



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

annual report 2008



Department of Foreign Affairs
An Roinn Gnóthaí Eachtracha

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Chairman's Statement 2008

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 fifth annual report to the Secretary General of the Department of Foreign Affairs who is the accounting officer for Votes 28 and 29. This report relates to our work programme for 2008. The timing and scheduling of audits means that the reports reviewed by the Audit Committee during 2008 often relate to expenditure incurred in years prior to 2008. This is also the reality with respect to evaluation reports, whereby evaluation reports reviewed by the Audit Committee in 2008 often relate to earlier periods. The expenditure profile of both Votes in 2008 is represented by the following table:

	Original Allocation (€million)	Reduced Allocation (€million)	Pre-Audit Outturn
Vote 28 Foreign Affairs	233	231	217
Vote 29 International Cooperation	814	769	768
Totals	1047	1000	985

The challenging economic context that Ireland faces has resulted in a significant reduction of the Irish Aid budget for 2009. The Audit Committee is concerned that these reductions may adversely impact on the integrity of the aid programme. The structures outlined in the section *Audit Environment of the Department*, contribute to a level of assurance as to the proper use of public funds. It is important that each of these structures retains capacity and resources - emphasising that a robust audit environment is as important in a period of expenditure curtailment as it is during periods of budgetary expansion. The Audit Committee has previously commented on how complex the aid programme has become during the

period of budgetary expansion. The reduced allocation of funding to overseas aid offers an opportunity to review the programme's complexity to ensure that it remains focused on those areas where Irish Aid has particular strengths. The Audit Committee recommends a renewed focus on measuring impact and achieving value for money within the framework of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

In last year's report, the Audit Committee expressed concern about funding delivered through government systems in developing countries. We continue to note that corruption is prevalent in many Irish Aid programme countries and that there are significant weaknesses in partner government accounting and financial systems, and these shortcomings result in qualified audit reports. The Audit Committee strongly recommends that Irish Aid, in partnership with other donors, continues to work to strengthen systems of internal control in partner countries. The partnership approach should aim: (1) to help strengthen broad accountability of resources and not focus so much on the specific accountability of the aid of one donor; (2) to help build the capacity and competency of the National Auditor General Offices in our programme countries; (3) to develop capacity and expertise in the area of Public Financial Management Systems; (4) to help the public's understanding of what constitutes effective aid by focusing less on the direct impact of the individual contributions of one donor's aid and more on the overall impact of all aid to help achieve national strategies of poverty reduction.

During 2008, the Audit Committee, in collaboration with the Advisory Board for Irish Aid, examined the UN reform process, in particular the recent developments on system-wide coherence, and the systems of audit and evaluation in UNDP, UNICEF and UNFPA. Ireland's multilateral assistance now represents 32% of total Overseas Development Assistance. The Audit Committee is supportive of the Department's

strategy which is committed to an approach that: (1) identifies priority agencies; (2) develops framework agreements with clear objectives and indicators with priority UN partners; (3) participates as a member of the Multilateral Organisation Performance Assessment Network(MOPAN). The continued development and monitoring of this strategy will strengthen the level of audit assurance around the considerable expenditure allocated to multilateral funding. The Audit Committee also strongly recommends that Ireland continues to take a prominent role in the UN reform process, with particular emphasis on the *Delivering as One initiative*.

The Audit Committee regrets the delay in issuing the report from the Management Review of Irish Aid. We await sight of the final report with interest and will continue to act as advocates for the implementation of recommendations that lead 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 wishes to emphasise the importance of developing within Irish Aid a level of resident expertise in the area of Public Financial Management. We also strongly encourage the publication of a policy statement that articulates Irish Aid's position on the management of the risks inherent in operating a diverse aid programme.

The Audit Committee recommendations are outlined in the section titled *Audit Committee Comments and Recommendations for 2008*. The Audit Committee's focus for 2009 is outlined under the section that details the *Operation of the Audit Committee*.

I wish to express words of gratitude to the members of the Audit Committee- John S. Pittock, Mike Scott, Valerie Little, Dr. Richard Boyle and Philip Furlong- for their dedication and professionalism in enhancing the work of the committee. It is of note that the Audit Committee continues to be comprised of members

drawn from outside of Government Departments. I would also like to acknowledge the partnership relationship between the Audit Committee and the Advisory Board for Irish Aid. In particular, I want to commend the Advisory Board for their commitment to investing research resources into learning how to measure impact. The cessation of the Advisory Board necessitates a change in the Audit Committee's charter. I extend warm best wishes to the staff and members who supported the Advisory Board.

On behalf of the Audit Committee, I wish to record our strong sense of gratitude to the management and staff of the Department of Foreign Affairs. We are hugely impressed with the dedication and capabilities of the management and staff.

Finally, I wish to express appreciation 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 - Tom Hennessy, Fintan Farrelly, Seamus O'Grady, Brian Nolan, Anne Barry and Patricia Ryan.

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

Date: 17 June 2009

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 2008, 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. (Appointed November 2003).

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 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 Aid¹, 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.

- 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;

¹ The Advisory Board for Irish Aid ceased on 31 October 2008

Operation of the Audit Committee

The Committee operates by holding a series of regular meetings, at which it receives reports and presentations, makes recommendations to the Department and tracks their implementation.

The Committee held eight meetings in 2008 and, in addition, met twice with the Secretary General. The Committee also had discussions, in the course of their meetings, with the Director General and Deputy Director General of Irish Aid, and the Head of Corporate Services Division. Additionally, members of the Audit Committee met separately with the Management Review team and the OECD/DAC Peer Review team.

During 2008 the Audit Committee reviewed and agreed the work programme to be undertaken during the year by the Evaluation and Audit Unit. The Committee also reviewed the evaluation and audit programme that was implemented by the Unit during 2007. Further detail of evaluation and audit coverage is given in Appendix 5. In addition, Appendix 2 lists some of the documentation reviewed and Appendix 3 lists presentations received by the Committee during the year.

The Audit Committee participated with the Advisory Board for Irish Aid in a review of Ireland's engagement with the United Nations. The main focus of this work was the process of UN reform, in particular the *Delivering as One* initiative. The Audit Committee was represented by Mr John S. Pittock in New York and Mr Philip Furlong in Vietnam.

Other matters covered by the Audit Committee during 2008 included:

- The aid effectiveness agenda (including harmonisation of donor practices) and progress towards attainment of the Millennium Development Goals;

- Assessment of Public Financial Management Systems in programme countries
- Measuring Impact Assessment in the Aid Programme;
- Review of the implementation of the recommendations from previous Audit Committee annual reports and other key audit reports;
- The Department's Internal Control Framework and Use of Management Information;
- Organisational Resources.

The Audit Committee has set a number of priority issues for 2009, including:

- Risk Management
- Aid Effectiveness (including progress on Harmonisation and Management for Development Results)
- Public Financial Management in Programme Countries
- Review of the implementation of the recommendations of the Management Review of Irish Aid
- Audit coverage of Vote 28 (Foreign Affairs)

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 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 of the heads of the main divisions in the Department.

The work of the Department is divided between ten 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, based 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 its Statement of Strategy (2008 – 2010).

The Millennium Development Goals and the Paris Declaration 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.

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 developed countries.

3. High Level Goals, 2008-2010

The Department's high level goals, as set out in the Strategy Statement for the period 2008-2010, are to:

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. Review of Key Events

The year 2008 has seen a major global economic downturn with many of the world's economies entering recession. The downturn has manifested itself in Ireland through a slowdown in economic activity, rising unemployment and a severe decline in the state of the public finances.

The original Vote allocations, the reduced allocations (following the Government's July adjustments) and the pre-audit outturn for 2008 are set out in the table below:

	Original Allocation € m	Reduced Allocation € m	Pre-audit Outturn €m
Vote 28 – Foreign Affairs	233	231	217
Vote 29 – International Co-operation	814	769	768

As highlighted in the table, the allocation for Irish Aid was reduced in July 2008 by €45 million.

In the 2009 estimate announced on budget day, the Government allocated €754 million to Vote 29. As a result of budgetary adjustments in February 2009 and the supplementary budget of April 2009, the allocation to Vote 29 was revised to €571 million. This represents a reduction of €183 million on the initial 2009 allocation and €197 million on the 2008 outturn.

Ireland's total Official Development Assistance (ODA) comprises the allocation to Vote 29, eligible ODA expenditure across other Government Departments, and Ireland's allocation of the EU Development Cooperation budget. In 2008 Ireland's total ODA was €918 million which represented 0.58% of GNP (2007: 0.55%). For 2009, the estimated total ODA is set to reach €696 million, or 0.48% of GNP.

The Audit Committee would like to highlight the following events:

- The Department published a new Statement of Strategy covering the period 2008 to 2010.
- A delegation from the Public Accounts Committee, led by the Chairman Mr Bernard Allen T.D, visited Irish Aid's programmes in Zambia and South Africa. The interim report is on the Oireachtas website at: www.oireachtas.ie/documents/committees3othdail/pac/reports/20080722.pdf
- The Management Review of Irish Aid was completed. The Audit Committee looks forward to receiving a copy of the report.
- The OECD/Development Assistance Committee (DAC) Peer Review of Irish Aid was conducted in October 2008. Members of the Audit Committee engaged with the Peer Review Team. The report of the peer Review was published in May 2009.
- The third High Level Forum on Aid Effectiveness was held in Accra in September 2008. The HLF, which was attended by Ministers and heads of agencies from developing and donor countries, emerging economies, UN and multilateral institutions, global funds, foundations, reviewed progress on the Paris Declaration. The Accra Agenda for Action was adopted at the HLF and reflected the international commitment to support the reforms towards more effective use of development assistance to ensure the achievement of the Millennium Development Goals by 2015.
- The decentralisation of Irish Aid headquarters to the new premises at Henry Street, Limerick was completed in November 2008. A total of 138 posts are now based in the new headquarters.

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 the multi-annual audit and evaluation work plans and the implementation thereof.
5. The **Evaluation and Audit Unit** of the Department, which manages:
 - The evaluation function of the Department, with principal focus on 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 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 of the Department. 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.

Audit Committee Comments and Recommendations for 2008

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 the following sections of the report.

1 Management Information Systems and Internal Controls

The Committee welcomes the implementation of the recommendations in this area from its annual reports for 2004 to 2007.

The Office of the Comptroller and Auditor General (C&AG) has overall responsibility for the independent audit of all Government expenditure. As in previous years, the C&AG gave an unqualified audit opinion on the appropriation accounts for Votes 28 and 29 for the financial year 2007, and there were no significant control issues highlighted.

The Audit Committee reviewed the financial management and internal control arrangements for Vote 28 with the Department in 2008. The Committee notes the continual improvements in the financial management and internal control systems of the Department. The Committee welcomes the Department's intention to review the structure of its

finance function and further streamline its operation to achieve greater efficiency. This process will include updating and dissemination of financial procedures and guidelines for both votes.

The Audit Committee notes that the Knowledge Management Working Group has identified a number of key tasks aimed at meeting the information-sharing needs of Irish Aid post-decentralisation to Limerick. These tasks include upgrading the Department's intranet, with specific focus on Irish Aid, and developing training and induction programmes for new staff. The Audit Committee considers that a robust knowledge management strategy is very important to support Irish Aid in achieving its objectives in the coming years.

Recommendations:

The Audit Committee recommends that:

- There is 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

The Evaluation and Audit Unit has responsibility for internal audit for both Votes 28 and 29 and reports to the Accounting Officer of the Department. The Unit employs four qualified accountants reporting to the Head of Unit. One post became vacant during the year. In addition to these headquarters-based posts, the Unit is supported by Embassy-based internal auditors

in Irish Aid's programme countries.

In view of the size, complexity and risk profile of the aid programme, a greater part of the audit work plan is focused on Vote 29 i.e. the overseas aid programme. The main objectives of the audit programme are to gain assurance that funds granted are used for the purposes intended and that value for money is achieved

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 focuses on areas of more significant risk and, with regard to the aid programme, takes into account recent developments in the overall aid agenda.

Vote 28 (Foreign Affairs)

In 2008, the Evaluation and Audit Unit completed and reported on audits of Missions abroad, which were carried out in late 2007. The Audit Committee welcomes the reports' conclusions that systems of internal control generally operated satisfactorily.

Due to staffing constraints during the year, the Unit was unable to carry out further audit work on this vote and, instead, focused on completion of the Value for Money Review of the Passport Service. While the Audit Committee regrets this situation, it welcomes the Unit's intention to ensure that there will be meaningful audit coverage of Vote 28 in 2009 through utilisation of existing resources. The Audit Committee also looks forward to the formalisation of the audit approach for the vote.

Vote 29 (Irish Aid)

In 2008, audit coverage was achieved through:

- Work carried out directly by Irish Aid's Evaluation and Audit Unit, and by internal auditors based at Missions in programme countries;
- Work carried out by audit firms commissioned by Irish Aid;
- Joint donor funded audits of specific programmes, 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).

The Audit Committee notes that, in common with other donors, a significant proportion of Irish Aid's programme country spending is channelled 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 accepts the rationale for this approach to aid delivery but is, nevertheless, aware of the fundamental weaknesses in governance, accounting, audit and general public finance management in many developing countries.

The Audit Committee notes the relatively high level of qualified audit reports, mainly emanating from partner organisations. While appreciating that qualified audit reports can arise for a number of reasons, the Committee nevertheless considers that this is an area of concern. The Committee will continue to closely monitor the level and trends in qualified reports, and the reasons for same, and hopes to see a more positive trend in the coming years. In particular, the Committee will scrutinise follow up actions taken on particular audits in a systematic and comprehensive manner to ensure appropriate action is taken.

The Audit Committee is aware of the more systematic process that is now in place to assess and improve the overall Public Finance Management (PFM) framework in developing countries, including Irish Aid programme countries. The Committee welcomes Irish Aid's involvement in assessments of PFM through exercises such as PEFA (see box across) and recommends that Irish Aid strengthen its engagement in this area. Exercises such as PEFA provide Irish Aid and the Audit Committee with an independent appraisal of the strength of systems in particular countries and identify areas where action is required. The Audit Committee acknowledges that PFM reform is a long-term process and recommends that senior management should continue to signal their commitment through deployment of adequate resources and ensuring that all programme management have an accountability focus in their roles.

The Audit Committee was informed of various structured programmes for addressing PFM deficiencies that are taking place in most programme countries. These reform programmes address areas such as budgeting, accounting systems, public procurement, audit and general oversight. Such programmes involve addressing technical issues such as accounting systems but also seek to develop an environment that places a higher priority on accountability. These reform programmes are supported by donors including Irish Aid. The Committee strongly supports Irish Aid's continuing engagement in this area and especially advocates for support for National Audit Offices in programme countries.

Case Study 1

Public Finance Management Reforms

The move to Budget Support has resulted in a more structured approach to reform of PFM in developing countries. These reforms address areas such as the budget preparation process, budget implementation, accounting, audit and oversight. Other reform areas include public procurement. The nature and extent of reform depends on the level of deficiencies in the systems as determined by assessments such as PEFA. These reforms are receiving significant donor support both in terms of financing and direct involvement in overseeing the process.

Irish Aid is significantly engaged in a number of countries in this process as it is seen as essential for the continuation of budget support type funding to government.

Lesotho: Irish Aid supports a major programme of improvement that includes the development of a modern financial management information system throughout Government. This programme also addresses deficiencies in the areas of audit and oversight, and funding is provided by EC, DFID and Irish Aid.

Ethiopia: Irish Aid has been supporting the Harvard-implemented DSA project which is reforming the accounting and financial management system of Ethiopia. This has led to a substantial reduction in the financial reporting lag. Irish Aid has played a lead role in the fiduciary sub-groups of both the joint donor Public Financial Management Committee and the Protection of Basic Services Programme, by actively engaging with Government in the areas of improved public financial management and strengthening the auditing system. Irish Aid also has a specific capacity upgrading programme for Regional Auditor General of Tigray which significantly contributes to improvement of the audit in both timeliness and quality.

Uganda: Ireland is one of several donors funding the Financial Management and Accountability Programme (FINMAP). The programme has achieved some significant reforms, including the roll out of a Financial Management System (IFMS), the development of decentralised internal audit units in 10 Ministries and the establishment of a Budget Monitoring and Accountability Unit within the Ministry of Finance.

Timor Leste: Irish Aid supports the Planning and Financial Management Capacity Building Programme - an initiative which aims at capacity building in public expenditure planning, financial management and procurement for the Ministry of Planning and Finance, and staff in line ministries and districts. The emphasis is on sustainability, improved service culture and transparency throughout Government.

Mozambique: The Governance Advisor at the Embassy sits on the Reform Group which comprises donors and Government and the Government members are part of a technical unit in the ministry of Public Services (UTRESP). They are currently involved in the roll out of eSistafe (IFMIS – financial management system), the simplification of procedures throughout Government and the implementation of anti-corruption procedures. More recently they achieved considerable success with the roll-out of a HR computerised individual numbering system which has harmonised salary controls throughout Government.

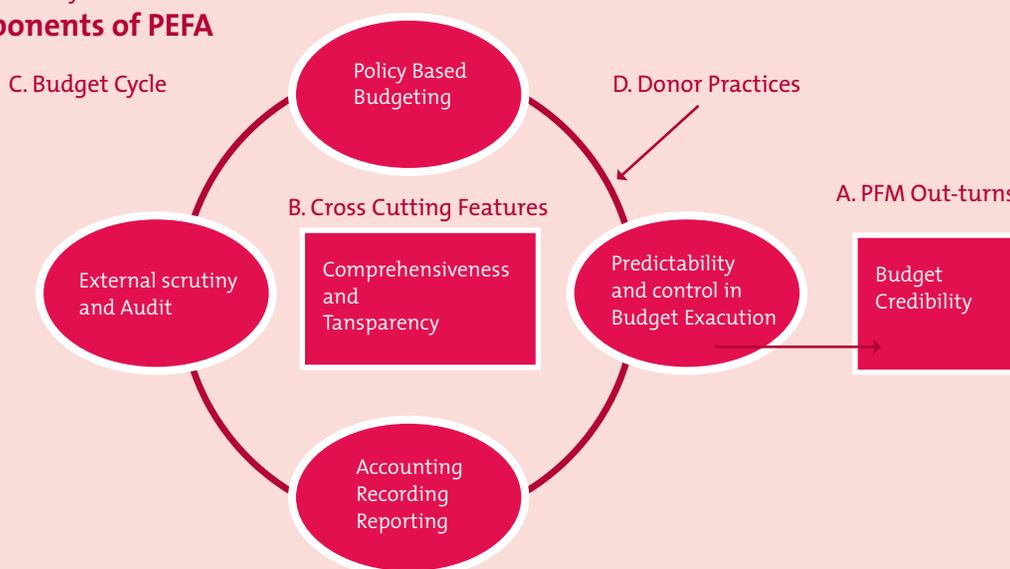
Case Study 2

Public Expenditure and Financial Accountability Programmes (PEFA)

As donor funds are increasingly used to support national development and poverty reduction programmes it is necessary for donors to have a structured and independent appraisal of Public Finance Management Systems in developing countries to indicate if PFM systems are sufficiently robust to channel fund through and also to identify weaknesses that can be addressed. The main diagnostic tool used by donors is the Public Expenditure and Financial Accountability Programme (PEFA). This tool is aimed at harmonisation and alignment and supports the Monterrey, Rome and Paris Declarations on Aid effectiveness, and was established by a core group of international financial institutions and donor agencies.

The methodology uses a standard set of high level PFM indicators to assess performance. A concise, integrated report - the PFM Performance report - is also produced that is standard in terms of content and format, provides the narrative to support the indicator assessments (the evidence) and draws a summary from the analysis.

Components of PEFA



Scoring System

- Based on a four point scale (A, B, C, D)
Requirements for each score are explicitly specified
- Scoring is based on the extent of internationally recognised 'Good Practice'
- Indicators have 1, 2, 3 or 4 dimensions
- Aggregation only from dimensions to indicator

A recent PEFA exercise has taken place in Uganda and Irish Aid will participate in a PEFA exercise in Lesotho in 2009.

The Audit Committee welcomes the development and implementation by Irish Aid of an audit framework to the funding of larger Irish NGOs under the Multi Annual Programme Scheme (MAPS). This framework, which has been agreed with the MAPS NGO partners, will deliver audit coverage through a combination of audit work undertaken by the Evaluation and Audit Unit and reliance on the audit systems of the partners themselves. The Committee also welcomes the audit work undertaken during 2008 on funding to NGOs under the Block Grant Scheme and also the contribution of the Evaluation and Audit Unit to a Civil Society Fund Monitoring mission in India.

As discussed in the section “*Risk Identification*” that follows, the joint Advisory Board/Audit Committee delegation to the UN reviewed the audit arrangements in UNDP, UNICEF and UNFPA. The delegation gained an understanding of the external and internal audit processes in these bodies and the relationships of the internal audit functions in each with the Executive Boards and Audit Committees. The Committee is mindful of the extent to which Ireland, in common with other member states, must rely on the effective operation of the UN’s own audit arrangements to provide assurance. Nevertheless, the Audit Committee looks forward to the Department developing a solid methodology for obtaining audit assurance for multilateral funding. It is also important that the impact of Ireland’s funding to the UN is assessed.

Recommendations:

The Audit Committee recommends that:

- The audit strategy and multi-year work plan for Vote 28 should be formalised 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 to monitor qualified audit reports, assess the reasons therefore, and take appropriate corrective action;
 - Should continue its determined efforts, in collaboration with other donors, to strengthen partners’ systems of internal control and address audit issues;
 - In collaboration with other donors, should continue to support the strengthening of the capacity of the Offices of National Auditors General in partner countries
 - Should strengthen its engagement in Public Expenditure and Financial Accountability Programmes (PEFA), which are the principal means of appraisal of Public Finance Management systems in partner countries.
 - Senior Management should continue to signal their commitment to strengthening Public Finance Management systems in partner countries by deploying adequate resources and ensuring that all programme management have an accountability focus in their roles.

3. Evaluation

As a core element of the management process, evaluation serves to generate accurate, objective and evidence-based information used for decision making.

The Evaluation and Audit Unit manages a work programme which focuses on evaluations of strategic importance to Irish Aid. Examples include evaluations of Irish Aid's country programmes before the end of the implementation cycle and thematic evaluations. Other operational units of Irish Aid also carry out evaluations more directly related to their areas of responsibility and needs. Where an evaluation is managed by an Irish Aid business unit other than the Evaluation and Audit, the Evaluation and Audit Unit ordinarily provides advice and support to the business unit concerned, thereby helping develop evaluation skills and an organisation-wide culture of evaluation. Additionally, it is often a condition of funding that organisations submit external evaluations at the end of their programmes.

The Evaluation and Audit Unit manages the programme of Value for Money Reviews under the Government's Value for Money and Policy Review initiative. Under the 2006 to 2008 cycle, the Department has completed and published, on schedule, four reviews covering both votes (see Appendix 5). Under the 2009 to 2011 cycle, the Department will be required to undertake two reviews.

The Value for Money Review of the Passport Service was completed and published in 2008. The final review, which relates to Irish Aid's support for HIV/AIDS, has been delayed due to the complexity of the programme, but will be completed and published by mid 2009. The Audit Committee looks forward to the report on this very important component of the Irish Aid programme.

Key evaluations initiated and/or completed in 2008 included:

- Value for Money Review of the Passport Service (Vote 28)
- Timor Leste Country Strategy Papers, 2003-2008
- The International Partnership for Microbicides (A joint evaluation led by Ireland)
- Irish Aid's Strategic Partnerships' Environment Programme, 2006-2008
- Global e-Schools and Communities Initiative
- Value for Money and Policy Review of Irish Aid's HIV and AIDS response, 2000-2007 (nearing completion)
- Irish Aid Support to Dóchas, 2006-2008 (in progress)
- Review of Irish Aid's Support for Unexploded Ordnance Programmes in Lao PDR and De-Mining in Cambodia (in progress)
- World Vision's Disaster Preparedness and Local Capacities for Peace Programme, Southern Sudan (in progress)

The Audit Committee reviewed the evaluation coverage of the aid programme during 2008. The Committee is satisfied that there is a strategic focus to the evaluation work programme and that it is appropriate to the structure of the aid programme. Nevertheless, the Audit Committee considers that, in future, the Evaluation and Audit Unit should consider relating its evaluation choices more specifically to the risk profile of the aid programme.

The Audit Committee notes that, when appropriate, Irish Aid undertakes evaluations jointly with other donors. The Audit Committee welcomes this developing trend as an efficient means of achieving valuable lesson learning and accountability. As an example - in relation to the evaluation of humanitarian assistance - the Evaluation and Audit Unit liaises closely with civil society and multilateral organisations (such as the Active Learning Network for Accountability and Performance – ALNAP). In addition, Irish Aid is an active participant in the Development Evaluation Network of the OECD-DAC. A member of the Evaluation and Audit Unit also represented Ireland as an examiner (along with Portugal) on the OECD Peer Review of Australia's development assistance programme.

The Audit Committee recognises the commitments under the Paris Declaration on Aid Effectiveness towards greater harmonisation among donors in aid delivery. The Committee looks forward to the second phase of the evaluation of the Declaration, which will be conducted under the auspices of the OECD/DAC. Given the use of harmonised approaches and jointly-funded government/multi-donor programmes, the Audit Committee recognises that it is generally not possible to attribute outputs and outcomes to specific donors. Rather, donors contribute to the achievement of shared goals. Nonetheless, donors are still accountable to their domestic constituencies and it is important, in terms of achieving public buy-in for

development assistance, to be able to demonstrate how funding has been used and what it has achieved.

The Committee welcomes Irish Aid's focus on Managing for Development Results which involves the preparation of comprehensive results frameworks and can be expected to facilitate future measurement of impact. It also expects that the operation of the Interdepartmental Committee on Development, established following publication of the White Paper on Irish Aid, will result in greater coherence for development across all government departments.

As noted in previous reports, 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 and an assessment of the local public finance environment, and is usually taken 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 and sector budget support. The Audit Committee recommends that Irish Aid continues to engage with evaluations of budget support (for example, the second phase of the OECD/DAC general budget support evaluation being led by the European Commission) and give attention to the lessons emerging from these evaluations.

Recommendations:

The Audit Committee recommends that:

- The Evaluation and Audit Unit should relate its evaluation choices more specifically to the risk profile of the aid programme;
- Irish Aid continues to engage with evaluations of general budget support and give attention to the lessons emerging from these evaluations.

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 Audit Committee notes the reductions to the Overseas Development Assistance allocation since mid 2008 as part of the Government's response to the difficulties in the State's public finances. The Committee is concerned that these reductions may adversely impact on the integrity of the aid programme. The structures outlined in the section *Audit Environment of the Department*, contribute to a level of assurance as to the proper use of public funds. The Committee considers that it is important that each of these structures retains capacity and resources - emphasising that a robust audit environment is as important in a period of expenditure curtailment as it is during periods of budgetary expansion.

The Audit Committee recognises that risk assessment is a key feature of Irish Aid's major programme planning exercises. Nevertheless, as recommended in last year's report, the Committee urges Irish Aid to articulate an overall policy statement on risk. The statement should communicate a message that risk is inherent in a development aid environment, and that a risk-averse position is inconsistent with the

delivery of an innovative and effective programme. The statement should also elaborate on the nature of the risks that Irish Aid faces and the risk management strategies that have been established to mitigate the likelihood of the occurrence and/or impact of significant risks.

The Audit Committee observes that the aid programme has become notably more complex as it has expanded in recent years. In view of the tightening of the State's public finances, the Committee considers that it may be opportune to review the programme's complexity to ensure that it remains focused on those areas where Irish Aid has particular strengths, and optimises the use of resources. It is also essential that there is a continued focus on measuring impact and achieving value for money. Such a review would be highly consistent with Ireland's obligations to achieve greater sectoral specialisation and harmonisation of donor practices, as agreed in the Paris Declaration on Aid Effectiveness and in the Accra Agenda for Action, 2008.

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 with adverse affects on the poor. It recognises that working in countries with weak governance generates risk for donors, including Ireland. 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 strengthening of systems of internal control and rectification of audit deficiencies in partner organisations.

The Audit Committee, recognising that fraud is an inherent risk in a development aid environment, welcomes the adoption by the Department of a code of practice for its staff for dealing with fraud in partner organisations.

In 2008, Irish Aid's multilateral assistance represented approximately one third of total Overseas Development Assistance. The Committee welcomes the 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 and looks forward to being briefed on what has been achieved. At global level, Irish Aid became an active member of the UNDP Board in 2008. Furthermore, Irish Aid joined the Multilateral Organisation Performance Assessment Network (MOPAN) and, in this context, has played a significant role in the Tanzania review.

During 2008, the Audit Committee, in collaboration with the Advisory Board for Irish Aid, examined the UN reform process, in particular the recent developments on system-wide coherence, and the systems of oversight (audit and evaluation) in UNDP, UNICEF and UNFPA. Delegations representing the Advisory Board and the Audit Committee visited New York in February and Vietnam in September. Vietnam is one of the pilot countries for the Delivering as One initiative, which is one of the key elements of the reform agenda. Ireland has played a key part in driving UN reform – evidenced by the role of the Permanent Representative to the UN as co-chair (with Tanzania) of the informal consultations on System-wide coherence.

The Audit Committee noted some of the conclusions of the delegation:

- Political support for the reform process is paramount at the highest level
- UN reform in Vietnam is Government driven.
- The authority of the Resident Coordinator must be affirmed
- Ireland's role in the process is a positive one
- Donors need to wholly buy into UN reform

The Audit Committee supports the Delivering as One initiative and sees that it has potential to achieve much greater coordination among UN bodies, which should result in delivery of more effective programmes. The Committee cautions that the positive experience on the ground in Vietnam may be more due to the combined efforts of the Government of Vietnam and the UN representatives in the country, and that there is a need for real buy-in at headquarters level. The Committee is also concerned that the "One UN" model may not fit easily with the governance structures of the various bodies. The Committee urges Ireland to continue taking a prominent role in the reform process.

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;
- Ireland continues to take a prominent role in the UN reform process, with particular emphasis on the *Delivering as One* initiative.

5. Organisational and Resource Matters

Following the recent dramatic economic downturn and consequent pressure on public finances, the Government requires all Government Departments to reduce payroll costs. This decision will have implications for the Department of Foreign Affairs, including Irish Aid – at a time when Irish Aid has already been under-resourced to meet the challenges of delivering a complex aid programme.

The Audit Committee has previously expressed concern regarding the resource levels of Irish Aid generally, and the Evaluation and Audit Unit in particular. The Audit Committee welcomes the recent recruitment of a cadre of Development Specialists to Irish Aid, which should help address the capacity constraints.

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 Management Review of Irish Aid was completed in July 2008. The Audit Committee regrets the delay in issuing the report and looks forward to receiving it at the earliest opportunity.

The Audit Committee understands that, following completion of the decentralisation to Limerick, the Department has decided to integrate Irish Aid fully with the rest of the Department. While the Audit

Committee recognises that integration may ensure greater overall coherence in terms of achieving Ireland's foreign policy objectives and may also deliver efficiencies, questions remain as to how the integration model will ultimately work given the nature of Irish Aid's business and that the Division is based in Limerick. Given these changes, the Audit Committee will continue to monitor the aid programme to satisfy itself that quality has not been adversely affected.

Recommendations:

The Audit Committee recommends that:

- 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.

the \mathbb{R}^n is a linear space over \mathbb{R} with the usual addition and scalar multiplication. The inner product is defined by

$$(x, y) = \sum_{i=1}^n x_i y_i \quad (1)$$

and the norm is defined by $\|x\| = \sqrt{(x, x)}$. The norm is induced by the inner product. The norm is called the Euclidean norm.

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Appendices

Appendix 1

Dates of Audit Committee Meetings in 2008

13 February

10 March

29 April

10 June

10 September

14 October

26 November

15 December

Appendix 2

Key Documents Considered by the Audit Committee

Department of Foreign Affairs Code of Practice –
Dealing with Fraud in Partner Organisations

Report on the Mapping of Irish Aid Approvals Processes

Report on the Advisory Board / Audit Committee Joint
Project on UN

Audit Reports on Expenditure for 2006

Value for Money Review of the Passport Service

Accra Agenda for Action

Evaluation and Audit Work Plans

Appendix 3

Presentations Received by the Audit Committee:

During 2008, the Audit Committee received the following presentations:

Measuring Impact: The Global and Irish Aid Programme - Fr Gerard O'Connor, Chairman, Audit Committee (February 2008)

Aid Effectiveness – Liz Higgins, Technical Section (March 2008)

Millennium Development Goals – Progress attained in Irish Aid's programme countries – Seán MacMahon, Programme Countries 1 Desk (March 2008)

Developments in Public Financial Management in Programme Countries – Gerard Considine, Technical Section (March 2008)

Update on recent developments in Irish Aid by the Director General, Ronan Murphy and Deputy Director General, Brendan Rogers (June 2008)

Update on Vote 28-related matters by Assistant Secretary Adrian O'Neill, Head of Corporate Services Division, (October 2008)

Update on Implementation of audit-related recommendations – Lisa Walshe, DCD Corporate Development Section (October 2008)

Various presentations during the year by the Evaluation and Audit Unit.

Appendix 4 - Summary of Expenditure 2008²

Vote 28: Expenditure Report

	Estimate Provision €000	Outturn €000
Administration		
A.1. Salaries, Wages and Allowances	104,237	98,599
A.2. Travel and Subsistence	8,517	7,324
A.3. Incidental Expenses	5,943	6,507
A.4. Postal and Telecommunications Services	8,432	10,238
A.5. Office Machinery and other Office supplies and Related Services	29,573	25,739
A.6. Office Premises Expenses	35,863	34,555
A.7. Consultancy Services	470	244
A.8. Value for Money and Policy Reviews	100	36
Total Administration Expenses	193,135	183,242
Programme Expenditure		
B. Repatriation and Maintenance of Distressed Irish Persons Abroad	79	36
C. Support for Irish Emigrant Services	15,183	15,183
D. Information Services	578	648
E. Contributions to Bodies in Ireland for the furtherence of International Relations - (Grants in Aid)	320	320
F1. North South and Anglo Irish Co-operation	7,000	9,084
F2. International Fund for Ireland	195	195
G. Cultural Relations with Other Countries – (Grants in Aid)	891	891
H. Irish American Economic Advisory Board	28	13
I. Contributions to International Organisations	44,480	38,103
J. Actions Consequent on Title V of the Treaty on European Union	582	582
K. Assistance to EU and other Eastern European States	1,715	1,193
L. Atlantic Corridor Project	250	250
M. Asia Strategy	200	182
N. Support for Ireland Funds	2000	0
O. Referendum on EU Reform Treaty	5801	5,730
Total Programme Expenditure	79,302	72,418
Gross Expenditure	272,437	255,660
P. Appropriations in Aid	39,000	38,165
Net Total	233,437	217,495

² Pre-audit figures.

Appendix 4 - Summary of Expenditure 2008

Vote 29: International Cooperation

	Estimate Provision €000	Outturn €000
Service		
Administration - Subheads A1/7		
A.1. Salaries, Wages and Allowances	18,890	18,838
A.2. Travel and Subsistence	3,050	2,966
A.3. Incidental Expenses	2,292	2,347
A.4. Postal and Telecommunications Services	3,205	2,129
A.5. Office Machinery and other Office supplies and Related Services	1,363	1,418
A.6. Office Premises Expenses	3,580	3,356
A.7. Consultancy Services	3,120	3,839
A.8. Value for Money and Policy Reviews	200	190
Sub Total	35,700	35,083
Other Services		
B. Payment to Grant-in-Aid Fund for Bilateral Aid and other Cooperation (Grant in Aid)	559,100	529,150
C. Emergency Humanitarian Assistance	90,000	87,000
D. Payments to International Funds for the Benefit of Developing Countries	36,000	30,993
E. Contributions to United Nations and other Development Agencies	93,400	86,349
Sub Total	778,500	733,492
Gross Total	814,200	768,574
F. Appropriations in Aid (Deduct)	150	997
Net Total	814,050	767,578

Appendix 5 - Audits, Evaluations and Value for Money Reviews in 2008³

Audit - Vote 28

The Evaluation and Audit Unit completed and reported on audits of Missions abroad, which were carried out in late 2007. The Missions covered were:

Budapest

New Delhi

Washington D.C.

Prague

Country	2007	2006*
Ethiopia	74	95
Lesotho	79.1	94.7
Mozambique	57	95
South Africa	95	93
Tanzania	19 ⁴	76
Timor Leste	90	95
Uganda	77	96
Zambia	90	90

* Figures updated from those reported in the 2007 Annual Report of the Audit Committee to take account of audit reports subsequently received.

Audit - Vote 29

The table below sets out the level of audit coverage that has been achieved to date in programme countries. Audit coverage is achieved by:

- Audit work carried out directly by Irish Aid's Evaluation and Audit Unit, and by internal auditors based at Missions in programme countries;
- Audits carried out by internationally recognised audit firms commissioned by Irish Aid;
- Audit reports obtained from partner organisations (e.g. those carried out by National Audit Offices and by non-Governmental Organisations).
- Joint donor funded audits of specific programmes or projects

These audits cover programmes and projects funded by the Irish Government, and relate to expenditure in the 2006 and 2007 financial years.

Evaluation

Vote 29 Evaluations completed in 2008:

- Timor Leste Country Strategy Papers, 2003-2008
- Irish Aid's Strategic Partnerships' Environment Programme, 2006-2008
- Global e-Schools and Communities Initiative

Vote 29 Evaluations in progress at 31 December 2008:

- Irish Aid Support to Dóchas, 2006-2008
- Review of Irish Aid's Support for Unexploded Ordnance Programmes in Lao PDR and De-Mining in Cambodia
- World Vision's Disaster Preparedness and Local Capacities for Peace Programme, Southern Sudan

Joint Donor Evaluations conducted with Irish Aid involvement in 2008:

- The International Partnership for Microbicides

Value for Money Reviews

Under the 2006 to 2008 round of the Value for Money Review Initiative, the Department has undertaken five reviews covering both Votes.

Vote 28:

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

Vote 29:

- Irish Aid's Support to Tsunami Affected Countries
- Evaluation of the Mozambique Country Programmes 2001 – 2006
- VFM and Policy Review of Irish Aid Support to HIV and AIDS, 2000-2007

(Footnotes)

- 3 This appendix should be read in conjunction with the *Internal Audit* section of the Audit Committee's Comments and Recommendations in this Report.
- 4 At the time of print some reports had not yet been received due to the timing of the Tanzanian Government's financial year end.