

Audit Committee

2015 Annual Report

Office of the Revenue Commissioners

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Section 1: Membership of the Audit Committee

The Audit Committee of the Office of the Revenue Commissioners consists of four members. Three of these members are external to the Office itself. The composition of the Committee at the end of 2015 was as follows:

Mr. Gerry Kearney, Chairperson of the Committee, former Secretary General Department of Community, Rural and Gaeltacht Affairs

Mr. Richard Murphy, Principal Auditor, Local Government Audit Service, Department of Environment, Community and Local Government

Prof. Barbara Flood, Professor of Accounting and Deputy Dean of DCU Business School

Mr. Gerard Moran, Assistant Secretary, Indirect Taxes Division, Revenue

Secretary to the Committee Ms. AnnMarie McKnight, Executive Officer, Internal Audit Unit, Revenue.

During 2015 **Ms. Marie-Claire Maney**, Revenue Solicitor, Revenue stepped down as a member of the Audit Committee and was replaced by Mr. Gerard Moran.

Section 2: Chairperson's Statement

Statement by the Chairman of the Audit Committee to the Chairman and Accounting Officer of the Revenue Commissioners

This is the seventeenth Audit Committee report for Revenue and covers the year to 31 December 2015.

The role of the Committee, as set out in the Audit Committee Charter, is to oversee the internal audit function in Revenue and to advise the Board in relation to the operation and development of that function, as part of the systemic review of the control environment, inherent risk and governance procedures within Revenue. The Committee independently and objectively assesses governance arrangements including risk management and internal controls.

The Committee's work in 2015 is detailed at Section 4 of this document.

The Committee is satisfied that the internal audit function in Revenue continues to make a significant contribution to the internal control environment of Revenue, and recognises the commitment, professionalism and thoroughness of the function and the positive developments in relation to quality assurance, risk-based methodologies and the further development of IT Audit capabilities.

On behalf of the Committee I would like to thank Senior Management for their input into the internal audit engagement and their implementation of the reports' recommendations. Such Senior Management co-operation is essential to an effective internal audit function. The Committee wishes to thank Marie-Claire Maney, who stepped down from the Committee in 2015, for her participation and input, and welcomes Gerard Moran who joined as a new member in 2015. Finally, the Committee would like to express its appreciation for the strong support it receives from the Revenue Board.

The members of the Audit Committee have approved this report.

Gerry Kearney

Chairperson

Date March 2016

Section 3: Role of the Audit Committee

The role of the Audit Committee is to oversee the Internal Audit function and advise the Board of the Revenue Commissioners in relation to the operation and development of that function.

The functions of the Audit Committee, as set out in its charter, are to:

- Advise and make recommendations to the Board and Senior Management on any matter pertaining to the Internal Audit function in Revenue, as the Committee considers necessary or appropriate, including its organisation, resources, training, use of technology, etc.,
- Consider the effectiveness of risk management arrangements,
- Review the Internal Audit charter, as appropriate,
- Review the draft Annual Internal Audit Plan, prior to its submission to the Board,
- Monitor the implementation of the Audit Plan on a quarterly basis,
- Request special reports from Internal Audit and operational management as considered appropriate,
- Assess the outcome of the audit process, having regard to findings, recommendations and management responses,
- Assess the implementation of agreed corrective actions by management, having regard to follow-up audits,
- Foster the development of good practice in the Internal Audit function.

The Audit Committee does not exercise executive functions or powers.

The Committee is required to report to the Board within three months following the end of each calendar year on its activities during the year and may proffer such advice and recommendations, as it may deem appropriate.

Section 4: Work of the Audit Committee

The Audit Committee held five meetings during 2015, viz., 30 January, 25 March, 19 June, 25 September and 9 December 2015.

The work of the Audit Committee in 2015 focussed mainly on:

- Review of the work-plan and outputs of the Internal Audit function including consideration of audit reports as listed at Appendix A,
- Conformance to the Internal Audit Standards (DPER, 2012) and oversight of Internal Audit's Quality Assurance and Improvement Programme (QAIP) which included
 - the development of the Internal Audit Universe by the Internal Audit Unit and
 - the performance of an Internal Quality Assessment in 2015,
- Deepening our understanding of systems of governance and internal control, particularly risk management in terms of organisational structures and operational activity,
- Meeting with Management and peer groups including
 - Revenue Chairman and Board,
 - Key Divisional Management (which included an on-site visit to the Anti-Smuggling (Drugs/Fiscal) Shipping and Shannon Trade Facilitation Unit) ,
 - Chair of Revenue's Risk Management Committee, and
 - the Audit Committee of the Department of Social Protection.
- Engagement with the Comptroller and Auditor General as external auditors,
- Review of the Corporate Governance Standard for Central Government Departments (June 2015).

Section 5: Internal Audit Unit work in 2015 and other audit activities

Programme of work

The 2015 Internal Audit Plan was considered by the Audit Committee and was approved by the Revenue Board. Progress in implementing the plan was monitored by the Committee by means of quarterly progress reports presented by the Internal Audit Unit.

The Internal Audit Unit submitted 25 audit reports (including 11 follow-up audits) during the year. All were approved and finalised during the year. Details are included at Appendix A.

Risk

Significant emerging issues or risks, which may impact on the achievement of Revenue's Corporate Priorities and Objectives, are identified and addressed by the Risk Management Committee (RMC). A critical goal of the Internal Audit function is to provide objective assurance to Revenue's Board that major risks are being managed appropriately as well as assessing the effectiveness of risk management and internal controls in the organisation.

Internal Audit Universe

An Internal Audit Universe represents the potential range of all audit activities and comprises all identified auditable units. These units generally include a range of programmes, activities, functions, structures and initiatives which collectively contribute to the achievement of an organisation's strategic objectives.

In 2015, the Internal Audit Unit

- compiled a draft Internal Audit Universe (ex. Information Technology) which will be validated in early 2016 with the assistance of Senior and Operational Management, and
- commenced the compilation, with the assistance of external consultants, of an Information Technology Internal Audit Universe.

Both of these products will be combined to form the Internal Audit Universe for the Revenue Commissioners.

The methodology for both projects has been tailored to Revenue and complies with the Internal Audit Standards as issued by the Department of Public Expenditure and Reform

(“DPER”) in November 2012 and guidance from the Institute of Internal Auditors on risk-based internal auditing (2005). The audit universes serve as a primary source from which the multi-year audit plan and the annual audit schedule will be prepared.

Internal Quality Assessment

In Quarter 3, 2015, the Internal Audit Unit undertook an Internal Quality Assessment as is required by the Internal Audit Standards (DPER, 2012) which included a survey of Auditees to assess operational impact of the internal audit function at Revenue.

The assessment contained a systemic review of the Internal Audit function’s performance against the Internal Audit Standards in the areas of:

Purpose and positioning	Structure and resources	Audit execution	Impact
<ul style="list-style-type: none"> • Remit • Reporting lines • Independence • Risk-based plan • Other assurance providers 	<ul style="list-style-type: none"> • Competencies • Technical training & development • Resourcing • Performance management • Knowledge management 	<ul style="list-style-type: none"> • Management of the IA function • Engagement planning • Engagement delivery • Reporting 	<ul style="list-style-type: none"> • Standing and reputation of internal audit • Impact on organisational delivery • Impact on governance, risk, and control

The Internal Audit Unit attained a “Generally Conforms to the Internal Audit Standards” rating from this assessment which means the reviewer has concluded that the relevant structures, policies, and procedures of the Internal Audit service, as well as the processes by which they are applied, at least comply with the requirements of the section of the Internal Audit Standards in **all** material respects. The development in 2015 of the Internal Audit Universe further strengthens the function’s performance against the Standards, as will other QAIP outputs undertaken during the year.

Staffing and Training

At the end of 2015, the Internal Audit Unit comprised a Director of Internal Audit, an Internal Audit Manager, a temporary Internal Audit Manager on secondment and eight auditors (four teams of two). All auditors and the Internal Audit Manager have received

appropriate formal training and certification from the Institute of Public Administration. The temporary Internal Audit Manager is a Chartered Accountant and Chartered Tax Advisor.

Further training (including Prince 2 certification, Software Asset Management and Excel) and continued professional development events for staff in the Unit were provided in 2015.

The Director of Internal Audit is a member of, and actively participates in, the Heads of Internal Audit Forum (“HIAF”), and is currently scheduled to attend upcoming training opportunities with HIAF and the Institute of Internal Auditors.

Revised Standards

The Revised Internal Audit Standards present significant challenges for the strengthening of audit functions across Government Departments and bodies over the coming period. The Revenue Audit Committee continues to fully support Internal Audit in Revenue in developing the function in line with these Standards. This includes internal and external assessments of Internal Audit under a Quality Assurance and Improvement Programme. Revenue is participating in the quality assurance subgroup of interdepartmental Heads of Internal Audit Forum to access good practice and shared understanding and approaches in this regard.

The Comptroller & Auditor General

The Comptroller & Auditor General (C&AG) has a full-time staff presence in Revenue engaged in financial/regularity audit across all Regions/Divisions. Representatives of the C&AG meet annually with the Audit Committee.

Section 6: EU Audits

EU Audit

The European Commission carries out annual audits in Member States on different aspects of procedures for Traditional Own Resources (TOR). The audits focus on the reliability of systems put in place by management for the collection and accounting of TOR, and to ensure that those accounting practices accord with EU law. These audits are led by European Commission auditors, with Internal Audit having an “associate” (or supporting) role.

Ireland was not selected for such an audit in 2015. A visit from the European Commissioners auditors to carry out one such audit is scheduled to take place in April 2016.

Section 7: Priorities for 2016

Over the coming year the Committee will

- oversee the implementation of the Internal Audit Universe as a primary driver in ensuring the Internal Audit Unit, under the supervision of the Committee, remains risk-focussed,
- support the development of good risk management practice to include
 - understanding the Risk Management Guidance for Government Departments and Offices (DPER, 2016),
 - review the systems of control underlying the risk management frameworks at Revenue, and
 - engagement with the Risk Management Committee in furthering the impact of such frameworks, principles and processes,
- oversee the implementation of the recommendations of the Internal Quality Assessment,
- support the upskilling of the Internal Audit Unit specifically in the area of IT Audit skills, and support the outsourcing of IT Audits to suitability qualified and procured parties,
- continue to focus on a total quality approach to the operational management of the function through
 - active engagement at HIAF,
 - supporting the Internal Audit unit in their conformance to the Internal Audit Standards,
 - actively encouraging increased emphasis on the preplanning phase of audits themselves, and
 - monitoring of resource and execution risks within the function.

Arrangements for ensuring the maintenance and enhancement of the Committee's competencies will also be considered.

Finally, drawing on the breadth of experience of its members, the Committee will seek to identify and promote emerging good practice in governance and audit generally.

Appendix A: Audits Carried out in 2015

Report	Title
1	Verification Audit of two Sheriffs and one External Solicitor 2014
2	Administration and accounting procedures for payover (including PRSI/health levy/ environmental levy)
3	The Electronic VAT Refunds (EVR) System
4	Tax Clearance – Manual Review
5	Review of ANRA / MRA Thresholds
6	Follow Up - Report on Security Procedures Applying to the Approval of Repayments/Offsets
7	Administrative Functions & Compliance Activities in Selected Revenue Districts (including internal security)
8	Tax Write-Out 2014
9	Tax Clearance Procedures for selected sample set
10	Review of Procurement and Refund of Fees
11	Follow Up - Data Protection in HR Services and Support Branch
12	Follow Up - VAT Retail Export Scheme
13	Systems and procedures for storage of seized goods in the State Warehouse and seized vehicles in other locations
14	Verification Audit of two Sheriffs and one External Solicitor 2015
15	Local Property Tax – Collection and Accounting Procedures
16	Personal Data - To examine the controls and procedures in place for the protection of customer personal data
17	Four-Year time limit on repayments/offsets
18	Follow Up - Review of VRT Collection
19	Follow Up - Audit of selected IT systems –Business Continuity Management Systems
20	Follow Up - Personal Data - to examine the controls and procedures in place for the protection of customer personal data
21	Follow Up - Information Security Management - to review the assurance provided by the accreditation of Revenue's Information Security Management
22	Follow Up - Report on Non Central Procurement
23	Follow Up - Review of Repayments of Taxes and Refunds under the Disabled Drivers and Passengers Scheme
24	Follow Up - Report on the Collection and Accounting Procedures applying to Payments of LPT through Payment Service Providers
25	Follow Up - Review of e-Registration

Follow Up Audits

Follow-Up Audits Carried Out in 2015	Associated Recommendations	Implemented	In progress	Not Started	Superseded	No response from Management
11	53	31	22	0	0	0