



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

Annual Report 2010

Contents

Chairman’s Statement	3
Membership of the Audit Committee	6
Operation of the Audit Committee	7
Audit Committee Findings and Recommendations for 2010	9
1. Management Information Systems and Internal Controls	9
2. Internal Audit	11
3. Evaluation	13
4. Risk Identification	15
5. Organisational and Resource Matters	18
Appendix 1 – Audit Committee Charter	20
Appendix 2 - Audit Environment of the Department	21
Appendix 3 - Dates of Audit Committee Meetings in 2010	24
Appendix 4 – Key Documents Considered by the Audit Committee	25
Appendix 5 - Presentations Received by the Audit Committee	26
Appendix 6– Summary of Vote Expenditure 2010 (Unaudited)	27
Appendix 7 – Audits and Evaluations Undertaken in 2010	30
Appendix 8 – Management Responses and Follow-up to Audit Committee Recommendations	33

Chairman's Statement

The Audit Committee is pleased to present its seventh annual report to the Secretary General of the Department of Foreign Affairs and Trade.

The Department continues to operate in a very challenging budgetary environment. All the indications are that the Government-imposed constraints on public expenditure management will intensify with all public expenditure programmes being subjected to ever closer scrutiny to secure greater value for money for the taxpayer. The table following summarises the impact of expenditure curtailment on the Department's Votes. The provisional outturn figures for 2010 show an overall reduction of 29% in net voted expenditure relative to the peak year of 2008.

	Revised Estimate 2010 €m	Provisional Outturn 2010 €m	Peak Outturn 2008 €m	Expenditure Reduction from Peak €m	Expenditure Reduction from Peak %
Vote 28 Foreign Affairs	191	181	217	36	17
Vote 29 International Cooperation	535	523	768	245	32
Totals	726	704	985	281	29

Reflecting these changed circumstances, the Committee's work programme for 2010 focussed on 'value for money' issues such as aid effectiveness/simplification and risk identification and management, as will be apparent from the following summary of the *Audit Committee Findings and Recommendations for 2010*.

As reflected in the table above, the Irish Aid programme (Vote for International Cooperation) continues to represent a high proportion of overall Departmental expenditure. The Audit Committee believes that in a period of continuing public expenditure curtailment Irish Aid's programmes should increasingly be directed towards areas of engagement where it has particular strengths to bring to bear. It needs also to demonstrate that its interventions are targeted at achieving clearly articulated results which are capable of being measured. Greater attention to reducing programme complexity will also facilitate Irish Aid in meeting its obligations to achieve more sectoral specialisation and donor harmonisation as envisaged under the 2004 Paris Declaration on aid effectiveness.

The importance of risk identification and management has been a recurring theme in recent Audit Committee Annual Reports, so it is gratifying to note that during 2010 some significant developments took place, the effect of which have been to bed in risk management as a core concern of Departmental management. The Department's Management Advisory Committee now reviews the Department's risk register on a quarterly basis and the Risk Management Secretariat has been strengthened. The Audit Committee believes that the new structures which have been put in place should also prompt closer alignment of the Department's Risk Register with the internal audit work plan. The Committee is also recommending the appointment of a Chief Risk Officer, reporting directly to the Secretary General of the

Department, to further underline the importance of risk management in the discharge of the Department's business.

At a time when budgetary contraction is imposing very real hardship on many of our citizens, it is all the more important not to lose sight of the fact that Irish Aid's programmes have as their objective the alleviation of distress in some of the poorest countries in the world. Nevertheless concerns regarding unacceptable levels of corruption and weak governance structures in partner countries are a continuing risk to effective delivery of aid in those countries. The Audit Committee remains concerned at the prevalence of qualified audit reports which may reflect weaknesses in the audit function in partner countries and recommends that Irish Aid, acting in collaboration with other donors, should continue to work to support the strengthening of the Office of National Auditor General in partner countries.

The Audit Committee attaches considerable importance to the work of the Irish Aid Working Group on Public Financial Management which is developing criteria for the assessment of public financial management in partner countries. It is to be hoped that these assessments will address issues such as the adequacy of arrangements for internal and external audits, parliamentary oversight and the quality of general accounting and reporting and, in turn, inform the preparation of Country Strategy Plans for programme countries. The outcome should be greater assurance in regard to the integrity of aid delivery through partner government systems.

Stamping out instances of fraud wherever they occur requires unrelenting vigilance. While Irish Aid has anti-fraud policies in place, including a Code of Practice for dealing with fraud in partner organisations, these need to be revisited from time to time to provide confirmation that management systems remain focussed on identifying and combating instances of fraud wherever they occur.

During 2010, Irish Aid allocated almost €100 million to NGO partners through major grant schemes such as the Multi-Annual Programme Scheme (MAPS) for 5 major NGOs, the Block Grant Scheme for a further 22 partners, Project grants for 55 more partners and support (totalling €17 million) to missionary organisations. The Audit Committee welcomes the emphasis now being placed by Irish Aid on reviewing these grant arrangements with a view to making them more performance-related.

It is disappointing to note that a mid-term review of the MAPS scheme for the period 2006 to 2011, carried out in early 2010, concluded that partners did not have clear frameworks to measure results. A planned evaluation of the MAPS scheme is now underway, which will provide an independent evidence-based assessment of how the MAPS partners have contributed to reducing poverty and vulnerability in partner countries. This assessment will inform the development of a performance-based Irish Aid funding strategy for the development of the NGO sector in the years ahead and will provide guidance on how MAPS partners might strengthen their programming and the Audit Committee looks forward to reviewing its conclusions later this year.

The Audit Committee has been advised that progress is being made with the project for the creation of a single Finance Unit for the Department of Foreign Affairs and Trade. This initiative should ensure greater coherence in financial management across the Department and the Committee wishes to see it brought to an early and successful conclusion. The

Committee also restates its position as set out in its 2009 Annual report that the Unit should include relevant accounting expertise and, in particular, that the Head of Finance should hold a professional accounting qualification.

Some major changes in the composition of the membership of the Audit Committee occurred during 2010. Fr. Gerry O'Connor, John Pittock and Mike Scott all stepped down on completion of their terms of office. All three had served on the Committee over many years and made outstanding contributions to establishing its profile and stature. Their professionalism and commitment was a source of inspiration and they never wavered in their determination to ensure that the Audit Committee remained fit for purpose. Fr Gerry O'Connor was the first Chairman of the Committee serving in that capacity until June 2009 when he was succeeded by John Pittock who stepped down at the end of December 2010. Both provided outstanding leadership during their respective terms of office.

Aidan Eames and Donal Corcoran were appointed to the Audit Committee during the year to join the other current serving members - Maura Quinn, Dr Richard Boyle and Philip Furlong. All members of the Committee serve in a voluntary capacity.

On behalf of the Audit Committee I should like to place on record our gratitude to management and staff at the Department of Foreign Affairs and Trade for their presentations to the Committee and for advice and guidance provided. We are particularly appreciative of the quality of the operational support provided by the Department's Evaluation and Audit Unit - William Carlos, Tom Hennessy, Donal Murray, Seamus O'Grady, Anne Barry and Patricia Ryan.

Philip Furlong
Chairman of the Audit Committee

June 2011

Membership of the Audit Committee

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

During 2010, the members of the Committee were:

Mr. John S. Pittock, Chairman of the Committee (From July 2009) is a chartered accountant and was formerly Chairman of Deloitte (Appointed November 2003, retired from the Audit Committee on 31 December 2010).

Fr. Gerard O'Connor, C.Ss.R, works in Cherry Orchard Parish, Dublin, and has a background in development and accountancy. Fr. O'Connor was the first Chairman of the Committee from November 2003 to June 2009 (retired 30 June 2010).

Mr. Michael Scott is a former Head of Evaluation and Audit, Irish Aid (Appointed June 2006, retired 31 December 2010).

Dr. Richard Boyle is Head of Research, 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, and appointed Chairman with effect from 1 January 2011).

Ms. Maura Quinn is Chief Executive of the Institute of Directors in Ireland and formerly Executive Director of Unicef Ireland (Appointed July 2009).

Mr Donal Corcoran is a Chartered Management Accountant and retired Management Consultant (Appointed July 2010).

Mr Aidan Eames is a solicitor and former chairman of the Agency for Personnel Overseas (Appointed July 2010).

Operation of the Audit Committee

The work of the Audit Committee covers both Votes that are the responsibility of the Tánaiste and Minister for Foreign Affairs and Trade - Vote 28 (Foreign Affairs and Trade) and Vote 29 (Irish Aid). The role of the Audit Committee is set out in its charter (Appendix 1). The audit environment of the Department is described in Appendix 2.

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

The Committee held nine meetings in 2010 and also met with the Secretary General. In the course of their meetings, the Committee also received briefings from the Director General and Deputy Director General of Irish Aid, the Head of Corporate Services Division and other key staff.

This report relates to the Audit Committee's work programme for 2010. The timing and scheduling of audits means that the reports reviewed by the Committee during 2010 often related to expenditure incurred in years prior to 2010. This is also the reality with respect to evaluation reports, since evaluations usually look at programme interventions over longer time periods.

The Comptroller and Auditor General is responsible for the audit of the Department's Appropriation Accounts and issued an unqualified opinion for each vote for 2009. The audit of the 2010 Appropriation Accounts is in progress at the time of completion of this report.

During 2010 the Audit Committee reviewed and agreed the work programme to be undertaken during the year by the Evaluation and Audit Unit, and worked closely with the Unit. The Committee also reviewed the implementation of the evaluation and audit programme during the year.

Key topics covered by the Audit Committee during 2010 included:

- Working through Partner Government Systems in Programme Countries
- Update on the merger of Departmental Finance Units
- Risk Management
- Update on Vote 28 Issues & the operations of Internal Control for both Votes
- Criteria for assessing Aid Effectiveness and Public Finance Management in programme countries
- Review of approach to funding NGO partners
- Audit coverage in programme countries
- The Passport Service

Further detail on the work of the Audit Committee in 2010 is included in the appendices:

- Appendix 3: Dates of Meetings of the Audit Committee in 2010
- Appendix 4: Key documents considered by the Audit Committee
- Appendix 5: Presentations made to the Audit Committee.

The Audit Committee's priority issues for 2011 include:

- The Department's Risk Management System
- Review of operation of financial control systems across the Department
- Review of the use of partner government financial systems
- Strengthening of Civil Society Funding appraisal and monitoring systems.
- Evaluation of the effectiveness of MAPS programmes
- Follow-up on implementation of evaluation recommendations
- Aid effectiveness
- Emergency and Humanitarian Funding Systems

Audit Committee Findings and Recommendations for 2010

Findings and Recommendations for 2010

In accordance with its Charter, the work of the Audit 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 Comptroller and Auditor General gave an unqualified audit opinion on the appropriation accounts for Votes 28 and 29 for the financial year 2009.

The Accounting Officer affirmed in the Statement on Internal Financial Controls annexed to the 2009 Appropriation Account that an effective internal financial control system operated throughout the year. Senior management personnel also formally briefed the Audit Committee on the operation of the internal financial controls in 2010 and the Committee looks forward to receiving similar briefings at regular intervals in the future.

The Audit Committee notes that the Department's plan to amalgamate the existing separate finance units for Votes 28 and 29 is in progress and that, in line with the recommendation of the Audit Committee, there is now a clear project management structure with a Project Board (which reports to the Management Advisory Committee through its chairman), Project Manager and Project Team. The Audit Committee has been informed that phase 1, i.e. technical upgrading of the financial systems will be completed by April. The second phase of the project aims to harmonise the accountancy basis of both Votes as far as possible, advance the organisational merger of the two finance units and to take advantage of the common platform to deliver some new applications. The Audit Committee reiterates the importance of ensuring that the changeover to an integrated Department-wide financial control system will deliver optimal levels of internal control and risk management.

Recommendation

The Audit Committee urges the Department to expedite the merger of the Finance Units for both Votes as soon as possible. Clear timelines and milestones should be set down for the second phase of the project.

The Audit Committee has received a comprehensive set of management responses to the recommendations of its 2009 annual report (see Appendix 8). The management responses indicate that the recommendations have been accepted by the Department, and substantial progress has been made in their implementation. The Audit Committee welcomes the

establishment of a coordinated process for tracking Audit Committee recommendations, which is now led by Corporate Services Division with significant input from Development Co-operation Directorate.

The Audit Committee reviewed progress on the implementation of the recommendations of the 2008 Value for Money Review of the Passport Service. The Committee noted that the major recommendations have been addressed. However, the Audit Committee has been advised that the Government's embargo on recruitment in the civil service made it difficult to manage the deployment of temporary clerical staff to meet peak seasonal demand. This restriction actually resulted in increased payroll costs as the Department had to resort to overtime to ensure that sufficient staff resources were deployed. The problems were accentuated, and the payroll costs further increased, in 2010 by the industrial action in the Passport Service. The Audit Committee understands that a recent external staffing review conducted by the Labour Relations Commissioner has recommended an interim increase in core Passport Service staffing levels to be sourced by redeployment from elsewhere in the public service and subject to annual review in the light of the service delivery reforms planned for the Passport Offices. The Committee has been advised that the Department is actively pursuing this recommendation with the Department of Public Expenditure and Reform and would strongly support its efforts in this direction.

Recommendation

The Audit Committee recommends that the Department continues to engage actively with the Department of Public Expenditure and Reform to address the staffing levels required for meeting the seasonal demands of the Passport Service.

The Audit Committee noted last year that a full reconciliation of the volume of passports issued through the Automated Passport System with the revenues reflected in the Financial Management System had not been achieved. The Comptroller & Auditor General also referred to this in his report on the Department's 2009 Appropriation Account. The Department has informed the Audit Committee that, while a substantial proportion of passport revenues are reconcilable (e.g. An Post Passport Express, which accounts for about 58% of total fees), it would be technically complex and expensive to carry out a full reconciliation due to the diverse sources of passport fees and the complexity of the system e.g. passports issued at Embassies abroad, foreign exchange variations, etc. Notwithstanding the absence of this reconciliation, the Department has confirmed that there are robust controls in place with regard to receipt and lodgement of fees both at Headquarters and at Missions, and also over the stock management of passport booklets and data. The Audit Committee takes the view that the objective must remain to put in place a reconciliation system that will provide assurance that revenues are consistent with the volume of passports issued. The Committee recommends that this issue should be addressed in the proposed audit of the management of the passport system scheduled for 2011.

Recommendation

The Department should fully develop a system for reconciliation of passport issue volumes with fee income reflected in the accounts. This issue should be addressed in the forthcoming audit of the passport service.

2. Internal Audit

Department-wide

The Committee commends the work undertaken by the Evaluation and Audit Unit during 2010 to review and develop its risk-based audit planning process. The Committee supports the Unit's intention to align the internal audit work plan to the Department's risk register. However, before this alignment can be achieved, the risk register needs to be made more explicit, e.g. by articulating risks more clearly and identifying auditable controls.

The Evaluation and Audit Unit completed an audit of the Department's Travel and Subsistence system in 2010 as had been previously recommended by the Audit Committee. The Committee is pleased to note that the audit established that the system is appropriate, generally functions well and complies with the relevant regulations. Travel Section personnel were rated as diligent and professional and alert to opportunities for optimising cost-effective travel and subsistence. However, some inefficiency still exists, primarily arising from delays in adopting technology such as Electronic Travel and Subsistence. The audit identified areas where clarification of regulations and continued management attention would enhance value for money.

The Audit Committee notes that the Accommodation Expenditure Audit is nearing completion and looks forward to receiving the report and discussing the results at the earliest opportunity.

Vote 28 – Foreign Affairs and Trade

In addition to carrying out a Department-wide audit of Accommodation expenditure, the Evaluation and Audit Unit completed a number of audit assignments on Vote 28, which focused on the operation of internal controls in the Finance Unit and two Missions abroad. These audits concluded that the internal control systems in the Finance Unit and the Missions have operated effectively.

The Audit Committee has been advised that the Evaluation and Audit Unit deferred the development of a specific audit strategy document for Vote 28 to focus on the risk-based audit planning project. This assignment has identified key areas of action for the Vote 28 audit programme, which the Unit plans to incorporate into the audit strategy.

Recommendation

The audit strategy and multi-year work plan for Vote 28 should be formalised and approved by the Secretary General.

Vote 29 - Irish Aid

The Irish Aid budget is disbursed under three broad headings – partner governments, civil society organisations (mostly NGOs), and multilateral organisations (mostly UN). A significant proportion of Irish Aid’s programme country spending is channelled through partner government systems, which often have manifest weaknesses in accounting, audit and general financial management.

Ireland has signed up to the Paris Declaration on Aid Effectiveness, which commits donors to using country systems and procedures for aid delivery rather than through the creation of dedicated structures for day to day management and implementation of aid-financed projects. However the Paris Declaration also states that, where use of country systems is not feasible, e.g. in fragile states where Government is building administration systems often with minimal capacity, additional safeguards and measures should be established in a way that strengthens rather than undermines country systems and procedures. The Audit Committee is of the opinion that meeting the requirements of the Paris Declaration must not compromise the objective of protecting Irish taxpayers’ money.

The Audit Committee welcomes the emphasis on devising structured programmes for addressing Public Finance Management deficiencies in programme countries. These reform programmes address areas such as budgeting, accounting systems, public procurement, audit, and general oversight and prioritising public accountability. The Committee strongly supports Irish Aid’s continuing engagement in this area and especially its emphasis on providing support for National Audit Offices in programme countries. Ireland’s membership of the Task Force on Public Financial Management (led by the World Bank), and the partnership between the International Organisation of Supreme Audit Institutions and donors (established to support the strengthening of National Audit Offices in developing countries), enables Irish Aid to have a wider influence on the direction of public financial management reforms. The Audit Committee has noted that a number of National Auditors General are becoming more robust in terms of how they address audit and control issues.

While accepting that Ireland has commitments as an international development partner, and also that there is a certain level of risk associated with implementing an aid programme, the Audit Committee nevertheless remains concerned at the relatively high level of qualified audit opinions as well as perceptions of corruption, emanating mainly from partner governments. The Audit Committee accepts that qualified audit opinions can arise for a number of reasons but, nevertheless considers that this is an area of significant risk. The Committee welcomes the emphasis being placed by Irish Aid on the analysis and follow up of these issues.

The Audit Committee attaches particular importance to progressing the work of the Irish Aid Working Group on Public Financial Management (PFM) which was established in late 2009. The main output of the working group will be the articulation of criteria and guidelines for assessment of Public Financial Management systems in programme countries, which will be factored into the Country Strategy Programme cycle. The assessments, which will be undertaken by the Evaluation and Audit Unit, will address internal and external audit, parliamentary oversight, accounting and reporting, and the PFM reform programme. The findings of the assessments in these areas will enable Internal Audit, using its professional judgement, to recommend whether it is appropriate for Irish Aid to use, continue to use or disengage from country systems.

The Audit Committee understands that the Evaluation and Audit Unit also intends to increase its audit focus on Irish Aid's systems for administration and monitoring of grants to Civil Society organisations. This is a welcome initiative. See also in this regard the Committee's further comments in Section 4 of this Report: **Risk Identification**

Recommendations

Irish Aid should implement, as soon as possible, its recently developed criteria and guidelines for assessing Public Financial Management systems in programme countries and should commit adequate resources to that end.

Irish Aid, in collaboration with other donors, should continue to support the strengthening of the capacity of the Offices of National Auditor General in partner countries.

Irish Aid should continue to monitor qualified audit reports, assess the reasons for them, and take appropriate corrective action.

Irish Aid should devise an appropriate audit strategy for reviewing the effectiveness of Civil Society organisations

Details of audit-related work undertaken on Irish Aid expenditures during 2010 by the Evaluation and Audit Unit, and audit coverage achieved, are set out in Appendix 7.

3. Evaluation

It is becoming increasingly important for Irish Government Departments to be able to assess the effectiveness and value-for-money of the programmes they implement.

The Department has a well-established culture of evaluation in the Development Cooperation Directorate/Irish Aid, where it is a core component in Irish Aid's management process that generates objective, evidence-based information used for decision making. Evaluations seek to explain to the key stakeholders the extent to which development interventions and their modalities have succeeded or failed and the reasons why. The Evaluation and Audit Unit commissions evaluations that focus on issues of particular strategic importance to Irish Aid. Supported by the Evaluation and Audit Unit, Irish Aid's Operational Sections and Embassies also undertake evaluations that are of direct relevance to their areas of responsibility and their information needs.

While other areas of the Department's work have benefited from examination through Value-for-Money studies, as well as other internal exercises, it is the Audit Committee's view that an expanded evaluation approach can help with planning and management into the future. The Audit Committee supports the intention to draw up a multi-annual Evaluation Plan for the Department covering the period 2011-2013 that will complement other assessment work being undertaken.

In 2010, under its multi-annual work plan, the Evaluation and Audit Unit carried out a comprehensive programme of evaluative work focusing on the aid programme, of which some key assignments were:

- An Evaluation of Ireland's implementation of the Paris Declaration on Aid Effectiveness, which was undertaken as part of a global evaluation.
- Evaluations of Irish Aid country programmes in Vietnam and Tanzania.
- An evaluation of the Mozambique Country Programme was initiated.
- A joint evaluation with DFID covering both country programmes in Tanzania. This was a first such evaluation for Irish Aid and was very successful in reducing transaction costs of the evaluation for government, enabling a deeper examination and analysis and supporting cross-learning between both donors.
- An evaluation of the Multi Annual Programme of support to certain NGOs (MAPS) was initiated. It will examine the effect of MAPS on the work, effectiveness, achievements and capacity of Concern, GOAL, Trócaire and Christian Aid resulting from the significant levels of financial support provided under MAPS.

A detailed list of evaluation projects is set out in Appendix 7.

The Audit Committee has stressed the importance of independent evaluations of Country Strategy Programmes (CSP) given that a substantial proportion of funding goes through country systems and is pleased to note that, in 2010, Irish Aid collaborated substantially with the UK in undertaking a joint evaluation of country programmes in Tanzania. The Evaluation and Audit Unit is looking at how it might more innovatively and effectively conduct future CSP evaluations.

The Audit Committee welcomes the Evaluation and Audit Unit's proposal to codify principles, guidelines and practice currently in use for evaluation projects and to facilitate the development of an "Operation Manual" for the Evaluation Section which will outline key guidelines, principles and practice for all evaluations undertaken within the Department.

The Audit Committee has discussed with the Evaluation and Audit Unit its procedures for following up on the implementation of evaluation recommendations. The Committee acknowledges that the nature of some recommendations means that implementation is either a gradual change over time or a longer-term process. Nevertheless, this is an area that should be reviewed by the Department and the Unit to optimise the value and learning opportunities of evaluation exercises.

Recommendation

The Audit Committee recommends that the Department strengthens its procedures for the tracking of evaluation recommendations. It is important that evaluation findings and recommendations are 'owned' and acted on across the Department and not just within the Evaluation and Audit Unit.

4. Risk Identification

Risk Management

Risk identification and formal management of risk should be an integral part of management. The Department has a Risk Management Policy in place, which is integrated into business planning systems.

Since 2009, and in response to the advice and guidance of the Audit Committee, the risk management process has gained considerable momentum under the direction of the Risk Management Secretariat which reports to the Management Advisory Committee (MAC). The quality and level of engagement with the risk management process has strengthened considerably during the year, and the Department's risk register is now reviewed quarterly by the MAC. The Department recognises that there is still scope for sharpening the focus of the overall risk register and the Audit Committee has been informed that a new format is being developed. This format will, it is hoped, facilitate aligning the internal audit work plan to the Department's risk register. The Committee believes that the appointment of a Chief Risk Officer, reporting directly to the Secretary General, would underline the importance of the risk management process.

In addition to managing risk at overall Departmental level, risk assessment is also a key feature of Irish Aid's major programme planning exercises. The Audit Committee is also pleased to note that, as recommended in previous reports, a statement on risk was included in the Irish Aid annual report for 2009, which acknowledges the inherent risks in development aid.

Recommendations

The Audit Committee recommends the appointment of a Chief Risk Officer reporting directly to the Secretary General.

The 2009 initiative to begin the process of reviewing and strengthening the implementation of the Department's Risk Management Policy and Programme, including the updating of Risk Registers and the integration of Risk Management into the business planning process, should articulate risks more clearly, should identify auditable controls and corrective strategies, and should be completed as soon as possible.

Results Focus and Aid Programme Complexity

In relation to Vote 29 the Audit Committee has been informed that progress has been achieved on the development and rollout of the Management for Development Results framework (MFDR). This is a results-based management strategy which focuses on development performance and sustainable improvements at country level. In addition Irish Aid has engaged with civil society partners, funded under the Multi-Annual programme Scheme to develop their results frameworks - ultimately leading to a more performance based funding model for NGOs.

The Audit Committee has previously observed that the ongoing tightening of the State's public finances and constraints on human resources point up the importance of reducing the

programme's complexity to ensure that it remains targeted on those areas where Irish Aid has particular strengths. It is also essential that there is a continued focus on measuring impact and achieving value for money. Reducing programme complexity is also 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).

Actions to reduce complexity impact across all areas of the programme and aim to ensure the programme is focused on areas where Irish Aid can add value. For example, all new Country Strategy Planning exercises include a focus on identifying where Irish Aid's comparative advantage lies and sectors are selected based on agreed criteria. Other examples of reduced complexity relate to Civil Society support programmes – where the number of partners funded has been significantly reduced, and funding has also been more focused on sub-Saharan Africa as the geographical priority for Irish Aid – and the global health and HIV budgets, where the number of partners has also been consolidated.

While recognising that some progress has been made, the Audit Committee believes that financial stringency combined with growing taxpayer expectations of value for money from Government spending programmes will increase the pressure on Irish Aid to maximise the aid effectiveness of its interventions and the Committee will engage with the Department to see how best to achieve this.

Recommendation

The Audit Committee invites Irish Aid to sharpen its focus on the related issues of aid effectiveness and aid simplicity. It believes that in a period of continuing budgetary stringency, taxpayers will expect more cost-effective service delivery across Government spending programmes including those administered by Irish Aid.

Fraud and Corruption The Committee acknowledges 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 consequent adverse affects on the effectiveness of anti-poverty policies. It recognises that working in countries with weak governance generates risk for donors, including Ireland. The Committee notes 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 Irish Aid's audit processes seek to provide assurance regarding public funding, the Audit Committee encourages Irish Aid, in collaboration with other donors, to press ahead relentlessly with efforts to promote strengthening of systems of internal control and rectification of audit deficiencies in partner organisations.

The Audit Committee recommends that, as the Department's Fraud Policy and Code of Practice on Fraud in Partner Organisations have been in existence for a number of years now, it may be timely to revisit and update them. The Audit Committee also commends the establishment of a fraud register to track the actions taken by the Department in response to fraud incidence that has occurred during the year, the contents of which are shared with the Committee.

Recommendations

Irish Aid should continue to ensure that its management systems are sufficiently robust 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 reports of alleged fraud and investigations conducted

The Department should review its Fraud Policy and the Code of Practice on Fraud in Partner Organisations and update the documents where necessary.

Civil Society Funding

The Audit Committee reviewed Irish Aid's approach to funding NGO partners. There are three major schemes, namely the Multi Annual Programme Scheme (MAPS), which funds five of the largest Irish NGOs, the Block Grants Scheme (Civil Society Fund) which supports 22 partners (Irish and International) and the Project Grants (Civil Society Fund) funding approximately 55 Irish and International partners. Approximately €80.8m in funding was paid to NGO partners through these three schemes in 2010. In addition to the main funding schemes, in excess of €16 million was provided to missionary organisations (via Mísean Cara) and an additional €1.5 million to NGO partners via the In-Country Micro Project Scheme which enables Embassies in a number of non-programme countries to allocate funds to local development activities. Overall, almost €98 million in funding was paid to Civil Society Section partners through various schemes (including MAPS, Block Grants and CSF) in 2010.

The Audit Committee acknowledges that Irish Aid has made efforts in recent years to streamline its funding to NGOs and, in particular, to support programmatic approaches to aid delivery by the larger MAPS partners. It particularly welcomes the introduction of a new appraisal system and matrix for NGOs. However, the Committee considers that funding is spread too thinly across a large number of partners, programmes and countries, which is likely to reduce impact and effectiveness, and is likely to stretch the monitoring capability of Irish Aid's Civil Society Section.

The Audit Committee is concerned at the outcome of the mid-term review of the MAPS scheme for the period 2006 to 2011 (carried out in early 2010), which found that partners did not have clear frameworks to measure results. The Committee is fully supportive of the efforts of Civil Society Section to continue to develop measurement systems to assess performance of NGO organisations and increasingly use such analysis as a basis for future funding decisions. Such information is also crucial to assessments of whether or not value for money is being achieved. The Audit Committee therefore commends the progress that has been made by Irish Aid on strengthening systems for appraisal, monitoring, review, evaluation and audit and looks forward to seeing in due course the conclusions and recommendations which will emerge from the major evaluation of the MAPS programme which commenced in December 2010 and is due for completion during 2011.

Recommendations

Irish Aid should complete the strengthening of its systems for administration and monitoring of civil society funding with a view to applying robust appraisal procedures

to all NGOs as soon as practicable. Specifically, it should also require all NGOs to enter formal agreements with Irish Aid for delivery of specified programme objectives.

Irish Aid should establish performance-related criteria for the allocation of funds to MAPS partners.

Economic Progress in Programme Countries

There is a need for regular reporting of economic indicators to illustrate the progress made by the economies of the developing countries. These should include employment statistics, per capita GDP, cost of living indices, population growth, private sector growth, life expectancy, education updates, corruption ratings etc. Most of this information is readily available without further research and should be presented at least once a year. To some extent this would reflect the effectiveness of budgetary support programmes.

Recommendation

Irish Aid Annual Reports should publish comparative data on macroeconomic performance in partner countries to facilitate tracking of progress being made by these countries.

5. Organisational and Resource Matters

The Audit Committee appreciates that prevailing budgetary constraints require the Department to adapt to diminishing financial resources and a reduction in staff numbers. It understands that considerable progress has already been achieved. Reporting structures have been flattened, work processes are being streamlined and a dedicated planning unit has been created (Strategy and Performance Unit). Staffing constraints are being managed as effectively as possible but they have contributed to the difficulties at the Passport Office to which the Committee has already alluded at Section 1. **Management Information Systems and Internal Controls.** The Committee is also mindful of the particular difficulties associated with ensuring regular rotation of diplomatic personnel into and out of Irish Aid's headquarters in Limerick which have been well documented. While the number of diplomatic missions remains unchanged, staffing levels at some missions have been reduced with further reductions in prospect for 2011.

With regard to the Evaluation and Audit Unit, the Audit Committee welcomes the importance placed by the Department on deploying qualified staff and, in particular, the steps taken to fill vacancies in the Unit during the year. The Audit Committee wishes to re-state its comment in the 2009 report that the Department should continue to balance the need for significant experience in the Evaluation and Audit Unit with the imperative to deploy development specialists to the field offices under the planned posting system.

The Audit Committee understands that there has been no change regarding the very limited number of professionally qualified accountants employed in finance roles by the Department (and none at key decision-making levels). The Audit Committee continues to be concerned at this situation given the pressures on budgets and the need for heightened financial control and efficient use of resources.

While management methods and systems have been reviewed periodically¹, the Audit Committee is concerned that, against a background of pressure on staff resources and skills deficits, there may be insufficient focus placed on management training and development. The Committee invites the Department to revert to it with an outline of the training and development programmes in place.

Recommendation

In order to ensure a stronger and more consistently resourced financial control function for the whole Department, the Audit Committee strongly recommends the appointment of a Head of Finance (at Counsellor/Principal Officer grade) who holds a professional accounting qualification and significant relevant experience. Furthermore, the Head of Finance should be supported by qualified accountants with financial and management accounting roles for each vote.

¹ The most recent review is the Irish Aid Management Review, 2008

Appendix 1 – Audit Committee Charter

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

The Committee will have a Chairperson and at least four ordinary members who will be drawn from outside the Department (the quorum for meetings will be three members). At least two members of the Committee will be qualified accountants and some members will have 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. The Committee will usually meet at least six times each year.

The Committee will provide an independent appraisal of the audit and evaluation arrangements, 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 Department.

The Committee will provide an annual report to the Secretary General. This will be based, *inter alia*, on:

- a review of the Department's evaluation and audit strategy and the annual work programmes arising from this;
- a review of the implementation of these programmes;
- a review of the resources available for this purpose;
- monitoring reviews of the internal control systems;
- monitoring reviews of the risk management systems.

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

The Audit Committee has an advisory role with no executive functions, responsibilities or powers and has no role in approving evaluation and audit reports.

Appendix 2 - Audit Environment of the Department

Structure of the Department

Under the political direction of the Tánaiste and Minister for Foreign Affairs and Trade, the Department is managed by the Secretary General, who is the accounting officer for its two Votes – Vote 28 (Foreign Affairs and Trade) and Vote 29 (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 ten divisions at Headquarters (HQ) and 76 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 ten field offices, based mainly in Africa, that are responsible for managing Irish Aid bilateral country programmes.

External Environment

The Department of Foreign Affairs and Trade 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 Statement of Strategy.

The Millennium Development Goals, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action provide the basis for an international consensus on what needs to be done to reduce poverty and promote development.

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.

High Level Goals, 2008-2010²

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

<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>Promote Ireland, its bilateral relations with other countries, advance our economic interests and enhance our cultural profile overseas.</p>
<p>Secure Ireland's interests in the EU and contribute fully to the Union's future development.</p>	<p>Provide a high quality passport and consular service to all Irish citizens and actively engage with our Diaspora.</p>

Audit Arrangements of the Department

Audit is a key element of the accountability framework in which the Department operates – which comprises:

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.

² The Department will be required to produce a new Statement of Strategy within six months of the election of the new Government in March 2011.

3. The Joint Oireachtas **Committee on Foreign Affairs and Trade** – this Committee approves the Estimates for both Votes, 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 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.
 - 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 is also supported by internal auditors based in Irish Aid’s Programme Country field offices;
 - Value for Money Reviews (see 7. below).

The Head of Evaluation and Audit reports to the Secretary General.

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 Government’s Value for Money and Policy Review Initiative.

Appendix 3 - Dates of Audit Committee Meetings in 2010

27 January

22 March

21 April

19 May

21 June

22 September

2 November

18 November

9 December

Appendix 4 – Key Documents Considered by the Audit Committee

Report of the Management Review of Irish Aid

Evaluation Reports:

- Joint Evaluation of the Joint Assistance Strategy for Zambia
- Evaluation of the Irish Aid Country Strategy: Vietnam
- Joint Evaluation of the Paris Declaration - Phase 2 Donor HQ Study - Irish Aid

Value for Money and Policy Review of Irish Aid's Support to HIV and AIDS, 2000-2007

Audit Reports from the Auditors General of Mozambique, Lesotho and Uganda

Audit Reports of Work Undertaken by the Evaluation and Audit Unit

- Self Help International
- Trócaire
- Departmental travel and Subsistence
- Emigrants Support Programme
- Missions Abroad

The Department's Risk Register

A Results-based Management Approach to Country Strategy papers

Evaluation and Audit Work Plans for 2010

Appendix 5 - Presentations Received by the Audit Committee

The Audit Committee received the following presentations during the year:

Briefings on the Irish Aid programme by the Director General, Brendan Rogers and Deputy Director General, Michael Gaffey

Implementation of the Audit Committee's Annual Report Recommendations – Feilim McLaughlin (March 2010)

Risk Management – Jackie O'Halloran Bernstein (June 2010)

Update on Vote 28 Issues & the operations of Internal Control for both Votes - Assistant Secretary Barrie Robinson, Head of Corporate Services Division (September 2010)

Irish Aid Funding to Civil Society Organisations – Fionnuala Gilsenan and Alison Milton, Development Cooperation Directorate, (November 2010)

Aid Effectiveness, including Managing for Development Results and Mutual Accountability – Kevin Colgan and Paul Sherlock, Development Cooperation Directorate (November 2010)

Working Group on Public Financial Management – Séamus O'Grady, Evaluation and Audit Unit (November 2010)

The Passport Service – Joe Nugent (December 2010)

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

Appendix 6– Summary of Vote Expenditure 2010 (Unaudited)³

Vote 28: Foreign Affairs

	Estimate Provision €'000	Outturn €'000
<u>ADMINISTRATION</u>		
A1. Salaries, Wages and Allowances	92,603	92,950
A2. Travel and Subsistence	5,659	5,274
A3. Incidental Expenses	5,459	3,227
A4. Postal and Telecommunications Supplies	8,435	7,358
A5. Office Machinery and other Office Supplies and Related Services	21,727	18,347
A6. Office Premises Expenses	27,419	27,025
A7. Consultancy Services	92	67
A8. Value for Money and Policy Reviews	20	-
Supplementary (1,800)	(1,800)	
TOTAL ADMINISTRATION EXPENDITURE	159,614	154,248
<u>PROGRAMME EXPENDITURE</u>		
B. Repatriation and Maintenance of distressed Irish Persons Abroad	79	28
C. Support for Irish Emigrant Services		
Original 12,983		
Supplementary (1,000)	11,983	11,933
D. Information Services	783	422
E. Contributions to bodies in Ireland for the furtherance of International relations – (Grants in Aid)	234	234
F1. North-South and Anglo-Irish Co-operation	3,000	2,999
F2. International Fund for Ireland	195	195
G. Cultural Relations with Other Countries – (Grants in Aid)	846	846
H. Irish-American Economic Advisory Board	28	13

³ The Comptroller and Auditor General audit for 2010 is in progress at the time of completing this annual report.

		Estimate Provision €'000	Outturn €'000
I. Contributions to International Organisations			
	Original 37,240		
	Supplementary 15,200	52,440	52,340
J. Actions Consequent on Title v of the Treaty on European Union		582	494
K. Assistance to EU and other Eastern European States			
L. Atlantic Corridor Project		250	250
M. Asia Strategy		200	179
N. Referendum on EU Reform Treaty (0 in 2008)			
TOTAL PROGRAMME EXPENDITURE		70,620	69,933
GROSS EXPENDITURE			
	Original 217,834		
	Supplementary 12,400	230,234	224,181
O. Deduct Appropriations-in-Aid		39,697	42,869
NET EXPENDITURE		190,537	181,312

Vote 29: International Cooperation

Service	Estimate Provision	Outturn
	€'000	€'000
ADMINISTRATION - Subheads A1/8		
A.1. Salaries, Wages and Allowances	18,854	17,879
A.2. Travel and Subsistence	2,961	2,085
A.3. Incidental Expenses	3,277	2,092
A.4. Postal and Telecommunications Services	1,960	1,606
A.5. Office Machinery and Other Office Supplies and Related Services	1,648	1,413
A.6. Office Premises Expenses	4,603	4,267
A.7. Consultancy Services	1,509	1,123
A.8. Value for Money and Policy Reviews	420	
Sub-total	35,232	30,465
Other Services		
B. Payment to Grant-in-Aid Fund for Bilateral Aid and other Co-operation (Grant in Aid)	379,651	373,951
C. Emergency Humanitarian Assistance	54,000	52,501
D. Payments to International Funds for the Benefit of Developing Countries	28,000	28,000
E. Contributions to United Nations and other Development Agencies	39,500	39,500
Sub-total	501,151	493,952
Gross Total	536,383	524,418
F. Deduct: Appropriations in Aid	1,053	1,488
Net Total	<u>535,330</u>	<u>522,930</u>

Appendix 7 – Audits and Evaluations Undertaken in 2010⁴

The Department's Internal Audit Unit covers both Vote 28 (Foreign Affairs and Trade) and Vote 29 (Overseas Aid).

The (Overseas Aid) funds provided in the annual Voted Estimates are expended by the Development Co-operation Division (Irish Aid) in accordance with the provisions set out in the Inter-Departmental Committee approved budget document⁵.

The funding administered by Irish Aid is delivered through a wide range of partners including non-governmental organisations, missionaries, UN agencies, international organisations and humanitarian agencies. Funding is also delivered in Programme Countries via local, regional and national government systems aimed at, inter alia, building health, education and local government systems.

The audit approach recognises the various modalities used by Irish Aid for aid delivery, with a particular focus on the appropriateness of the accounting and financial management systems of partner organisations in receipt of funds. Where funds are provided to governments, an assessment is carried out of the overall Public Finance Management environment with a particular focus on the capacity and independence of local National Audit Offices.

The table below sets out the percentage of audit coverage that has been achieved to date in programme countries. This coverage has been achieved by a combination of audit work carried out directly by the internal audit function; audits commissioned by Irish Aid and carried out by independent auditors; and audit reports submitted by partner organisations (including National Auditors General).

These audits cover programmes and projects funded by the Irish Government, and relate to expenditure in the 2008 and 2009 financial years (2010 financial year information not generally available from partner governments at the time of publishing this annual report).

Country	2009	2008
<i>Ethiopia</i>	92	99
<i>Lesotho</i>	100	77
<i>Mozambique</i>	61	94
<i>South Africa</i>	99	100
<i>Tanzania*</i>	96	98
<i>Uganda</i>	23	99
<i>Zambia</i>	84	87

⁴ This appendix should be read in conjunction with the *Internal Audit* section of the Audit Committee's Comments and Recommendations in this report

⁵ The Inter-Departmental Committee budget document sets out the detailed budget allocations for programme lines. These allocations are approved by an Inter-Departmental Committee (consisting of representatives Foreign Affairs and Trade and five other Government Departments, which meets after the Budget is announced each year.

Other key audits carried out by the Evaluation and Audit Unit in 2010 for Vote 29 include:

- Audit of funds provided under the MAPS scheme to Trócaire
- Audit of four partners in receipt of Development Education Grants
- Review of Funding provided to UNDP in Sierra Leone

The Evaluation and Audit Unit also carried out the following Department-wide and Vote 28-related assignments in 2010:

- Audit of Permanent Mission to the United Nations, New York
- Audit of Permanent Representation to the European Union, Brussels
- Review of the Department's Internal Financial Controls (Vote 28)
- Audit of the application of Travel and Subsistence regulations (Votes 28 and 29)
- Review of the Department's Risk Register.

Evaluation

Evaluations ongoing or completed in 2010 (all Vote 29):

Title of Evaluation	Thematic Area	Managed by	Status
Tanzania Country Strategy Programme	Bilateral Country Programmes	Jointly with DfID, UK	Completed
Joint Evaluation of the Paris Declaration – Phase 2 Donor HQ Study – Irish Aid	Aid Effectiveness Agenda	Evaluation and Audit Unit	Completed
Joint Assistance Strategy (JAS) for Zambia	Multi- donor Country Programme approach	Jointly with SIDA and Danida	Completed
Evaluation of Irish Aid Country Strategy: Vietnam	Bilateral Country Programmes	Evaluation and Audit Unit	Completed
Evaluation of Irish Aid Multi-Annual Programme Scheme for civil Society Partners (2007-2011)	Civil Society Funding	Evaluation and Audit Unit	Ongoing for completion in 2011
Mid Term Evaluation of the United Nations Capital Local Government Support Programme, Timor Leste	Multilateral Programme	Jointly with UN Capital Development Fund and UNDP	Completed in 2010

Title of Evaluation	Thematic Area	Managed by	Status
Review of Irish Aid projects in Tanzania, Uganda and Zambia	Bilateral Country Programmes – Aid Modality	Evaluation and Audit Unit	Completion in 2011
Review of Irish Aid Zambia Country Programme	Bilateral Country Programmes	Evaluation and Audit Unit	Ongoing to be completed in 2011
Review of Irish Aid Country Programme in Mozambique	Bilateral Country Programmes	Evaluation and Audit Unit	Ongoing for completion in 2011
Evaluation of Public Sector Governance Reform Programmes (Global)	Bilateral Country Programmes - Governance/Public Sector Reform	Jointly with DFID	Ongoing for completion in 2012
Evaluation of the Central Emergency Response Fund (CERF).	Humanitarian Assistance	Joint Evaluation. Head of Evaluation and Audit Unit is a member of the Management Committee.	Ongoing
A Value for Money Review for CONCERN Worldwide	Civil Society Funding	Evaluation and Audit Unit	Initiated; for completion in 2011
Evaluation of the impact of Budget Support in Tanzania	Bilateral Country Programmes – Aid Modality	Multi-Donor, including Ireland	In progress
Evaluation of Public Financial Management (PFM) Reform Programmes (Global)	Bilateral Country Programmes - Public Financial Management Reform	Multi-Donor, including Ireland	In progress

Appendix 8 – Management Responses and Follow-up to Audit Committee Recommendations

Recommendations contained in 2009 Annual Report

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	Management Information Systems and Internal Controls		
1	The Department should provide a formal annual update to the Audit Committee on the operation of the systems of internal control.	<p>At its meeting of 22 September 2010, the Department's Head of Corporate Services provided an update to the Audit Committee on the operation of the systems of internal control and responded to questions from the Committee on the subject.</p> <p>The Financial Controller for Vote 29 also attended and confirmed that the internal controls for the Vote are operating satisfactorily.</p>	This formal update is accepted as an annual event, with the next meeting with the Committee proposed for September 2011.
2	The Department should complete, as soon as practicable, its work on the establishment of a routine for reconciling the volume of passports issued by the Passport Service with the revenue recorded in the financial system, which will complement the other controls in place.	<p>This task is in progress with a clear path towards the reconciliation of fees received under Passport Express within Ireland. The Passport Office has a system which allows for the listing of the relevant payment for each individual application on a given day and the total payments for all that day's applications. The daily total figure is subsequently reconciled with the payment received from An Post.</p> <p>Passport Express accounts for 58% of completed passport receipts. The next step will be to extend the same reconciliation to Passport Express from Northern Ireland, adding a further 6% of coverage. The strategy will be to deal with the reconciliation of each method of payment individually thereby expanding the coverage. The more difficult reconciliations will include those postal applications containing cash or postal orders (accounting for about 9% of applications).</p>	As a further control, the Department will introduce, from May 2011, a high level reconciliation with total passport receipts for a month being compared with the total number of applications, giving an average yield per application. This will be monitored on an ongoing basis and any significant deviation in

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
			the average yield will be investigated.
	Internal Audit		
3	The audit strategy and multi-year work plan for Vote 28 should be formalised and approved by the Secretary General.	The development of a formal audit approach was put on hold since it was likely to be informed by the audit risk analysis that was undertaken by the Evaluation and Audit Unit in 2010. The output from this exercise will be incorporated in the formulation of the audit work plan for Vote 28 for 2011 and beyond. The Audit Committee will already be aware that the Unit has undertaken important audit assignments for the Vote over the past two years. The audit approach will be formalised and approved by the Secretary General in 2011.	
4	Irish Aid should continue its engagement in Public Expenditure and Financial Accountability (PEFA) assessments which are the principal means of appraisal of Public Finance Management systems in partner countries.	<p>Irish Aid continues to engage as appropriate with PEFA assessments and uses the results thereof in assessing the risk profile of using country systems.</p> <p>Irish Aid has established a cross-Divisional PFM group and is developing guidelines on PFM assessment in its programme countries.</p> <p>In addition, Irish Aid keeps abreast of third party PEFA assessments and developments that are relevant to its programme countries.</p>	Irish Aid will pilot the PFM assessment in three of its programme countries in the first half of 2011 with the intention of completing assessments in all countries by the end of 2012.
5	Senior Management should maintain their commitment to strengthening Public Financial Management systems in partner countries by deploying adequate	Irish Aid has initiated a more formal process of assessing Public Financial Management (PFM) systems in Programme Countries and this will assess capacity issues and how Irish Aid can best address these in cooperation with partners Governments and other cooperating partners.	

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	resources and ensuring that all programme management have an accountability focus in their roles.	<p>Irish Aid has developed a Guidance note on Capacity Building in general and has recently undertaken a mapping of the PFM improvement programmes in its programme countries. It has also undertaken a mapping of the use of country systems to gain a better understanding on where support is needed in making decisions to use national PFM systems.</p> <p>Irish Aid has also participated actively in the OECD DAC PFM Task Force Meeting.</p>	
6	Irish Aid, in collaboration with other donors, should continue to support the strengthening of the capacity of the Offices of National Auditor General in partner countries.	Irish Aid will continue to support the Offices of National Auditors General in partner countries. Irish Aid is also supporting the work of INTOSAI (International Organisation of Supreme Audit Institutions) which promotes capacity development and peer learning between National Auditors General. Irish Aid has provided, and will continue to provide, both financial and technical assistance towards the work of this INTOSAI-Donor partnership and is on the Steering Group of this initiative. In 2010, €200,000 was provided to INTOSAI.	
7	Irish Aid should continue to monitor qualified audit reports, assess the reasons therefore, and take appropriate corrective action.	Irish Aid consistently follows up at country level, and with all partners, on audit reports. To ensure consistency in the approach, assessment of audit reports from the Offices of National Auditors General will be an important part of new guidelines for assessment of Public Financial Management systems in Irish Aid partner countries. The issue of qualified audit reports and the reasons for qualification are taken very seriously and addressed by Irish Aid.	
8	Irish Aid should continue to keep Partner Government Systems under review and, where significant or	Review of partners' systems is an essential part of the analysis undertaken during a Country Strategy Paper (CSP) planning process. Under new PFM guidelines that will be implemented in 2011/2, a formal assessment of PFM	

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	continuing weaknesses are identified, determine whether or not aid should continue to be channelled through these systems or whether alternative modalities should be considered.	systems will be carried out in each country. The results of these assessments will be taken into account when decisions are taken as to the most appropriate modalities to be used in any particular programme country. Other modalities (outside Government systems) will also be subjected to an equal level of robust assessment.	
9	The Audit Committee recommends that the Evaluation and Audit Unit increases its level of audit of civil society funding to ensure comprehensive coverage.	<p>The Evaluation and Audit Unit has undertaken a comprehensive audit risk assessment exercise in 2010 to inform the audit programme for the coming years. The Evaluation and Audit Unit is currently developing a new audit approach that will cover all programmes that fund civil society organisations (for both votes).</p> <p>The department has elaborated a document setting out its approach to audit of funding to civil society organisations. The document describes the key principles of relevant internal control and explains the audit approach, which supports the Department's accountability framework.</p>	The Evaluation and Audit Unit is currently undertaking a major audit of Concern (under the audit approach agreed with MAPS NGOs in 2008) and will audit GOAL and Christian Aid in 2011.
	Evaluation		
10	The Audit Committee recommends that the Department strengthens its procedures to ensure that recommendations from all evaluations are taken into account, where appropriate, in planning processes and across all programmes.	<p>All new programme proposals for approval by the Project Appraisal and Evaluation Group (PAEG) are required to demonstrate that the key findings and recommendations of evaluations related to the area of intervention have been appropriately taken into account by management.</p> <p>Policy Planning and Aid Effectiveness (PPE) Section reviews all proposals from PAEG and appraises them to ensure that evaluations have been factored into the analysis and that the recommendations have been discussed and adopted as appropriate.</p>	

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	Risk Identification		
11	The initiative to review and strengthen the implementation of the Department's Risk Management Policy and Programme during 2009, including the updating of Risk Registers and the integration of Risk Management into the business planning process, should be completed as soon as possible.	Progress on this matter has continued throughout 2010 with improved quality of risk registers being achieved. Reporting of risks to the MAC has been placed on a regular (quarterly) basis and, following the Evaluation and Audit Unit's Audit Risk Analysis, measures are being put in place to enhance the analysis and description of risks with a view to making the risk registers more auditable.	<p>The current request for updated risk registers introduces a more comprehensive risk register. This links the management of risk more closely to the corresponding business plan and seeks to have specific controls put in place to deal with identified risks.</p> <p>A large amount of resources on Risk Management has been published as a dedicated service on the Department's intranet site</p>
12	Irish Aid publishes a policy statement that articulates Irish Aid's position on the management of the risks inherent in a diverse aid 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	<p>The Irish Aid Annual Report for 2009 incorporated a statement entitled <i>Identifying, Managing and Mitigating Risk</i>. The statement articulated the nature of risks faced by the Aid Programme and the Risk Management Policy and Programme that is in place.</p> <p>It is also noted that the Audit Tracking and Risk Management functions are now combined in the Irish Aid management structure.</p>	

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	the likelihood of the occurrence and/or impact of significant risks.		
13	Irish Aid should continue to keep under 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. 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.	<p>Irish Aid, through the country planning process, has reduced the number of sectors of involvement in a number of cases, based on a review of comparative advantage, in all Programme Countries. This is in line with the EU Code of Conduct and the Accra Agenda for Action. Use of Programme-Based Approaches reduces fragmentation and facilitates harmonisation. An annual report on progress in implementing the commitments made in the Paris Declaration and the Accra Agenda for Action is prepared. Arrangements will be made for the Audit Committee to engage more fully in one sector, or Programme Country, to examine the degree of complexity and capacity to deliver such programmes effectively.</p> <p>In relation to Civil Society support programmes, the number of partners funded has been significantly reduced, and funding has also been more focused on sub Saharan Africa as the geographical priority for Irish Aid. The number of partners funded under the global health and HIV budgets has also been consolidated.</p>	
14	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 reports of alleged fraud and investigations conducted.	<p>Irish Aid's appraisal and monitoring systems are designed to ensure, as far as possible, that funds are used for the purposes intended and that the risk of fraud is mitigated. Given the context of development aid, it is an inherent risk that fraud will occasionally occur in partner organisations. The Department has established a Fraud Policy Statement and a Code of Practice for Dealing with Fraud in Partner Organisations.</p> <p>A number of instances of alleged fraud that occurred in partner organisations were reported to the Department during recent years and, in accordance, with Departmental procedures, appropriate actions were taken in each case. Each instance of alleged fraud is recorded in a register, which is available for</p>	

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
		<p>review by the Audit Committee.</p> <p>During 2010, Irish Aid wrote to all NGO partners funded from the Civil Society Section funding schemes reminding all of these of the Department's Fraud Policy and of their obligations arising from it and their funding contracts under the programme. Civil Society partners have also been required to publish audit and evaluation reports on their websites.</p> <p>Irish Aid is currently examining the feasibility of establishing financial management standards for NGO partners. Other measures are also ongoing.</p>	
15	Irish Aid should complete as soon as possible its plans to review and strengthen the eligibility criteria and appraisal process and increase the monitoring of Civil Society Organisations.	<p>In 2010 Civil Society Section reviewed its eligibility criteria and appraisal process, with a particular emphasis on financial transparency. A Civil Society Fund (CSF) round was held in September 2010 and the new criteria and appraisal process were applied successfully. Lessons learned from that round will inform future funding rounds, and are being shared with other sections in Irish Aid.</p> <p>In 2010, Civil Society Section significantly increased its level of monitoring. For example, 24 CSF organisations were monitored in 2010, compared to 11 in 2008 or 2009. In assessing the work being carried out by partner organisations, there was a strengthened focus on the use of results frameworks, and clearer links between programme budgets and activities.</p> <p>Irish Aid NGO Block Grant partners are now required to undergo independent evaluations by end 2011, and assessments of these will inform future funding decisions.</p>	
16	Irish Aid should establish criteria for the allocation of funds to MAPS	The MAPS II programme will come to an end in December 2011. New funding arrangements will be put in place from the beginning of 2012, with an	MAPS Evaluation to be completed in mid-2011.

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
	partners based on performance.	emphasis on performance and results. Officials are currently exploring performance based resource allocation models for utilisation in the post MAPS II phase. A major evaluation of the MAPS programme is underway.	
	Organisation and Resources		
17	The Department should ensure that its staffing policy regarding the Evaluation and Audit Unit should ensure there is continuity of high level of expertise and experience deployed.	An adequately resourced and effective Evaluation and Audit Unit is essential to underpin the effective and transparent functioning of all aspects of the Department's work. Notwithstanding the current resource constraints being experienced across the public sector, the Evaluation and Audit Unit is currently at its highest staffing level ever and has the ability to deploy additional external resources as necessary and appropriate. The experience and skills necessary remain under continuous review.	
18	In view of the imminent creation of a single finance unit for the whole Department, and the size of the budget under its control, the Department should appoint a Head of Finance (at Counsellor/Principal Officer grade) who holds a professional accounting qualification and significant relevant experience. Furthermore, the Head of Finance should be supported by qualified accountants with Financial/Management Accounting roles for each Vote.	The current restrictions on recruitment and the challenging targets for reductions in staff numbers has meant that progress with this recommendation has not been possible.	No specific update. Efforts to secure a suitable and suitably-qualified candidate through redeployment have not yet been successful

	Recommendation	Management Response and Follow-up	Timetable / Additional Comments
19	<p>The Department should continue to ensure that resources are deployed to the maximum extent possible and endeavour to achieve a further reduction in the complexity of the Irish Aid programme in order to minimise and manage the risks arising from staff shortages.</p>	<p>Within the current restrictions on recruitment, the Department continuously seeks to ensure the optimal deployment of the necessary skills to deliver an effective aid programme. In the last number of years the Irish Aid programme was reviewed independently by the OECD and received the highest accolade for its quality and its effectiveness. As outlined in Section 13 above, fragmentation, duplication and other constraints to effective delivery of results on the ground are being continuously addressed. In order to examine issues of complexity/simplification, Irish Aid management will work closely with the Audit Committee to examine specific programmes and organisations.</p> <p>It is also noted that significant progress was made in 2010 on implementation of the recommendations of the Irish Aid Management Review in order to maximise integration of the Irish Aid programme within Irish foreign policy as a whole and thus to achieve greater resource efficiency.</p>	

2007 and 2008 Recommendations

The above table details the Department's Management response and follow-up in relation to the recommendations contained in the 2009 Audit Committee Annual Report. It is noted that a similar number of recommendations were made in the 2007 and 2008 Reports. Several of the recommendations made in 2007 and 2008 relate to issues and themes covered above and the explanations and actions outlined above represent the current status of ongoing response and follow-up to those recommendations.

For instance, several recommendations have focused on **PEFA and PFM issues**, the position on which is outlined above. Another consistent theme of Audit committee recommendations has been the importance of **follow-through on the recommendations of individual Audit and Evaluation Reports**, and this principle has very much been taken on board and acted upon by the Department. Again, relevant to recommendations contained in previous years' reports, it is noted that there has been a strong focus on reviewing and where necessary **reforming management systems**, particularly in Irish Aid, including the undertaking of a Management review process culminating in the publication of the Irish Aid Management Review Report in 2009 and the implementation of the recommendations contained therein.

The Committee has also focused consistently on the issue of the Department's **Risk Management** systems and, in this context, it is noted that enhanced risk management processes have been adopted including the establishment of a Risk Management committee and the publication of a statement on Irish Aid's risk management approach.

Another focus of 2007 and 2008 recommendations was the nature and robustness of Irish Aid **partners' internal controls**, and the emphasis now placed on this aspect is noted.

The Committee also previously recommended that the Department strengthen its support for the **UN Reform** agenda including Delivering as One, and it is noted that the Department has taken a strong role in this area both at United Nations HQ level and also in terms of support for implementation of UN reform in its partner countries in Africa and Asia.

It is noted, again in response to previous recommendations, that Irish Aid continues to engage with **Budget Support** evaluations.

Work on evaluation of various aspects of General Budget Support is ongoing. Irish Aid will be involved in 2011/12 in a major Evaluation of the impact of General Budget Support in Tanzania. This evaluation is being undertaken under the auspices of the OECD/DAC and Ireland will be represented on the management group of this evaluation along with the EC (lead), Denmark and the Netherlands. This will be the latest in a series of relevant evaluation exercises in which Ireland has participated actively.

Past recommendations in respect of the impacts of **decentralisation** on the delivery of the Irish Aid programme are also noted. Every effort is made by management to preserve and protect institutional memory and to replace specialised development staff lost as a result of the decentralisation of Irish Aid. Particular difficulties arise in relation to the replacement of diplomatic staff rotating overseas from Irish Aid HQ in Limerick, and the Department is examining, on an ongoing basis, options for responding to these issues.