



An Roinn Airgeadais
Department of Finance

Annual Report of the Audit Committee¹
Department of Finance
for the year ended 31st December 2017

15 February 2018

¹ Submitted to the Accounting Officer in accordance with the Department of Finance Audit Committee Charter

2017 AUDIT COMMITTEE ANNUAL REPORT SUMMARY

MEMBERSHIP²

Mr Ambrose Loughlin - Non Executive Chairman
Ms Josephine Feehily - Non Executive Member
Prof. Ciarán Ó hÓgartaigh - Non Executive Member
Ms Emma Cunningham - Executive Member
Mr John McCarthy - Executive Member

MEETINGS

31 January 2017
11 April 2017
27 June 2017
2 October 2017
5 December 2017

AUDIT COMMITTEE WORK PROGRAMME HIGHLIGHTS

Internal Audit and Control

- Approval of annual audit plan and monitoring of progress with completion of audits throughout the year
- Internal audit activity and reviews undertaken in the 2017 audit plan included:
 - Audit of Grant Management
 - Audit of ICT Security, Service of Continuity and Resilience
 - Audit of Compliance with Bodies under the Aegis Policy
 - Audit of Staff Performance Management Framework
 - Audit of Central Fund Management

In addition, the following audits from the 2017 audit plan are considerably advanced and will be finalised by end-June 2018:

- Audit of Non-ICT Business Continuity Management (presented to the January 2018 meeting)
- Audit of IT Fixed Asset Management (presented to the January 2018 meeting)
- Audit of Management of Consultancies
- Audit of Implementation of Compliance Framework

The detailed report of the Internal Audit Unit gives greater detail on these audits.

- Review of audit report contents, findings, management responses and recommendations
- Preparation and updating of audit recommendations tracker report incorporating management responses.

Stakeholder interactions

- Interaction with the Comptroller and Auditor General representatives to discuss the 2016 audit report and related matters

² Membership as at 31st December 2017

- Annual discussion by the Chair with the Secretary General on the progress on internal audit issues and corporate governance in the past year.

Risk Management

- Review of current Risk Register and management dashboards and in particular how it informs the evolution of the internal audit planning. Updates on the Risk Committee meetings by the member of the Audit Committee on the Risk Management Committee.

Financial Management

- Updates on financial management and government accounting developments including shared services in respect of human resources, payroll and pensions and purchase orders/procurement.

Chairman's Statement

As Chairman of the Audit Committee for the Department of Finance, I am pleased to present the Committee's annual report for 2017. The Committee works closely with the Internal Audit Unit and I wish to acknowledge the valuable contribution of that unit. The Committee is an important part of the overall control assurance framework within the Department and this report reviews the work of the Committee in 2017 and outlines the manner in which the Committee has sought to deliver on its key governance and assurance functions.

The Committee has an independent role in the provision of assurance to the Secretary General and this includes consideration of the adequacy and effectiveness of the Department's internal control systems, control environment and control procedures, overseeing the work of the Internal Audit Unit, providing advice and professional guidance in relation to the development of the Unit and the provision of advice and guidance in relation to the systems of risk management and internal control within the organisation.

The Committee met on a total of five occasions in 2017. In addition to the agenda items covering all aspects of the Committee's role, management provided detailed briefings and presentations on a range of relevant issues impinging on structural and governance issues within the Department and this informed the work of the Committee and facilitated audit planning and reviews of audit reports, findings and recommendations.

On behalf of the Committee and on my own behalf, I would like to thank the internal audit staff for their work both on the quality and delivery of the audit programme and in supporting the work of the Committee over the year.

I would also like to thank colleague members of the Committee for their considerable time input in preparing for, and attending, the meetings and contributing their insights, experience and valued judgments on the wide range of issues that we have examined in 2017. By challenging management and the internal audit function, the Committee has hopefully fulfilled its role in improving the governance environment, risk management and financial controls in the Department.

Ambrose Loughlin

Chairman

15 February 2018

1.0 Introduction

Under the provisions of the Audit Committee Charter for the Department of Finance, the Committee is required to report to the Accounting Officer on an annual basis after the end of a calendar year and, in any event, no later than the end of February.

In addition to the annual reporting process, the Chairman of the Audit Committee has a right of access to the Accounting Officer to report any significant issues that arise. The Chairman met the Accounting Officer for an annual review of the Committee's work in February 2017. Diary scheduling issues disrupted the efforts of the Secretary General to attend a Committee meeting during the year.

This annual report covers the period from 1 January 2017 to 31 December 2017 during which time the Committee met on five occasions.

Good governance and effective control systems across all public service organisations including Government Departments are essential to protect the public funds and manage the limited financial and personnel resources.

The Committee will continue to assist and support the Accounting Officer and the Department by delivering effectively on its oversight and advisory mandate and through its interaction with senior and line management.

This annual report from the Chairman has been approved by the Committee.

2.0 Role of the Audit Committee

The role of the Committee is:

- To consider the adequacy and effectiveness of the Department's internal control systems, control environment and control procedures;
- To oversee the work of Internal Audit and to provide advice and professional guidance; and
- To provide advice and guidance in relation to the systems of risk management and internal control within the Department.

In compliance with the *Report of the Working Group on the Accountability of Secretaries General and Accounting Officers*, the Committee met with the Office of the Comptroller & Auditor General in December 2017.

As specified in its Charter, the Committee does not have any executive role and is not responsible for any executive functions. It has no role in the detailed audit process or in signing off of audit reports.

3.0 Membership of the Committee

The composition of the Committee as at 31 December 2017 was:

- Mr Ambrose Loughlin, non-executive member, Consultant, McCann FitzGerald Solicitors
- Prof. Ciarán Ó hÓgartaigh, non-executive member, Dean of the UCD School of Business³
- Ms. Josephine Feehily, non-executive member, Chair of the Policing Authority of Ireland.
- Mr John McCarthy, Assistant Secretary General and Chief Economist, Department of Finance
- Ms Emma Cunningham, Principal Officer, Department of Finance

4.0 Role and Responsibility of Internal Audit

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve the organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.⁴

The Internal Audit Unit (IAU) is based in the Department of Public Expenditure and Reform and a Service Level Agreement (SLA) between the Department of Public Expenditure and Reform and the Department of Finance regulates the business relationship between the two Departments in relation to the provision of internal audit services. The SLA for 2017 provided for 360 audit days being made available to the Department of Finance in order to undertake audit reviews and examinations consistent with the audit plan approved at the start of the year.

5.0 Role of Management

Management within the Department are responsible for the:

- adoption and implementation of good governance arrangements
- establishment of an effective control environment
- review and maintenance of effective internal controls
- compliance with risk management policy including the maintenance of integrated risk management structures
- prevention and detection of fraud and irregularities and resolution of any such situation
- support of the work of internal audit including the provision of information, responding in a timely manner to audit queries and appropriate implementation of audit recommendations

³ Prof. Ó hÓgartaigh has assumed the role of President of NUI Galway from January 2018

⁴ Definition from the Institute of Internal Auditors UK and Ireland as quoted in the Public Financial Procedures - An Outline (2008, Section A5.12)

6.0 Review of 2017 Audit Committee activities

Committee Meetings

The Committee met on five occasions in 2017 as follows: 31 January, 11 April, 27 June, 2 October and 5 December 2017.

The initial part of each meeting is for Chairman's business and the Committee members meet without the secretariat and head of internal audit present. This allows the Committee to deliberate on matters arising on the agenda, the contents of meeting documentation and also provides an opportunity to discuss additional relevant and declare any conflicts of interest.

2017 Audit Plan

The Internal Audit work plan for 2017 was agreed by the Secretary General and the Audit Committee at the start of 2017. A progress report on this work programme was tabled at each meeting. This process worked well with the Committee kept apprised of the work underway and any delays in finalising the reports. The 2017 Audit plan included the following:

- details of ongoing audits carried over from 2016,
- new audit reviews proposed,
- follow up audits on issues raised by the Committee and validating the implementation of prior audit recommendations
- management and administration
- training and development

In terms of the reports presented, the Committee expressed its satisfaction with the quality and nature of the reports. Given the specialised nature of the audit, EY conducted the Audit of ICT Security, Service Continuity and Resilience. The Committee questioned the auditors on the level of engagement of the units being audited. Following consideration of all matters, reports were accepted, amended or sent back for further work.

Follow up arrangements are in place to validate implementation of recommendations whether through formal follow up audits or assurance confirmations by line management.

2017 Audit Reports

The following table sets out the audits and reviews undertaken during 2017 and the status as at 31 December 2017

2017 Internal Audit Work Programme - Status at 31 December 2017

Planned Audit	Status at 31/12/2017	Date of presentation of final Report	Category of audit opinion
Compliance with Bodies under the Aegis Policy	Completed	December 2017	2
ICT Security, Service Continuity and Resilience	Completed	June 2017	2
Non-ICT Business Continuity	In Progress	Quarter 1 2018	N/A
Consultancies	In Progress	Quarter 2 2018	N/A

Implementation of Compliance Framework	In Progress	Quarter 2 2018	N/A
Staff Performance Management Framework	Completed	December 2017	1
IT Fixed Asset Management	In Progress	Quarter 1 2018	N/A
Central Funds Management	Completed	December	1
Grant Management	Completed	June 2017	3

Final audit reports, incorporating management's comments, were provided to the Audit Committee as well as to the unit being audited, relevant senior and line management and the Accounting Officer. Final reports as well as minutes of the Committee meetings are also made available to the Comptroller and Auditor General.

Given the significance of the programme of reform, the Committee was presented with a special report on Records Management and compliance with new guidelines.

Risk Management

Risk assessment and risk management continued to be a priority for the Department and the Committee in 2017. The risk status report of the Department shared with the Committee and the IAU has been helpful in focussing planned audit activity on "auditable risk" areas. As part of the Committee's agenda, progress on identifying, assessing and addressing key risks and uncertainties will continue to be an important aspect of the interaction between the Committee and senior management.

7.0 Comptroller and Auditor General (C & AG)

The function of the C&AG's Office is "to provide independent assurance that public funds and resources are used in accordance with the law, managed to good effect and properly accounted for and to contribute to improvement in public administration".

In accordance with the Audit Committee Charter, a joint session was held with representatives from the C & AG's office as part of the December 2017 meeting. Discussions took place on issues arising during the year, the C & AG's Office audit plan for the Appropriation and Finance Accounts for the Finance group of Votes and the Management Letters relating to the 2016 Audit.

The meeting also provided an opportunity to discuss areas of mutual interest. There was assurance given about the C & AG's Office interaction with Department staff and co-operation with the IA unit.

8.0 Assurance arrangements

The Committee, Internal Audit and the Comptroller and Auditor General are key elements of the overall control and assurance framework within the Department. In governance terms, the Committee and Internal Audit is increasingly seen as "the third line of defence" after the first line - individual line management and staff - and the second line - the business risk and control functions within each Division / Directorate.

The Committee welcomes the use of the control assurance / Internal Control Questionnaires as part of the Statement of Internal Financial Control process. The Committee also welcomes the ongoing work embedding risk management as enhancing these first and second "lines of defence". These

activities also assist in targeting Internal Audit resources to areas where greatest benefit is to be derived.

9.0 Joint Audits with Department of Public Expenditure and Reform

The Chair discussed with the Accounting Officer and the Chair of the Audit Committee of the Department of Public Expenditure and Reform the possibility of joint audits in areas where activities of the Departments overlap. This initiative was given further impetus with the appointment of Minister Donohoe as Minister to both departments.

10.0 Audit universe and audit resources

The Committee wishes to emphasise the importance of maintaining and expanding, if possible, investment in internal audit expertise which is necessary to sustain a robust independent audit and assurance environment across the Department.

11.0 Acknowledgements

The Committee would like to thank the Secretary General and his secretariat, senior management and other colleagues in the Department for their co-operation and assistance during 2017. In addition the Committee would particularly like to acknowledge the work of the Head of the IAU in the Department of Public Expenditure and Reform, Mr Dermot Byrne, and his audit colleagues and in particular Ms Fiona McAuliffe who acted as Committee Secretary during the first half of the year and Ms. Olubusola Laiyemo who fulfilled that role from October onwards.