

TWELFTH ANNUAL REPORT

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

for the year ended 31st December 2006



THE DEPARTMENT OF
AGRICULTURE & FOOD
AN ROINN TALMHAÍOCHTA AGUS BIA

March 2007

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Section 1: Membership of the Audit Committee

The Audit Committee of the Department of Agriculture and Food consists of seven members, all but one of whom are external to the Department itself. The composition of the Committee in 2006 was as follows:

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

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

Ms. M. Claire O'Connor. Ms. O'Connor is Chief Financial Officer of West LB Ireland and a member of the West LB 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.

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, Sectoral Policy Division. He has responsibility for the Agriculture Vote.

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, and also for economics and planning.

Mr. Mark Quinlan, Higher Executive Officer, DAF, is the Secretary of the Committee. He replaced Ms. Jane McGee as Secretary during the year. The Committee would like to thank Ms. McGee for her valuable assistance to the operation of the Committee during her time as Secretary.

Mr. John Donnelly retired from the Committee in 2006. Mr. Donnelly had served as Chairman of the Committee for seven years. The Committee would like to acknowledge his enormous contribution to the work of the Committee and to wish him well in the future.

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 2006.

I am very pleased to express my satisfaction with the financial management of the demanding and complex programmes operated by the Department of Agriculture and Food. Skilled and competent officials at all levels of the Department are responsible for the implementation of these programmes.

An efficient and effective Internal Audit Unit supports the management of these programmes. I am satisfied that the Internal Audit Unit is well led and appropriately resourced. The report of the Certifying Body on the EAGGF Guarantee fund reinforces my opinion.

The Certifying Body issued an unqualified audit opinion and found that no major issues arose from the administration of the EAGGF Guarantee fund, which is a significant achievement, and demonstrates that the financial controls operated by the Department are operating satisfactorily.

The Audit Committee set out a number of priorities for its work in 2006. These included:

- Decentralisation, and in particular, the management of the risks arising from the process.
- The controls in place for the Single Payment Scheme.
- The Risk Management process, with a focus on how it is utilised to further improve the control structure and to enhance Business Continuity Planning in the Department.
- Continuing to review the work of the Internal Audit Unit to ensure that a comprehensive body of quality audit work is completed.


The Audit Committee carried out a significant amount of work in relation to these priorities during the year and Section 4 of this report outlines the outcomes in relation to these objectives in greater detail.

The Audit Committee receives presentations from key units of the Department at its meetings. These presentations form an important contribution to the Committee's work and assist appropriate oversight of best practice throughout the Department.

The role of the Audit Committee is to advise on the operation of the internal audit function in the Department and to advise on best practice for risk management. The Audit Committee also has a statutory function in overseeing the application of the Scrutiny Regulation. I am satisfied that the Audit Committee discharges its obligations in respect of that role.

I want to pay tribute to my predecessor as Chairman of the Audit Committee, John Donnelly. I had the pleasure of being a member of the Audit Committee during John's seven-year period as Chairman. He led the Audit Committee in a most able and professional manner and gave unsparingly of his time and expertise to the work of the Audit Committee.

I would also like to acknowledge the contribution of my fellow members of the Audit Committee. Their commitment, knowledge and advice ensure that the highest level of expertise is available to the Department at all times.



Michael Downes

Chairman

March 2007

Section 3: Role of the Audit Committee

The Audit Committee was established to advise the Minister for 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 EAGGF Guarantee fund. The relevant funds are those 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 2006. The Committee held one of its meetings in the new Laboratory complex in Backweston and another meeting in Government Buildings in Portlaoise.

The Committee received presentations at its meetings during the year from Senior Managers from several Divisions and from officials from the Office of the Comptroller and Auditor General. These presentations were in addition to the quarterly reports, plans and other information received from both the audit and scrutiny functions of Internal Audit.

In May the Committee and the Internal Audit Unit jointly hosted an Audit Seminar. Internal Audit Unit staff, the Committee, Departmental management and auditors from other Government Departments attended the seminar. A wide range of topics were covered in the seminar including presentations on the Single Payment Scheme, the role of OLAF, developments in Internal Audit, and implications of the new CAP financing regulations in Ireland.

The Committee appreciates the continued 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 2006 to discuss the work of the Committee.

Section 5: Audit Committee Objectives for 2006 and Related Outcomes

The 2005 Annual Report of the Committee set out a number of priorities for its work in 2006. These were:

- Decentralisation, and, in particular, the management of the risks arising from the process.
- The controls in place for the Single Payment Scheme.
- The Risk Management process, with a focus on how it is utilised to further improve the control structure and to enhance Business Continuity Planning in the Department.
- 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 headquarters staff will be decentralising from Dublin to Portlaoise as part of the Government's decentralisation plan. The Committee met with the Assistant Secretary General responsible for the decentralisation process in 2006. The process of decentralisation continued during the year, with over one hundred posts across a range of Divisions (including five staff from the Internal Audit Unit) now moved from Dublin to Portlaoise. It is expected this process will continue on a phased basis, with all staff fully decentralised by 2009. Further decentralisation of staff from the Cork city and Mallow offices to Fermoy and from the Cork and Limerick laboratories to Macroom is also planned.

The Committee had concerns with regard to the control risks that could arise as a consequence of the inevitable loss of corporate memory and skills during the decentralisation process. The Committee was particularly concerned to ensure that the level of skills and experience in the Internal Audit Unit was protected and, if possible, enhanced during the decentralisation process. The Committee will keep decentralisation developments under review during the current year.

The Single Payment Scheme

The Committee was kept informed on progress regarding the implementation of the single decoupled farm payment and received a number of presentations from scheme management during the year. Payments totaling over €2.3 billion have been made to approximately 130,000 farmers since December 2005 under this scheme. The Committee will continue to monitor the control system in place for the Single Payment Scheme and will have further updates from scheme management in this key area during 2007.

The Risk Management Process

The Committee received presentations from senior management with responsibility for the Risk Management process within the Department. The Committee particularly focused on the area of Business Continuity Planning. The Department made substantial progress in developing a formal Business Continuity Plan including the installation of an IT Disaster Recovery site for the n-Tier environment. The Committee will continue to be kept informed of progress in this area during the current year.

Reviewing the Work of the Internal Audit Unit

The Committee closely monitors the work of the Internal Audit Unit during the year. There were a number of staff changes in the Unit in 2006. The Committee continues to be satisfied with the quality of work carried out by the Unit. The Committee emphasised the need to ensure that management provide responses to the findings of audit reports promptly in order that the finalised reports can be produced in a timely manner. The Committee has a particular interest in ensuring that the high standards set by the Unit are continued in the context of decentralisation. The Committee will continue to monitor staffing issues within the Unit as further decentralisation occurs.

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 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 dynamic environment. The Single Payment Scheme, which was introduced in 2005 and pays out approximately €1.3 billion to over 130,000 farmers annually, has had a major impact on the Department's operations. New CAP Financing regulations were introduced in 2006 that set specific requirements and rules on the financing of expenditure falling under the CAP, including expenditure on rural development. These regulations established a European Agricultural Guarantee Fund (EAGF) and a European Agricultural Fund for Rural Development (EAFRD). These new regulations introduce the requirement for a Statement of Assurance in relation to the annual accounts of the Paying Agency signed by the Director of the accredited Paying Agency. A new EU Rural Development Regulation for the period 2007-2013 sets out the measures that will be eligible for funding under the increasingly important "second pillar of the CAP". A package of measures worth €6.8 billion to farmers for the period 2007-2013 was agreed in 2006, relating to the agriculture elements of the Rural Development Programme. This funding is comprised of Exchequer funding of €4.7 billion and €2.1 billion from the EAFRD.

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.

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 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. A public tender process to appoint a Certifying Body for a new period will take place in 2007. Under the new CAP Financing regulations both EAGF and EAFRD expenditure will be included in the annual certification process from 2007.

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.

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.

Approximate Audit Coverage in Person Days			
Audit Body	2006	2005	2004
Comptroller & Auditor General	430	480	495
Certifying Body	518	444	460
Court of Auditors - mission days in Ireland	81	40	94
EU Commission - mission days in Ireland	48	36	30
Internal Audit	1,872	1,792	1,897
TOTAL	2,949	2,792	2,976

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 1996-2005 inclusive Ireland had the third lowest level of disallowances in the EU-15.

The Certifying Body issued an unqualified audit opinion for the EAGGF Guarantee accounts for the year to 15th October 2006 and in its report there were no audit findings classified as major.

Section 7: Review of Internal Audit Unit work in 2006

Programme of work

The 2006 Internal Audit Plan was agreed both by the Audit 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 presented by the Internal Audit Unit.

The Internal Audit Unit carried out an extensive body of audit work in 2006, with seventeen audit reports issued and another four almost complete. In view of the requirement for ongoing specialist support for the area, the IT audit function tendered in 2005 for IT audit expertise. A contract was put in place in October 2005 which provides 100 days support over a two year period. A new tender process for IT audit expertise will commence in 2007.

The Internal Audit Unit is represented in a number of different audit networks, including, 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 2006 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. A Forestry inspector was recruited to the Unit in 2006 to carry out the necessary checks under the Forestry measures. 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 2006.

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 2005/06 Annual Work Programme was completed on schedule and it is expected that the 2006/07 Programme, which ends on 30th June, will also be completed on time.

The 2005/06 scrutiny audit programme comprised of 89 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 67.

Close co-operation with other Member States and the Commission services continued during the year. A Commission audit of the application of the Scrutiny regulation took place in 2006 and found that the regulation was well implemented in Ireland.

Staffing and Training

The Committee continues to closely monitor 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 2006, of a total of twenty-one sanctioned posts.

The Committee is pleased to note that the Unit continues to undertake a substantial level of training. Formal training of staff in the Unit in 2006 amounted to 172 staff days, the same level as undertaken in 2005. The major part of the 2006 training programme related to internal audit modular courses run by the Institute of Public Administration, IT audit courses, computer skills, languages 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. The Unit continues to facilitate training of audit colleagues from the new Member States where possible.

Section 8: Priorities for 2007

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 2007 are set out below.

The Single Payment Scheme

The Single Payment Scheme will continue to be the major scheme operated by the Department. Payments of over €1.3 billion annually will be made to Irish farmers. It is imperative that a strong control system is in place for a scheme of this scale. In 2007 the Committee will focus on ensuring that the recommendations of audits carried out on this scheme by the Internal Audit Unit and the Certifying Body are implemented and that the highest standards of control are observed.

Decentralisation

The decentralisation process continues to have a major impact on the work of the Department. The Committee will continue to monitor this process and its associated risks and will be regularly updated on its progress.

The New CAP Financing Regulations

New CAP Financing regulations were introduced in 2006 that set specific requirements and rules on the financing of expenditure falling under the CAP, including expenditure on rural development. These regulations established a European Agricultural Guarantee Fund (EAGF) and a European Agricultural Fund for Rural Development (EAFRD). These new regulations introduce the requirement for a Statement of Assurance in relation to the annual accounts of the Paying Agency signed by the Director of the accredited Paying Agency. In 2007 the Committee will monitor the implementation of these new regulations within the Department.

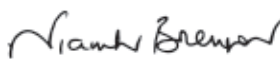
Reviewing the Work of the Internal Audit Unit and the Risk Management Process

The Committee will continue to monitor, on a quarterly basis, the work of the Internal Audit Unit to ensure that a substantial body of quality audit work is completed. The Committee will particularly focus on the prompt return of management responses in order that finalised audit reports can be produced in a timely manner. The Committee will also be updated routinely on the implementation status of audit recommendations.

The Committee will also continue to receive updates on the Risk Management process and Business Continuity Planning developments in the Department.



Michael Downes, Chairman



Niamh Brennan




Claire O'Connor



Eamon O'Connor



Aidan O'Driscoll



Helen Nolan



John Thompson