisation process will continue to have a major impact on the work of the Department. The Committee has particular concerns in relation to the potential risks of control failure that could arise as a consequence of the inevitable loss of corporate memory and skills during this process. The Committee will, as it has since the decentralisation process commenced, continue to monitor this process and will be regularly updated on its progress and what actions the Department is taking to mitigate the associated risks.

### **The Single Payment Scheme**

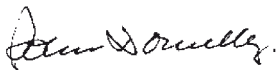
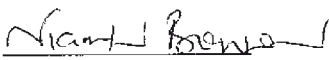
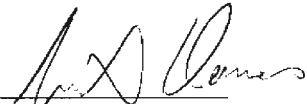

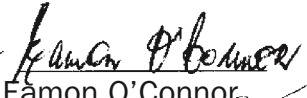

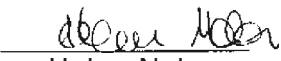
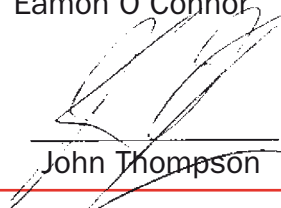
Over €1.3 billion will continue to be paid annually by the Department to Irish farmers through the Single Payment Scheme. It is imperative that a strong control system is in place for a scheme of this scale. In 2006 the Committee will focus on the controls that are in place for this major scheme.

### **The Risk Management Process**

The Committee has always taken a keen interest in the Risk Management process in the Department. One of the main roles of the Committee is to advise on best practice for Risk Management. In 2006 the Committee will focus on the Department's utilisation of the Risk Management process to further improve the control structure and to enhance Business Continuity Planning in the Department.

### **Reviewing the Work of the Internal Audit Unit**

The Committee will continue to monitor, on a quarterly basis, the work of the Internal Audit Unit to ensure that a comprehensive body of quality audit work is completed. As indicated previously the Committee will take a particular interest in ensuring that the decentralisation process does not have a negative impact on the quality of the work carried out by the Unit.

 John Donnelly, Chairman	 Niamh Brennan	 Michael Downes
 Claire O'Connor	 Eamon O'Connor	 Aidan O'Driscoll
 Helen Nolan	 John Thompson	

## Appendix 1: Summary of Expenditure

	2005 €m	2004 €m	2003 €m
Export Refunds	159.9	214.2	228.7
Premia/Area Aid	614.3	1,088.4	1,104.6
Single Farm Payment	1,058.4	0.0	0.0
Other Market Supports	8.1	96.8	114.1
<b>EAGGF Guarantee direct expenditure</b>	<b>1,840.8</b>	<b>1,399.4</b>	<b>1,447.4</b>
Structural Measures	46.9	37.3	43.8
Rural Development	687.5	620.0	499.1
Animal Health, State Bodies	311.6	324.2	413.7
Market Intervention and other	31.3	23.1	32.4
Intervention costs	62.9	66.0	102.8
Administrative Costs	278.1	254.4	237.1
<b>Total Expenditure on Irish Agriculture</b>	<b>3,259.0</b>	<b>2,724.4</b>	<b>2,776.3</b>

## Appendix 2: Performance Indicators for Internal Audit Unit

<b>Average staff numbers</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Management	4	4	4
Audit & Control	8	8	7
Scrutiny	6	6	6
IT Audit	2	2	2
<b>Total</b>	<b>20</b>	<b>20</b>	<b>19</b>

<b>Number of audit days</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
(a) Non-scrutiny			
Audit days	1,792	1,897	1,905
Average per staff member	163	173	190
(b) Scrutiny			
Audit days	1,037	1,134	1,105
Average per staff member	173	189	184

<b>Training</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Number of training days for all staff	172	220	197
Average per individual	9	11	11

<b>Audit Report Coverage</b>			
	<b>2005</b>	<b>2004</b>	<b>2003</b>
EU Guidance and Guarantee	7	5	11
National and Other	5	10	5
IT Audit	2	5	6
<b>Total</b>	<b>14</b>	<b>20</b>	<b>22</b>