

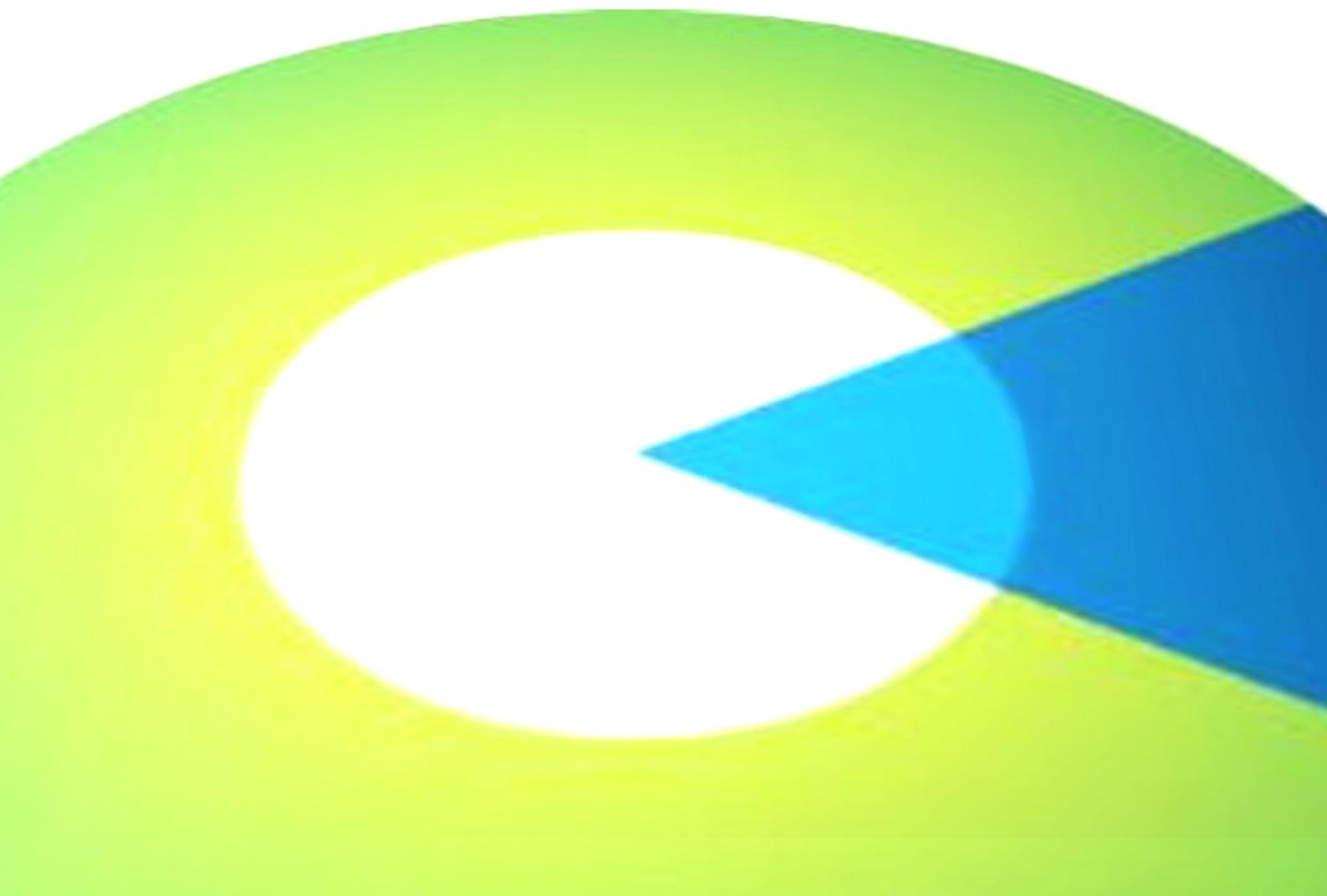


Comhairle Chomhairleach Bhuiséadach na hÉireann
Irish Fiscal Advisory Council

Annual Report and Accounts

for the year ended

31st December 2016



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Chairperson's Statement

This is the Council's fourth annual report as a statutory body. The Council's role is to independently assess, and comment publicly on, whether the Government is meeting its own stated budgetary targets and objectives. It is required to assess and endorse, as it considers appropriate, the official macroeconomic forecasts underpinning each Budget and stability programme. The Council also assesses the fiscal forecasts and the fiscal stance, and monitors compliance with legislated fiscal rules.

Since its establishment, the Council has sought to ensure that we fulfil our mandate as effectively as possible. In 2016, the Council continued to develop our analytical capacity so that statements included in our Fiscal Assessment Reports are well-founded. We have endeavoured to present our analytical work in a way that informs debate and discussion around fiscal policy issues. We have also engaged in public debate through, for example, our two appearances before the Oireachtas Committee on Budgetary Oversight, our appearance before the Oireachtas Select Committee on Arrangements for Budgetary Scrutiny, and through presentations by Council and Secretariat members at public conferences and events. The Council also participated in the second National Economic Dialogue held in June 2016.

During 2016, along with its Audit and Risk Committee, the Council continued to adopt, review, and implement policies and procedures in line with the Code of Practice for the Governance of State Bodies, building on the work carried out since the Council's establishment. For example, the Council approved new or revised policies on Social Media, Media Relations, and Recruitment, as well as a Charter of the Audit and Risk Committee, an Internal Audit Charter, a Risk Register, payment procedures, and a Code of Business Conduct. The Council's internal auditors carried out three audits in 2016: Internal Financial Controls, Review of Tax Compliance: Fees & Expenses Paid to Council Members, and Risk Management Framework.

The Council's primary outputs are our bi-annual Fiscal Assessment Reports which were published in June and November 2016, after the annual Budget and Stability Programme. These reports continue to attract considerable attention and that has helped to ensure that the views of the Council feature in debates on fiscal issues. Detailed responses were provided by the Minister for Finance following the publication of each Fiscal Assessment Report in 2016. In September 2016, the Council published its third Pre-Budget Statement, for Budget 2017. The Council also published two Analytical Notes in 2016: "Public Capital: Investment, Stocks and Depreciation" and "Challenges Forecasting Irish Corporation Tax".



Mr. Seamus Coffey,
Chairperson

Introduction

Background

The Irish Fiscal Advisory Council (“the Council”) was established on an interim basis in July 2011 and on a statutory basis in December 2012 by the Fiscal Responsibility Act 2012. The Council is comprised of a five-member Council and a six-member, full-time Secretariat, headed by a Chief Economist/Head of Secretariat. The Council’s mandate is to provide independent assessments of official macroeconomic and budgetary forecasts, assessments of compliance with the statutory Budgetary Rule, assessments of the overall stance of fiscal policy, and endorsements (as appropriate) of the official macroeconomic forecasts prepared by the Department of Finance.¹

While the establishment of a fiscal council was a requirement of the EU/IMF Programme of Financial Support for Ireland (December 2010), it had been proposed domestically in the National Recovery Plan 2011–2014 and by the Joint Committee on Finance and the Public Service in November 2010.²³ The Programme for Government of the new Government, which took office in March 2011, committed to the establishment of a Fiscal Advisory Council. The policy changes in Ireland were also part of more general moves at a European level to strengthen fiscal governance through reforms to the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance.

The Fiscal Responsibility Act 2012 (December) put the Council on a statutory footing.⁴ The Act provides for an annual financial ceiling of €800,000 for the Council.⁵ Within this ceiling, the amount incurred by the Council in performing its functions is met from the Central Fund.

Mandate

The Council has four legally mandated functions. The first three were assigned in the *Fiscal Responsibility Act 2012*⁶. The fourth function (endorsement) was assigned to the Council in July 2013.⁷

1. **To assess the official forecasts** produced by the Department of Finance and published in the Stability Programme and in the Budget.

¹ The endorsement function was assigned to the Council in mid-2013 following an amendment to the Fiscal Responsibility Act 2012. See: <http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf>.

² The Joint Oireachtas Committee report is available at: <http://www.oireachtas.ie/documents/committees30thdail/jfinancepublicservice/reports/20101111.pdf>.

³ The initial Department of Finance proposal was set out in detail in the discussion document Reforming Ireland’s Budgetary Framework: A Discussion Document, March 2011 available at: <http://www.finance.gov.ie/sites/default/files/budgetref.pdf>.

⁴ Prior to the publication of the Act, the Council published a report Strengthening Ireland’s Fiscal Institutions (January 2012), outlining our views on the design of a new fiscal framework for Ireland that encompassed both fiscal rules and a permanent independent fiscal council.

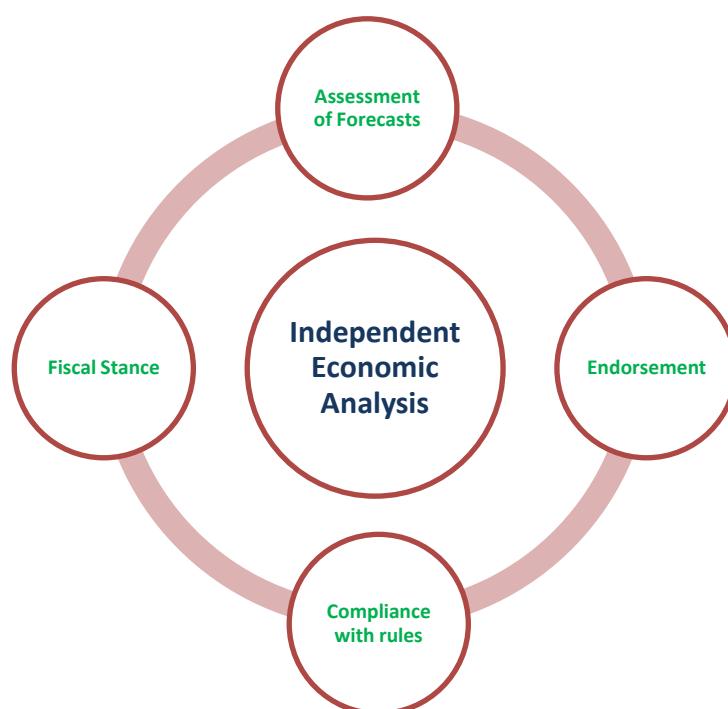
⁵ This is subject to adjustment in line with inflation.

⁶ <http://www.irishstatutebook.ie/eli/2012/act/39/enacted/en/print.html>

⁷ See Ministers and Secretaries (Amendment) Act 2013: <http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf>

2. **To assess the fiscal stance** of Government, and specifically whether it is conducive to prudent economic and budgetary management, with reference to the EU Stability and Growth Pact.
3. **To monitor and assess compliance with the Budgetary Rule.**⁸
4. **To endorse the official macroeconomic forecasts** prepared by the Department of Finance in relation to each Budget and Stability Programme. This follows revised European requirements to have national medium-term fiscal plans and draft budgets based on independent macroeconomic forecasts, which means macroeconomic forecasts produced or endorsed by an independent body. A joint Memorandum of Understanding between the Council and the Department of Finance underpins the endorsement process.⁹

Figure 1: Mandate of the Council



The Council produces biannual Fiscal Assessment Reports, as well as an annual Pre-Budget Statement. Reports are submitted to the Minister for Finance and subsequently published within ten days. The Council lays its Annual Reports before each House of the Oireachtas. The Council chairperson may also be required to appear before the Oireachtas in relation to its activities.

⁸ The Budgetary Rule requires that the budgetary position of the general government is in balance or in surplus, or is moving at a satisfactory pace towards that position. The Council must also assess whether any non-compliance is a result of ‘exceptional circumstances’. This could mean a severe economic downturn and/or an unusual event outside the control of Government which may have a major impact on the budgetary position.

⁹ The Council’s *Fiscal Assessment Report* (November 2013) detailed the process in the run up to *Budget 2014*. The Memorandum of Understanding was subsequently revised in February 2014 and can be accessed here: http://www.fiscalcouncil.ie/wp-content/uploads/2012/08/MoU_Feb2014.pdf

In relation to the endorsement function, the Council is required to provide a formal letter to the Secretary General of the Department of Finance at least five working days before the Department publishes the Budget and Stability Programme.¹⁰ If the Council were to conclude that it had significant reservations about the preliminary or “provisional final” macroeconomic forecasts, it would immediately communicate these informally to the Department. If, following further discussions, the Council were still not in a position to endorse the macroeconomic forecasts underlying the Budget or Stability Programme Update (SPU), the Chair would write to the Secretary General explaining why this was the case, at least five working days before the Department publishes the Budget or SPU.

To support the Council’s delivery of its mandate, the Council also produces *ad hoc* reports including Analytical Notes, Working Papers and other analytical work on the Irish economy, macroeconomic forecasting, and fiscal policy, in addition to an annual *Ex-Post* Assessment of Compliance with the Domestic Budgetary Rule (the first of which is to be published in 2017).

¹⁰ The process of this function is outlined in the Memorandum of Understanding between IFAC and Department of Finance, 2017 and can be accessed here: http://www.fiscalcouncil.ie/wp-content/uploads/2011/07/IFAC_DoF_Forecasting_MoU_2017-FINAL.pdf

Membership of the council and staff members of the secretariat

The Minister for Finance appointed the Council's five members based on their experience and competence in domestic and international macroeconomic and fiscal matters. In 2016, the Council has a strong international dimension with three members based outside of Ireland.

The Council members in 2016 were:

- **Professor John McHale** (Chair): Established Professor of Economics at the National University of Ireland, Galway.
- **Mr Sebastian Barnes**: Economic Counsellor to the Chief Economist of the OECD.
- **Mr Seamus Coffey**: lecturer in Economics in UCC. His term of appointment to the Council is 4 years, effective 1st January 2016.
- **Dr Íde Kearney**: Senior Economist in the Research Division of the Dutch Central Bank (De Nederlandsche Bank).
- **Mr Michael G. Tutty**: Retired Commissioner for Energy Regulation. His second term of appointment is 4 years, effective from 1st January 2016.

The Secretariat's full complement of staff is a Chief Economist, two Economists, two Research Assistants, and an Administrator. During 2016, the Council recruited no new members of staff.

Central Strategic Goal: Deliver on all Elements of our Mandate

Strategic Sub-Goal: Assessment of Fiscal Stance, Official Forecasts, and Compliance with Budgetary Rule

Fiscal Assessment Report, June 2016

Fiscal Assessment Report, June 2016 assessed the macroeconomic and budgetary projections set out by the Government in the 2016 Stability Programme Update and the appropriateness of the fiscal stance. The Council finalised the report on 1st June 2016, and published it along with its Charts, Tables and Underlying Data. The Minister for Finance responded to the report in a letter on 28th July 2016.

Fiscal Assessment Report, November 2016

Fiscal Assessment Report, November 2016 assesses the macroeconomic and budgetary projections set out by the Government in Budget 2017. The Council finalised the report on 24th November 2016, and published it along with its Charts, Tables and Underlying Data. The Minister for Finance responded to the report in a letter on 16th December 2016. The Council discussed this report with the Oireachtas Committee on Budgetary Oversight on 13th December 2016.

Pre-Budget 2016 Statement

The Council published its Pre-Budget 2017 Statement in September 2016, along with its Charts, Tables and Underlying Data.

Strategic Sub-Goal: Endorsement of Macroeconomic Forecasts

In January 2016, the Department of Finance and the Council reviewed their Memorandum of Understanding (MoU) to facilitate endorsement and published it on their respective websites.

Endorsement Letter April 2016

In April, the Council endorsed as within the range of appropriate forecasts the set of medium-term macroeconomic projections prepared by the Department of Finance for SPU 2016.

Endorsement Letter, October 2016

In October, the Council endorsed as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for Budget 2017 for the years 2016 and 2017.

Supporting Strategic Goal 1: Ensure Compliance with all Requirements for a Statutory Body

Strategic Sub-Goal: Publication of annual report and a set of financial accounts

The Council published its Annual Report and Accounts for the year ended 31st December 2015, its third annual report as a statutory body.

The Council agreed to implement the five recommendations (two rated “Medium” and three rated “Low”) from the Comptroller and Auditor General’s audit.

Strategic Sub-Goal: Independence and transparency

In 2016, the Council began the process of updating its website to include all dates and minutes of its meetings, all formal interactions with Government, and other decisions, reports, and presentations.

Supporting Strategic Goal 2: Promote Awareness of Fiscal Policy issues

Strategic Sub-Goal: Two Fiscal Assessment Reports every year

The Council published its Fiscal Assessment Reports in a clear manner to the highest possible professional standards. Each report contained a non-technical summary.

Strategic Sub-Goal: Working papers

Analytical Notes

The Council published two Analytical Notes in 2016:

- Analytical Note № 9, “Public Capital: Investment, Stocks and Depreciation” (Andrew Kennedy, June 2016).
- Analytical Note № 10, “Challenges Forecasting Irish Corporation Tax” (Eddie Casey and Andrew Hannon, September 2016).

Presentations

- Thomas Conefrey (Chief Economist/Head of Secretariat) presented “Demographic Change and Projections for the Public Finances over the Medium Term” at the Nevin Economic Research Institute’s Economics Seminar in January 2016.
- Eddie Casey (Economist) presented “Taming an Impala: Corporate Income Tax Analysis in Ireland” at the 8th Annual Meeting of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions in Paris in April 2016.

Strategic Sub-Goal: External communications and awareness of the Council

In 2016, the Council appeared three times before Joint Oireachtas Committees to discuss its publications and to account for its functions:

- Committee on Budgetary Oversight (13th December)
- Committee on Budgetary Oversight (13th September)
- Select Committee on Arrangements for Budgetary Scrutiny (22nd June)

The Council’s website links to transcripts of these appearances on the Oireachtas website.

The Council hosted media briefings before publishing each Fiscal Assessment Report.

In April, the Council approved the Social Media policy, which applies only to the Secretariat, and approved the Media Relations policy.

Supporting Strategic Goal 3: Continuously Improve Analytical Capacity

Strategic Sub-Goal: Economic Forecasting (Short-term and medium-term forecasting, Long-term forecasting)

- When IFAC uses databases that other organisations maintain, IFAC links to those databases on the other organisations' websites.

Strategic Sub-Goal: Public Finances and Fiscal Rules

- Ongoing contacts with European Commission
- Engagements with Network of EU Independent Fiscal Institutions (EUIFI)

Strategic Sub-Goal: Full-time five-person Secretariat

In July, the Council approved the Recruitment policy.

Strategic Sub-Goal: Stakeholders

In 2016, the Council and Secretariat met key stakeholders to hear their views on economic issues and work related to the Council.

Government departments

- Department of Finance
- Department of Public Expenditure and Reform
- Department of Jobs, Enterprise and Innovation
- Department of Social Protection

Forecasting agencies

- Economic and Social Research Institute (ESRI)
- Central Bank of Ireland
- European Commission
- International Monetary Fund
- Davy Stockbrokers
- Investec
- Goodbody Stockbrokers

Ratings agencies

- Standard & Poor's Ratings Services
- Moody's
- Fitch

European bodies

- European Commission
- European Central Bank
- European Stability Mechanism

Networks of International Fiscal Councils

- EU Network of Independent Fiscal Institutions (EUNIFI)
- Network of EU Independent Fiscal Institutions (EUIFI)
- OECD (Organisation for Economic Co-operation and Development) Network of Parliamentary Budget Officials and Independent Fiscal Institutions

Other bodies IFAC interacted with

- Economic and Financial Committee (Alternates)
- Institute of International & European Affairs (IIEA)
- IIEA German Economic Experts
- Climate Change Advisory Council
- ESRI Peer Review group
- Statistical and Social Inquiry Society of Ireland
- Central Statistics Office

The Council and Secretariat attended events including:

- ECB workshop on “Fiscal councils, central banks and sound public finances”, Frankfurt am Main
- Fiscal Symposium – University of York
- 9th ECB Workshop on Forecasting Techniques: Forecast Uncertainty and Macroeconomic Indicators
- Workshop on Medium-Term Budgetary Frameworks in the Hague
- ESRI External Forecaster Meeting

Meetings of the Council

The Council met 11 times in 2016:

	Professor John McHale (Chair)	Mr Sebastian Barnes	Mr Seamus Coffey	Dr Íde Kearney	Mr Michael G. Tutty
12th February	✓	✓	✓	✓	✓
6th April	✓	✓	✓	✓	✓
18th April	✓	✓	✓	✓	✓
9th May	✓	✓	✓	✓	✓
27th May	✓	✓	✓	✓	✓
30th June	✓	✓	½		✓
28th July	✓	✓	✓	✓	✓
26th August	✓	✓	✓	✓	✓
4th–5th October	✓	½	✓		✓
9th November	✓	✓	✓	✓	✓
13th December	✓	✓		✓	✓
Total meetings attended	11	10½	9½	9	11

Internal Audit, Governance, Fees, and Staffing

Audit and Risk Committee

In 2016, the Audit and Risk Committee's members were:

- Michael G Tutty (Chair)
- Seamus Coffey (appointed in January 2016)
- Michael Kelly (external member appointed in February 2016).

The Audit and Risk Committee met on four dates in 2016:

- 31st March
- 28th June
- 6th September
- 29th November.

In 2014, IFAC appointed Mazars as internal auditors for 2015–2017. In 2016, Mazars carried out two audits:

- Internal Financial Controls
- Review of Tax Compliance: Fees & Expenses Paid to Council Members
- Risk Management Framework.

In October, the Council approved the Charter of the Audit and Risk Committee, and approved the Internal Audit Charter. In December, the Council approved the Risk Register.

Disclosure of interests

In accordance with the Code of Practice for the Governance of State Bodies, the Council has a Code of Business Conduct which includes guidance in relation to the disclosure of interests by Council Members. These procedures were complied with.

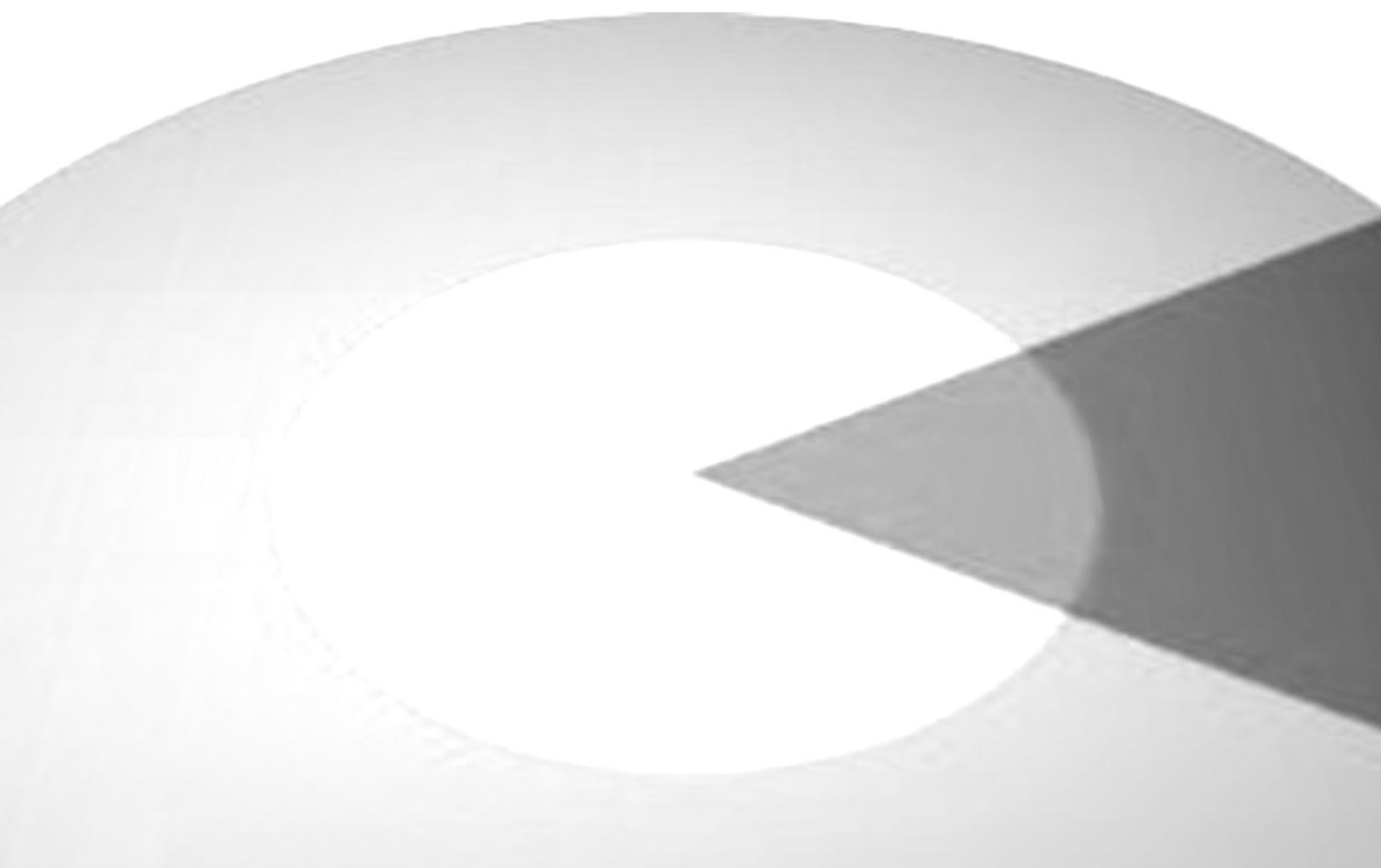
Council members are designated directors for the purposes of the Ethics in Public Office Acts 1995 and 2003, and have obligations in relation to disclosure of material interest and an annual statement of interest under the terms of the Acts.

Corporate governance

In April, the Council noted the contents of the internal auditor's report on tax compliance, and approved the payment procedures. In June, the Council reviewed and approved the Code of Business Conduct.

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Council Members and other information

Council Members

- Seamus Coffey ⁱ (Chair—appointed 1/1/17)
- John McHale (Chair—term ended 31/12/16)
- Sebastian Barnes
- Íde Kearney
- Martina Lawless ⁱⁱ (Appointed 1/1/2017)
- Michael G Tutty ⁱⁱ

ⁱ Seamus Coffey was a Council member (appointed 1/1/16) and a member of the Audit Committee during 2016

ⁱⁱ Audit and Risk Committee Member

Auditor

The Comptroller and Auditor General
3A Mayor Street Upper
Dublin 1

Bankers

Bank of Ireland
Lower Baggot Street
Dublin 2

Statement of Council Responsibilities

The Irish Fiscal Advisory Council (the Council) is required by the Fiscal Responsibility Act 2012 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Council:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- prepares the financial statements on a going concern basis unless it is inappropriate to do so;
- discloses and explains any material departure from applicable accounting standards.

The Council is responsible for keeping in such form as may be approved by the Minister for Finance all proper and usual accounts of moneys received or expended by it and for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Council.

The Council is also responsible for safeguarding assets under its control and hence for taking reasonable steps in order to prevent and detect fraud and other irregularities.

A handwritten signature in blue ink that reads "Seamus Coffey". The signature is written in a cursive style with a large initial 'S'.

Mr. Seamus Coffey,
Chairperson

Date: 29/06/2017

Statement on Internal Financial Control

Responsibility for the System of Internal Financial Control

I acknowledge, on behalf of the Council, the Council's responsibility for ensuring that an effective system of internal financial control is maintained and operated.

I also acknowledge the Council's responsibility to comply with the requirements of the Code of Practice for the Governance of State Bodies (the 2016 Code), which is effective from 1st September 2016. The Council has chosen the second option in the Department of Public Expenditure and Reform's "Effective Date of the Code of Practice for the Governance of State Bodies (2016)" clarification: to continue to apply the 2009 version of the Code of Practice for the Governance of State Bodies for the Council's 2016 financial statements. The Council is taking the following steps to ensure compliance with the 2016 Code in relation to the 2017 financial statements:

- planning to comply with the Code's "Role of the Board" principle, in relation to clarity about its mandate, leading and directing the Council's activities, fulfilling key functions, acting on a fully-informed and ethical basis, promote the development of the Council's capacity, and holding the Chief Economist/Head of Secretariat to account for the effective performance of their responsibilities;
- planning to comply with the Code's "Role of the Chairperson" principle, in relation to leadership of the Council, high standards of integrity and probity, and setting expectations regarding culture, values, and behaviours;
- planning to comply with the Code's "Role of Board Members" principle, in relation to collective responsibility for the long-term sustainability of the Council, and independent judgement on issues of strategy, performance, resources, key appointments, and standards of conduct;
- planning to comply with the Code's "Board Effectiveness" principle, in relation to the appropriate balance of skills and knowledge for discharging their respective roles and responsibilities effectively, being supplied in a timely manner with high-quality information, time to discharge their responsibilities effectively, a self-assessment annual evaluation of its own performance and its Audit and Risk Committee's performance, consideration of the Council's balance of skills, experience, independence, knowledge, diversity, and working as a unit;
- planning to comply with the Code's "Codes of Conduct, Ethics in Public Office, Additional Disclosure of Interests by Board Members, and Protected Disclosures" principle, in relation to continued integrity and transparency, avoiding public concern or loss of confidence, implementing policies to ensure objective decision-making and avoiding or dealing with any potential conflicts of interest, and the Ethics in Public Office Acts 1995 to 2001;
- planning to comply with the Code's "Business and Financial Reporting" principle, in relation to public accountability and the special considerations attached to State bodies in relation to their management and operation, annual report and financial statements that are fair,

balanced, and understandable and allow for assessment of the Council's financial performance, financial position, business model and strategy, and timely and accurate disclosure to the Minister for Finance on all material matters including the business context, financial performance and position, and governance;

- planning to comply with the Code's "Risk Management, Internal Control, Internal Audit, and Audit and Risk Committees" principle, in relation to formal and transparent arrangements for governance, risk management, and internal control, maintaining an appropriate relationship with the Council's auditors, an ongoing process to identify and address significant risks involved in achieving the Council's outcomes, and—with support from its Audit and Risk Committee—advising on key risk;
- planning to comply with the Code's "Relations with the Oireachtas, Minister and Parent Department" principle, in relation to an oversight agreement—with derogations and explanatory notes as may prove necessary based on the small scale of the Council and Secretariat—with the Minister for Finance for defining outcomes in terms of sustainable economic, social, and environmental benefits, effective procedures for defining responsibility and accountability, allocation of budgets, expected outputs and outcomes, and procedures for monitoring performance, and an ongoing dialogue between the Department of Finance and the Council based on a common understanding of the Council's objectives and actions for achieving those objectives;
- planning to comply with the Code's "Remuneration and Superannuation" principle, in relation to implementing Government policy with regard to remuneration of the Council and Secretariat, adhering to Government policy on the payment arrangements for CEOs, adhering to conditions of sanction issued by the Department of Public Expenditure & Reform and the Department of Finance, and publishing in the annual report the details of non-salary-related fees paid to Council members and the salary of the Chief Economist/Head of Secretariat;
- planning to comply with the Code's "Quality Customer Service" principle, in relation to a customer charter which outlines the nature and quality of service which customers can expect.

The Council has begun reviewing changes in the new 2016 Code. The Council plans to review its existing procedures, introduce new procedures where necessary, and update its systems for gathering information.

The system of internal financial control instituted by the Council can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

Key Control Procedures

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties and a system of delegation and accountability. In particular, it includes the following:

- a comprehensive budgeting system with an annual budget which is submitted to the Department of Finance;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- oversight by the Audit and Risk Committee of the implementation of recommendations following internal and external audits.

In 2013, in order to guide the establishment and maintenance of appropriate internal financial controls, the Council had its systems, procedures and practices reviewed under the internal audit function. That work informed the development of systems of control appropriate to the size of the organisation. Internal audit has also carried out subsequent reviews on the Council's systems of internal financial controls. Recommendations arising from these reviews have either been implemented or are currently being addressed. The Council reviewed and approved its Code of Business Conduct in June 2016 and updated and approved its Risk Register in December 2016. The Council also approved the payment procedures, and noted the contents of the internal auditor's report on tax compliance, in April 2016.

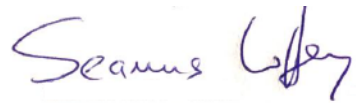
Throughout 2016, the Council continued to operate processes and policies to ensure that an appropriate control environment exists in the context of an on-going arrangement whereby the Economic and Social Research Institute provides accounting functions to IFAC under a service level agreement. These processes include:

- procedures for authorising payments and payroll;
- procedures for deducting Professional Services Withholding Tax (PSWT);
- an integrated finance system for the financial statements as previously recommended by IFAC's Internal Auditors;
- a travel policy in line with public sector guidelines;
- quarterly meetings of the Audit and Risk Committee.

The Council's monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal auditor, the Audit and Risk Committee which oversees the work of the internal auditor and the Head of Secretariat in conjunction with the ESRI as external financial services provider who have responsibility for the development and maintenance of the financial control framework, and comments made by the Office of the Comptroller and Auditor General in its annual management letter. The Council approved the Charter of the Audit and Risk Committee and the Internal Audit Charter in October 2016.

Annual Review of Controls

I confirm that for the year ended 31 December 2016, the Council conducted a review of the effectiveness of the system of internal financial control.

A handwritten signature in blue ink that reads "Seamus Coffey". The signature is written in a cursive style with a large initial 'S'.

Mr. Seamus Coffey,
Chairperson

Date: 29/06/2017

Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Irish Fiscal Advisory Council

I have audited the financial statements of the Irish Fiscal Advisory Council for the year ended 31 December 2016 under the Fiscal Responsibility Act 2012. The financial statements comprise the statement of income and expenditure, the statement of comprehensive income, the statement of financial position, the statement of cash flows and the related notes. The financial statements have been prepared in the form prescribed under section 10 of the Schedule to the Act, and in accordance with generally accepted accounting practice in Ireland.

Responsibilities of the Irish Fiscal Advisory Council (the Council)

The Council is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Council's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Council's annual report to identify if there are material inconsistencies with the audited financial statements and to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in

the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements

- give a true and fair view of the assets, liabilities and financial position of the Council as at 31 December 2016 and of its income and expenditure for 2016, and
- have been properly prepared in accordance with generally accepted accounting practice.

In my opinion, the accounting records of the Council were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Council's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal financial control does not reflect the Council's compliance with the Code of Practice for the Governance of State Bodies, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.




Seamus McCarthy
Comptroller and Auditor General
30 June 2017

Statement of Income and Expenditure for the year ended 31 December 2016

	Notes	2016 €	2015 €
Income			
Amount Receivable from Central Fund	2	601,029	644,120
Deferred retirement benefit funding	17 (c)	31,000	-
Transfer from/(to) Capital Account	14	987	(893)
		<u>633,016</u>	<u>643,227</u>
Expenditure			
Salaries	3	378,420	400,539
Council Members' Fees and Expenses	4	54,229	57,422
Payments to Irish Public Bodies	5	26,732	24,472
Administration Expenses	6	151,542	160,794
Retirement Benefit Costs	17 (a)	22,093	-
		<u>633,016</u>	<u>643,227</u>
Surplus for the Year		<u>-</u>	<u>-</u>

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



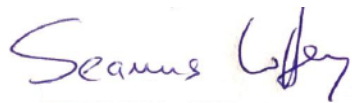
Mr. Seamus Coffey,
Chairperson

Date: 29/06/2017

Statement of Comprehensive Income for the year ended 31 December 2016

	Notes	2016 €	2015 €
Surplus for the year		-	-
Actuarial (loss)/gain on retirement benefit obligations	17 (b)	(26,000)	-
Movement in deferred retirement benefit funding	17 (c)	26,000	-
Total comprehensive income for the year		<u>-</u>	<u>-</u>

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



Mr. Seamus Coffey,
Chairperson

Date: 29/06/2017

Statement of Financial Position as at 31 December 2016

	Notes	2016 €	2015 €
Fixed Assets			
Tangible Assets	7	626	1,613
Current Assets			
Cash and Cash Equivalents	8	146,614	140,715
Debtors and prepayments	9	636	559
		<u>147,250</u>	<u>141,274</u>
Total Assets		147,876	142,887
Current Liabilities			
Sundry creditors and accrued expenses	10	112,520	109,916
Amount due to Central Fund	2	34,730	31,358
Total Current Liabilities		<u>147,250</u>	<u>141,274</u>
Net Assets before Retirement Benefits		626	1,613
Retirement Benefits			
Retirement Benefit Obligations	17 (b)	(57,000)	-
Deferred Retirement Benefit Asset	17 (c)	57,000	-
		-	-
Net Assets after Retirement Benefits		<u>626</u>	<u>1,613</u>
Represented by			
Capital Account	14	<u>626</u>	<u>1,613</u>

The Statement of Cash Flows and notes numbered 1 to 19 form an integral part of these financial statements and should be read in conjunction therewith.



Mr. Seamus Coffey,
Chairperson

Date: 29/06/2017

Statement of Cash Flows for the year ended 31 December 2016

	2016	2015
	€	€
Net Cash Flows from Operating Activities		
Excess Income over expenditure	2,385	4,625
Depreciation of fixed assets	987	987
(Increase)/Decrease in receivables	(77)	161
Increase/(Decrease) in payables	2,604	12,603
Net Cash Inflow/(Outflow) from Operating Activities	5,899	18,376
Cash Flows from Investing Activities		
Payments to acquire property, plant & equipment	-	(1,880)
Net Cash Flows from investing activities	-	(1,880)
Net Increase/(Decrease) in cash and cash equivalents	5,899	16,496
Cash and cash equivalents at 1 January	140,715	124,219
Cash and cash equivalents at 31 December	146,614	140,715

Notes to and forming part of the Financial Statements for the year ended 31 December 2016

1. Statement of Accounting Policies

The principal accounting policies adopted by the Council in determining the amounts included in the statement of financial position and in reporting its transactions for the year are as follows:

a) Basis of accounting

The Irish Fiscal Advisory Council was established with effect from 31 December 2012 under Section 7 of the Fiscal Responsibility Act 2012. Prior to that date it operated on a non-statutory basis.

These financial statements are prepared on an accruals basis under the historical cost convention and in accordance with generally accepted accounting practice. The unit currency is the euro.

b) Statement of Compliance

The financial statements of the Irish Fiscal Advisory Council for the year ended 31 December 2016 have been prepared in accordance with FRS 102, the financial reporting standard applicable in the UK and Ireland issued by the Financial Reporting Council (FRC), as promulgated by Chartered Accountants Ireland.

c) Expenditure

The expenditure recognised in the Statement of Income and Expenditure represents the costs incurred by the Council in the year in the performance of its functions.

d) Income

The Income reported in the Statement of Income and Expenditure reflects the amounts receivable from the Central Fund in respect of the expenditure in the year in accordance with section 9 of the schedule to the Fiscal Responsibility Act 2012.

e) Fixed Assets and Depreciation

The fixed assets held by the Council at year end consisted of computer equipment which was depreciated at an annual rate of 33%. A full year's depreciation is charged in the year of acquisition.

f) Capital Account

The Capital Account represents the unamortised value of state funding used to purchase fixed assets.

g) Employee Benefits

Short-term Benefits

Short term benefits such as holiday pay are recognised as an expense in the year, and benefits that are accrued at year-end are included in the Sundry creditors and accrued expenses figure in the Statement of Financial Position.

Retirement Benefits

The Council operates the Single Public Services Pension Scheme (“Single Scheme”) which is a defined benefit scheme for pensionable public servants appointed on or after 1 January 2013. All directly-paid employees are obliged to join the scheme. Employee contribution rates are 3% of Pensionable Remuneration and 3.5% of Net Pensionable Remuneration. There is no employer contribution. Single Scheme members’ contributions are paid over to the Department of Public Expenditure and Reform (DPER) (Note 17).

The Scheme is unfunded and will be financed on a pay-as-you-go basis from funds available to the Council. Retirement benefit costs reflect pension benefits earned by employees and are shown net of staff pension contributions paid to DPER. Deferred funding for retirement benefits is recognised as an asset corresponding to the deferred liability for retirement benefit obligations.

Retirement benefit liabilities are measured on an actuarial basis using the projected unit method. In determining the value of liabilities, assumptions are made as to price inflation, pension increases, earnings growth and demographics. The assumptions underlying the 2016 liabilities and pension costs are set out in Note 17.

Actuarial gains and losses arising from changes in actuarial assumptions and from experience are recognized in the Statement of Comprehensive Income in the year in which they occur.

2. Central Fund Income

The Irish Fiscal Advisory Council is funded from the Central Fund. Under section 9 of the schedule to the Fiscal Responsibility Act 2012 the amount chargeable to the Central Fund is the amount expended by the Council in carrying out its functions.

The Central Fund operates on a receipts and payments basis whereas these financial statements have been prepared on an accruals basis. The table below sets out the reconciling items.

	2016	2015
	€	€
Opening amount due to/(from) Central Fund	31,358	27,626
Received from Central Fund	613,308	647,852
Amount due (to)/from Central Fund at year end	(34,730)	(31,358)
	609,936	644,120
Less: Employee contributions	(8,907)	-
Central Fund Receivable for the year	<u>601,029</u>	<u>644,120</u>

3. Salaries

The number of persons employed (full-time equivalents) in the financial year was 6 (2015:6). This includes 2 staff seconded from other organisations (2015:3).

Retirement benefit liabilities for the secondees are the responsibility of their parent employer.

Information on retirement benefits for staff directly employed by IFAC is set out in Note 17.

4. Council Members' Fees and Expenses

Council members' fees payable are sanctioned by the Minister for Finance and set by the Department of Public Expenditure and Reform: €20,520 for the Chair and €11,970 for other Council members. Where members, including the Chair, are employed by a body within the Irish public sector, no fee is payable to the member concerned (see note 5). Fees incurred in 2016 totalled €40,898 (2015: €35,729).

Expenses incurred by Council Members amounted to €13,331 (2015: €26,840) mainly reflecting travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings in Dublin.

Following engagement with the Department of Social Protection, the Council clarified that there was no requirement to charge PRSI (both employer and employee) on Council Members' fees. Employer PRSI of €5,147 charged on fees for 2013 and 2014 was refunded in June 2015. Total Council Members' fees and expenses for 2015 of €57,422 are shown net of the Employer PRSI refund.

Council Members' fees and travel expenses

Council Member	Fees	Travel	Total	Fees	Travel	Total
	2016	Expenses	2016	2015	Expenses	2015
	€	€	€	€	€	€
John McHale (Chairperson)	See Note 5	2,657	2,657	See Note 5	5,880	5,880
Sebastian Barnes	11,970	4,027	15,997	11,970	3,606	15,576
Seamus Coffey	4,988	3,669	8,657	-	-	-
Íde Kearney	11,970	2,869	14,839	9,625	2,504	12,129
Róisín O'Sullivan	-	-	-	11,970	14,745	26,715
Michael G Tutty	11,970	109	12,079	2,164	105	2,269
Sub-Total	40,898	13,331	54,229	35,729	26,840	62,569
PRSI	-	-	-	(5,147)	-	(5,147)
Total	40,898	13,331	54,229	30,582	26,840	57,422

Fees payable to Mr Barnes are directed to his full-time employer, the OECD, as compensation for time spent on Council business

As per Note 5 the fee for Mr Coffey was paid to his employer, UCC, for the period January–July 2016. Mr Coffey is currently on sabbatical from UCC and the fee for the period August–December 2016 is payable to him directly.

John McHale and Michael G Tutty reside in Ireland, Sebastian Barnes resides in France, Róisín O'Sullivan resides in the USA, and Íde Kearney and Seamus Coffey reside in the Netherlands. The Revenue Commissioners have clarified that tax is not payable on expenses based on civil service rates paid to Council members.

5. Payments to Irish Public Bodies

Due to the time commitment necessary to fulfil the functions of the Council, a time buy-out is in place to compensate the full-time public sector employers of the Chair and one Council Member for costs incurred due to their absence on IFAC business. In 2016, €19,750 was paid to the National University of Ireland Galway (2015: €19,750) and €6,982 was paid to University College Cork. (2015: €4,722 to the ESRI)

6. Administration Expenses

	2016	2015
	€	€
ESRI Administration fee	102,213	101,045
Travel Costs of Staff	2,346	1,444
Professional Fees	6,420	9,157
Peer Review Costs	-	13,737
Computer Software	14,586	12,068
Staff Training	5,778	6,605
Meeting Costs	1,575	1,620
Report Production	3,533	1,795
Audit Fee	7,000	6,000
Other Costs	7,104	6,336
Depreciation	987	987
Total	<u>151,542</u>	<u>160,794</u>

The ESRI Administration fee includes a charge for accommodation and building services on a pro rata basis and support services relating primarily to accounts, IT, and other corporate services.

In 2015 IFAC appointed an independent Peer Review Group to provide an evaluation of the Council's outputs in line with IFAC's Strategic Plan 2014–2016. The final report of the Peer Review Group was published in June 2015.

Included in Other Costs above, is an amount of €1,500 payable to the external member of the Audit and Risk committee for his work on the committee. This fee was approved by the Council in February 2016.

7. Tangible Assets

	Computer Equipment 2016	Computer Equipment 2015
	€	€
Cost:		
At beginning of year	9,959	8,079
Additions	-	1,880
At end of year	<u>9,959</u>	<u>9,959</u>
Accumulated Depreciation:		
At beginning of year	8,346	7,359
Provided in year	987	987
At end of year	<u>9,333</u>	<u>8,346</u>
Net book value at end of year	<u>626</u>	<u>1,613</u>
Net book value at beginning of year	<u>1,613</u>	<u>720</u>

8. Cash and Cash Equivalents

	2016	2015
	€	€
Current Accounts	146,614	140,715

At 31 December 2016 €112,520 was due for payment to creditors of the Council.

9. Debtors and prepayments

	2016	2015
	€	€
Debtors and prepaid expenses	636	559

10. Sundry creditors and accrued expenses

	2016	2015
	€	€
Payroll Taxes	6,394	8,439
Accrued Expenses	106,126	101,477
Total Creditors	112,520	109,916

Accrued Expenses includes an amount of €25,553 (2015: €27,434) due to the ESRI in relation to services provided under the service level agreement.

Accrued Expenses includes an amount of €7,870 (2015: €6,285) in relation to the cost of annual leave untaken at 31/12/16 as measured under FRS 102.

11. Taxation

The Council is exempted from liability to corporation tax under Section 227 Schedule 4 of the Taxes Consolidation Act 1997.

12. Commitments — Capital and Others

The Council has no capital commitments at the reporting date. The Council is committed to supporting a member of staff in a PhD programme until 2017. This committed expenditure of €3,000 at 31/12/16 (2015: €6,000) is not provided for in the financial statements.

13. Contingent Liabilities

The Council Members were not aware of any material contingent liabilities at the reporting date.

14. Capital Account

The Capital Account represents the amount of funding used to purchase fixed assets reduced by the amount amortised in line with depreciation on the related assets.

	2016	2015
	€	€
Unamortised funding at 1 January	1,613	720
Income and Expenditure account transfers		
- Funding to acquire fixed assets	-	
- Amortisation in year	(987)	893
Balance at 31 December	626	1,613

15. Council Members' Interests

The Council has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Council Members and these procedures have been adhered to in the year. In cases where a conflict of interest has been declared, Council members do not participate in or attend Board discussions relating to the matters in question.

16. Related Party Disclosures

Key Management Personnel

Key Management personnel in the Irish Fiscal Advisory Council consist of the Chair and other members of the Council. Total compensation paid to key management personnel, including Council members' fees and expenses amounted to €54,229 (2015: €62,569). For a breakdown of the fees and expenses paid to key management personnel, please refer to Note 4.

Department of Finance

The Minister for Finance appoints the members of the Council in accordance with Section 7 of the Fiscal Responsibility Act 2012.

ESRI

The ESRI provides accommodation and building services on a pro rata basis and support services relating primarily to accounts, IT, and other corporate services. Alan Barrett was a member of the Council from 2011 until May 2015 and is currently Director of the ESRI. Martina Lawless was appointed as a Council member of IFAC on 1/1/17 and is an employee of the ESRI.

17. Retirement Benefits

The results set out below are based on an actuarial valuation of the retirement benefit liabilities in respect of Council staff as at 31 December 2016 carried out by a qualified independent actuary for the purpose of FRS 102. There are currently no retired members.

(a) Analysis of total retirement benefit costs charged to the Statement of Income and Expenditure

The retirement benefit costs for the year is analysed below:

	2016	2015
	€	€
Current service cost	30,000	-
Interest cost	1,000	-
Less: Employee contributions	(8,907)	-
	<u>22,093</u>	-

Single Scheme members' contributions are paid over to the Department of Public Expenditure and Reform. Payments in 2016 totalled €8,907 (2015: €5,236).

The description of the scheme at (e) below explains why a deferred retirement benefit liability has arisen in the year.

(b) Analysis of the movement in retirement benefit obligation during the financial year

	2016
	€
Obligation at the beginning of the year	-
Current service cost	30,000
Interest cost	1,000
Actuarial loss/(gain)	26,000
Benefits paid in the year	-
Obligation at the end of the year	<u>57,000</u>

(c) Deferred retirement benefit funding

The Council recognises these amounts as an asset corresponding to the unfunded deferred liability for retirement benefits on the basis that these amounts will be received from the Central Fund as and when the pension liabilities fall due for payment.

The deferred funding for retirement benefits recognised in the Statement of Income and Expenditure end 2016 is €31,000 (2015: €0).

The movement for deferred funding recognised in the Statement of Comprehensive Income for the year ended 31 December 2016 is €26,000 (2015: €0).

The deferred funding asset for retirement benefits at 31 December 2016 amounts to €57,000 (2015: €0).

(d) History of defined retirement benefit obligations

	2016	2015
	€	€
Defined retirement benefit obligations	57,000	-

(e) Description of Scheme and Actuarial Assumptions

The Council operates the Single Public Service Pension Scheme (Single Scheme) which is the defined benefit pension scheme for pensionable public servants appointed on or after 1 January 2013 in accordance with the Public Service Pension (Single Scheme and Other Provisions) Act 2012. The Scheme provides for a pension and retirement lump sum based on career-average pensionable remuneration and spouses' and children's pensions. The minimum retirement age is 66 years (rising in line with State pension age changes). It includes an actuarially-reduced early retirement facility from the age of 55. Pensions in payment increase in line with the consumer price index.

The Single Scheme is an unfunded defined benefit scheme which will be financed on a pay-as-you-go basis. A standard vesting period of two years must be served before public servants become eligible for retirement benefits from the Scheme.

Three staff members have reached the two-year eligibility period threshold therefore a retirement benefit liability arising from the Single Scheme exists at 31 December 2016, for the first time. The retirement benefit liability at 31/12/16 amounted to €57,000.

Liabilities shown are computed using the Projected Unit Credit method. The objective under this method is to expense each participant's benefits under the Scheme as they accrue; taking into consideration future salary increases and the Scheme's benefit allocation formula. Thus, the total pension, to which each participant is expected to become entitled, is broken down into units, each associated with a year of past or future credited service.

The main financial assumptions used are set out below:

Year of attaining age 65	2016
Discount rate	2.00% p.a.
Rate of increase in salaries	2.50% p.a.
Rate of increase in pensions	2.50% p.a.
Inflation	1.75% p.a.

The mortality basis adopted allows for improvements in life expectancy over time, so that life expectancy at retirement will depend on the year in which a member attains retirement age (currently age 66). The table below shows the average life expectancy for members attaining age 65 in 2016 and 2036.

Year of attaining age 65	2016	2036
Life expectancy – male	21.1 years	23.6 years
Life expectancy – female	23.6 years	25.7 years

In December 2016, the Council entered an employment contract with a pre-2013-hired public servant who is a member of a pre-existing public service pension scheme. As the employment began in 2017, the Council has chosen to account for that liability in the financial statements for the year ending 31 December 2017.

18. Events after the Reporting date

There were no events after the reporting date that would require adjustment to or disclosure in the Financial Statements.

19. Approval of Financial Statements

The Financial Statements were approved by the Council on 20th June 2017.