

Audit Committee 2008 Annual Report

Department of Agriculture, Fisheries and
Food



April 2009

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Department of Agriculture, Fisheries and Food

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Section 1: Membership of the Audit Committee

The Audit Committee of the Department of Agriculture, Fisheries and Food consists of six members. Five of these members are external to the Department itself. The composition of the Committee at the end of 2008 was as follows:

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

Mr Bill Cunningham. Mr Cunningham is a Chartered Accountant and is a former partner of PricewaterhouseCoopers Ireland.

Ms Gráinne McGuckin. Ms McGuckin is a Principal Officer in the Department of Finance, Sectoral Policy Division. She has responsibility for the Agriculture Vote.

Ms M Claire O'Connor. Ms O'Connor is a Director and Chief Operating Officer of WestLB Ireland plc and WestLB Covered Bond Bank plc. She is a former Director of the National Disability Authority, ICC Bank Plc, and served as an Authority member of the Sustainable Energy Authority of Ireland (SEI)

Mr Paddy O'Shaughnessy. Mr O'Shaughnessy is a Principal Officer in the Office of the Revenue Commissioners. He has responsibility for the administrative budget of the Revenue Commissioners.

Mr Seamus Healy. Mr Healy is an Assistant Secretary General in the Department of Agriculture, Fisheries and Food (DAFF) with responsibility for Animal Health.

Mr Tony Burke, Assistant Secretary General in DAFF with responsibility for Finance, attends the Committee meetings as an observer.

Mr Mark Quinlan, Higher Executive Officer, DAFF, is the Secretary of the Committee.

Mr Michael Downes retired from the Committee in 2008. Mr Downes had served as Chairman of the Committee for two years and prior to that had been a member of the Committee. 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, Fisheries and Food

It gives me great pleasure to present the Annual Report of the Audit Committee of the Department of Agriculture, Fisheries and Food for the year to 31st December 2008.

It is the role of the Audit Committee 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 pleased to express my satisfaction with the financial management of the programmes operated by the Department of Agriculture, Fisheries and Food. An effective Internal Audit Unit supports the management of these programmes. I am satisfied that the Internal Audit Unit is making a significant contribution to the evaluation and improvement of controls in the Department.

The Certifying Body in its latest report has issued an unqualified audit opinion in relation to the administration of the EAGF and EAFRD funds with no major or intermediate findings. This demonstrates that the financial controls within the Department are operating in a satisfactory manner. The Committee are pleased to note that the Department has addressed the finding made by the Certifying Body in its previous report in relation to the management and reporting of debt by the Department.

The Audit Committee set out a number of priorities for its work in 2008. These included:

- Oversight of the controls in place for the Single Payment Scheme.
- Decentralisation, and in particular, the management of the risks arising from the process.
- Monitoring the integration of the Fisheries area into the Department.
- Continuing to review the work of the Internal Audit Unit to ensure that a substantial body of quality audit work is completed and continuing to receive updates on the Risk Management process.

The Audit Committee addressed these objectives during the year and Section 5 of this report outlines the outcomes in relation to these priorities.

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

During the year the skills and experience of the Audit Committee were further enhanced by the appointment of Mr Bill Cunningham and Mr Paddy O'Shaughnessy. Their experience and expertise will be of great benefit to the Committee and its work.

I would like to pay tribute to my predecessor as Chairman of the Audit Committee, Mr Michael Downes. When I joined the Audit Committee three years ago Michael was one of its most experienced members. He was subsequently appointed as Chairman of the Audit Committee and for the past two years he has led the Audit Committee in a very capable and professional manner. He gave willingly of his time and expertise to the work of the Audit Committee as both a member and Chairman.

I would also like to pay tribute to 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.

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Helen Nolan

Chairman

21 April 2009

Section 3: Role of the Audit Committee

The Audit Committee was established to advise the Minister for Agriculture, Fisheries and Food on the internal audit policies and the management of risk, appropriate to the functioning of the Department of Agriculture, Fisheries 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 (EC) No. 485/2008, 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 EU funds. 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.

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 2008. The Committee received presentations during the year from ISD senior management, the decentralisation implementation unit, the asset management unit, Fisheries Divisions, Finance Division, the Certifying Body and 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 November the Committee and the Internal Audit Unit jointly hosted an Audit Seminar. The seminar was attended by Internal Audit Unit staff, the Committee, Departmental management and auditors from other Government Departments. A wide range of topics were covered at the seminar including presentations on the control requirements for Axis 3 and 4 of the 2007-2013 Rural Development Programme, control arrangements for Export Refunds, an overview of Business Protection and developments in Internal Audit in the Public Sector.

The Committee appreciates the continued support that it receives from both the Minister and the Secretary General. The Committee's chairman attended a meeting of the Management Advisory Committee of the Department during 2008 to discuss the work of the Committee.

Section 5: Audit Committee Objectives for 2008 and Related Outcomes

The 2007 Annual Report of the Committee set out a number of priorities for its work in 2008. These were:

- Oversight of the controls in place for the Single Payment Scheme.
- Decentralisation, and in particular, the management of the risks arising from the process.
- Monitoring the integration of the Fisheries area into the Department.
- Continuing to review the work of the Internal Audit Unit to ensure that a substantial body of quality audit work is completed and continuing to receive updates on the Risk Management process.

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 of approximately €1.3 billion are made annually to over 125,000 farmers under this scheme. The Committee was updated on the actions that management have taken in response to the recommendations of audits carried out on the scheme. The Committee was pleased to note that there was a further significant reduction in the level of findings in respect of this scheme in the Certifying Body's Annual Report for 2008.

Decentralisation

The Department's headquarters staff are 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 2008. The process of decentralisation continued during the year, with approximately four hundred and fifty posts now in Portlaoise. It is planned that a further one hundred staff will move to temporary accommodation in 2009. Construction of the new building is expected to commence shortly. The planned decentralisation of staff from the Cork city and Mallow offices to Fermoy and from the Cork and Limerick laboratories to Macroom was deferred pending a review of the decentralisation plan which will be undertaken in 2011. In addition, it is planned that the permanent accommodation in Clonakilty will be complete in early 2009 for staff in the Fisheries area and they will move from the current temporary accommodation. The Committee was encouraged by the methodical approach adopted by the Department to the programme but continue to have concerns with regard to the risks that could arise as a consequence of the inevitable loss of corporate memory and skills during the process. The Committee will receive further updates on developments in relation to the Decentralisation process during the current year.

The Integration of Fisheries

During 2007 responsibility for sea fisheries, aquaculture, marine research, marine engineering, aquaculture licensing and pier and harbour development transferred from the Department of Communications, Marine and Natural Resources to the new Department of Agriculture, Fisheries and Food. The majority of the staff in the Fisheries area had decentralised to Clonakilty shortly before the transfer of Departmental responsibilities. The Committee met with senior management from the Fisheries Divisions to gain an appreciation of the work that they do and the issues that they face. The Committee were pleased to note that the Internal Audit Unit conducted a substantial body of audit work in the Fisheries area during the year.

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

The Committee closely monitored the work of the Internal Audit Unit during the year. A detailed internal quality review of the internal audit activity was undertaken during the year. The Committee continues to be satisfied with the quality of work carried out by the Unit. There were further staff changes in the Unit during 2008 and the Committee will continue to monitor staffing issues within the Unit as further decentralisation occurs.

The Committee received presentations from senior management with responsibility for the Risk Management process within the Department. The Committee will continue to be kept informed of progress in this area during the current year.

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

Section 6: 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, Maynooth, Portlaoise and Wexford, as well as local offices in all counties.

The Department has sixty-eight Divisions in thirteen functional areas with each functional area headed by a member of the Management Committee. These are in turn structured into four main Groups i.e. Policy, Food Safety & Animal Health, Agriculture Payments and Corporate Development. The Internal Audit Unit is situated in the 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.

As well as having its Internal Audit and Scrutiny functions, DAFF 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 animal welfare aspects. 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 DAFF from an independent 'Certifying Body' must accompany the Annual Accounts that are submitted to the Commission. Deloitte & Touche were re-appointed as Certifying Body in 2007 following a public tendering process. Under the new CAP Financing regulations both EAGF and EAFRD expenditure were 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

<i>Audit Body</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Comptroller & Auditor General	358	370	430
Certifying Body	569	628	518
Court of Auditors - mission days in Ireland	36	31	81
EU Commission - mission days in Ireland	27	0	48
Internal Audit	2,386	2,036	1,872
TOTAL	3,376	3,065	2,949

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 1998-2007 inclusive Ireland had the second lowest level of disallowances in the EU-15.

Section 7: Review of Internal Audit Unit work in 2008

Programme of work

The 2008 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 a large body of audit work in 2008, with seventeen audit reports finalised and issued during the year. Details of performance indicators for the Unit are shown at Appendix 2.

The Internal Audit Unit is represented in a number of different audit networks, including, the Heads of Internal Audit Forum, EU networks of 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 2008 Structural Fund audit plan focused on the 5% sample checks requirement of Regulation 438/01. The Structural Funds Control Unit is a dedicated section within IAU, which carries out this work for the on-farm investment schemes, Forestry Guidance schemes and Fisheries Guidance schemes managed within DAFF. 2008 was the first year that 5% checks were carried out on Fisheries by the SFCU since they came under its remit. 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 as well as the SEUPB (Special EU Programmes Body). Progress in all these areas was satisfactory in 2008.

Scrutiny

DAFF 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 2007/08 annual work programme was completed on schedule and it is expected that the 2008/09 programme, which ends on 30th June next, will also be completed on time.

The 2007/08 scrutiny audit programme comprised of thirty two scrutinies of commercial organisations, which were carried out by both Department and Revenue teams. The calculated minimum number of scrutinies prescribed by the Regulation for the programme was twenty.

Close co-operation with other Member States and with the Commission services continued during the year under mutual assistance arrangements provided for in

Article 7 of Regulation 485/08. Eight mutual assistance requests were received from other Member States and Ireland raised thirty-eight requests with other Member States during 2008.

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 twenty-two staff at the end of 2008.

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 2008 amounted to 183 staff days. The major part of the 2008 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 and in 2008 hosted a study trip by two auditors from the Ministry of Agriculture in Estonia.

Section 8: Priorities for 2009

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 2009 are set out below.

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 will be regularly updated on its progress and the actions the Department is taking to mitigate the associated risks.

The Integration of Fisheries

Responsibility for fisheries functions transferred to the Department of Agriculture, Fisheries and Food in 2007. The majority of staff in the Fisheries area are located in Clonakilty. The Committee will continue to focus on ensuring that high standards of control are in place in these areas and that the integration of these areas into the Department is satisfactory.


The Impact of Budget Cuts on Priorities and Standards of Control

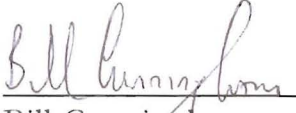
During 2008 there was a significant downturn in the global and Irish economy. This has resulted in significant pressure on all Departmental budgets. The Committee will monitor how the Department prioritises spending decisions in this changed environment and will also focus on ensuring that the existing high standards of control in place in the Department are not compromised in any way.

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 comprehensive body of quality audit work is completed. The Committee will particularly focus on the implementation status of audit recommendations.

The Committee will also continue to receive updates on the Risk Management process in the Department.

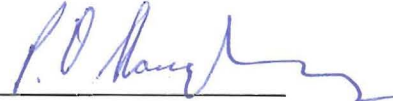

Helen Nolan, Chairman


Bill Cunningham


Seamus Healy


Gráinne McGuckin


Claire O'Connor


Paddy O'Shaughnessy