



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

annual report 2007



Department of Foreign Affairs
An Roinn Gnóthaí Eachtracha

Contents

Chairman's Statement	1
Audit Committee Charter	5
Operation of the Audit Committee	6
Audit Environment of the Department	7
1. Structure of the Department	7
2. External Environment	7
3. High Level Goals, 2008-2010	8
4. Financial Management	8
5. Audit Arrangements of the Department	8
Audit Committee Comments and Recommendations for 2007	10
1. Management Information Systems and Internal Controls	10
2. Internal Audit	11
3. Evaluation	13
4. Risk Identification	14
5. Organisational and Resource Matters	16
Appendix 1 – Dates of Audit Committee Meetings	20
Appendix 2 – Key Documents Considered by the Audit Committee	21
Appendix 3 – Presentations Received by the Audit Committee	22
Appendix 4 – Summary of Expenditure 2007	23
Appendix 5 – Audits, Evaluations and Value for Money Reviews in 2007	25

Chairman's Statement 2007

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

The Audit Committee of the Department of Foreign Affairs is pleased to present its annual report to the Secretary General of the Department of Foreign Affairs who is the accounting officer for Votes 28 and 29. Our report relates to the year 2007 and the expenditure profile of both Votes is represented by the following table.

		Estimate Gross (€million)	Outturn Gross (€million)
Vote 28	Foreign Affairs	214.9	205.0
Vote 29	International Cooperation	729.8	727.0
	Totals	944.7	932.0

The Audit Committee continues to be comprised of members drawn from outside of Government Departments. We are happy to report that the pattern and practice of the Department of Foreign Affairs in addressing recommendations made by the Audit Committee has continued during 2007.

In last year's report we noted that Irish Aid is at critical stage in its history and that the triple impact of: (i) a significant increase in funding allocations to overseas aid; (ii) the announcement of new and additional programme countries; and (iii) the decentralisation of Irish Aid to Limerick, all present unique challenges, opportunities and risks. The seven elements of the Department's audit environment, which are outlined in the Section titled **Audit Environment of the Department**, contribute to a level of assurance as to the proper use of public funds.

The Audit Committee acknowledges that a very strong case can be made in support of aid modalities that channel resources through government systems. However, the resulting development benefits must be seen in the context of the fiduciary risks. The Committee is concerned that, in many developing countries, which are often characterised by high levels of corruption, there are significant weaknesses in government accounting and financial systems, and these shortcomings result in qualified audit reports. These control issues arise from weak accounting systems, internal financial controls, capacity and staff retention. Together with other donors, Irish Aid is working to strengthen systems of internal control in partner countries (see box on page 14 for an excellent example). It is essential that it continues to do so and that there is evidence of the emergence of credible Public Financial Management systems in our partner countries.

In working towards the achievement of these objectives, the Audit Committee strongly recommends that Irish Aid continues to work in collaboration with other donors in building the capacity and competency of the National Auditor General Offices in our programme countries. In pursuit of this objective, the Audit Committee is strongly of the view that, as a matter of critical importance, Irish Aid should recruit and build capacity and expertise in the area of Public Financial Management systems.

The Audit Committee worked during 2007 with the Advisory Board for Irish Aid on eight research projects focused on documenting best practices in the measurement of the impact of aid and development projects. This important research initiative is both timely and challenging, and has the potential to influence the policy agenda significantly in the years ahead. The research is noteworthy for the way it indicates how difficult and complex it can be to measure impact in a credible and cost effective way. During 2008, the Audit Committee would like to see

a considered and structured response from Irish Aid's senior management to this body of research and to encourage initiatives that lead to the optimum dissemination of the research evidence and results.

The Taoiseach's Initiative on HIV/AIDS is indicative of a very serious commitment by Ireland to developing strategies that respond appropriately to the alarming HIV/AIDS pandemic that acts as such a constraint to the achievement of development goals and objectives. The Audit Committee gave significant attention during 2007 to reviewing the varying modalities administered by Irish Aid in the allocation of funding to strategies that seek to fight the pandemic. The Audit Committee is concerned that the high level of political commitment to responding to the HIV/AIDS pandemic is not matched by adequate staffing resources at Irish Aid. This reality poses serious operational and other risks to the management of Irish Aid's diverse and complex HIV/AIDS programme. It is of the utmost importance that Irish Aid strengthens significantly the staffing resources in the HIV/AIDS programme to enhance capacity and expertise or, alternatively, that it plans and operates a less complex programme that can be confidently and professionally managed by the existing staff base.

In our 2006 report, we welcomed the planned Management Review of Irish Aid as announced in the White Paper. This review promised to 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. Last year's report encouraged the Management Review to examine organisational structure issues regarding the Irish Aid Programme to ensure that Irish Aid is well positioned to deliver an effective Aid Programme as the budget expands. During the review process, the Audit Committee met with both the Management Review Consultants and the Steering Committees. We await sight of the final report with interest and argue

that it is crucial 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 in this report outlines salient comments and concerns under five distinct headings in the Section titled **Audit Committee Comments and Recommendations for 2007**. The Committee makes a number of specific recommendations acknowledging the inherent level of risk associated with a development aid environment, but confident that these recommendations have the potential to build capacity and enhance the level of audit and evaluation assurance. These recommendations are accessible by observing the bullet points highlighted in bold print.

The Audit Committee's focus for 2008 is outlined under the Section that details the **Operation of the Audit Committee**.

I wish to thank the members of the Audit Committee - the late John A. Jackson, Valerie Little, John S. Pittock, and Mike Scott - for their time and valuable contributions to its work during the year. I am pleased with the news that the capacity of the audit committee has been enhanced with the appointment during 2008 of Dr. Richard Boyle, Senior Research Officer, Institute of Public Administration and Mr. Philip Furlong, a Former Secretary General of the Department of Arts, Sports and Tourism.

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 - Finbar O'Brien, Tom Hennessy, Brian Nolan, Donal Murray, Patrick Empey, Anne Barry and Séamus O'Grady.

At the time of writing, both Finbar O'Brien and Patrick Empey have left the Evaluation and Audit Unit. We wish them both every success and happiness in their new postings and appointments.

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

Date:

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 2007, 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).

The late 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, deceased June 2007).

Mr. John S. Pittock is a Chartered Accountant and was formerly chairman of Deloitte (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. Michael Scott is a former Head of Evaluation and Audit, Irish Aid (Appointed June 2006).

Dr. Richard Boyle is a Senior Research Officer, Institute of Public Administration (Appointed January 2008).

Mr. Philip Furlong is a former Secretary General of the Department of Arts, Sports and Tourism (Appointed January 2008).

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 nine occasions during 2007.

In addition to these meetings, Professor John A. Jackson and Mr Michael Scott visited Swedish International Cooperation (SIDA) in March 2007 for meetings with their evaluation department.

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 2007, the main issues dealt with by the Audit Committee were:

- The International Donors' Harmonisation Agenda;
 - The Management Review of Irish Aid;
 - The Department's Internal Control Framework and Use of Management Information;
 - Organisational Resources.
- The Audit Committee has set a number of priority issues for 2008, including:
- Irish Aid's engagement with the United Nations (jointly with the Advisory Board for Irish Aid);
 - Public Financial Management in programme countries.
- Irish Aid Support for HIV/AIDS;
 - Accountability for Irish Aid's Contributions to Multilateral Organisations;
 - Measuring Impact Assessment in the Aid Programme;

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 75 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 nine 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 would result in a budget of in excess of €1 billion in that year.

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

3. High Level Goals, 2008-2010

The Department's high level goals, as set out in the Strategy Statement for the period 2008-2010¹, are:

Contribute to international peace and security, promote conflict resolution, respect for human rights and the rule of law, and support effective common strategies to address global challenges.	Promote the full implementation of the Good Friday Agreement by supporting the effective operation of its institutions, strengthening North/South cooperation and working for lasting reconciliation.
Deliver on the commitments in the White Paper on Irish Aid through reducing poverty, supporting sustainable development and promoting development cooperation as an integral part of Ireland's foreign policy.	Promote Ireland, its bilateral relations with other countries, advance our economic interests and enhance our cultural profile overseas.
Secure Ireland's interests in the EU and contribute fully to the Union's future development.	Provide a high quality passport and consular service to all Irish citizens and actively engage with our Diaspora.

4. Financial Management

The Department's total expenditure in the 2007 financial year was €932 million, comprising Vote 28 (Foreign Affairs- €205 million), and Vote 29 (International Cooperation - €727 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 presented in the format of an *Annual Output Statement* linking costs to high level goals and objectives with 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. Evaluation is the systematic and objective assessment of the design, implementation and results of projects, programmes and policies. In particular it assesses the effectiveness of an intervention

¹ Supersedes the Statement of Strategy for the period 2005 to 2007.

against its stated objective. Evaluation also plays a critical role in lesson learning and in supporting the overall accountability framework of Irish Aid.

- 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 the Evaluation and Audit Unit 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 (Appendix 5).

Audit Committee Comments and Recommendations for 2007

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 Systems and Internal Controls
2. Internal Audit
3. Evaluation
4. Risk Identification
5. 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 Systems and Internal Controls

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

The Audit Committee acknowledges the important roles of the Expenditure Monitoring Group and the Irish Aid Senior Management Group in the management of the Department's two Vote allocations. The Committee recommends that deployment of staff by Departmental management should take account of the need to provide support for the effective operation of the Department's internal financial control framework.

The Office of the Comptroller and Auditor General has overall responsibility for the independent audit of all Government expenditure. The Office has reported on the appropriation accounts for Vote 28 and Vote 29 for 2007, and there were no significant control issues highlighted.

The Audit Committee welcomes the establishment of a Knowledge Management Working Group in Irish Aid and looks forward to its output, which includes the reporting derived from the financial management system. In view of the expansion of the aid programme and the significant turnover of experienced staff due to decentralisation, the development of a robust knowledge management strategy is very important to support Irish Aid in achieving its objectives in the coming years.

The Committee notes that Irish Aid completed a comprehensive review of programme approvals processes in 2007. It looks forward to the outcomes of this review feeding into a strengthening of Irish Aid's approvals processes, which should be unified, standardised and comprehensive, and linked to the organisation's formal budgetary control arrangements.

Recommendations:

The Audit Committee recommends that:

- The recommendations of Irish Aid's Knowledge Management Working Group are given due consideration by management and implemented where appropriate;
- 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.
- Irish Aid strengthens its system of approvals and related budgetary control procedures to ensure they are appropriate to the size and complexity of the aid programme.

2. Internal Audit

Internal audit is a key element of the governance arrangements of the Aid Programme. The main objective of Irish Aid's audit programme is to gain assurance that funds granted are used for the purposes intended.

The Evaluation and Audit Unit operates on the basis of a three-year rolling work plan that is reviewed by the Audit Committee. The work plan takes into account developments in the overall aid programme and the areas where risk is perceived as higher.

In 2007, audit coverage was achieved through:

- Work carried out directly by Irish Aid's Evaluation and Audit Unit, and by our internal auditors based at Missions in programme countries;
- Work carried out by internationally reputable audit firms commissioned by Irish Aid;
- Joint donor funded audits of specific programmes (e.g. of the agriculture sector in Mozambique, where Ireland jointly funds an audit with Canada, Denmark, Sweden Austria and Finland), and;
- Audit reports obtained from partner organisations (e.g. Government partners in programme countries – where audits have generally been carried out by National Audit Offices - and Non-Governmental Organisations).

Within the audit work plan, greater focus is given to Irish Aid's programme countries due to expenditure in this area constituting a significant proportion of the overall aid budget and the level of associated risk. As systems of control in developing countries are often weak, Irish Aid also works closely with partner governments and other organisations to improve their financial and accounting systems. This work includes strengthening audit institutions and standards in line with international best practice, with capacity building where appropriate. In this context, the Audit

Committee reviewed the Audit Reports on expenditure for 2005 (latest year for which data is available), which included details of the audit issues from the programme countries' reports.

The Audit Committee notes that a significant proportion of Irish Aid's programme country spending occurs through partner Government systems. This approach reflects Ireland's commitment under the Paris Declaration on Aid Effectiveness to work jointly with other donors and partners to efficiently harmonise and align aid delivery - which is to be welcomed. The Committee is concerned that, in many developing countries, there are significant weaknesses in government accounting and financial systems, and that these shortcomings result in qualified audit reports. The Audit Committee, however, acknowledges that that Irish Aid and other donors are making determined and systematic efforts to improve overall accounting, financial and oversight systems in partner organisations. The Committee intends to continue to vigorously focus on these issues in 2008, including reviewing the extent of progress being made by Irish Aid and other donors in achieving significant improvement in the overall systems of partner organisations, especially National and Local Governments.

Irish Aid also works in collaboration with other donors and its partners to strengthen accountability arrangements, including financial management and auditing systems in the Offices of National Auditors General in Ethiopia, Uganda, Mozambique and Lesotho. The Committee will continue to pay particular attention to how Irish Aid supports capacity development in these offices and will also explore how, perhaps, the Office of the Comptroller and Auditor General can play a role in these processes.

Case Study

In Ethiopia, part of the Tigray Support Programme entails reliance on the audit report of the Region's own Auditor General. The initial assessment of the audit capability and capacity of the Office of the Auditor General (ORAG) was that, while it needed strengthening to overcome capacity constraints, there was, and remains, strong leadership in the office. A capacity needs assessment was undertaken which identified constraints including a lack of resources such as computers; transport etc to enable staff to carry out audits, and also skill deficiencies with existing staff. A lack of understanding of audit and oversight among members of parliament was also identified as a problem area.

As an effective and timely audit is one of the key conditions of regional support. Irish Aid has assisted ORAG in addressing its capacity needs over the past three years. This has included:

- Provision of equipment - vehicles, computers, audit software, printers, etc
- Computer and software training, refresher training on auditing techniques, support for upgrading qualifications to ACCA/CIA and diploma and degree levels, manual translations, professional books, experience sharing.

Training also included awareness-raising for parliament members, including the Budget and Accounts Committee which has responsibility for audit issues, and regional government sector bureau heads. ORAG employees also participated in experience sharing visits to Federal and other Regional Auditor General Offices.

It is evident from the annual reports of ORAG that following the support from Irish Aid, the capacity of the Tigray ORAG has substantially improved. It has increased the number of regional sector and district offices that it audits each year, and presents its reports to the Regional Parliament within 3-4 months of the year end. The Regional Budget and Accounts Committee has been active in responding to the ORAG's report, including conducting visits to weaker districts and offices to follow up on adverse findings.

The ORAG is now also managing to complete the annual audit of the regional consolidated accounts by the due deadline of twelve months after the year end. This has also been facilitated by the success of the Irish Aid-supported Decentralisation Support Activity project which has enabled the regional finance bureau to compile and finalise the required accounts on a more timely basis.

Management has established arrangements for regular reporting to the Audit Committee on follow-up action on the implementation of recommendations and issues raised in previous annual reports of the Committee and also in the reports of the Evaluation and Audit Unit. The Committee welcomes this.

With regard to Vote 28, internal audits were conducted at five Missions abroad, including one visit which was undertaken jointly with the Inspection Unit. The Audit Committee noted that a positive audit opinion was given in each case. The Committee looks forward to the finalisation and approval of the audit strategy and multi-year work programme for Vote 28.

Recommendations:

The Audit Committee recommends that:

- The audit strategy and multi-year work plan for Vote 28 be finalised and approved by the Secretary General;
- In view of the significant level of funding that Irish Aid provides to Government partners in programme countries, Irish aid should:
 - Continue its determined efforts, in collaboration with other donors, to address audit deficiencies and strengthen partners' systems of internal control;
 - In collaboration with other donors, continue to support the strengthening of the capacity of the Offices of National Auditors General in partner countries;
- Evaluation of the Development Training and Learning Programme Initiative - D-Talk (Support for training for the NGO and Missionary sectors);
- Joint Evaluation of the International Labour Organisation - Irish Aid Partnership Programme (led by ILO);
- Joint Evaluation of the Health Sector, Tanzania (led by Danida, Denmark);
- Joint Evaluation of the Global e-Schools and Communities Initiative (GeSCI) – (led by Irish Aid).

In addition to these assignments, two other Value for Money Reviews were commenced in 2007 and are due for completion and publication in 2008:

- Value for Money Review of the Passport Service (Vote 28);
- A Value for Money Review of Irish Aid Support for HIV/AIDS.

3. Evaluation

The Committee welcomes the publication of Irish Aid's Evaluation Policy in 2007. The policy sets out Irish Aid's approach to evaluation and outlines how evaluation helps Irish Aid improve the effectiveness, efficiency and relevance of its development assistance.

The Evaluation and Audit Unit's annual work programme focuses on evaluations that are of particular strategic importance to Irish Aid, including the Department's programme reviews under the Government's Value for Money and Policy Review initiative.

Key evaluations for 2007 included:

- A Value for Money Review of Irish Aid's Support to Tsunami Affected Countries;
- Evaluation of the Mozambique Country Programmes 2001 – 2006 (a Value for Money Review);
- Review of the Irish Missionary Resource Service;

When appropriate, Irish Aid undertakes evaluations on a joint basis with other donors.

The Audit Committee recognises this developing trend as an efficient means of achieving valuable lesson learning and accountability. In this regard, the Joint Evaluation of the Health Sector in Tanzania, which was managed by Danida's (Denmark) Evaluation Department on behalf of the Tanzanian Government and other donors, including Irish Aid, provided many valuable insights. The evaluation found significant progress in reducing infant and child mortality. It also recorded notable improvements in the availability of drugs, the provision of equipment and the training for hospital staff, even though hospital reform has not progressed at the same pace as other aspects of the health sector reforms. It noted, in particular, that the joint Government-Donor funding mechanism has been particularly effective in strengthening district health services. However, despite these improvements, the report concluded that much more has to be done,

especially in reducing maternal mortality. It also determined that some of the constraints to equitable access to services are outside the direct control of the health sector as they are based on geographic isolation and high transport costs.

The Audit Committee welcomes the publication of the final report on Impact Measurement, which was commissioned by the Advisory Board for Irish Aid. Key findings included:

- There is a need for more in-depth and rigorous assessments of discrete projects;
- Expectations of accurate assessment of the relationship between aid and the Millennium Development Goals (MDG) needs to be tempered;
- Overall policy coherence needs further consideration;
- Gaps exist in assessing the impact of development aid channelled through NGOs.

The Committee recommends that Irish Aid disseminates the synthesis report throughout the organisation and uses the key findings in future strategic planning exercises.

The Audit Committee recognises that a significant proportion of Irish Aid's budget in programme countries is channelled through partner government systems in support of poverty reduction strategies. The decision to channel funds via government systems comes at the end of a lengthy engagement with the partner country, an assessment of the local public finance environment, and usually in partnership with other donors. The Committee emphasises the need for Irish Aid to monitor the results and poverty-reduction impact achieved through the use of general budget support. The Audit Committee recommends that Irish Aid continues to give attention to lesson learning from the joint donor evaluation on General Budget Support and it looks forward to the finalisation of Irish Aid's criteria for engagement with this funding modality.

Recommendations:

The Audit Committee recommends that:

- The 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 be finalised;

4. Risk Identification

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

The Committee welcomes the new Irish Aid Operational Plan which will guide the implementation of policies and commitments in the White Paper on Irish Aid, consistent with its core principles. The plan aims to ensure that Irish Aid programmes and management structures deliver real and lasting benefits to its developing country partners. The Committee notes that the Operational Plan reflects international and national considerations which Ireland's expanding Aid Programme needs to take account of, including: anticipated increases in the volumes of official development assistance; new and emerging donors, foundations and global initiatives, and the need for greater accountability among global institutions and development agencies.

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 Audit Committee notes that as the aid programme has expanded rapidly in recent years, it is essential that there is a continued focus on measuring impact and achieving value for money. The Committee also considers that there may be a need to review the complexity of the aid programme to ensure that it is focused on those areas where Irish Aid has particular strengths, and optimises the use of resources. Furthermore, such a review should encompass the obligations to achieve greater sectoral specialisation and harmonisation of donor practices as agreed in the Paris Declaration on Aid Effectiveness.

The Committee welcomes the deeper engagement of Irish Aid with other Government Departments (through the Inter-Departmental Committee on Development) and other institutions, and the strengthening of relationships with existing partners and stakeholders.

The Committee is conscious that Irish Aid provides support to the poorest countries in the world, some of which are ranked as having a high level of corruption. It recognises that working in countries with weak governance generates risk for donors, including Ireland. Since corruption affects the poorest in society, the Committee acknowledges Irish Aid's continued commitment to addressing corruption through improving transparency and accountability, supporting public oversight institutions, parliamentary reform and the independent media, and building the capacity of civil society to influence and monitor public policy decisions. While the Committee is satisfied that Irish Aid's audit processes seek to provide assurance

regarding public funding, it also encourages Irish Aid, in collaboration with other donors, to continue its determined efforts to promote the rectification of audit deficiencies and the strengthening of systems of internal control in partner organisations. (See also earlier section 'Internal Audit').

The Audit Committee recognises that fraud is an inherent risk in a development aid environment. The Audit Committee welcomes the recent adoption by Irish Aid of a code of practice for its staff for dealing with fraud in partner organisations in receipt of Irish public funds.

Following a decision to scale up multilateral funding in 2007, the Audit Committee notes that total Irish Aid contributions to UN Funds and Programmes now constitute 17% of Overseas Development Assistance. The Committee welcomes the adoption of a selective approach in the identification of priority agencies as UN partners, such as UNICEF, UNDP, UNHCR, UNFPA, WHO. It also welcomes the development of an Accountability Framework for Irish Aid's engagement at global, multi-donor and bilateral levels. At global level, this involves Irish Aid becoming an active member of the UNDP Board in 2008. Furthermore, it will contribute to the development of future UNFPA and UNDP strategic plans. At the multi-donor level, the Committee welcomes Irish Aid's imminent membership of the Multilateral Organisation Performance Assessment Network (MOPAN), as well as other multi-donor groups and evaluation exercises. The Committee looks forward to receipt of reports issued by MOPAN when received by Irish Aid.

At bilateral level, the Committee views the development of Framework Agreements with clear objectives and indicators with priority UN partners as a positive advance. It anticipates that these will be complemented by more meaningful bilateral consultations, where Irish Aid knowledge and experience gained at country level can be channelled

directly into the reform agenda, whilst results can be monitored at field level. The Committee looks forward to being briefed as to what has been achieved against agreed key indicators in the Framework Agreements.

The Audit Committee is of the opinion that an increased focus on agriculture and employment creation may be desirable within the aid programme in the pursuit of sustainable development. The Committee suggests that these are areas which the Advisory Board may wish to engage with further (perhaps in consultation with the Audit Committee).

Recommendations:

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;
- 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, (b) investigate occurrences of fraud in partner organisations and take appropriate actions in a timely manner, and (c) maintain a record of all investigations conducted;
- The implementation of the Department's Risk Management Policy and Programme continues to be monitored and reviewed;
- Irish Aid ensures that its risk management framework encompasses funding provided to multilateral organisations;
- Irish Aid reviews the complexity of the aid

programme to ensure that it is focused on those areas where Irish Aid has particular strengths and optimises the use of resources. Such a review should encompass the obligations to achieve greater sectoral specialisation and harmonisation of donor practices as agreed in the Paris Declaration on Aid Effectiveness.

5. Organisational and Resource Matters

The Audit Committee notes that despite efforts made in 2007 to strengthen the resources of the Evaluation and Audit Unit (in particular through the appointment of additional audit staff), the Unit was under-resourced during the period under review. The Audit Committee has concerns that the current level of vacancies may be limiting the effectiveness of the Evaluation and Audit Unit. Given that an effective evaluation and audit function is critical to accountability in the aid programme, the Audit Committee looks forward to the vacancies being filled without delay.

The Audit Committee supports the concerns of the HIV/AIDS Technical Advisory Group to Irish Aid that the high political commitment to responding to the HIV/AIDS pandemic is not matched by adequate staffing resources. The Committee believes that the shortage of appropriately qualified staff poses serious operational and other risks to the management of a diverse and complex HIV/AIDS Programme. These staffing issues should be addressed urgently.

As noted earlier in this report, a significant proportion of Irish Aid's budget in programme countries is channelled through partner government systems in support of poverty reduction strategies. Given the need to support the strengthening of financial management and National Audit Offices in its programme countries, the Audit Committee urges Irish Aid to recruit and build capacity and expertise in the area of Public Financial Management.

The Audit Committee has engaged with the Management Review of Irish Aid, and has articulated its concerns on a number of management-related matters, such as staffing resources, qualifications levels and recruitment matters. The Committee looks forward to receiving the final report and implementation of its recommendations.

The Audit Committee notes that the decentralisation of Irish Aid headquarters to Limerick is now almost complete, and has been advised by the Department that steps have been taken to ensure that the move will not negatively impact on the effectiveness of the management of the aid programme.

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 the bilateral Country Programmes.

The Audit Committee notes that the Department of Finance has previously reviewed the issue of Professional Financial Training in the Civil Service under the Management Information Framework project. It is not clear whether the recommendations of the report have been accepted or implemented. 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.

Recommendations:

The Audit Committee recommends that:

- **Vacancies, including the Head of Unit post, in the Evaluation and Audit Unit are filled without delay, and resources are kept under review to ensure that there is a comprehensive and robust evaluation and audit function;**
- **Staff recruitment processes should be reviewed to ensure that they are undertaken in a shorter time frame;**
- **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;**
- **Every effort is made to replace institutional and specialised development staff lost as a result of the decentralisation of Irish Aid;**
- **The Department keeps human resource management under review 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;**
- **Irish Aid strengthens its capacity and expertise in the area of Public Financial Management.**

Appendices

Appendix 1

Dates of Audit Committee Meetings:

25 January 2007

23 February 2007

14 March 2007

03 May 2007

14 June 2007

22 October 2007

16 November 2007

11 December 2007

18 December 2007

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

Appendix 2

Key Documents Considered by the Audit Committee:

Taoiseach's Initiative on HIV/AIDS and other Global Communicable Diseases - (*Draft*) 2006 Report

Taoiseach's Initiative on HIV/AIDS and other Global Communicable Diseases - (*Draft*) 2007 Operational Plan

Irish Aid Report on Expenditure on HIV/AIDS Prevention, Treatment and Care

Department of Foreign Affairs – Fraud Policy Statement February 2007

Strategic framework paper for Irish Aid for engagement with UN Funds, Programmes and Agencies – Oxford Policy Management

Audit Reports on Expenditure for 2005

Peer Review of the Evaluation function at UNICEF – Final Report May 2006

Value for Money and Policy Review of the Support for Irish Emigrant Groups Programme – July 2007

Evaluation of the Mozambique Country Programmes 2001 to 2006 - a Value for Money Review

Measuring Impact: the Global and Irish Aid Programme Context (Advisory Board for Irish Aid)

Irish Aid Operational Plan 2007- 2012

Evaluation and Audit Work Plans

Appendix 3

Presentations Received by the Audit Committee:

During 2007, the Audit Committee received presentations on the following:

HIV/AIDS: Irish Aid's Response – Dr. Vincent O'Neill, Head of Technical Section, February 2007

Update on recent developments in Irish Aid by the Director General, Ronan Murphy and Deputy Director General, Brendan Rogers, May 2007

The Structure of the Vote 28 Budget, including recent reforms - Assistant Secretary Adrian O'Neill, June 2007

The HQ Audit Tracking System - Tom Murphy, Corporate Development and Decentralisation Section, June 2007

Measuring Impact: the Global and Irish Aid Programme context – a presentation by the Advisory Board for Irish Aid

The Multilateral Development Programme, developments during 2007 – Feilim McLaughlin, Head of Multilateral UN Section, November 2007

Various presentations by the Evaluation and Audit Unit.

Appendix 4 – Summary of Expenditure 2007

Vote 28: Foreign Affairs

	Estimate Provision €000	Outturn €000
Administration		
A.1. Salaries, Wages and Allowances	96,018	97,544
A.2. Travel and Subsistence	8,600	7,417
A.3. Incidental Expenses	6,750	6,939
A.4. Postal and Telecommunications Supplies	8,600	8,100
A.5. Office Machinery and other Office supplies and Related Services	27,350	31,658
A.6. Office Premises Expenses	47,640	32,777
A.7. Consultancy Services	900	246
A8. Value for Money and Policy Reviews	100	30
Total Administration Expenses	195,958	184,711
Programme Expenditure		
B. Repatriation and Maintenance of Distressed Irish Persons Abroad	77	43
C. Support for Irish Emigrant Services	15,165	14,180
D. Information Services	566	415
E. Contributions to bodies in Ireland for the furtherance of International Relations – (Grants-in-Aid)	320	320
F.1. North-South and Anglo Irish Cooperation	3,000	2,694
F.2. International Fund for Ireland	195	195
G. Cultural Relations with other Countries (Grant-in-Aid)	891	891
H. Irish-American Economic Advisory Board	28	4
I. Contributions to International Organisations.	32,498	37,291
J. Actions consequent on Title V of the Treaty on European Union	582	582
K. Assistance to EU and other Eastern European States	2,215	1,347
L. Atlantic Corridor Project	250	250
M. Asia Strategy	200	168
N. Support for Ireland Funds	2,000	0
Total Programme Expenditure	57,987	58,380
Gross Expenditure	253,945	243,091
O. Appropriations in Aid	39,000	38,044
Net Expenditure	214,945	205,047

Appendix 4 – Summary of Expenditure 2007

Vote 29: International Cooperation - Summary of Expenditure

Service	Estimate Provision €000	Outturn €000
ADMINISTRATION - Subheads A1/7		
A.1. Salaries, Wages and Allowances	17,752	17,036
A.2. Travel and Subsistence	3,030	2,697
A.3. Incidental Expenses	3,615	2,462
A.4. Postal and Telecommunications Services	1,420	1,009
A.5. Office Machinery and other Office supplies and Related Services	1,320	1,153
A.6. Office Premises Expenses	2,327	2,669
A.7. Consultancy Services	2,572	2,840
A.8. Value for Money and Policy Reviews	190	190
Sub-total	32,226	30,056
Other Services		
B. Payment to Grant-in-Aid Fund for Bilateral Aid and other Cooperation (Grant in Aid)	497,041	497,041
C. Emergency Humanitarian Assistance	90,000	90,000
D. Payments to International Funds for the Benefit of Developing Countries	24,250	24,217
E. Contributions to United Nations and other Development Agencies	86,440	86,432
Sub-total	697,731	697,690
Gross Total	729,957	727,746
F. Appropriations-in-Aid (Deduct)	150	774
Net Total	729,807	726,972

Appendix 5 – Audits, Evaluations and Value for Money Reviews in 2007

Audit - Vote 28

The Evaluation and Audit Unit initiated its audit programme of missions abroad in 2006. During 2007, seven 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.

These audits cover the embassies and offices of Irish Aid overseas, and programmes and projects funded by the Irish Government, and relate to the 2005 and 2006 financial years. The number of audits is largely affected by the aid modalities being used in a particular country. During the year, a number of additional audit reports in relation to Irish Aid's 2005 expenditure also became available.

Additional Audit Reports on Irish Aid's 2005 Expenditure

	Number of Audits
Tanzania	1
Uganda	1
South Africa	4
Ethiopia	1
Total Additional Reports	7

Audit Reports on Irish Aid's 2006 Expenditure

	Number of Audits
Ethiopia	21
Lesotho	22
Mozambique	32
South Africa	17
Tanzania	10
Timor Leste	2
Uganda	22
Zambia	36
Zimbabwe	7
Total	*169

* These figures include internal audits and field visits that were completed in 2006 and 2007 but relate to Irish Aid's 2006 expenditure.

Appendix 5 – Audits, Evaluations and Value for Money Reviews in 2007

Evaluation

Vote 29 Evaluations completed by Irish Aid in 2007 and available on the Irish Aid website:

- Evaluation of Irish Aid Support to Primary Education in the Rwenzori Region, Uganda;
- Evaluation of Irish Aid's World Bank Education Trust Fund.

Joint Donor Evaluations conducted with Irish Aid involvement in 2007:

- Joint Evaluation of the International Labour Organisation - Irish Aid Partnership Programme (led by the ILO);
- Joint Evaluation of the Health Sector, Tanzania (led by Danida, Denmark) – available on the Irish Aid website;
- Joint Evaluation of the Global e-Schools and Communities Initiative (GeSCI) – (led by Irish Aid).

Other evaluations finalised in 2007:

- Review of the Irish Missionary Resource Service;
- Evaluation of the Development Training and Learning Programme Initiative - D-Talk (Support for training for the NGO and Missionary sectors).

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.

Vote 28:

- Support for Irish Emigrant Groups Abroad – completed July 2007
- Review of the Passport Service – to be completed in 2008.

Vote 29:

- A Value for Money Review of Irish Aid's Support to Tsunami Affected Countries – published in October 2007;
- Evaluation of the Mozambique Country Programmes 2001 – 2006 (a Value for Money Review) – published in January 2008;
- A Value for Money Review of Irish Aid Support for HIV/AIDS to be completed in 2008.