



Audit Committee

Department of Foreign Affairs and Trade

ANNUAL REPORT 2016

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1. Chairman's Statement

Secretary General,

It is my pleasure to present to you the 13th annual report of the Audit Committee of the Department of Foreign Affairs and Trade which records the Committee's activities during 2016. The financial parameters of the two votes which comprise the Department's expenditure programmes are as follows:

| | Revised Estimate (net) | Provisional Outturn (net) |
|--|-----------------------------------|----------------------------------|
| | 2016 (€m) | 2016 (€m) |
| Vote 27 International Cooperation | 485 | 483 |
| Vote 28 Foreign Affairs and Trade | 167 | 162 |

The Audit Committee met on six occasions during 2016. In addition, members of the Committee gave generously of their time between meetings in exercising oversight over the work programme of the Evaluation and Audit Unit of the Department and on attendance at other Department meetings as appropriate.

The Committee welcomes the ongoing and growing interaction with the Department and its officials during the year both at Committee meetings and other events. The Committee would like to acknowledge and thank the Department for arranging for the engagement of members during 2016 in events such as the Heads of Mission Departmental Conference, a workshop in Limerick for Irish Aid internal auditors from key partner countries, a meeting in relation to communication of the latest Statement of Strategy and the very informative trip to London in February to meet with the Irish Embassy Management Team and relevant groups that receive funding via the Emigrants Support Programme.

While the Committee's agenda during 2016 ranged across the diverse responsibilities of the Department, the main issues our work programme addressed during 2016 revolved around the broad themes of financial management and control, risk management, and fraud, all of which are dealt with in greater detail in the body of the annual report. We also reviewed the Evaluation and Audit Unit's work plan for 2015 and its draft work plan for 2016.

Some of the other significant areas reviewed as part of our 2016 workplan included the evaluation and audit reports on ICT systems, Property Management Unit structures and systems, Honorary Consuls Management Systems and Systems of Internal Control for the issuing of Passports.

Senior Management provided detailed briefings to the Committee on financial management, the risk management systems, the passport reform programme and the system of providing grants to Irish NGOs. The Committee also received a briefing from the Comptroller and Auditor General covering

the audit work on the 2015 expenditure. The Committee is satisfied with all of the information provided to it at its meetings during 2016.

The Committee is aware of the pressures on resources across the Department but notes with some concern the specific human resourcing challenges of the Evaluation and Audit Unit. It stresses the importance of the audit and evaluation functions and the need to ensure that the depth and breadth of skills, as well as consistency and continuity of staffing, form a key part of the Department's workforce planning, especially in the year ahead. The Committee also suggests that the Department, when reviewing strategy and resourcing requirements more generally, should consider whether there would be merit in recruiting further skillsets such as project management, specialised IT management and the appointment (or designation) of a post of Chief Information Officer.

The Chief Risk Officer briefed the Audit Committee during the year on the Department's risk management system. The Committee is satisfied with the level of Management Board oversight of risk and the operation of the system across the Department. The Committee would, however, highlight the importance of information technology risks and potential external threats and would recommend that the Management Board continues to place particular emphasis on these and ensuring that effective internal controls are maintained and developed, as appropriate.

As a Committee, we closed the year with planning underway for a self-evaluation workshop to take place early in 2017, including revisiting the actions which came from the last Audit Committee evaluation in 2012 and a review of best practice developed since then.

I wish to thank most sincerely the Committee's outgoing Chairman, Richard Boyle, and our other colleague, Aidan Eames, who retired from the Committee in June 2016. The contribution from both members over the previous eight and six years respectively was significant and the additional time provided by Richard Boyle during his period as Chair from 2013 to 2016 is particularly noteworthy and much appreciated. I would also like to thank my other colleagues on the Committee for their ongoing contributions and support during 2016.

Members of the Audit Committee are grateful for the support which they have received from management and staff at all levels throughout the Department of Foreign Affairs and Trade who continue to deliver service of the highest quality. I would particularly like to thank staff in the Evaluation and Audit Unit who provide a high-quality and valued secretariat to the Audit Committee.

Jim O'Brien

Chairman

Audit Committee

Department of Foreign Affairs and Trade

July 2017.

2. Membership of the Audit Committee

Members of the Audit Committee are drawn from outside the Department of Foreign Affairs and Trade. They are appointed by the Secretary General of the Department.

During 2016, the members of the Committee were:

Dr. Richard Boyle, Chairman of the Audit Committee from July 2013, is Head of Research, Publishing and Corporate Relations, Institute of Public Administration (Appointed as a Committee member in January 2008, retired in June 2016).

Mr. Jim O'Brien, Chairman of the Audit Committee from July 2016 is a retired civil servant, having last worked at Second Secretary General level in the Department of Finance (Appointed as a Committee member in July 2014.)

Mr Donal Corcoran is a Chartered Management Accountant and retired management consultant (Appointed as a Committee member in July 2010).

Mr. Aidan Eames is a Solicitor in private practice (Appointed as a Committee member in July 2010, retired in June 2016).

Mr. Jim Gillespie is a Chartered Accountant and a former partner in EY (formerly Ernst & Young), (Appointed as a Committee member in July 2011).

Ms. Emer Daly is a Chartered Accountant and company director (Appointed as a Committee member in March 2012).

In 2017, Ms Mary Sutton joined the Committee. She is the Country Director for the Republic of Ireland at The Atlantic Philanthropies (appointed as a Committee member 1st March 2017).

3. Role of the Audit Committee

The Audit Committee is formally appointed by, and advises, the Secretary General of the Department, who is the Accounting Officer for Votes 27 (International Cooperation) and 28 (Foreign Affairs and Trade). As appropriate, it will advise the Minister for Foreign Affairs and Trade, and the Minister of State for the Diaspora and Overseas Development.

The Audit Committee is part of the governance framework, appointed to provide independent advice to the Accounting Officer regarding the suitability and robustness of the organisation's internal control systems and procedures, and is responsible to him/her for its performance in this regard.

The Audit Committee has an advisory role with no executive functions, responsibilities or powers and has no role in approving evaluation and audit reports. It does not have any responsibility or involvement in the review and approval (on behalf of management) of annual financial statements for the Department's Votes.

The Committee will provide an independent appraisal of the audit and evaluation arrangements, with a view to strengthening internal controls, fraud and risk management, as well as enhancing the effective operation of the audit and evaluation function within the Department. In particular, the Committee will undertake to:

- Review the Department's evaluation and audit strategy and the annual work programmes arising from this.
- Review the implementation of these programmes.
- Review the resources available for this purpose.
- Examine reviews of the internal control systems.
- Examine reviews of the risk management systems.
- Examine reviews of the fraud control systems.

The Audit Committee meets with representatives of the Comptroller and Auditor General (C&AG) at least once a year. While the Committee has a good working relationship with the Office of the C&AG, these meetings essentially involve the sharing of information and views. The Audit Committee has no direct involvement in the annual audit of the financial statements for the Department's Votes conducted by the Comptroller and Auditor General.

The Audit Committee refers to guidance provided by the Department of Public Expenditure and Reform to ensure compliance on the role of Audit Committees in central government.

The Charter of the Audit Committee (see Appendix 1), which was revised in 2015, sets out its role and terms of reference.

4. Observations and Recommendations of the Audit Committee

a. Financial Management

The Audit Committee met with the Chief Financial Officer (CFO) twice in 2016; June and December. The CFO – who is a member of the Management Board - provided the Committee with a detailed overview of finance matters and Department-wide developments which he considered relevant to the Committee.

The Chief Financial Officer briefed the Committee on the shared services projects and challenges for the Department; planning in relation to the financial management system to be introduced in 2018; revisions to and roll out of Vote 27 financial procedures manual; the work of the knowledge management group; updates from meetings with 'big spending' divisions; procurement; strengthened oversight of the HR budget and the roll of the grant management standards in Irish Aid which in due course will enhance the control environment.

In relation to internal financial controls at Mission level, the Committee suggested that it might assist the Secretary General when signing off annually on his Statement of Internal Financial Control if a system is introduced whereby Heads of Mission had already signed off on the systems in place in their Missions.

b. Audit Review

During the year the Audit Committee received and discussed reports of audits and reviews undertaken by the Evaluation and Audit Unit as part of its audit work programme. The Evaluation and Audit Unit selects topics for audit/review using a risk-based audit planning process, and presents its audit plan to the Audit Committee for review and agreement each year. A total of seven audits were undertaken during 2016.

- i. Audit of Information Technology Security and Disaster Recovery Systems
- ii. Audit of Management of the Honorary Consuls Network
- iii. Audit of Payments Processes
- iv. Assessment of Shared Services Readiness
- v. Audit of Embassy Ottawa
- vi. Audit of Systems of Internal Control for issuing Passports
- vii. Audit of Grant Funding to Console UK

The Audit Committee noted the audit opinions, findings and recommendation ratings as reported. In all there are 133 recommendations, some of which are already implemented and others are being addressed over time. The Committee emphasises the importance of the implementation of all recommendations made and of the need to have systems in place for tracking and monitoring the implementation of these recommendations. They also emphasise that any significant findings, as reported in audit reports, should be captured in risk registers and scored appropriately until the associated recommendations are fully implemented.

c. Evaluation Review

The Audit Committee has been briefed on, and reviewed, the activity of the Evaluation and Audit Unit regarding evaluation during the year.

i. Irish Aid Country Programme Evaluations

Evaluations of partner Country Strategy Papers (CSP) are typically undertaken at the end of each strategy cycle to inform planning and decision making for the next cycle. While such evaluations have tended traditionally to seek to validate programme results, the Committee notes (and supports) a shift toward a more focussed approach to CSP evaluation. This allows areas of particular importance or concern to be addressed in depth and facilitates a more targeted learning.

These evaluations are usually led by the Evaluation and Audit Unit with the support of external consultants with international development cooperation expertise. The Audit Committee has been advised by the Unit that it has become increasingly difficult to procure external consultants but that steps have been taken to address this.

During 2016 evaluations of the country strategies in Malawi and Vietnam were completed/reported on. The Audit Committee highlights some of the key findings/conclusions below.

Malawi Country Programme, 2010 to 2014 (total expenditure: €57m)

- The Programme focus on agriculture, food security and nutrition was a relevant response to the needs and evolving context of Malawi.
- While poverty in Malawi remains very high, there was some evidence of progress toward the overarching objective of reducing poverty.
- While there was clear evidence that Irish Aid has played an important role in promoting the nutrition agenda in Malawi, the report highlighted risks to efficiency and effectiveness relative to the size of the programme team and available expertise.

Vietnam Country Programme, 2011 to 2015, (total expenditure: €61m)

- The evaluation found that, through the Government-led Programme 135, Ireland has contributed to increased living standards and reduced poverty among ethnic minority groups and, through the Vietnam Civil Society Fund, has increased voice for civil society.
- The Embassy in Hanoi has been an early adopter of the whole of embassy approach, with results and outcomes that have been beneficial to both the aid programme and to emerging trade relations with Vietnam.

ii. Other Evaluation Activity

Organisational Structural Review of Property Management Unit (PMU)

The Committee received the report of the Organisational and Structural review of the Architectural Services Unit (since renamed Property Management Unit). The purpose of the review was to assess the appropriateness of business processes and human resourcing in the unit and to make recommendations for any changes as may be required to ensure it is properly equipped to discharge its function in the short to mid-term. The Committee notes that findings relate largely to governance and decision making processes within the unit, which were identified as weak. Recommendations highlighted a need for strengthened business processes, improved information management and greater clarity around processes for decision-making. The Committee is supportive of further exercises of this type being undertaken from time to time to provide additional assurance as to the effectiveness of HQ business units.

Irish Government Economic and Evaluation Service – Evaluation and Audit Unit (EAU) membership

The Evaluation and Audit Unit is the constituent unit of the Irish Government Economic and Evaluation Service (IGEES) in the Department of Foreign Affairs and Trade and is represented on its Internal Advisory group. The Committee welcomes the active participation of the unit in IGEES and supports exploring the opportunities that the service affords for knowledge sharing and learning between government departments.

Nordic+ Heads of Evaluation Units

The Committee noted that the Evaluation and Audit Unit hosted the 2016 annual meeting of Nordic+ Heads of Evaluation Units in October. Representatives from UK, Iceland, Canada, Germany, Denmark, Sweden and Norway were present and discussion focused on areas of common concern, including evaluating humanitarian interventions and the impact of ending aid relationships and undertaking exit evaluations. Participants also explored opportunities to undertake joint evaluations. The Audit Committee is supportive of the engagement of the Evaluation and Audit Unit internationally to address evaluation challenges presented by the global development agenda.

d. Risk Management

The Audit Committee met with the Chief Risk Officer and Risk Management Secretariat in October 2016 and were pleased to note the continued work and focus on improving the risk management systems.

Meetings on risk management systems, which had been arranged with other Government Departments and the Foreign Office in the UK at the suggestion of the Committee, provided assurance that the Department was progressing in line with or in some cases above comparable levels. The Committee complimented the Department on the work to date on

risk management systems and emphasised the importance of including risks as highlighted in audit reports as inherent risks on the respective registers.

e. Fraud

The Audit Committee continued to review the fraud register during the year as a standing item on the agenda at each meeting.

The Committee discussed with management the risk of failure of grant partners to report relevant incidences of alleged fraud or irregularity on a timely basis. The Committee recommended that the Department review the adequacy of the conditions in its grant agreements regarding timely fraud reporting – including possible penalties for non-compliance.

The Committee was briefed during the year on reports of alleged fraud in GOAL and received assurances that Irish Aid funds were not exposed and that the Department would continue to monitor reports and ensure that any lessons learned from this development would be taken on board for the future, as appropriate.

f. Other Audit Committee Activity

A number of other Audit Committee activities and engagement with the Department during the year are set out in this section.

i. Visit to Embassy London, February 2016

Members visited the Embassy in London with a view to better informing the Audit Committee on the work of a large diplomatic mission and raising awareness of its role across the Department. The Committee met with the Ambassador and Senior Management Team at the Embassy and devoted time to visiting Irish Community Organisations in the greater London area who are in receipt of grants from the Emigrants Support Programme.

The visit was very informative and members were impressed with the calibre of staff at the Embassy, and took particular note of its workload and crucial role on a number of issues central to Ireland's interests. Visits to organisations were of great interest to the Committee and indicated that good systems were in place and that good working relations exist between the Embassy and the Irish community organisations.

ii. Civil Society and Development Education Unit, Irish Aid - update on review of Programme Grant 1 – preparations for Programme Grant 2 in 2016 – budget €65m

- The management team at the Civil Society and Development Education Section of Irish Aid provided a presentation on a review carried out on the operation of the Programme Grant 1 for Irish NGOS (2011-2016) which has an approximate budget of €65m. The presentation also covered the changes to the next round - Programme Grant 2, commencing in 2017 - based on the lessons from the review.

- The Committee was impressed by the work of the Civil Society and Development Education Unit and the approaches in place to manage risk as much as possible.

iii. Irish Aid Cross Divisional Task Team – presentation and final report on work to date – significant achievement in standardised approach to programme management across Irish Aid and roll out over 18 months

The Committee received a presentation from some members of the Senior Management Team from Irish Aid who participated in and led the work of the Cross Divisional Task Team. The focus of the work was to take forward recommendations from the Evaluation and Audit Unit Synthesis Report¹ of 2014. The Cross Divisional Task Team in Irish Aid which was set up in 2014, with the particular aim of strengthening grant management standards and systems, reported on their achievements to the Committee in the first quarter of 2016. The structure and set up for the achievement of the targets, the results of which the Committee felt was commendable, was referred to as a ‘model’ way of working. The team told the Committee that they felt that this was due to how they managed to incorporate a spread of ownership and responsibilities throughout the Division.

iv. Internal Auditors Workshop in Limerick in May/June 2016

In May 2016, the Evaluation and Audit Unit hosted a workshop for its Key Partner Country-based internal auditors. A key focus of the workshop was the implementation of audit processes as documented in the new internal audit charter and manual. Two members of the Committee attended for one day on behalf of the Committee. Their overall impression was that the calibre and capacity of the auditors was very impressive and the content of the workshop was very relevant.

v. Some members attended the Heads of Mission meeting in Dublin Castle, August 2016

The Audit Committee was represented at the Heads of Mission Conference held (over 2 days) in Dublin Castle in August 2016. This event allowed the Committee time to network with Heads of Mission as well as listen to updates on challenges for the Department. The Committee is grateful to the Department for the invitation to participate and felt that it was of significant benefit in improving the knowledge of members and in helping to build the profile of the Committee and its role.

vi. Preparation for Audit Committee Self-Assessment/ Evaluation

The Committee reviewed previous actions agreed in 2012 and commenced planning for the next self-evaluation of the Committee and its role. By the close of 2016 the Committee had firmed up plans and had finalised arrangements for a workshop to be held early in 2017.

vii. Passport Office – presentation and update on reform programme

¹ EAU Synthesis Report 2014 on Internal Controls and Risk Management Systems in Key Partner Countries, Irish Aid.

Management from the Passport Office updated the Committee on progress with the Passport Office reform programme which is running from 2016 to 2019. The Reform Programme is undertaking a comprehensive programme delivering results for the Department and wider Government through a number of projects, one of which is to streamline a more efficient application process including on-line submission of applications.

The Committee was pleased to hear about the progress to date on the reform programme, including the systems and processes in place to control risks, and looks forward to receiving updates from management in 2017.

Appendix 1 - Audit Committee Charter

PURPOSE AND AUTHORITY

The Audit Committee of the Department of Foreign Affairs and Trade (the Department) is formally appointed by, and advises, the Secretary General of the Department, who is the Accounting Officer for Votes 27 (International Cooperation) and 28 (Foreign Affairs and Trade). As appropriate, it will advise the Minister for Foreign Affairs and Trade, and the Minister of State for Trade and Development.

The Audit Committee is part of the governance framework, appointed to provide independent advice to the Accounting Officer regarding the suitability and robustness of the organisation's internal control systems and procedures, and is responsible to him/her for its performance in this regard.

The Audit Committee has an advisory role with no executive functions, responsibilities or powers and has no role in approving evaluation and audit reports.

MEMBERSHIP

The Committee will have a Chairperson and at least four ordinary members, all of whom will be drawn from outside the Department (the quorum for meetings will be three members).

The Accounting Officer will appoint members and the chairperson. The Chairperson of the Committee shall have right of access to the Accounting Officer.

At least two members of the Committee will be qualified accountants. The Committee membership will also ideally include at least one person with experience at a senior level of the civil or public service and some members with professional experience in the area of development cooperation and the evaluation of aid programmes. Additional experience may be co-opted on a consultancy basis.

The role requirements will be clearly communicated to potential members at the outset including time commitments and an indication of frequency of meetings.

Members may serve up to three years, with the option to extend by up to three years.

All members will be obliged to disclose any conflicts of interest. Where a conflict of interest arises in the course of the work of the Audit Committee, the member will bring this to the attention of the chairperson and, where necessary, leave the room for the duration of the discussion and not take part in any decisions relating to the discussion. A note to this effect will be included in the minutes of the meeting.

MEETINGS

To facilitate regular engagement with the organisation, the Audit Committee will meet at least quarterly, with the authority to convene additional meetings as circumstances require.

The Audit Committee may invite members of management, the Evaluation and Audit Unit, or others to attend meetings and provide information, as necessary.

On at least an annual basis, the Committee will meet with the Comptroller and Auditor General, or his/her nominee, with regard to external audit, to ensure cooperation, and avoid duplication and potential gaps in audit coverage.

Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.

Minutes will be prepared and circulated to the Accounting Officer and to the Management Advisory Committee.

Appropriate records of the work of the Audit Committee will be maintained.

FUNCTIONS

The Committee will provide an independent appraisal of the audit and evaluation arrangements, with a view to strengthening internal controls, fraud and risk management, as well as enhancing the effective operation of the audit and evaluation function within the Department. In particular, the Committee will undertake to:

- review the Department's evaluation and audit strategy and the annual work programmes arising from this
- review the implementation of these programmes
- review the resources available for this purpose
- examine reviews of the internal control systems
- examine reviews of the risk management systems
- examine reviews of the fraud control systems

In carrying out these functions the Committee will be cognisant of any existing guidelines.

ANNUAL REPORT

The Committee will provide an annual report to the Accounting Officer. This report will outline the work of the Committee during the year and include observations and recommendations of the Committee.

The Audit Committee will follow up on any recommendations from the Accounting Officer arising from this report, or in the course of other interactions.

PROTECTED DISCLOSURES

The Audit Committee will refer any protected disclosures made to them to the Head of Evaluation and Audit who will comply with organisational policy regarding receipt and investigation of protected disclosures, in line with existing guidelines.

Audit Committee of the Department of Foreign Affairs and Trade

24th February 2016

Appendix 2 - Summary of Some Key Recommendations

The Audit Committee make a number of recommendations to management during their meetings and the following are some, which although already noted and elaborated on in the meeting minutes, are summarised as follows:

Strategy and Performance

The Committee asked that the Department give consideration to an end of year compliance statement which would be signed by each Head of Mission to confirm that systems of internal control and processes at the Missions are operating effectively.

Corporate Services

The Committee emphasised the importance of the audit and evaluation functions and the need to ensure that the depth and breadth of skills, as well as consistency and continuity of staffing, form a key part of the Department's workforce planning, especially in the year ahead. The Committee recommended that the Department, when reviewing strategy and resourcing requirements more generally, should consider whether there would be merit in recruiting further skillsets such as project management, specialised IT management and the appointment (or designation) of a post of Chief Information Officer.

The Committee also recommended that the Department continue the ongoing monitoring of risks and their mitigation and highlighted the importance of management continuing to place particular emphasis on information technology risks and external threats, ensuring that effective internal controls are maintained and developed, as appropriate.

Development Cooperation Division

The Committee recommended that the Department review the adequacy of the conditions in its grant agreements regarding timely fraud reporting – including possible penalties for non-compliance.