

Audit Committee 2007 Annual Report

Department of Agriculture,
Fisheries and Food



Department of
**Agriculture,
Fisheries and Food**
An Roinn
**Talmhaíochta,
Iascaigh agus Bia**

March 2008

Audit Committee 2007 Annual Report 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 five members. Four of these members are external to the Department itself. The composition of the Committee at the end of 2007 was as follows:

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

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

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 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.

Professor Niamh Brennan, Mr Eamon O'Connor, Mr Aidan O'Driscoll and Mr John Thompson retired from the Committee in 2007. The Chairman would like to acknowledge their enormous contribution to the work of the Committee and to wish them well in the future.



Members of the Department of Agriculture, Fisheries and Food Audit Committee. Back l-r Mr M. Quinlan Secretary of the Committee, Mr T. Burke, Mr S. Healy. Ms H. Nolan, Mr M. Downes, Chairman. Absent from photograph - Ms G. McGuckin and Ms C. O'Connor.

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 2007.

The Audit Committee has a statutory function in overseeing the application of the Scrutiny Regulation. It is also 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.

I am pleased to express my satisfaction with the financial management of the demanding and complex programmes operated by the Department of Agriculture, Fisheries and Food. Skilled and competent officials of the Department manage these programmes.

An efficient and effective Internal Audit Unit supports the management of these programmes. I am satisfied that the Internal Audit Unit is appropriately resourced and 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. This demonstrates that in general the financial controls within the Department are operating satisfactorily. A finding was made by the Certifying Body in relation to the management and reporting of debt by the Department. In response the Department has undertaken to re-assess, and harmonise where feasible, all procedures in relation to the accounting, recovery and the charging of interest on debts, and the compilation of debtor information. The Committee will be kept informed of progress in this regard during the year.

The Audit Committee set out a number of priorities for its work in 2007.

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.
- The implementation of the new CAP financing regulations in 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.

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

The Audit Committee also received a number of 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.

I would like to express my thanks to Professor Niamh Brennan, Mr John Thompson, Mr Eamon O'Connor and Mr Aidan O'Driscoll, who all retired from the Audit Committee during the year, for their contribution to the work of the Committee over the past number of years.

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.



Michael Downes
Chairman
March 2008

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, which was reviewed and updated in 2007, 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 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 2007. The Committee received presentations during the year from the Department's risk management team, ISD senior management, the decentralisation implementation unit, senior management from SPS 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 May the Committee and the Internal Audit Unit jointly hosted an Audit Seminar. The seminar was opened by the Secretary General and was attended by Internal Audit Unit staff, the Committee, Departmental management, auditors from other Government Departments and auditors from the UK Paying Agencies. A wide range of topics were covered at the seminar including presentations on Public Accountability, the integration of Risk Management with Governance, the Statement of Assurance and the 2007-2013 Rural Development Programme.

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 2007 to discuss the work of the Committee.

Section 5: Audit Committee Objectives for 2007 and Related Outcomes

The 2006 Annual Report of the Committee set out a number of priorities for its work in 2007. These were:

- The Single Payment Scheme, with a focus on ensuring that the recommendations of audits are implemented and that the highest standards of control are observed.
- Monitoring the Decentralisation process and its associated risks.
- The implementation of new CAP Financing Regulations in the Department.
- Continuing to review the work of the Internal Audit Unit and 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 reduction in the level of findings in respect of this scheme in the Certifying Body's Annual Report for 2007. 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 area during 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 2007. The process of decentralisation continued during the year, with approximately four hundred posts now in Portlaoise. It is expected this process will continue on a phased basis, with a new building due for completion in 2009. Further decentralisation of staff from the Cork city and Mallow offices to Fermoy, from the Cork and Limerick laboratories to Macroom and from the Maynooth and Dublin offices to Backweston is also planned. In addition, over 100 staff in the Fisheries area had decentralised to Clonakilty shortly before the transfer of their work areas from the Department of Communications, Marine and Natural Resources to the Department of Agriculture and Food in 2007. The Committee was encouraged by the systematic approach adopted by the Department to the programme but have 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 will be kept updated on developments in relation to the Decentralisation process during the current year.

The New CAP Financing Regulations

The Committee was kept informed on progress regarding the implementation of the new CAP financing regulations within the Department. These regulations established the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and introduced the requirement for a Statement of Assurance in relation to the annual accounts signed by the Director of the accredited Paying Agency. The Committee was apprised of the framework in place in the Department for providing the necessary assurance. The Committee noted that the Certifying Body issued an unqualified opinion for the 2007 EAGF and EAFRD financial year but a finding was made in relation to debt management and the reporting of debt in the format now required by the EU Commission. The Committee will monitor the actions taken by the Department to ensure this issue is satisfactorily addressed in 2008.

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. There were a number of staff changes in the Unit in 2007. The Committee continues to be satisfied with the quality of work carried out by the Unit. The Committee took a particular interest in the area of IT audit and received a number of presentations from the IT audit team and IT management during the year. The Committee will continue to monitor staffing issues within the Unit as further decentralisation occurs and will seek to ensure that the high standards set by the Unit are continued.

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. 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. Further decentralisation is ongoing in the Department as part of the Government's decentralisation policy.

The Department has sixty-eight Divisions in thirteen 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 & 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.

The Department operates in a dynamic environment. The Single Payment Scheme, which was introduced in 2005, 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 introduced 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. The agriculture elements of the Rural Development Programme are worth €6.8 billion to farmers for the period 2007-2013. 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, 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.

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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>2007</i>	<i>2006</i>	<i>2005</i>
Comptroller & Auditor General	370	430	480
Certifying Body	628	518	444
Court of Auditors - mission days in Ireland	31	81	40
EU Commission - mission days in Ireland	0	48	36
Internal Audit	2,036	1,872	1,792
TOTAL	3,065	2,949	2,792

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 1997-2006 inclusive Ireland had the second lowest level of disallowances in the EU-15.

Section 7: Review of Internal Audit Unit work in 2007

Programme of work

The 2007 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 2007, with seventeen audit reports issued. In view of the requirement for ongoing specialist support for the area, the IT audit function issued a new tender for IT audit expertise in 2007 for a three year period. 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 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 2007 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, Forestry Guidance schemes and Fisheries schemes managed within DAFF. 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 2007.

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 2006/07 annual work programme was completed on schedule and it is expected that the 2007/08 programme, which ends on 30th June, will also be completed on time.

The 2006/07 scrutiny audit programme comprised of 58 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 38.

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 4045/89. Nine mutual assistance requests were received from other Member States and Ireland raised nineteen requests with other Member States during 2007.

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 staff at the end of 2007, 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 2007 amounted to 192 staff days, an increase from the level undertaken in 2006. The major part of the 2007 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 2008

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 2008 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 approximately €1.3 billion annually will be made to Irish farmers. In 2008 the Committee will continue to focus on ensuring that the highest standards of control are in place for this scheme and expect to observe a further reduction in the level of findings identified by the Certifying Body through the implementation of improved scheme procedures and controls.

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

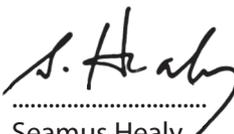
During 2007 responsibility for sea fisheries, aquaculture, marine research, marine engineering, aquaculture licensing and pier and harbour development transferred from the Department of Communications, Marine and Natural Resources to the new Department of Agriculture, Fisheries and Food. The majority of the staff in the Fisheries area have recently decentralised to Clonakilty. It is very important that the process of integrating these areas into the Department works well and the Committee will be meeting during the year with the management of the Fisheries Divisions to monitor this integration.

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

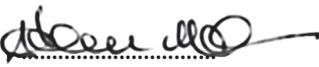
The Committee will continue to monitor, on a quarterly basis, the work of the Internal Audit Unit to ensure that a comprehensive body of quality audit work is completed. The Committee will particularly focus on ensuring that the IT audit work completed by the Unit is conducted to a high standard and addresses the key areas identified in the IT risk assessment exercise that was completed in 2007. 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 in the Department.


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Michael Downes, Chairman


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Seamus Healy


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Gráinne McGuckin


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Helen Nolan


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Claire O'Connor