



# **Audit Committee**

## **Department of Foreign Affairs and Trade**

### **ANNUAL REPORT 2012**

**September 2013**

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## A. Chairman's Statement

Secretary General

It is my pleasure to present to you the ninth Annual Report of the Audit Committee of the Department of Foreign Affairs and Trade which records the Committee's activities during 2012. The financial parameters of the two Votes which comprise the Department's expenditure programmes are as follows:

<b>Revised Estimate (net)</b>	<b>Provisional Outturn (net)</b>	<b>Peak Year Outturn (net)</b>	<b>Expenditure Reduction from Peak Year</b>	
<b>2012 (€m)</b>	<b>2012 (€m)</b>	<b>2008 (€m)</b>	<b>€m</b>	<b>%</b>
<b>Vote 27 International Cooperation</b>				
513	508	768	260	34
<b>Vote 28 Foreign Affairs and Trade</b>				
182	158	217	59	27

The Audit Committee met on eight occasions during 2012. 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. While the Committee's agenda during 2012 ranged across the diverse responsibilities of the Department comprehending topics as diverse as risk management; introduction of improved procedures for financial management in partner countries; probing instances of fraud; supporting the Department's capacity to undertake systematic evaluation of expenditure programmes; issues relating to the management of the Department's property portfolio; the Department's relationships with the non-Governmental aid sector both in Ireland and in partner countries; and with multilateral funding agencies such as those under the aegis of the UN, the focus of our work programme revolved around the broad themes of risk management, public finance management (PFM) in partner countries and property management issues which are dealt with in greater detail in the body of the Annual Report.

The designation of a member of the Department's Management Advisory Committee as Chief Risk Officer during the year was a particularly significant development which should raise the profile of risk management throughout the Department. Building on the progress already made in aligning business planning with risk management across the business units of the Department, there should now be more clarity around the ownership of risk, the probability of its occurrence and the appropriate risk mitigation strategies. It should also facilitate a more top-down approach to risk identification including how best to deal with the fall-out for the Department from exogenous strategic risks.

Developments during the year – most notably a significant incidence of fraud in Uganda – have vindicated the emphasis now being placed by Irish Aid on pro-active public financial management

strategies for partner countries. While the Department responded with commendable energy and purpose in dealing with the fall-out from the report published by the Ugandan Auditor General, there remain concerns that the arrangements for monitoring aid disbursements in Uganda had not been as responsive to potential problem areas as perhaps they ought to have been. Your decision to commission an assessment of the effectiveness of programme management systems and financial controls in the Embassies located in partner countries is timely, and the results from this should feed into a recalibration of the PFM model to take account of lessons to be drawn from the Ugandan experience.

While oversight of the expenditure programmes administered by Irish Aid continues to be a significant element in the work programme of the Audit Committee, the Committee is increasingly turning its attention to evaluation of expenditure management issues in the wider Department. Thus during 2012 the Committee engaged with the findings emerging from significant evaluations of both the Department's arrangements for managing its extensive property portfolio and for monitoring spending on travel and subsistence. In 2013 the Committee intends to review (a) the results of a new rolling multi-annual audit plan related to the Department's key risks due to be completed by the Evaluation and Audit Unit during the year; (b) the findings in a recently-completed study of Departmental expenditure on information technology; and (c) the conclusions emerging from a Value for Money evaluation of Ireland's bilateral diplomatic missions in EU Member States also due to be completed later this year.

The Audit Committee reviewed the report on the audit of Departmental Accommodation Expenditure, which was commissioned by you. The Committee was dismayed by the shortcomings disclosed in the Report and fully endorses the recommendations for strengthening internal controls, notably in the areas of project budgeting and cost control, and project management information. The Audit Committee also believes that the shortcomings identified in the audit report give substance to the Committee's recommendations in previous Annual Reports for the creation of a unified and strengthened finance function in the Department. We believe that internal controls would be considerably enhanced by the establishment of a unified finance unit for the whole Department, under the leadership of a suitably experienced and qualified accountant as Head of Finance. We acknowledge that you have accepted the merit of this latter recommendation from our previous annual reports and urge the Department to prioritise its implementation.

While there have been regular changes in the composition of the membership of the Committee over the past nine years, it continues to operate under a Charter which has remained substantially unchanged during that period. The Committee decided therefore to embark on a review of its objectives, reporting arrangements and modus operandi. This review process got under way late last year when, with the support of an independent external facilitator, members of the Committee engaged in a reflection on its performance. An exchange of experiences with the Chair of the Audit Committee of the UK Department of International Development also gave us some interesting perspectives on how our role might evolve. The Committee also participated in a dialogue on the role of the internal audit function in public sector organisations initiated by the Department of Public Expenditure and Reform (DPER). Proposals on the role and functions of Departmental Audit Committees in general are currently awaited from DPER and, as soon as they have been published, it is the intention of the Committee to submit for your consideration its proposals for amendments to its existing Charter.

In conclusion, may I express the gratitude of the Audit Committee for the support which it has received unstintingly from management and staff at all levels throughout the Department of Foreign Affairs and Trade who continue to deliver service of the highest quality notwithstanding the challenges posed by prolonged budgetary stringency. In particular, your personal support and encouragement as exemplified by your comprehensive and thoughtful responses to recommendations made in our Annual Reports is much appreciated as is your availability to me at all times. Yet again I must pay particular tribute to the herculean efforts of the staff of the Evaluation and Audit Unit led by William Carlos, ably supported by Tom Hennessy, Séamus O'Grady and colleagues, whose professionalism and commitment is exemplary. Tom and Patricia Ryan also provide high-quality, valued secretarial support to the Committee. Finally, as I will shortly be stepping down as Chair of the Committee, I wish to record my gratitude to my fellow Committee members – Richard Boyle, Donal Corcoran, Emer Daly, Aidan Eames and Jim Gillespie – for their guidance and encouragement. They continue to render sterling service to the Department of Foreign Affairs and Trade.

Philip Furlong  
Chairman  
Audit Committee  
Department of Foreign Affairs and Trade

## **B. 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 2012, the members of the Committee were:

**Mr. Philip Furlong**, Chairman of the Audit Committee, is a former Secretary General of the Department of Arts, Sports and Tourism (Appointed as a Committee member in January 2008).

**Dr. Richard Boyle** is Head of Research, Publishing and Corporate Relations, Institute of Public Administration (January 2008).

**Mr Donal Corcoran** is a Chartered Management Accountant and retired management consultant (July 2010).

**Mr. Aidan Eames** is a Solicitor and former Chairman of the Agency for Personnel Overseas (July 2010).

**Mr. Jim Gillespie** is a Chartered Accountant and a former partner in Ernest and Young (July 2011).

**Ms. Emer Daly** is a Chartered Accountant and company director (March 2012).

## C. Role of the Audit Committee

The Audit Committee advises the Secretary General on the internal audit policies and strategies for the management of risk appropriate to the functioning of the Department of Foreign Affairs and Trade and by so doing supports him in the discharge of his responsibilities as Accounting Officer of the Department. The Audit Committee may also advise the Tánaiste and Minister for Foreign Affairs and Trade, and the Minister of State for Trade and Development where it is appropriate to do so.

The Charter of the Audit Committee (see Appendix 2) sets out its role and terms of reference. The Committee has two main roles, namely:

- To advise on the operation of the Evaluation and Audit function within the Department.
- To examine and monitor the implementation of the Department's risk management strategy.

The Committee has responsibility for the following:

- Endorsing and periodically reviewing, a charter for Evaluation and Audit which clearly defines the purpose, authority, roles, responsibilities and reporting relationships of the Audit Committee, Evaluation and Audit Unit and management of the Department.
- Reviewing and advising on the proposed programme of work for the Evaluation and Audit Unit within the Department.
- Monitoring the implementation of the evaluation and audit plan.
- Assessing the results of completed evaluation and audit reports, evaluating the effectiveness of internal control and advising Departmental management of its conclusions thereon.
- Advising the Secretary General on the effectiveness of the Evaluation and Audit function.
- Requesting special reports from the Evaluation and Audit Unit as considered appropriate.
- Assessing the implementation of agreed corrective actions by management having regard to follow-up on evaluations and audits.
- Advising on whether adequate resources and skills are available to the Evaluation and Audit Unit of the Department and making recommendations on the allocation of resources where it considers this desirable.
- Encouraging the development of best practice in the Evaluation and Audit Unit.
- Monitoring the implementation of the Department's risk management strategy and advising the Secretary General on the effectiveness of this process.
- Preparing an annual report to the Secretary General.

The Audit Committee acts in an advisory capacity and accordingly has no executive functions. Thus it does not have front-line responsibility for the detailed evaluation and audit process or for signing off of evaluation and audit reports. Neither does it have any executive responsibility or involvement in the review and approval (on behalf of management) of annual financial statements for the Department's Votes.

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.



## D. Observations and Recommendations of the Audit Committee

### 1. Departmental Organisation and Management

**Evaluation and Audit Unit:** The Audit Committee commends the importance placed by the Department in maintaining a well-resourced Evaluation and Audit function including qualified accountants and experienced staff. In view of the increasing importance and relevance of Evaluation and Audit in a challenging economic environment, the Audit Committee wishes to re-state its comments in previous reports that the Department should continue to maintain the Unit's qualifications, skills and experience base notwithstanding the resource challenges faced by the Department.

**Internal Auditors based at Embassies:** A number of local staff are employed at embassies in countries where substantial Irish Aid is disbursed. They are essential to the functioning of the Evaluation and Audit Unit, by providing an efficient means of ensuring that procedures are adhered to and that controls are continuously monitored. In the current economic climate funding Internal Auditors from the Department's administrative vote at appropriate salary levels, and including their replacement while on leave, has been difficult and not always possible. Consequently there has been a loss of vital on-the-spot oversight and assurance. The Audit Committee recommends that audit and evaluation staff costs at such embassies should be treated as a programme expense to be financed directly from Irish Aid funds in the partner countries, as their prime function is oversight over aid expenditure.

**Financial Control:** The Audit Committee has already recommended the appointment of an experienced and qualified accountant as Head of Finance in the Department with responsibility for both votes. During 2012, the Department appointed an experienced accountant as Financial Accountant for Vote 28 reporting to the existing Head of Finance. While welcoming this appointment, the Audit Committee emphasises the central significance of a strong unified finance function headed by a suitably experienced and qualified accountant as Head of Finance.

### 2. Departmental Accommodation Expenditure

The Department manages an extensive portfolio of official properties abroad – owned and leased - to support its diplomatic mission network. These properties represent chanceries and official residences, and a significant proportion of the premises have been in the possession of the State for many years. Inevitably, major refurbishment projects, and other smaller maintenance works, have been necessary to maintain these properties in functional order.

Accommodation expenditure represents a significant expense, and comprises of major refurbishment projects, lease rentals, utilities and routine minor maintenance. The Estimate provision for both Votes for 2013 is about €25 million, having declined from over €34m in 2009. This reduction has largely been due to a dramatic curtailment of refurbishment work and negotiation of more favourable lease terms where possible.

The Secretary-General commissioned an audit of Departmental Accommodation expenditure in early 2010. Its objectives were:

- To assess the effectiveness of the system of internal controls over the Department's Accommodation expenditure.
- To identify areas where greater efficiency can be achieved in terms of maintenance and management of accommodation.

The Audit Committee endorses the audit conclusions that:

- Project budgeting and cost controls were not effective, resulting in significant escalation of project costs.
- The Finance Unit did not have a system to collect project costs or to effectively administer VAT recovery.
- Senior management in the Department did not receive regular reports showing the up-to-date project costs compared with budget.

The Audit Committee took the view that the report highlighted examples of poor value for money and that budgetary control over accommodation expenditure should remain centralised. The Committee recommends that the Department should explore management options for its overseas property portfolio with the Office of Public Works in line with current government thinking on shared services.

In summary, the Audit Committee considered that more could be done to ensure effective identification, mitigation and management of risks associated with major projects.

### 3. Departmental Travel and Subsistence

International travel is essential to enable the Department to effectively represent Ireland's interests abroad and to manage the overseas aid programme. The Department has made very significant efforts to control expenditure – as evidenced by the overall reduction in the outturns for the relevant Vote subheads from €11.7m (2008) to €5.0m (2011).

An audit of travel and subsistence expenditure in the Department was carried out between late 2009 and early 2010. The findings of the audit confirmed that regulations were complied with and in addition that regulations were appropriate. The report also concluded that *"The Evaluation and Audit Unit should undertake a brief follow up audit within one year of the finalisation of this report. The audit should focus on key risk areas and progress on implementation of recommendations."* This follow up audit on both votes was conducted in late 2011 and was reported on in 2012.

The 2011 follow up audit concluded that, overall, internal controls are appropriate and properly applied. Progress on efficiencies and value for money is reflected in the significant reduction in travel and subsistence expenditure under Votes 28 and 29 between the periods 2008 to 2011.

The audit carried out in 2009/10 gave rise to nine control improvement recommendations. The follow up audit determined that three had been implemented and five were on hold pending Government-wide initiatives on outsourcing and controls. Only one recommendation has not been progressed that is wholly within the remit of the Department to implement. This relates to the

appointment of an independent travel function to approve travel costs in excess of a specified amount.

Some additional recommendations arose from the 2011 follow up audit. These relate to improvements to existing controls rather than significant control deficiencies.

In completing its examination of these reports, the Audit Committee additionally recommended that the Evaluation and Audit Unit should consider the introduction of a suitable rating/ranking system for individual internal audit findings and recommendations and include an overall audit rating.

#### **4. Risk Management**

The Audit Committee continued to monitor the Department's risk management process during the year and earmarked two sessions in its annual work programme for this purpose.

The Audit Committee welcomes the designation by the Secretary General of a member of the Management Advisory Committee to be the Department's Chief Risk Officer. The Committee believes that the Chief Risk Officer will play an important role in promoting risk awareness and control throughout the Department.

The Audit Committee acknowledges the continued progress made during the year in refining the Department's risk register and in clarifying the linkage between business planning and risk management.

The Audit Committee notes and concurs with the conclusions of the Internal Audit review of the Department's risk register, which concluded that no significant changes should be made to the process and structure currently in place as it is important to get the current system understood and working well across the Department.

The Audit Committee recommends that the Department explores the scope for greater clarity around risk management strategies and in ensuring that the strategies that are in place are reflected in the risk registers.

The Audit Committee considers that the Risk Management Secretariat has a very important role in supporting Divisions and Missions to assess risks and to put in place risk mitigation strategies at operational level, while also alerting the Chief Risk Officer (and the Management Advisory Committee) to strategic threats to the achievement of the Department's goals.

The Audit Committee notes the key risks identified in the Department's major risk register, and in particular the following risks which present challenges to the achievement of the high level goals and objectives:

- Fraud and misappropriation of funds
- Human Resources – insufficient staff resources to manage the work of the Department
- Financial – for example, the reputational and operational risks presented by a reduction in Overseas Development Assistance

The Audit Committee welcomes the prospect of future engagement with the Chief Risk Officer in 2013 and, from this should emerge targeted strategies for supporting divisions and missions to assess risk and put in place risk mitigation strategies at operational level.

## **5. Fraud**

The risk of fraud is inherent in development aid, and is more likely to occur at partner level since the Department/Irish Aid is not likely to be in a position to track the disbursement of aid through to all the intended recipients. The Audit Committee is satisfied that the Department/Irish Aid takes all reasonable steps to mitigate the likelihood of fraud through well developed risk management and programme management and monitoring systems. It also notes that the Evaluation and Audit Unit will coordinate a review of existing Departmental policy on fraud and on the Code of Practice on Fraud in Partner Organisations during 2013 and looks forward to receiving a report on these topics in due course.

There was a major instance of fraud during 2012, which related to the Peace, Recovery and Development Plan, funded under the Uganda Country Strategy Plan. The fraud was perpetrated within the Office of the Prime Minister, and the total amount misappropriated was €11.6 million, of which €4 million was contributed by Irish Aid. The fraud was uncovered following detailed investigative work undertaken by the Office of the Auditor General of Uganda.

The Audit Committee commends the Department/Irish Aid for the prompt and decisive actions taken immediately on becoming aware of the fraud (when the Auditor General's report was published). These actions were the immediate suspension of funding through the Government of Uganda system and the dispatch of a team from the Evaluation and Audit Unit to Uganda to investigate the matter.

The interim report of the Evaluation and Audit team set out a number of key findings, which pointed to the need for stronger coordination among donors to monitor the programme and also scope for improvement in Irish Aid's own systems that could have enabled earlier detection of the fraud. Several recommendations are made for strengthening programme oversight.

Subsequent to the completion of the investigation, the Government of Uganda reimbursed Irish Aid the full €4 million (and also fully reimbursed the other donors). An action plan for restoring fiduciary assurance has been agreed between the Government of Uganda and the donors, which consists of a number of clear actions with deadlines. Irish Aid has developed an interim programme for 2013 to provide support to Uganda through non-governmental channels.

The emergence of a subsequent separate instance of fraud in Uganda - where accounting irregularities in partner organisations were not promptly reported, although they had been appropriately addressed – gave the Audit Committee cause for concern insofar as it signalled that the need for vigilance had not permeated throughout the organisation. The Audit Committee stresses the need for ongoing vigilance and scrutiny at all levels of administration, application and oversight of funds, and on governance and reporting matters.

The Audit Committee welcomes the initiation by the Secretary General of a thorough review by the Evaluation and Audit Unit of the internal controls and risk management systems in all Irish Aid's programme countries which will be undertaken in 2013.

The Audit Committee will continue to monitor progress on this matter during 2013.

## **6. Public Finance Management in Programme Countries**

The various Public Finance Management (PFM) assessments and the investigation into the missing funds in Uganda, which have been undertaken by the Evaluation and Audit Unit, highlight the risks around working through government systems and the need for continuing awareness of these risks. The Audit Committee notes that, while some progress has been made on strengthening PFM across countries, weaknesses remain and the potential for misappropriation or misuse of funds continues to exist. The areas of weakness relate to shortcomings in overall governance in programme countries, deficiencies in the operation of internal control systems and skills deficiencies.

The Audit Committee looks forward to the outcome of the review of internal control and risk management systems relating to Irish Aid programme countries being undertaken in 2013 by the Evaluation and Audit Unit, which will report in more detail on the adequacy and operation of these systems. Furthermore the Committee welcomes the review of the financial management procedures to be undertaken by Irish Aid, which should also address areas where currently there is lack of clarity, insufficient detail and, indeed, areas that have been neglected as the nature of the aid programme has evolved.

Irish Aid has done substantial work in developing PFM guidelines. These guidelines will represent an important component of Irish Aid's risk management system by providing a suitable framework for analysing country systems and thereby supporting decision making processes regarding the use of appropriate aid modalities in its programme countries. The Audit Committee intends to review the guidelines after they have been disseminated throughout Irish Aid.

## **7. Evaluation and Audit**

### **Evaluation**

The Audit Committee has in the past recommended the inculcation of an evaluation culture throughout the Department. In 2012 there were two significant examples of the Evaluation and Audit Unit's expanded remit in that regard. Firstly, a Value for Money and Policy Review (VFMPR) of Ireland's bilateral diplomatic missions in the EU Member States was planned and initiated in 2012. Due for completion in 2013, the VFMPR has had the engagement of officers from most of the Department's divisions and business units. The process has involved extensive interviews with key people both inside and outside the Department including the private sector and there have been assessment visits to a representative sample of EU Missions. Already the VFMPR process has highlighted the importance of evaluation as a feature of good public service management. The project is being directed by a Steering Committee comprising representatives of four Government Departments with an independent chairperson. The Audit Committee has underlined the importance of continuing Management Advisory Committee engagement with the process so as to ensure that recommendations emerging are addressed.

Secondly, in 2012 the Evaluation and Audit Unit, following consultation with the Audit Committee, finalised an *Evaluation Operations Manual* for the Department. The aim of the manual is to contribute to promoting the inclusion of evaluation related considerations into all stages of planning

and implementation of funding programmes and in other areas of expenditure. The new manual has been circulated across the Department, including all missions abroad. The Evaluation and Audit Unit will complement the manual with the provision of tailored training in relation to evaluation.

Three of Ireland's country programmes were evaluated in 2012. The programmes concerned were Ethiopia (2008-2012), Lesotho (2008-2012) and South Africa (2008-2012). Tailored to the differing contexts within which the country programmes were delivered, the three evaluations took different approaches. For example, the Lesotho programme evaluation was led by Evaluation and Audit Unit staff supported by an independent evaluation specialist using very participative methods.

Management responses have been given to the different recommendations arising from the evaluations and the findings of the evaluations have directly influenced decisions with regard to how Irish Aid can best provide future support in the countries concerned. Building on the Unit's work from 2011, follow-up work continues to be undertaken by the Evaluation and Audit Unit to help ensure that detailed evaluation considerations are included in the planning of new programmes for the three countries concerned.

In addition to specific evaluations undertaken by the Evaluation and Audit Unit itself, the Unit continues to engage with international initiatives that seek to promote and improve the quality of evaluation. The Unit is particularly active in the OECD-DAC *Network for Development Evaluation* of which it is currently vice-chair. The Unit is also represented on the management group of major joint evaluations on General Budget Support in Tanzania and Mozambique – a topic of particular interest to the Audit Committee - as well as an evaluation of the implementation of the European Consensus on Humanitarian Aid. These evaluations are being undertaken jointly with other international donors including the European Commission and the European Community Humanitarian Office (ECHO).

### Audit

The main elements of the planned internal audit programme for 2012 were delivered, though some audit reports were not completed until early 2013. The necessity to give priority to the Uganda fraud issue in the last quarter of 2012 affected some aspects of the programme but by and large the Evaluation and Audit Unit managed to accommodate this unexpected additional work.

While the main focus of work in 2012 continued to be around the Irish Aid programme, there was an increased focus on the systems around the broader Department with audit work carried out on accommodation, information technology expenditure and ethics as well as audits of the embassies in Singapore and Malaysia.

The conclusions from the audit work in regard to the Uganda fraud, public financial management in programme countries, accommodation and travel and subsistence are dealt with elsewhere in this report. The results from the other internal audits, which were carried out in 2012, indicate that the control environment was generally satisfactory. The recommendations arising are in the nature of additional opportunities to improve controls rather than indicating any significant control deficiencies.

It is normal internal audit practice that reports will identify some areas of control weakness, and that

management responses are requested to describe the actions that management proposes to take to address the weaknesses. The Audit Committee requires to be periodically updated on progress on the implementation of the audit recommendations, as does the Office of the Comptroller and Auditor General. The Evaluation and Audit Unit has established a register which tracks the status of the implementation of audit recommendations and the actions taken by management.

A workshop for the internal auditors based in the Irish Aid programme countries was held in Limerick in September. It was extremely useful both in terms of providing guidance to the internal auditors at field level and in the Evaluation and Audit Unit receiving feedback from the field on areas of emerging risk. Working with UN bodies at field level was raised as an area of concern in terms of access to audit and accountability reports.

## **8. Future Direction of the Audit Committee**

In the course of 2012, the Audit Committee, with the support of an external facilitator, engaged in a process of reflection on the manner in which it discharged its remit and on what if any additional steps it could take to improve its effectiveness. Members of the Committee also met with the chair of the Audit Committee of the UK Department for International Development (DfID) for an exchange of views on their respective modus operandi. The Committee also responded to an invitation from the Department of Public Expenditure and Reform to make a submission setting out its views on the development of the internal audit function in public sector organisations. From these have emerged a number of pointers with the potential to enhance the Audit Committee's role in advising the Secretary General on the internal audit policies and strategies for the management of risk appropriate to the functioning of the Department, and by so doing supporting him in the discharge of his responsibilities as Accounting Officer of the Department. The key initiatives identified were:

1. The Audit Committee should be more engaged with the formal structure of the Department. This could involve attendance by the chair or another member of the Audit Committee at meetings of the Management Advisory Committee of the Department to present the annual report or if other items of specific interest arise.
2. There should be increased engagement with the Office of the Comptroller and Auditor General during the year - particularly at the audit planning and conclusion of audit field work stages.
3. The Audit Committee should assess the overall scope and effectiveness of the audit coverage, including the roles of internal and external audit. This should involve gaining an understanding of the key risks which underpin the internal audit and external audit plans, the scope of the audits, the resources allocated to the audits and the manner in which significant audit issues are identified and managed. The objective will be to advise the Secretary General in regard to the role of the Evaluation and Audit Unit and is not meant to impact on the Comptroller and Auditor General's independence.
4. While satisfied that its current membership contains the requisite range skills and experience, nevertheless the Audit Committee believes that at a time of greater transparency in public policy, consideration should now be given to putting in place a more

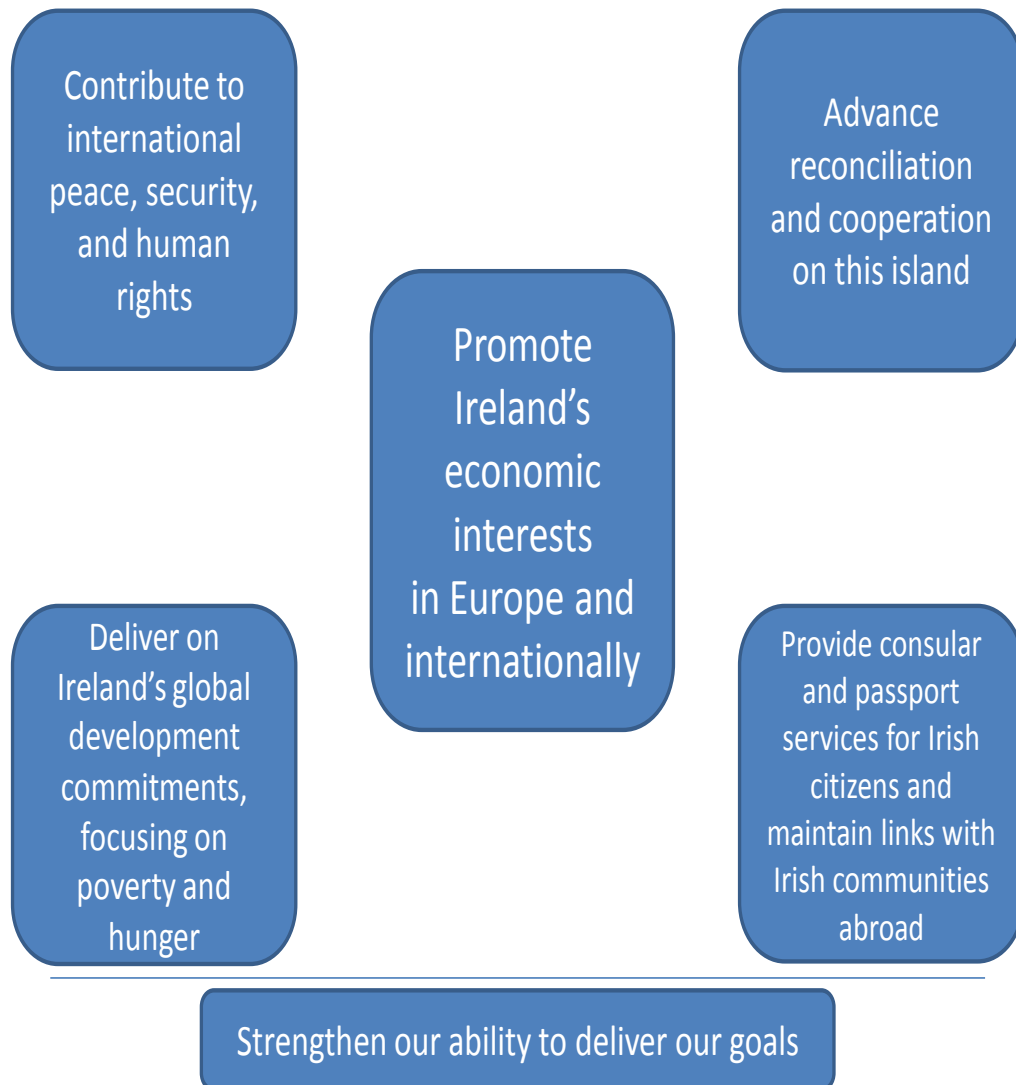
formalised structure for selection of membership of Audit Committees, induction of new members and ongoing training.

The intention of the Audit Committee is to review and revise its charter in 2013. There is an expectation that guidance on the role of Audit Committees will be issued by the Department of Public Expenditure and Reform. This guidance is likely to form the framework for the revised charter.



## Appendix 1 – High Level Goals of the Department, 2011 to 2014

The High Level Goals of the Department of Foreign Affairs and Trade for the period 2011-2014 are to:



## Appendix 2 - Audit Committee Charter

The Audit Committee of the Department of Foreign Affairs (the Department) is formally appointed by, and reports to, the Secretary General of the Department, who is the accounting officer for Votes 28 (Foreign Affairs) and 29 (International Cooperation). As appropriate, it will advise the Minister for Foreign Affairs and Trade, and the Minister of State for Trade and Development.

The Committee will have a Chairperson and at least four ordinary members who will be drawn from outside the Department (the quorum for meetings will be three members). At least two members of the Committee will be qualified accountants and some members will have 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 members will normally serve for at least two years. The Committee will usually meet at least six times each year.

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

The Committee will provide an annual report to the Secretary General. This will be based, inter alia, on:

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

The Committee will invite the Comptroller and Auditor General, or his/her representative, to meet with it at least once a year.

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

## **Appendix 3 – Summary of Recommendations**

### **Departmental Organisational and Management**

1. The Department should continue to maintain the qualifications, skills and experience base of the Evaluation and Audit Unit, notwithstanding the resource challenges faced by the Department.
2. Audit and Evaluation staff costs at Embassies in Irish Aid's partner countries should be treated as a programme (rather than administration) expense to be financed from Irish Aid funds since the primary function of these staff is assurance and oversight over expenditure.
3. The Audit Committee emphasises the central significance of a strong unified finance function headed by a suitable experienced and qualified accountant as Head of Finance.

### **Departmental Accommodation Expenditure**

4. The Department should explore management options for its overseas property portfolio with the Office of Public Works in line with current government thinking on shared services.

### **Departmental Travel and Subsistence**

5. The Department should establish an independent travel function to approve travel costs in excess of a specified amount.
6. The Evaluation and Audit Unit should consider the introduction of a suitable rating/ranking system in its reports for individual internal audit findings and recommendations, and also include an overall audit rating.

### **Risk Management**

7. The Audit Committee recommends that the Department explores the scope for greater clarity around risk management strategies and in ensuring that the strategies that are in place are reflected in the risk registers.

### **Fraud**

8. The Audit Committee recommends that the Department maintains ongoing vigilance and scrutiny at all levels of administration, application and oversight of Irish Aid funds, and on governance and reporting matters.

### **Future Direction of the Audit Committee**

9. The Audit Committee should be more engaged with the formal structure of the Department. This could involve attendance by the chair or another member of the Audit

Committee at meetings of the Management Advisory Committee of the Department to present the annual report or if other items of specific interest arise.

10. There should be increased engagement with the Office of the Comptroller and Auditor General during the year - particularly at the audit planning and conclusion of audit field work stages.
11. The Audit Committee should assess the overall scope and effectiveness of the audit coverage, including the roles of internal and external audit. This should involve gaining an understanding of the key risks which underpin the internal audit and external audit plans, the scope of the audits, the resources allocated to the audits and the manner in which significant audit issues are identified and managed.
12. While satisfied that its current membership contains the requisite range skills and experience, nevertheless the Audit Committee believes that at a time of greater transparency in public policy, consideration should now be given to putting in place a more formalised structure for selection of membership of Audit Committees, induction of new members and ongoing training.