



**Audit Committee
of the Department
of Foreign Affairs**

annual report 2006



Department of Foreign Affairs
An Roinn Gnóthaí Eachtracha

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Chairman's Statement 2006

Statement by the Chairman of the Audit Committee of the Department of Foreign Affairs

This is the third annual report of the Audit Committee of the Department of Foreign Affairs. This report relates to the year 2006. The membership of the Audit Committee continues to be comprised of members who are all drawn from outside of Government Departments. The Audit Committee reports to the Secretary General of the Department of Foreign Affairs, who is the Accounting Officer for Votes 28 and 29. The expenditure profile of both Votes is represented in the following table:

		Estimate 2006 Gross (€million)	Outturn 2006 Gross (€million)
Vote 28	Foreign Affairs	243.4	227.0
Vote 29	International Cooperation	600.6	599.5
	Totals	844.0	826.5

Vote 28 comprises of 80% administration-related expenditure supporting the policy divisions in headquarters, consular services and the running of the Missions abroad. Vote 29, on the other hand, comprises of over 90% programme-related expenditure, funding the various components of the Irish Aid Programme.

The Department of Foreign Affairs exercises its mission in a dynamically changing and evolving environment. The diversity of challenges that engaged the Department of Foreign Affairs during 2006 is evident in the following projects: (a) working for peace and reconciliation in supporting the St. Andrew's Agreement; (b) the establishment of a Conflict Resolution Unit; (c) visiting and addressing the complex tragedy in Darfur; (d) the process of reform and renewal at UN level; (e) sponsoring legislation to assist the accession of new members to the European

Community; (f) the preparation and launch of the first ever Government White Paper on Development Aid.

The Audit Committee notes that the Irish Aid Programme is at an important stage in its history. The combination of factors such as: (i) the significant increase in funding allocations to overseas aid on an annual basis in pursuit of the objective of contributing 0.7% of GNP to overseas aid by 2012; (ii) the announcement of new and additional programme countries; (iii) the decentralisation of Irish Aid to Limerick, all present challenges, opportunities and risks.

The Audit Committee is pleased to report that the pattern and practice of the Department of Foreign Affairs in addressing the recommendations from the Audit Committee's reports has continued during 2006. It will become evident in reading this report that many of the recommendations highlighted in the Audit Committee's annual reports for 2004 and 2005 are now firmly established in the procedures and policies of the Department of Foreign Affairs.

The Audit Committee articulates several concerns and makes many recommendations. These matters are highlighted in detail in the Section titled **Audit Committee Comments and Recommendations for 2006**, which commences on page 10. Many of these relate to the Aid Programme, and the Committee recognises the inherent level of risk associated with the development aid environment. The seven elements of the Department's audit environment, which are outlined in the Section titled **Audit Environment of the Department** contribute to the level of assurance as to the proper use of public funds. Outlined below are some of the most significant comments and recommendations under two headings:

(i) Risk, Internal Controls, Audit and Evaluation

- The Committee looks forward to the completion of the audit strategy and multi-year work plan for Vote 28 with the corresponding approval from the Secretary General.
- The Audit Committee will review the operation of the Department's internal control framework, including the delegation of responsibility for ensuring the effectiveness of the framework, in 2007.
- The recent approval of an internal Fraud Policy for the Department of Foreign Affairs is most welcome. The Committee looks forward to the development of guidelines and procedures with regard to fraud occurrences in organisations in receipt of Irish public funds.
- Risk is inherent in a development aid environment. The Audit Committee considers that the development of an appropriate risk policy has the potential to enhance risk management, inform public debate and outline steps to mitigate the impact of significant risks.
- The Audit Committee recognises that many of Irish Aid's partners continue to have significant weaknesses and deficiencies in their accounting procedures and internal control systems. Given the large funding allocated to such partners, it is important that Irish Aid proactively continues its determined efforts, in collaboration with other donors, to address audit issues and strengthen partners' systems of internal control.
- The Audit Committee also recognises that, in common with other donors, it is appropriate that Irish Aid increasingly relies on partner audits undertaken by the equivalent of the Office of the National Auditor General in programme countries. In view of this arrangement, Irish Aid should continue to work, in partnership with

other donors, to support and strengthen the capacity of these audit institutions.

- The lesson learning from the joint donor evaluation of General Budget Support should inform and influence policy deliberations and implications. This should be accompanied by a clear statement of criteria for Irish Aid's engagement with General Budget Support. The learning from this joint donor evaluation should influence policy and strategy development including, for example, new programme country planning.
- The decision to increase significantly the funds allocated to the Multilateral Agencies needs to be accompanied by a well developed and appropriate risk management strategy and a robust monitoring framework, so as to ensure that Irish Aid funding is used effectively.

(ii) Resources

- The current staffing levels, including recent approval for additional recruitment at the audit and evaluation functions, allow for meaningful multi-annual audit and evaluation plans. Audit and evaluation staffing levels should be reviewed regularly to ensure their adequacy to provide the level of audit, evaluation and value for money assurance that is desirable in the context of a range of complex aid modalities in a rapidly expanding aid budget.
- The decentralisation of Irish Aid to Limerick may result in the loss of key personnel who contribute significant added value to the organisation and the Irish Aid programmes. It must be a priority that attention is given to ensure an adequate level of retention of qualified and experienced staff, to minimise staff turnover and mitigate the risks to the Aid Programme that are inherent in this decentralisation move.

- The Department should ensure that its planned system of rotation of diplomatic and specialist staff does not adversely affect the continuity of management of bilateral Country Programmes.
- The Human Resource Management Strategy needs to provide appropriate career development options for professionally qualified staff in the finance area.

The Audit Committee's focus for 2007 is outlined under the Section that details the [Operation of the Audit Committee](#).

The Audit Committee was deeply upset and shocked to receive the news in June '07 about the sudden death of our deeply appreciated colleague John A. Jackson. We cherished John. We valued enormously the depth of wisdom and experience that John brought to our deliberations. John's good humour, great integrity and hard work is fondly recalled and celebrated. We extend to John's family our sincere sympathies. May he rest in peace.

I wish to thank the members of the Audit Committee, the late John A. Jackson, Valerie Little, John S. Pittock, and Mike Scott who joined us this year, for their time and valuable contribution to its work during the year. I am very pleased that Mike Scott has joined us, bringing to the Committee the depth of his experience as a former Head of Evaluation and Audit in Irish Aid.

On behalf of the Audit Committee, I wish to express our deep appreciation of the support and cooperation received from the management and staff of the Department of Foreign Affairs. As in previous years, Committee members have expressed their admiration and respect for the quality and commitment of the management and staff, who deliver on the mission of the Department of Foreign Affairs in a spirit of true public duty.

Finally, I wish to express thanks to all staff who have participated at, or made presentations to, the Committee's meetings throughout the year. I also wish to acknowledge the operational support provided to the Audit Committee by the staff of the Evaluation and Audit Unit – Fiona English and Donal MacDonald (who both left the Unit during the year), Finbar O'Brien, Patrick Empey, Brian Nolan, Helen Smith and Tom Hennessy.

Gerard O'Connor
Chairman
Audit Committee of the Department of Foreign Affairs

Date: 25th October 2007.

Membership of the Audit Committee

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

During 2006, the members of the Committee were:

Fr. Gerard O'Connor C.Ss.R., Chairman of the Committee. Fr. O'Connor works in Cherry Orchard Parish, Dublin, and has a background in Development and Accountancy. He is currently a member of the Advisory Board for Irish Aid (Appointed November 2003).

Professor John A. Jackson, Emeritus Professor of Sociology, Trinity College, Dublin. Professor Jackson was formerly Chairman of the Ireland Aid Advisory Committee and a member of the Ireland Aid Review Committee (Appointed November 2003).

Ms. Valerie Little is Human Resource Manager of ESB Networks, and formerly Head of Internal Audit, Electricity Supply Board (Appointed June 2004).

Mr. John S. Pittock is a Chartered Accountant and a director of a number of companies. He was formerly chairman of Deloitte (Appointed November 2003).

Mr. Michael Scott is a former Head of Evaluation and Audit, Irish Aid (Appointed June 2006).

Audit Committee Charter

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

The Committee will have a Chairperson and at least three ordinary members who will be drawn from outside the Department. The members of the Committee will either have general accounting experience, professional audit experience or 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, so as to ensure effective oversight of the programme. The Committee will normally meet at least six times each year.

The Committee will provide an independent appraisal of the audit and evaluation arrangements for these two Votes, 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 Foreign Affairs Vote and Irish Aid (the Development Cooperation Directorate within the Department of Foreign Affairs).

The Committee will provide an annual report to the Secretary General on its work in relation to these two Votes. This will be based, inter alia, on:

- a review of the evaluation and audit strategy for the Foreign Affairs and Irish Aid programmes and the annual work programme arising from this;
- a review of the implementation of these programmes by Foreign Affairs and the Evaluation and Audit Unit of Irish Aid;
- a review of the resources available for this purpose;
- a review of the internal control systems of Foreign Affairs and Irish Aid;
- a review of the risk management systems in Foreign Affairs and Irish Aid.

Since one of the functions of the Advisory Board for Irish Aid, the independent body appointed by the Government, is “to oversee specific and general evaluations of Irish Aid programmes and projects, with a general oversight of policy and expenditure”, the membership of the Audit Committee will always include a member of the Advisory Board.

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

Operation of the Audit Committee

The Audit Committee operates by holding a series of regular meetings, at which it receives reports, requests presentations from Department of Foreign Affairs staff and makes recommendations. The Audit Committee reviews the work of the Evaluation and Audit Unit of Irish Aid (known within the Department as the Development Cooperation Directorate).

The primary objectives of the Evaluation and Audit Unit are to appraise the systems and procedures that are intended to control the Department of Foreign Affairs' operations and the adequacy of arrangements for the economic and efficient use of funds. The Evaluation function also contributes to lesson learning and policy development within the overall Aid Programme.

The Audit Committee reports to the Secretary General of the Department of Foreign Affairs, with whom frequent contact is maintained. The Committee met on ten occasions during 2006.

In addition to these meetings, individual members of the Committee have undertaken the following:

- Attendance at *Current Challenges in Development Evaluation Seminar*, University of Sussex, Brighton, October 2006 (John A. Jackson);
- Visit to the Ethiopia Country Programme, July 2006 (John S. Pittock);
- Presentation to the (Development) Heads of Mission Meeting, Dublin, March 2006 (John S. Pittock);
- Presentation to a meeting of the Chairs of Government Department Audit Committees, November 2006 (Gerard O'Connor).

In order to give an indication of the breadth of coverage of the Committee's activities during the year, Appendix 2 to this report lists some of the documentation reviewed and Appendix 3 lists presentations received by the Audit Committee.

During 2006, the main issues dealt with by the Audit Committee were:

- General Budget Support;
- Annual Consolidated Report of Audits (Irish Aid Programme Countries);
- Structured follow-up on implementation of audit recommendations;
- Resources.

The Audit Committee has set a number of priority issues for 2007, including:

- Irish Aid Support for HIV/AIDS;
- Measuring Impact Assessment in the Aid Programme;
- Risk Management in the Department;
- The Operation of the Internal Control Framework of the Department;
- Review of how the Management Information Framework is used;
- The Harmonisation Agenda;
- The Management Review of Irish Aid;
- Resources.

Audit Environment of the Department

1. Structure of the Department

Under the political direction of the Minister for Foreign Affairs, the Department is managed by the Secretary General, who is also the accounting officer for its two Votes – Vote 28 (Foreign Affairs) and Vote 29 (Development Cooperation or Irish Aid). The Secretary General is supported by a Management Advisory Committee (MAC) comprising the Heads of the main Divisions in the Department.

The work of the Department is divided between thirteen divisions at Headquarters (HQ) and a total of 74 diplomatic and consular offices abroad (referred to as “Missions”), as well as the British-Irish Intergovernmental Secretariat in Belfast and the North-South Ministerial Council Joint Secretariat in Armagh. Among the diplomatic and consular offices abroad are eight field offices, mainly in Africa, that are responsible for managing Irish Aid bilateral country programmes.

2. External Environment

The Department of Foreign Affairs operates in a complex and ever-changing environment shaped by European and wider international influences. The realisation of objectives depends, therefore, not just on the efforts of the Department but also on the behaviour of other States and entities.

Because of the complexity of the external environment, it is essential that the resources available to the Department are deployed to the optimum effect. It cannot and does not work in isolation. The Department acts in close cooperation with other Government Departments that have external responsibilities, in order to contribute effectively to the attainment of the goals set down in the Programme for Government and in successive Partnership Agreements.

The Millennium Development Goals and the Paris Declaration (PD) on Aid Effectiveness provide the basis for an international consensus on what needs to be done to reduce poverty and promote development. The Paris Declaration, signed at the DAC High Level Forum in February 2005, set commitments and targets for donors and partner countries to increase the pace of improved aid effectiveness. The Government has committed to increase the level of Overseas Development Assistance to 0.7% of GNP by 2012, which will result in a budget of in excess of €1 billion.

In common with other donors, Irish Aid operates in an environment of considerable risk. Consequently, the standard of governance and accounting systems in partner countries and organisations may be less than would be expected in Ireland and other developed countries.

3. High Level Goals, 2005-2007

The Department's high level goals, as set out in the Strategy Statement for the period 2005-2007, are:

Northern Ireland and Anglo-Irish Relations	Work to achieve the full implementation of the Good Friday Agreement and the sustained operation of all its institutions, promoting co-operation, mutual understanding and respect between both traditions on the island, between North and South in Ireland, and between these islands.
Ireland's Role in the World	Pursue Ireland's foreign policy in accordance with the ideals enshrined in the Constitution and in conformity with the principles of the United Nations Charter, through the development of our bilateral relations with other States, our participation in the European Union's Common Foreign and Security Policy, and our active and principled participation in international organisations.
The European Union	Promote and protect Ireland's interests at the heart of the European Union as it continues to evolve and enlarge, including through the further development of our relations with our current and future EU partners.
Advancing Ireland's Economic Interests	Promote Ireland's trade, investment and other interests, including its culture, in close co-operation with other Departments, State Agencies and the private sector, ensuring that the State's network of diplomatic and consular missions adds real value to this task.
Irish Aid	Make a substantive and effective contribution to achieving the Millennium Development Goals, and to poverty reduction and sustainable growth in developing countries, through the policy and programmes of Irish Aid, and by working for a just and stable international economic system.
Consular and Passport Services	Protect and support the interests of Irish citizens abroad, maintain and strengthen links with people of Irish ancestry, and provide a modern and efficient passport and consular service.

4. Financial Management

The Department's total expenditure in the 2006 financial year was €826.5 million, comprising Vote 28 (Foreign Affairs) (€227 million), and Vote 29 (International Cooperation) (€599.5 million). The nature of spending on each Vote is very different. Vote 28 comprises largely of administrative costs, whereas under Vote 29, over 90% of expenditure is programme-related.

5. Audit Arrangements of the Department

Audit is a key element of the accountability framework in which the Department operates. The elements of audit, both internal and external, are:

1. The **Comptroller and Auditor General (C&AG)** – who audits the annual Appropriation Accounts for each Vote, and periodically conducts other assignments, including value for money audits. The C&AG presents its reports to the Public Accounts Committee.
2. The **Dáil Committee of Public Accounts (PAC)** – which examines the reports of the C&AG, and at which the Department's Accounting Officer is required to attend.
3. The **Joint Oireachtas Committee on Foreign Affairs (FAC)** – this Committee approves the Estimates for each Vote, which are, from 2007, presented in the format of an *Annual Output Statement* linking costs

to high level goals and objectives, and related key performance indicators.

4. The **Audit Committee** of the Department, which reviews and makes recommendations on the multi-annual audit and evaluation work plans and the implementation thereof.

5. The **Evaluation and Audit Unit**, which is situated in the Development Cooperation Directorate (known externally as Irish Aid), manages:

- The Evaluation function of Irish Aid. This function promotes the culture of evaluation in the Programme, and contributes to an efficient and effective development programme by promoting accountability and lesson learning. The Evaluation function periodically undertakes strategically focused joint evaluations with other donors;
- The Internal Audit function for both the Foreign Affairs Vote and Irish Aid. This function reviews the operation of the systems of internal control and seeks to provide assurance as to the propriety of the use of public funds. The Internal Audit function for Irish Aid is supported by internal auditors based in the Programme Country field offices;
- Value for Money Reviews (see 7. below).

The Head of Evaluation and Audit reports to the Accounting Officer, directly for Vote 28, and through the Director General of Irish Aid for Vote 29.

6. **Externally Commissioned Audits** undertaken by internationally recognised firms in Irish Aid Programme Countries. In addition to its own internal audit work, the Evaluation and Audit Unit extensively leverages its resources by commissioning audits in Programme Countries which are undertaken by internationally recognised firms. The Unit also relies on partner audits which are undertaken either by internationally

recognised firms (where commissioned by partners) or by National Auditors General. Irish Aid works closely with other donors to assist partners in strengthening their financial management and accountability systems, following through on the recommendations of the audit process.

7. **Value for Money and Policy Review Initiative** – The Department conducts Value for Money Reviews under the Department of Finance’s Value for Money and Policy Review Initiative. Under the current round (2006 – 2008), the Department is undertaking five reviews, covering both Votes.

Audit Committee Comments and Recommendations for 2006

In accordance with its Charter, the work of the Audit Committee in relation to the two Votes of the Department is focussed on the following areas:

1. Management Information Framework
2. Internal Control
3. Internal Audit
4. Evaluation
5. Risk Identification
6. Organisational and Resource Matters

The Committee's comments and principal recommendations on each of these areas are set out in this section of the report.

1. Management Information Framework

The Audit Committee welcomes the implementation of the recommendations in this area from its previous annual reports.

The Civil Service-wide Management Information Framework project (MIF) concluded at the end of 2006. The purpose of systems development under MIF has been to shift the focus of financial management from inputs to outputs and outcomes, and strengthen budgeting, monitoring, accounting, expenditure monitoring and internal financial control. As an example of this change of focus, and required by Government Decision, the Department's Estimates for 2007 were presented to the Joint Oireachtas Committee on Foreign Affairs in the format of an *Annual Output Statement*. This statement presents the estimates linked to the high level goals and strategies of the Department, as set out in its current Statement of Strategy, with relevant performance indicators to measure achievement.

The Committee will maintain oversight of the Department's use of management information from its enhanced (MIF) systems during 2007. These systems must be underpinned by a Human Resource

Management strategy that comprehensively addresses recruitment, retention and training issues to provide the appropriate mix of financial management qualifications and skills.

In 2006, the Department established an Expenditure Monitoring Group, comprised of Divisional Coordinators, for the purpose of monitoring expenditure against budget for the Foreign Affairs Vote (28). The Committee believes that this group and the Senior Management Group in Irish Aid (responsible for Vote 29), have a key role in expenditure management and monitoring, and achievement of value for money.

The Department developed and launched its new website during the year. Due to the emphasis on this project, there was limited progress on the development of the Knowledge Management Strategy. The Committee believes that a robust Knowledge Management Strategy must become a cornerstone of the growth strategies for the Department. The complexity of the Department's operations, the major expansion of the Aid Programme and the decentralisation of Irish Aid to Limerick provide added impetus to the further development of the Knowledge Management Strategy.

➤ **The Audit Committee recommends that the Department:**

- **Develops and implements its Knowledge Management Strategy as a matter of priority;**
- **Reviews its Human Resource Management to ensure that staff recruitment, retention and training strategies provide staff with the appropriate mix of financial-related qualifications and skills to optimise the effectiveness of the financial management systems;**
- **Keeps under review the format and use of financial information to support decision making and optimise management effectiveness.**

2. Internal Controls

The Audit Committee welcomes the continued focus during 2006 on strengthening internal controls for both Votes 28 and 29.

The Committee is pleased to note that there were no significant issues raised in the report of the Comptroller and Auditor General on the Appropriation Accounts for both Votes for the 2005 financial year. Furthermore, the programme of internal audits undertaken during 2006 at the Department's Missions abroad concluded that the internal control systems in those Missions were generally operating satisfactorily.

The Audit Committee welcomes the development of the Departmental Fraud Policy and its circulation to all staff members. This document is a valuable statement of the Department's procedures for combating and dealing with fraud occurrences at Headquarters and in the Missions abroad. The Committee looks forward to the development of a policy and an agreed protocol regarding the occurrence of fraud events in organisations that are recipients of public funds, particularly from the Irish Aid Programme.

The Audit Committee will review the operation of the Department's internal control framework, including the delegation of responsibility for ensuring the effectiveness of the framework, in 2007.

- **The Audit Committee recommends that there is a continued focus by Management on review and enhancement of internal controls, including structured reporting to the Committee on compliance with the internal controls framework.**

3. Internal Audit

The Department merged the internal audit function for both Votes in 2006 under the responsibility of the Evaluation and Audit Unit of Irish Aid. The Audit Committee commends this decision, which brings coherence and synergies to the Department's audit function. Internal Audit resources were strengthened by the appointment of a qualified accountant specifically assigned to Vote 28. Audit work programmes, covering multi-year cycles, are developed by the Evaluation and Audit Unit using a risk-based methodology. The audit work plan for 2006 was reviewed by the Audit Committee.

The Committee welcomes the strong emphasis by the Secretary General and Senior Management on the importance of internal audit, and the implementation of audit and evaluation recommendations.

During 2006, the Committee reviewed the annual Irish Aid Consolidated Reports of Overseas Office Audits (also known as the Synopsis Report) for 2003 and 2004. The Consolidated Report is a summary of audit reports on Vote 29 Programme Country expenditure incurred both directly by Irish Aid, and (indirectly) through its partner Governments and Agencies. The report summarises the key issues emerging, and also documents the detailed findings and recommendations for each country. Audit coverage is achieved through:

- Internal audit work undertaken by the Evaluation and Audit Unit;
- External audits of expenditure, which are commissioned under the direction of the Evaluation and Audit Unit, and are undertaken by internationally reputable auditing firms;
- Reliance on external audits of partners, whether undertaken by international firms (where commissioned directly by partners) or by National Auditors General.

The audit of indirect programme expenditure relies increasingly on external audits. The level of audit coverage achieved is in the region of 85%. The Committee notes with concern that the Consolidated Report highlights the continuing weak standard of internal controls and the capacity challenges prevailing in partner organisations. Consequently, there is a significant number of qualified audit reports from partners.

The Committee welcomes the more timely production of the Consolidated Report. However, it recognises that there will inevitably be some time delay in its production, given that many of the reports obtained from partners are undertaken by National Auditors General, and are not under Irish Aid's direct control. In view of the increasing level of reliance on partner audits undertaken by National Auditors General, the Committee considers it essential that Irish Aid, in collaboration with other donors, supports the strengthening of the capacity of these supreme audit institutions.

The increasing trend towards working through Government systems in partner countries suggests that internal control and capacity issues will continue to feature in audit reports for the foreseeable future. The Committee recognises that the process of strengthening partner systems will require continual engagement by donors with partners, working under a harmonised approach. The Committee welcomes the recent appointment of a Public Sector Financial Management Specialist in Irish Aid, which should strengthen its capacity to engage in these matters.

The Committee notes that, with regard to Multilateral and Civil Society Organisations, Irish Aid has relied on the audit systems of these organisations, supplemented by targeted reviews of audit and oversight arrangements, which have been undertaken by the Evaluation and Audit Unit. The Committee welcomes the Evaluation and Audit Unit's proposal to formalise its audit approach to these areas in 2007.

The Audit Committee welcomes the initiation of the Vote 28 internal audit programme which, in 2006, focused on Embassies abroad. One Embassy audit (Pretoria) was undertaken by the Evaluation and Audit Unit as a joint assignment with the Inspection Unit. The Committee acknowledges the quality of the inspection and audit reports from this assignment and recommends that periodic joint inspection and audit visits should feature in future work programmes. The Committee also looks forward to the formalisation and implementation of an audit strategy and multi-year work plan for this Vote.

Currently, management responses are obtained for all audit recommendations. The Committee welcomes the systems established by the Department to follow through on the implementation of recommendations, including the appointment of an Audit Recommendations Tracking Officer with responsibility for Headquarters-related matters. The Committee also welcomes the establishment by the Evaluation and Audit Unit of a formal reporting system from the Irish Aid field offices to the Unit to track the implementation of recommendations relating both to the field offices and partner organisations. The Committee looks forward to regular structured reporting to it on the status of audit recommendations.

The Committee welcomes Irish Aid's undertaking of a comprehensive review of programme approvals processes in 2007. Such a review is now very timely in view of the recent very significant programme expansion and the staff turnover resulting from decentralisation. It looks forward to the strengthening of Irish Aid's approvals processes, which should be unified, standardised and comprehensive, and linked to the organisation's formal budgetary control arrangements. The review of approvals processes will inform the Management Review of Irish Aid, as proposed under the White Paper, which is being undertaken in 2007.

- The Audit Committee recommends that:
 - The audit strategy and multi-year work plan for Vote 28 be finalised and approved by the Secretary General;
 - A strengthened system of approvals, linked to budgetary control procedures, should be established to support the management of the rapidly expanding Aid Programme;
 - The Evaluation and Audit and the Inspection Units continue to undertake periodic joint inspection and audit assignments to Missions;
 - Regular status reports should be provided to the Audit Committee regarding the status of audit recommendations relating to Headquarters, Missions and partner organisations;
 - In view of the significant level of funding that Irish Aid provides to Government partners, Irish Aid should continue its efforts, in collaboration with other donors, to address audit deficiencies and strengthen partners' systems of internal control;
 - Irish Aid, in collaboration with other donors, supports the strengthening of the capacity of the Offices of National Auditors General in partner countries.

4. Evaluation

Evaluation has long been established as a key function in the Irish Aid Programme. However, Vote 28 does not have an established evaluation function, a limitation it shares with many other Government Departments. Despite this, various Vote 28 line Divisions have undertaken reviews as part of the Value for Money and Policy Review Initiative. In this context, the Committee is pleased that the Evaluation and Audit Unit has been assigned responsibility for management of the Value for Money and Policy Review Initiative for Vote 28, which should contribute to the development of the evaluation culture for that Vote in the future. As a result, the comments that follow relate mostly to Irish Aid.

The Department is committed to five reviews, covering both Votes, under the current round (2006 to 2008) of the Value for Money and Policy Review Initiative. The Audit Committee is pleased with the Department's commitment to the VfM and Policy Review Initiative and, in particular, with the decision to focus on strategically important areas. The reviews are of:

- Irish Aid's Support to Tsunami Affected Countries (completed);
- Irish Aid's Development Assistance to Mozambique;
- Irish Aid's Support to HIV/AIDS;
- Support to Irish Emigrants Abroad (Vote 28);
- The Passport Service (Vote 28).

The Audit Committee reviewed the Joint Evaluation of General Budget Support to Programme Country national budgets. This was a major evaluation undertaken by a consortium of consultants and was supported by 23 donors, including Irish Aid. Seven countries were covered by the evaluation, including three of Irish Aid's programme countries: Mozambique, Uganda and Vietnam. The Committee received a presentation on the subject from the evaluation team leader, which focused on the main findings, with special attention being paid to its design, risks and performance monitoring.

The joint evaluation of General Budget Support found that it has significantly improved the alignment of aid to national Poverty Reduction Strategies, increased harmonisation and improved dialogue between governments and their aid partners. It also established that aid disbursed through government systems has both helped to strengthen public financial management and also allowed governments to better allocate funding towards Poverty Reduction Strategy priorities and achieve a better balance between recurrent and capital spending. The evaluation noted that the ultimate effectiveness of General Budget Support in reducing poverty is very much tied to

the quality of the Poverty Reduction Strategy that it supports. However, the report also observed that as experience with this form of financial support is relatively new, it was still too early to assess its ultimate effects on poverty reduction.

The Audit Committee considers that the move to new aid modalities, such as General Budget Support, provides a fresh range of challenges that need to be recognised and addressed, and welcomes Irish Aid's participation in such joint evaluations. The Committee, while noting that the report of the Joint Evaluation does not clearly establish criteria for participation in General Budget Support, considers that Irish Aid should develop criteria for its use of this modality. There is also a need for greater clarity as to the definition of what constitutes General Budget Support. In addition, through its close working relationship with the Advisory Board for Irish Aid, the Audit Committee will regularly review the impact and effectiveness of General Budget Support as an aid modality.

The Paris Declaration, signed at the OECD-DAC High Level Forum in February 2005, set commitments and targets for donors and partner countries to increase the pace of improving aid effectiveness. This consensus seeks to reduce fragmentation of aid delivery. It encourages donors to harmonise the operational policies, procedures, and practices of their institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs). Donors have also committed to eliminating duplication of efforts and rationalising their activities to make them as cost-effective as possible.

The Audit Committee welcomes Irish Aid's efforts, as part of the Nordic+ group of donors, to work within the EU and with the World Bank and other agencies, to promote more harmonised and joint approaches to monitoring, reporting and accountability.

The Committee has previously noted the absence of concrete data that would provide a sense of the output, outcomes and impact of programmes and projects sponsored and funded by the Department. The increased level of funding to be expended in the coming years as the programme grows towards the 0.7% of GNP target, challenges Irish Aid to continually demonstrate results. In this regard, the Committee welcomes the Advisory Board for Irish Aid's initiation of a new research project on measuring impact, and looks forward to the outcome of this work.

The Committee notes and welcomes the appointment of the Head of the Evaluation and Audit Unit to the Chair of the OECD Development Assistance Committee Network on Development Evaluation.

The Audit Committee noted that during 2006, five of the six studies commissioned by the Heads of Development Evaluation of the EU Member States were completed. These evaluations were aimed at exploring and assessing the role played by the Maastricht Treaty precepts [coordination, complementarity and coherence (3Cs)] in the European Union's development co-operation policies and operations. The studies were also intended to determine how far these precepts have been applied in practice and with what impact. The overall purpose was to produce evidence, lessons and recommendations to strengthen the quality and effectiveness of European development assistance in the future. The study topics ranged from the examination of the 3Cs in humanitarian relief and local development, through to country strategy planning and policy coherence.

The Audit Committee welcomes that two of these studies, but primarily that entitled 'Evaluation of Coordination and Complementarity of European Assistance to Local Development', were supported by Irish Aid.

The Audit Committee welcomes the development of a draft Policy Statement on Evaluation by Irish Aid, and looks forward to its approval and publication in 2007.

The progress made in the implementation and management of the Evaluation and Audit Unit's multi-annual evaluation plan is commended. The Committee notes that the Unit's work plan is inevitably constrained by its limited staff resources. In developing its next work plan, the Committee would like to see the following areas considered for evaluation:

- Staff Training and Development, including the effectiveness of on-the-job staff training;
- The Department's Risk Management Programme.

➤ The Audit Committee recommends that:

- **Lesson learning from the joint donor evaluations on General Budget Support be given significant attention and that Management actively considers the relevant policy implications;**
- **A clear statement of the criteria for Irish Aid's engagement with General Budget Support should be formulated;**
- **The Evaluation and Audit Unit follows closely the research work commissioned by the Advisory Board for Irish Aid on impact assessment;**
- **In the context of the harmonisation agenda, and as donors move towards increased specialisation in sectors, Irish Aid should consider focusing on those areas where it has particular strengths to optimise the effective use of its resources.**

5. Risk Identification

In view of the environment in which the Aid Programme operates, the Audit Committee's consideration of risk issues is focused on Irish Aid.

The Taoiseach's commitment in September 2005 to reach the UN target of 0.7% of GNP by 2012 will result in very significant increases in expenditure amounts under Vote 29. This brings a host of challenges. In this regard, the Audit Committee welcomes the planned Management Review of the Irish Aid Programme, announced in the White Paper, as an appropriate instrument for ensuring the development of the management structure and functions which can support the growth and expansion of the programme. The Committee considers this management review to be critically important to the future of the Aid Programme, and will monitor its progress during the year.

The Committee welcomes the progress made during 2006 on the development of a Strategic Business Development Plan for Irish Aid, and looks forward to its completion in 2007.

The decentralisation of Irish Aid to Limerick commenced with the Directorate's partial move to temporary offices in May 2007, to be followed by a complete move to permanent offices in early 2008. The Audit Committee has previously expressed its concerns regarding the risks which decentralisation poses for the delivery of a quality Aid Programme. The Committee will monitor closely the management of the decentralisation process. In particular, it will pay attention to the measures taken to retain qualified and experienced staff, minimise staff turnover and mitigate the risks to the Aid Programme which are inherent in the move.

The Audit Committee considers that a policy statement needs to be published articulating Irish Aid's position on the management of the risks inherent in operating an Aid Programme with a wide variety of aid modalities in a range of different developing countries. The statement should communicate a message that risk is inherent in a development aid environment, and that Irish Aid cannot adopt a risk-averse position to delivering an innovative and effective Programme. The statement should elaborate on the nature of the risks that Irish Aid faces, and also the risk management strategies that the organisation has in place to mitigate the likelihood of the occurrence and/or impact of significant risks.

The Committee recognises that fraud is an inherent risk in a development aid environment. The Audit Committee has been made aware that a small number of instances of alleged fraud in partner organisations that have received funds from Irish Aid have been investigated by the Evaluation and Audit Unit. The Committee recommends that Irish Aid should continue to ensure that its management systems are sufficient to: (a) mitigate, to the greatest extent possible, the likelihood of occurrence of fraud, and (b) investigate occurrences of fraud in partner organisations and take appropriate actions in a timely manner.

The Audit Committee notes that significant increases in Irish Aid's funding of multilateral organisations are planned for 2007. The Committee recommends that Irish Aid reviews its risk management strategy and monitoring frameworks to ensure that they are appropriate to the increased level of multilateral funding.

The Committee notes that the process of improving partners' internal financial control systems remains a major concern, which requires the continual engagement of audit and management staff throughout Irish Aid, working with other donors in the context of the Harmonisation Agenda of the Rome and

Paris Declarations. This process requires an integrated approach to development and financial control issues to ensure that aid from Ireland is spent effectively.

The Audit Committee re-iterates its analysis that employment creation has to be a key priority in the pursuit of sustainable development. The Committee also notes that support for the private sector was identified as a priority area in the White Paper on Irish Aid. It is pleased to note the progress that is ongoing in the area of private sector development, specifically that:

- Irish Aid has supported the formation of Traidlinks, a new Irish private sector- led NGO which aims to improve private sector capabilities in our Programme Countries through knowledge and skills transfer from Irish companies.
- Irish Aid will provide funding to the Investment Climate Facility (ICF), which is an independent trust, driven and controlled by the private sector and financed by contributions from business, the G8 countries, bilateral and multi-lateral agencies.
- The Irish Aid Private Sector Policy, which is in the final stages of completion, will set a framework for Irish Aid support in recognition of the fact that a wide range of issues impact on private sector development.

➤ **The Audit Committee recommends that:**

- Irish Aid publishes a policy statement that articulates Irish Aid's position on the management of the risks inherent in operating a diverse Aid Programme;
- Irish Aid, through its management and field-based internal audit staff, continues to engage with partner organisations to strengthen internal control systems to ensure that funds are spent effectively;
- The Department, building on its recently published internal fraud policy, formalises a policy, which includes matters of reporting and investigation,

to address fraud events occurring in partner organisations in receipt of Irish public funds;

- Irish Aid should continue to ensure that its management systems are sufficient to: (a) mitigate, to the greatest extent possible, the likelihood of occurrence of fraud, and (b) investigate occurrences of fraud in partner organisations and take appropriate actions in a timely manner;
- The implementation of the Department's Risk Management Policy and Programme continues to be monitored and reviewed;
- The risk registers are regularly up-dated, and that Management's response to identified risk be documented and made available to the Audit Committee at regular intervals;
- Irish Aid reviews its risk management strategy and monitoring frameworks to ensure that they are appropriate to the increased level of multilateral funding;
- Irish Aid ensures that employment creation is a key priority in the pursuit of sustainable development.

6. Organisational and Resource Matters

The Audit Committee welcomes the efforts made in 2006 to strengthen the resources of the Evaluation and Audit Unit, in particular, the appointment of an auditor dedicated to Vote 28. The Unit continues to have staffing constraints, but the Committee is pleased that the audit resources will be increased by two additional staff in 2007. In the interim, in order to overcome the staffing deficit, the Unit uses experienced consultancy support to implement its agreed work plan. The rapid expansion of the Aid Programme over the coming years demands that the resources of the Unit be continually reviewed and increased as appropriate to deliver effective evaluation and audit coverage.

The Audit Committee considers that the proper deployment of qualified, skilled and competent staff

is critical to the ability of any organisation to achieve its goals and objectives. With regard to Irish Aid's field offices, and in common with the Department's other Missions abroad, diplomatic and specialist staff are deployed under a planned posting system. The Committee is concerned that the imperative to achieve rotation of staff under the planned posting system should not undermine the management of bilateral Country Programmes.

The Audit Committee notes that the Department of Finance reviewed the issue of Professional Financial Training in the Civil Service under the Management Information Framework project. The Committee considers it desirable that the human resource management systems in the Department should provide appropriate career development for professionally qualified staff in the finance area, in order to underpin the effectiveness of the systems implemented under the Management Information Framework.

In its 2005 Annual Report, the Audit Committee recommended that Irish Aid give serious consideration to having key expertise on the ground during large-scale emergencies. The Committee now welcomes the Department's introduction of the special Rapid Response Initiative (RRI) to respond more effectively to sudden-onset emergencies. This Initiative involves:

- The pre-positioning and transportation of humanitarian supplies to disaster areas, as appropriate;
- A register of highly-skilled individuals, from the public and private sectors, including from the Defence Forces, for deployment at short notice to assist in an emergency relief effort;
- Funding for strengthened emergency response capacity within the UN, Red Cross and NGO families.

The Committee also welcomes the establishment of a new Crisis Centre in the Department of Foreign Affairs. This facility will ensure that the Department has a state

of the art facility to respond to the needs of Irish citizens caught up in emergencies overseas. The Committee commends the strong response of the Department's staff to the call for volunteers to man the Centre.

The Audit Committee welcomes the planned Management Review of Irish Aid as announced in the White Paper, which will be undertaken during 2007. This review will examine the management structure and functions of Irish Aid for the purpose of ensuring that they can support the future growth of the Aid Programme in a manner that ensures quality and accountability. The Committee believes that this review, which will be undertaken jointly with the Department of Finance, represents a crucial opportunity to address the serious staffing resource challenges currently experienced by the Programme.

The Audit Committee would encourage the Management Review to examine organisational structure issues regarding the Irish Aid Programme in order to ensure that Irish Aid is well positioned to deliver an effective Aid Programme with the expanding budget. It is critical that the Management Review leads to actions that ensure that Irish Aid is managed in line with best practice and with appropriate systems for the delegation of authority.

The Audit Committee welcomes the Townsend Report, which reviewed the management structures and systems in Irish Aid Missions in the Programme Countries. The report will form an input to the Management Review.

The process of decentralisation to Limerick, which commenced in 2007, presents risks with regard to resources. The Audit Committee is concerned that:

- The process is well managed; this includes monitoring the training needs of new personnel closely and providing the resources to address them;
 - The Department minimises the loss of key experienced personnel at a critical time of significant budgetary and programme expansion;
 - The coherence between aid and other aspects of foreign policy and management efficiency is not put at risk;
 - Travel and liaison costs will be optimised.
- **The Audit Committee recommends that:**
- **The Management Review of Irish Aid examines organisational structure issues in order to ensure that Irish Aid is well positioned to deliver an effective Aid Programme with the expanding budget;**
 - **The staffing levels in the Evaluation and Audit Unit of the Department of Foreign Affairs are continuously reviewed to ensure comprehensive evaluation and audit coverage, especially in the context of an expanding aid budget;**
 - **Staff recruitment processes should be reviewed to ensure that they are undertaken in a shorter time frame;**
 - **The internal audit requirements of each of the overseas offices in the Programme Countries are reviewed regularly by the Evaluation and Audit Unit and the Audit Committee, and that Management promptly implements any recommendation in relation to additional audit positions in the overseas offices;**
 - **The operation of the posting system for the deployment of diplomatic and specialist staff should not lead to excessive turnover of those managing bilateral Country Programmes in Irish Aid's field offices;**
 - **The findings and recommendations of the Townsend Report, which assessed staffing levels in Programme Countries, are considered during the Management Review;**
 - **Every effort is made to retain institutional and specialised development staff in Irish Aid as the Programme decentralises to Limerick.**

Appendices

Appendix 1

Dates of Audit Committee Meetings:

8th February 2006

8th March 2006

19th April 2006

16th May 2006

22nd May 2006

28th June 2006

13th September 2006

18th October 2006

9th November 2006

13th December 2006

In addition, the Committee held other working sessions during the year.

Appendix 2

Documents considered by the Audit Committee:

2003 Consolidated Report of Audits

2004 Consolidated Report of Audits

The Tsunami: Ireland and the Recovery Effort

Public Expenditure Review of Irish Aid Support for Education in Uganda and Zambia

Report of the Comptroller and Auditor General on the Appropriation Accounts

Joint Evaluation of General Budget Support to Tanzania, 1995-2004

Report on the Audit of Travel and Subsistence

Report on the Joint Evaluation of General Budget Support

Evaluation and Audit Multi-Year Work Plans

Appendix 3

Presentations received by the Audit Committee:

The Audit Committee received the following presentations during 2006:

The Joint Evaluation of General Budget Support (GBS)
- Stephen Lister, GBS Evaluation Team Leader and
Director of Mokoro Ltd.

Progress towards Implementation of the Paris
Declaration (March 2005) - Liz Higgins, Senior
Development Specialist, Technical Section, Irish Aid.

A Summary of the General Findings of the Report
of the Joint Evaluation on General Budget Support -
Patrick Empey, Development Specialist, Evaluation and
Audit Unit, Irish Aid.

Appendix 4 – Summary of Expenditure 2006

Vote 28: Foreign Affairs - Summary of Expenditure

Service	Estimate Provision €000	Outturn €000
Administration		
A.1. Salaries, Wages and Allowances	91,619	90,101
A.2. Travel and Subsistence	8,187	7,937
A.3. Incidental Expenses	6,707	6,595
A.4. Postal and Telecommunications	8,811	8,017
A.5. Office Machinery/Supplies	37,030	29,922
A.6. Office Premises Expenses	41,764	36,869
A.7. Consultancy Services	1,074	592
Sub-total	195,192	180,033
Other Services		
B. Repatriation and maintenance of distressed Irish persons abroad	27	160
C. Support for Irish Immigrant Services	12,000	11,828
D. Information Services	564	480
E. Contributions to bodies in Ireland for the furtherance of International Relations – (Grants-in-Aid)	288	288
F.1. North-South and Anglo Irish Cooperation	2,697	3,387
F.2. International Fund for Ireland	195	195
G. Cultural Relations with other Countries (Grant-in-Aid)	981	981
H. Irish-American Economic Advisory Board	28	22
I. Contributions to International Orgs.	26,361	26,711
J. Actions consequent on Title V of the Treaty on European Union	516	422
K. Assistance to EU and other Eastern European States	2,847	2,072
L. Atlantic Corridor Project	250	250
M. Millennium Projects	1,200	0
N. Asia Strategy	200	133
Sub-total	48,154	46,929
Gross expenditure	243,346	226,962
O. Appropriations-in-Aid (deduct)	39,000	38,608
Net expenditure	204,346	188,354

Appendix 4 – Summary of Expenditure 2006

Vote 29: International Cooperation - Summary of Expenditure

Service	Estimate Provision €000	Outturn €000
ADMINISTRATION - Subheads A1/7		
A.1. Salaries, Wages and Allowances	15,744	15,096
A.2. Travel and Subsistence	2,660	2,455
A.3. Incidental Expenses	3,531	3,141
A.4. Postal and Telecommunications	1,500	1,108
A.5. Office Machinery /Supplies	1,020	992
A.6. Office Premises Expenses	2,099	2,370
A.7. Consultancy Services	2,000	2,248
Sub-total	28,554	27,410
Other Services		
B. Payment to Grant-in-Aid Fund for Bilateral Aid and other Cooperation	426,510	426,510
C. Emergency Humanitarian Assistance	60,000	60,000
D. Payments to International Funds for the benefit of Developing Countries	22,650	22,637
E. Contributions to United Nations and other Development Agencies	62,900	62,900
Sub-total	572,060	572,047
Gross Total	600,614	599,457
F. Appropriations-in-Aid (Deduct)	135	630
Net Total	600,479	598,827

Appendix 5 – Audits, Evaluations and Value for Money Reviews in 2006

Audit - Vote 28

The Evaluation and Audit Unit initiated its audit programme of missions abroad in 2006. Three audits were undertaken, one of which was a joint inspection-audit assignment undertaken with the Department's Inspection Unit.

Audit - Vote 29

Detailed below, by programme country, are tables of audit reports that have been completed as of 1st April 2007. They include some Internal Audit reports of the Department, but the majority of reports are largely comprised of the Audit Reports generated by our development partners, which when collected are analysed and relied upon for assurance.

These financial audits cover the embassies, consulates and offices of Irish Aid overseas, and programmes and projects funded by the Irish Government, and relate to the 2004 and 2005 financial years. The number of audits is largely affected by the aid modalities being used in a particular country. The majority of reports are the Audit Reports generated by our development partners, on which the Department places reliance. During the year, a number of additional audit reports in relation to Irish Aid's 2004 expenditure became available.

Additional Audit Reports on Irish Aid's 2004 Expenditure

2004 Expenditure by Country	Number of Audits
Mozambique	2
Tanzania	1
Uganda	7
Zambia	8
Ethiopia	6
Total Additional Reports	24

Audit Reports on Irish Aid's 2005 Expenditure

2005 Expenditure by Country	Number of Audits
Ethiopia	35
Lesotho	22
Mozambique	32
South Africa	18
Tanzania	30
Timor Leste	2
Uganda	38
Zambia	47
Zimbabwe	5
Multi-country	2
Total	*231

* These figures include internal audits and field visits that were completed in 2005 and 2006 but relate to Irish Aid's 2005 expenditure.

The Evaluation and Audit Unit also initiated an assignment in late 2006 to map the audit processes of some of Irish Aid's civil society partners.

Appendix 5 – Audits, Evaluations and Value for Money Reviews in 2006

Evaluation

Vote 29 Evaluations completed by Irish Aid in 2006 and available on the Irish Aid website:

Evaluation of Country Programme in Mozambique 2004-2006 (to be published 2007);

Evaluation of South Africa Country Strategy Plan (to be published 2007);

A Value for Money Review of Irish Aid's Support to Tsunami Affected Countries (to be published 2007).

Evaluations published in 2006 by other Donors that were conducted jointly with Irish Aid:

Peer Review of the Evaluation Function at United Nations Children's Fund (UNICEF);

Joint Evaluation of General Budget Support, 1994-2004;

Joint Donor Evaluation of the Humanitarian Response to Tsunami.

Unpublished evaluations finalised in 2006 and available on the Irish Aid website:

Evaluation of the Irish Aid/Tigray Regional Support Programme (TRSP);

Joint Review of the Irish Aid NGO HIV/AIDS Partnership Scheme;

Evaluation and Audit of Eastern Europe Scheme.

Value for Money Reviews

Under the current round of the Value for Money Review Initiative, the Department is committed to undertaking five reviews covering both Votes. As at 1st April, 2007, the following reviews were either near completion or underway:

Vote 28:

- Support for Irish Emigrant Groups Abroad;
- Review of the Passport Service.

Vote 29:

- Irish Aid Support for Relief from the Tsunami Disaster;
- Development Aid to Mozambique;
- Irish Aid Support for HIV/AIDS.