



Audit Committee

Department of Foreign Affairs and Trade

ANNUAL REPORT 2013

September 2014

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1. Chairman's Statement

Secretary General,

It is my pleasure to present to you the 10th annual report of the Audit Committee of the Department of Foreign Affairs and Trade which records the Committee's activities during 2013. The financial parameters of the two votes which comprise the Department's expenditure programmes are as follows:

Revised Estimate (net)	Provisional Outturn (net)	Peak Year Outturn (net)	Expenditure Reduction from Peak Year	
2013 (€m)	2013 (€m)	2008 (€m)	€m	%
Vote 27 International Cooperation				
496	492	768	276	36
Vote 28 Foreign Affairs and Trade				
174	152	217	65	30

The Audit Committee met on seven occasions during 2013. In addition, members of the Committee gave generously of their time between meetings in exercising oversight over the work programme of the Evaluation and Audit Unit of the Department. While the Committee's agenda during 2013 ranged across the diverse responsibilities of the Department, the main issues our work programme addressed during 2013 revolved around the broad themes of risk management, financial management and control, and fraud, all of which are dealt with in greater detail in the body of the annual report.

The Audit Committee was pleased to note the continuing evolution of risk management practices in the Department during 2013. The broad structure of a Chief Risk Officer (a member of the Management Advisory Committee), Risk Management Committee and Risk Management Secretariat provides a sound base for the oversight of the management of risk. It must, though, be recognised that risk management is a function of all management and staff in the Department. To that end, our recommendations in section 4 (d) of the report are aimed in part at spreading awareness of the ownership of risk, particularly at senior levels in the Department.

The development of a new three-year internal audit work plan built on a risk-based audit planning process was welcomed by the Audit Committee. In the view of the Committee the risk-based planning process provides a useful model for how to approach such work across the Department.

As noted in last year's report, the Audit Committee is increasingly turning its attention to how the Department audits and evaluates financial management and control across the organisation, while recognising the key importance of Irish Aid funding and management. During 2013 the Committee reviewed the findings of an audit of Departmental expenditure on information and communication technology (ICT); and the conclusions emerging from a Value for Money evaluation of Ireland's

bilateral diplomatic missions in EU Member States. The review of the ICT audit raised some general issues around the form of management response to audit recommendations, and the Committee is recommending some tightening up of practice in this regard. It is important that there is clarity about the nature of the response to audit recommendations and about responsibilities for follow on action where appropriate.

Fraud continues to be regarded as a key potential risk by the Audit Committee, particularly in development aid. During the year, the implications of the fraud at the Office of the Prime Minister in Uganda, discovered in 2012, continued to be felt. The Committee examined progress in relation to actions taken to address the specific fraud, and also the wider subsequent review by the Evaluation and Audit Unit of the internal controls and risk management systems in all Irish Aid's key partner programme countries. The Committee made a number of recommendations relating to strengthening of capacity to detect and prevent fraud both within the Department and in key partner countries.

The Committee also addressed a further significant issue of fraud, which was uncovered in the summer of 2013 when the Passport Office discovered irregularities in the issue of a small number of passports. A joint investigation was initiated by the Passport Service and the Garda National Bureau of Criminal Investigation. The Secretary General appointed an External Group to review passport service systems, processes and controls, with a focus on internal and external risks to the integrity of the Irish passport. In addition to the work of the External Group, the Secretary General requested the Department's Evaluation and Audit Unit to carry out a review of the corrective measures taken by the Passport Office since the discovery of the fraud to strengthen internal controls and reduce the likelihood of further passports being issued fraudulently. The Audit Committee views this incidence of fraud as serious and a threat to the passport service, and to the integrity and value of the Irish passport itself. The Committee request the Secretary General and the Evaluation and Audit Unit to keep this area of potential fraud under ongoing review and scrutiny and that the recommendations of the External Group be implemented as soon as possible.

A summary of all the recommendations arising from the annual report is outlined in Appendix 3. This summary includes recommendations that arise from discussions of the Committee on issues not explicitly covered in the report, such as NGO senior management remuneration and whistleblower protection. The issue of NGO remuneration must be seen in the wider context of public disclosure of the appropriate use of public funds.

Members of the Committee undertook a very informative visit to Zambia in early 2013, reported on in section 4 (h). Such occasional visits are very useful in providing the Committee with first-hand experience of on-the-ground issues and practices, and provide a helpful context when considering audit and evaluation reports.

With regard to the operation of the Audit Committee itself, the Committee has been actively engaged in a dialogue on the role of the internal audit function in public sector organisations initiated by the Department of Public Expenditure and Reform (DPER) and commentary on draft guidelines for Audit Committees produced by DPER. Following review of these guidelines and of its own existing Charter, the Committee intends to submit for your consideration its proposals for amendments to its existing Charter during 2014.

I took on the role of chair in July 2013, taking over from Phil Furlong who retired from the post. I would like to place on record my own appreciation, and that of the Audit Committee, for the guidance and sound advice provided by Phil during his tenure as Chair and as a member of the Committee. I am also very appreciative of the support of the other members of the Committee on my taking on the role of Chair.

Members of the Audit Committee are also extremely grateful for the support which it has received unstintingly from management and staff at all levels throughout the Department of Foreign Affairs and Trade who continue to deliver service of the highest quality notwithstanding the challenges posed by prolonged budgetary stringency. In particular, the personal support and encouragement of David Cooney, who stepped down as Secretary General during 2014, was much valued by the Audit Committee and vital to ensuring an effective role for the Committee in the Department. We look forward to working with you in an equally constructive manner. I must also pay particular tribute to the excellent work of the staff of the Evaluation and Audit Unit led by William Carlos, ably supported by Tom Hennessy, Séamus O'Grady and colleagues, whose professionalism and commitment is exemplary. Tom, Patricia Ryan and Liam Foley also provide a high-quality, valued secretariat to the Audit Committee.

Richard Boyle
Chairman
Audit Committee
Department of Foreign Affairs and Trade
September 2014

2. 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 2013, the members of the Committee were:

Dr. Richard Boyle, Chairman of the Audit Committee from July 2013, is Head of Research, Publishing and Corporate Relations, Institute of Public Administration (Appointed as a Committee member in January 2008).

Mr. Philip Furlong, Chairman of the Audit Committee January 2011 to July 2013, is a former Secretary General of the Department of Arts, Sports and Tourism (Appointed as a Committee member in January 2008, retired in July 2013).

Mr Donal Corcoran is a Chartered Management Accountant and retired management consultant (Appointed as a Committee member in July 2010).

Mr. Aidan Eames is a Solicitor and former Chairman of the Agency for Personnel Overseas (Appointed as a Committee member in July 2010).

Mr. Jim Gillespie is a Chartered Accountant and a former partner in EY (Appointed as a Committee member in July 2011).

Ms. Emer Daly is a Chartered Accountant and company director (Appointed as a Committee member in March 2012).

3. Role of the Audit Committee

The Audit Committee advises the Secretary General on the internal audit policies and strategies for the management of risk appropriate to the functioning of the Department of Foreign Affairs and Trade, and by so doing supports him in the discharge of his responsibilities as Accounting Officer of the Department. The Audit Committee may also advise the Tánaiste and Minister for Foreign Affairs and Trade, and the Minister of State for Trade and Development where it is appropriate to do so.

The Charter of the Audit Committee (see Appendix 2) sets out its role and terms of reference. The Committee has two main roles, namely:

- To advise on the operation of the Evaluation and Audit function within the Department.
- To examine and monitor the implementation of the Department's risk management strategy.

The Committee has responsibility for the following:

- Endorsing, and periodically reviewing, a charter for Evaluation and Audit which clearly defines the purpose, authority, roles, responsibilities and reporting relationships of the Audit Committee, Evaluation and Audit Unit and management of the Department.
- Reviewing and advising on the proposed programme of work for the Evaluation and Audit Unit within the Department.
- Monitoring the implementation of the evaluation and audit plan.
- Assessing the results of completed evaluation and audit reports, evaluating the effectiveness of internal control and advising Departmental management of its conclusions thereon.
- Advising the Secretary General on the effectiveness of the Evaluation and Audit function.
- Requesting special reports from the Evaluation and Audit Unit as considered appropriate.
- Assessing the implementation of agreed corrective actions by management having regard to follow-up on evaluations and audits.
- Advising on whether adequate resources and skills are available to the Evaluation and Audit Unit of the Department and making recommendations on the allocation of resources where it considers this desirable.
- Encouraging the development of best practice in the Evaluation and Audit Unit.
- Monitoring the implementation of the Department's risk management strategy and advising the Secretary General on the effectiveness of this process.
- Preparing an annual report to the Secretary General.

The Audit Committee acts in an advisory capacity and accordingly has no executive functions. Thus it does not have front-line responsibility for the detailed evaluation and audit process or for signing off on evaluation and audit reports. Neither does it have any executive responsibility or involvement in the review and approval (on behalf of management) of annual financial statements for the Department's Votes.

The Audit Committee meets with representatives of the Comptroller and Auditor General (C&AG) at least once a year. While the Committee has a good working relationship with the Office of the C&AG, these meetings essentially involve the sharing of information and views. The Audit Committee has no direct involvement in the annual audit of the financial statements for the Department's Votes conducted by the Comptroller and Auditor General.

The Department of Public Expenditure and Reform issued draft guidance on the role of the Audit Committee in the central government sector for consultation at the end of 2013. It is the intention of the Audit Committee to respond to this guidance with comments and use any subsequent agreed guidance as an input to reviewing and revising its Charter in 2014.

4. Observations and Recommendations of the Audit Committee

a. Departmental Organisation and Management

i. Evaluation and Audit Unit:

Once again the Audit Committee commends the importance placed by the Department in maintaining a well-resourced evaluation and audit function including qualified accountants and experienced staff notwithstanding the challenging economic environment and pressures to reduce staffing levels.

ii. Internal Auditors based at Embassies:

Locally recruited internal audit staff are employed at Embassies in countries where substantial Irish Aid is disbursed. They are a vital part of the Evaluation and Audit function as they are close to events and thus are capable of identifying and reporting problems at an early stage. As noted in last year's report, and raised again in early 2013, the Department has experienced difficulties in maintaining staffing levels and in paying appropriate salaries due to cut-backs. As a consequence, increased risks in the oversight and assurance environment arise. The Audit Committee welcomes the response of the Department to accept the recommendation in the 2012 report that audit and evaluation staff costs in Irish Aid Partner Countries should be treated as a programme expense. This will happen in key partner countries from 2014. It is noted that all internal audit posts were filled at the end of 2013.

iii. Financial Control:

On foot of a previous recommendation of the Audit Committee a qualified chartered accountant was appointed as Chief Financial Officer (CFO) at Assistant Secretary level in February 2014 (this is a first in government departments). The CFO is a member of the senior leadership team of the Department and serves on the Management Advisory Committee (MAC). The existing separate finance units for each vote have been merged as a single Finance Division and they use the same accounting system. Procurement has also been assigned as part of the Finance Division remit. The Audit Committee welcomes these organisation changes and commends the Department for making them in difficult times.

b. Audit Review

i. Risk Analysis done in 2013:

To effectively use the resources of the Evaluation and Audit Unit, they must be focussed on the activities and areas of greatest risk to the Department. Throughout 2013, the Evaluation and Audit Unit carried out a risk based audit planning exercise which has informed the audit plan for the three year period 2014 to 2016. This exercise involved profiling, assessing and ranking the activities of the Department under two key criteria, risk and sensitivity. The Evaluation and Audit Unit consulted widely across the Department as part of this exercise and their work was validated by an independent expert engaged under the auspices of the Chartered Institute of Internal Auditors. The findings of this exercise were used to develop the three year audit plan. The Audit Committee were fully informed and involved in this exercise and are satisfied that it provides a sound basis for the work of the Evaluation and Audit Unit over the period. The Audit Committee also agreed that this was a valuable exercise.

ii. ICT Audit:

During 2012 and into 2013 the Evaluation and Audit Unit conducted an audit of ICT in the Department and reported on this to the Audit Committee in November 2013. The conclusion of the report was that, in the opinion of the Evaluation and Audit Unit, the operation of the internal controls over the area and the extent to which value for money is obtained is satisfactory, but they made a number of recommendations which they said would strengthen the internal controls. Among these are recommendations for the development of a new ICT Strategy, the role for an ICT Steering Group, establishment of an overarching ICT Disaster Recovery Plan and ICT Security Policy. The Audit Committee agrees with these recommendations and has also recommended to the Department that they address areas identified in the ICT audit where there are gaps in responsibility and consider the creation of a post of Chief Information Officer, who would have responsibility for the overall ICT agenda and taking forward the recommendations of this report.

The Committee also made more general points around the form of audit reports in the light of the ICT Audit Report, and recommended that (a) internal audit reports should use a clear traffic light system to distinguish the significance of opinions, findings and recommendations, and (b) management responses included in internal audit reports should indicate clearly whether recommendations have been accepted and set out follow up actions with deadlines and

responsibilities. The Audit Committee welcomes the implementation of these recommendations by the Evaluation and Audit Unit.

c. Evaluation Review

A notable feature of the evaluation work programme in 2013 was the widening of its remit across the Department. This is reflected in the types of work undertaken such as the report of the Value-for-Money and Policy Review (VFMPR) of Ireland's EU Bilateral Mission Network that was completed in November 2013 and was formally noted by Cabinet at its meeting of the 17th December 2013 (see section g for further details of this review).

Similar to a full VFMPR study, a Focussed Policy Assessment (FPA) of Irish Aid's emergency response to the 2010 earthquake in Haiti commenced in 2013 and is due for completion in 2014. As described in DPER's Public Spending Code, an FPA is a sharper and more narrowly focussed assessment than a VFM Review.

With regard to Value for Money and Policy Reviews, the Audit Committee recommended that it should be given the opportunity to input into the process of identifying topics for future VFM rounds before the Department's submission to the Department of Public Expenditure and Reform.

Irish Aid Programme Evaluations

Another important feature of the work programme was its focus on key strategic themes. For example, in the One World One Future, Ireland's Policy for International Development, approved in May 2013, Irish Aid gives priority to working in countries where there is a high degree of fragility and weak governments. To better inform the implementation of this part of the policy the Evaluation and Audit Unit initiated evaluations of Irish Aid country programmes in Sierra Leone and Timor-Leste. These evaluations will be completed in 2014. The outputs of these evaluations are to identify the keys lessons learnt in relation to programming in fragile states.

Evaluation Capacity Building

The initial work on embedding evaluation across the Department continues. Following the publication of the Evaluation Operations Manual last year, and consistent with the previous recommendation of the Committee to support the building of evaluation capacity across the Department, the Evaluation and Audit Unit started to provide "*basic introduction to Evaluation*"

training sessions for Department personnel. In 2013 two such trainings were provided and it is planned that this will continue in 2014.

Other Evaluations

The Evaluation and Audit Unit engages with other donors in undertaking joint evaluations that are of strategic interest. For example, in 2013 a joint evaluation of Budget Support in Tanzania was finalised and a joint evaluation of Budget Support in Mozambique will be completed in 2014, thus complementing the findings of the Tanzanian evaluation.

Another example of joint work was the evaluation of HIV and AIDS support in Uganda. This was led by Denmark and was completed in early 2014. The Unit is also engaging in the evaluation of the European Consensus on Humanitarian Aid. The Consensus is a joint statement of the three European institutions – Council, Parliament and Commission. It sets out the values, guiding principles and policy scope of EU humanitarian aid and strengthens the EU's humanitarian relief delivery capacity in crisis zones.

d. Risk Management

The Audit Committee continued to monitor the Department's risk management process during the year and earmarked three sessions in its annual work programme for this purpose.

As noted in section 4.b (i), the Evaluation and Audit Unit undertook a project to develop a new risk-based audit plan for 2014-2016 based on an assessment of the relative risk and sensitivity of the Department's activities.

The Audit Committee welcomed the designation by the Secretary General in November 2012 of a member of the Management Advisory Committee to be the Department's Chief Risk Officer. The Chief Risk Officer is supported by a Risk Management Committee and a Risk Management Secretariat. The Committee met with the Chief Risk Officer, both in the forum of the formal committee meetings and also at additional meetings, to assist her in the important role in promoting risk awareness and control throughout the Department.

The Audit Committee considers that the Risk Management Secretariat has a very important role in supporting Divisions and Missions to assess risks and to put in place risk mitigation strategies at operational level, while also alerting the Chief Risk Officer (and the Management Advisory Committee) to strategic threats to the achievement of the Department's goals.

The Chief Risk Officer has prepared a work plan for the period 2013 – 2015, which sets out clearly stated and measurable targets across a number of areas with the aim of embedding risk awareness into the corporate culture. The intention is that risk management should not be an administrative exercise, decoupled from the ‘real’ business of the Department, but rather should instinctively inform decision-making throughout our entire organisation.

The Audit Committee acknowledges the continued progress made during the year in defining the Risk Management Policy, refining the Department’s risk register, implementing processes to support risk management and clarifying the linkage between business planning and risk management. In furthering this work, the Committee recommends that consideration be given to:

- (a) Ensuring that the major risk register is clear as to ownership of risk, risk mitigation strategies, and the probability of occurrence of these risks;
- (b) The Department employing a more top-down approach to risk identification on the basis that the Management Advisory Committee is likely to have a better overall perspective of the risk environment; and
- (c) Ensuring that senior level responding officers have been identified for high level (external) risks, in the event of these occurring.

The Audit Committee notes the key risks identified in the Department’s major risk register, including the following risks which present challenges to the achievement of the high level goals and objectives:

- Fraud and misappropriation of funds
- Human Resources – insufficient staff resources to manage the work of the Department
- Financial – for example, the reputational and operational risks presented by a reduction in Overseas Development Assistance

e. Fraud

Fraud continues to be a key potential risk identified by the Audit Committee. The risk of fraud is inherent in every organisation, including those disbursing public funds. This is particularly so in development aid where ongoing monitoring of systems, procedures and reporting must be maintained with partner organisations and their staff, when in receipt of development aid funding or assistance from Ireland. The risk of fraud however is not limited to payments and procedures in

respect of state funds disbursed overseas but can also take place within government departments and related organisations within Ireland. For this reason, the Audit Committee has urged the Department to be vigilant and proactive in the scrutiny, testing and investigation of potential fraud risks both within Ireland and abroad.

The Department takes care to mitigate the likelihood of fraud through well developed risk management and programme management and monitoring systems. The Department's Chief Financial Officer, in collaboration with the Evaluation and Audit Unit, has coordinated a review of existing Departmental Policy on Fraud and on the Code of Practice on Fraud in Partner Organisations. This review was informed by the significant incident of fraud in 2012 in the Office of the Prime Minister of Uganda, which was described in our 2012 annual report. This fraud was discovered by the Office of the Auditor General in Uganda. Subsequent to this incident, the Evaluation and Audit Unit, at the request of the Secretary General, carried out a review of the internal controls and risk management systems in missions in all Irish Aid's key partner countries, which is discussed in section 4.f of this report.

Following the Uganda fraud issue, the Audit Committee made a number of recommendations including that Irish Aid carefully assesses the prudence of funding future programmes in Uganda via the Government of Uganda treasury system and that the Evaluation and Audit Unit and Irish Aid monitor the further investigative work of the Office of the Auditor General and satisfy themselves as to the rigour of that work.

In order to streamline monitoring of actions taken to address incidents of fraud, the Audit Committee and the Evaluation and Audit Unit examined and reappraised the structure and content of the Fraud Register. A more focused version of the Fraud Register reporting mechanism, which highlights frauds that are recent or that have had some significant change or activity, was agreed and implemented during 2013. The Audit Committee continues to emphasise the importance of full reporting of incidents of suspected, reported and actual frauds, frauds under investigation, and progress in relation to same. In that context, the Audit Committee noted its concern at a failure to promptly report a fraud in the Deepening Democracy programme in Uganda to headquarters during 2013.

A significant issue of fraud was uncovered in the summer of 2013 when the Passport Office discovered irregularities in the issuing of a small number of passports. A joint investigation was initiated by the Passport Service and the Garda National Bureau of Criminal Investigation. The Secretary General appointed an External Group to review Passport Service systems, processes and

controls, with a focus on internal and external risks to the integrity of the Irish passport. In addition to the work of the External Group, the Secretary General requested the Department’s Evaluation and Audit Unit to carry out a review of the corrective measures taken by the Passport Office since the discovery of the fraud to strengthen internal controls and reduce the likelihood of further passports being issued fraudulently.

The Audit Committee views this incident of fraud as serious and a threat to the Irish Passport Service and to the integrity and value of the Irish Passport itself. Such risks cannot be entirely eliminated due to ongoing threats by criminals and other external international agencies in this area and the constant spectre of cybercrime and potential infiltration of the technology systems at the Passport Service. The Audit Committee requests the Secretary General and the Evaluation and Audit Unit to keep this area of potential fraud under ongoing review and scrutiny, and to implement the recommendations of the External Group as soon as possible.

f. Review of Key Partner Countries Management Systems

Following the discovery of the fraud involving donor funds at the Office of the Prime Minister of Uganda in 2012, the Secretary General requested the Evaluation and Audit Unit to carry out a review of management systems in key partner countries. The purpose of the assessment was to provide a professional and independent opinion on the appropriateness of the internal controls and risk management systems in operation at Missions responsible for managing development aid budgets, to ensure proper safeguarding of public funds and property under the Missions’ control and achievement of value for money. The report found that there was insufficient formalisation and standardisation of processes and controls and a risk that controls would be weakened unless Missions were adequately staffed by people with requisite skills. This assessment covered the following countries (2012 expenditure in brackets).

Mozambique [€37m]	Malawi [€12m]
Tanzania [€30m]	Vietnam [€12m]
Ethiopia [€26m]	Lesotho [€7m]
Uganda [€16m]	South Africa [€3m]
Zambia [€15m]	Zimbabwe [€3m]

Systems and controls were considered adequate to good, financial regulations were complied with, and an internal audit system was in place, including annual audits of embassies by external auditors. Some weaknesses around the definition and documentation of systems were found, and current risk management systems do not in all countries sufficiently address risk at partner or programme component level. Staff working on Aid Programmes require specific training in programme and risk management. Management and reporting structures in some countries need to be improved. The report identified that some key positions have remained unfilled with consequent heightening of risk. The report also noted that there is a need for greater clarity around the role of internal auditors based in the missions, and increased input and oversight from the Evaluation and Audit Unit with regard to their work.

The report recommended that management, monitoring and tracking systems should be enhanced, risk management and reporting at programme component or partner level should be formalised within a common system, and reporting structure and a diagrammatic flow of funds for all grants should be prepared for each country. Contractual agreements with Aid Partners should be standardised and a review of staffing requirements should be part of each Country Strategy Paper, identifying skill requirements which should be taken into account when selecting mission staff who should be trained before posting. Vacancies at Missions should be minimised and salary levels of locally recruited staff should be reviewed in the light of market realities in each Partner Country. Roles and responsibilities across Development Cooperation Division and Missions should be clarified with particular emphasis on decision making. The internal audit approach, work programmes and reporting structures should be reviewed to better define the work of locally based internal auditors.

The Audit Committee is in agreement with the recommendations, and notes that the Department is committed to implementing them.

g. VFM Review EU Bilateral Mission Network

Since the onset of the banking and fiscal crisis in 2008, the maintenance of close relations with its EU Partners has become increasingly important for Ireland and its economic recovery. This heightened importance in turn highlights the roles played by Ireland's EU bilateral Mission Network. Being a significant user of Department's resources, it is essential that the effectiveness and efficiency of the network is maximised. In this context, the Value-for-Money and Policy Review examined the work of

Ireland's bilateral diplomatic network in 26 EU member states over the years 2008-2011. In addition to helping provide accountability to the Irish public, this assessment helped inform decisions in relation to future expenditures and improved value-for-money.

The report found that the work of the EU bilateral Missions was closely aligned with current and evolving Irish Government policies and that they actively responded to the banking and fiscal crisis. Between 2008 and 2011 the numbers of trade and cultural events organised by the EU Missions significantly increased while the cost of maintaining them fell by 21.3 per cent and staff numbers decreased by 17 per cent. Single-diplomat Embassies were introduced in 2010 in some countries with low demand for consular services, and while cost effective, are far from ideal. Many of the Embassies' outputs could not be fully quantified or directly costed due to insufficient data

The report made a number of recommendations, including:

- That co-ordination of EU, bilateral and trade-related activities; business planning, risk management and performance measurement be strengthened.
- Regular reviews of strategic priorities for the EU bilateral Mission Network should be conducted together with a review of whether there is a continuing need for each EU bilateral Mission to provide a full consular service.
- Ireland should continue its current policy of having a resident diplomatic mission in each EU member state.
- Consideration should be given to grouping missions to share experience taking account of geographic, linguistic and size considerations.
- Single-diplomat Missions should be continuously reviewed with regard to personnel issues, and risks associated with business objectives and operational capacity.

The Audit Committee welcomes the findings and supports the recommendations made.

h. Audit Committee Field Visit to Zambia

In January 2013, three members of the Audit Committee made a three day familiarisation visit to Zambia. The objectives of the visit were to provide the Audit Committee members with an understanding of the:

- Operation of the Irish Aid programme at a country level
- Impact of the Irish Aid programme in aiding the local population

- Monitoring and control systems over the funds
- Development and evaluation of the country strategic plans
- Role of the Embassy in providing consular, trade support and other services.

The overall purpose of the visit was to get a general understanding of the operation and management of Irish Aid programmes. Zambia was selected as an example from the nine countries where Irish Aid has bilateral aid country programmes.

During the visit the group met with the Ambassador and staff of the Irish Embassy. Meetings were also held with senior government officials, members of the Zambian Public Accounts Committee, civil society organisations and other international donors. Visits were made to a number of health, education and community facilities which allowed the group to observe how Irish aid was benefiting the local population.

The country visit by members of the Audit Committee was extremely beneficial in aiding their understanding of Irish aid and the control / risk environment at the country level. It was particularly useful in providing the members of the Audit Committee with an understanding of the local conditions. Television and other media bring pictures of poverty in the developing world. However, they do not give a sense of the isolation of the rural poor and the lack of facilities available to the multitudes in the urban areas. For Audit Committee members who may not have a previous exposure to developing countries, a visit of this nature brings home the difficulties in providing aid and assists them in reviewing reports and questioning key issues.

i. Global Fund and Multilateral Issues

Ireland's programme of development cooperation is strongly focussed on supporting the achievement of the Millennium Development Goals, with a particular emphasis on reducing extreme poverty and hunger. A key element for Ireland is active engagement with the multilateral system to ensure that multilateral institutions become more effective partners in the delivery of development results. Over 30% of Irish Aid funding (and 45% of total ODA) is disbursed through multilateral channels.

Ireland, as a member of these institutions, is represented in the governance arrangements for the multilateral institutions and therefore a proper understanding of the varied governance arrangements is essential to help ensure oversight of the funds channelled through these institutions. In general the Department relies on the multilateral institutions' own systems of risk

management, monitoring, audit and evaluation and uses engagement within their governing bodies to strengthen these systems where necessary.

One of the major multilateral institutions funded by Irish Aid is the Global Fund against AIDS, TB and Malaria (GFATM). Since its creation in 2002, GFATM has become the main financier of programmes to fight AIDS, TB and Malaria, having disbursed almost US\$20 billion in more than a thousand grants to 151 countries. Irish Aid was one of approximately 20 agencies who helped to set up the Fund, and has since contributed over €157 million to its programmes.

In late 2010, the GFATM Inspector General reported instances of fraud and undocumented expenditure amongst recipients of GFATM money in a number of countries. As a result of these reports, and subsequent media coverage, the Board of the GFATM set in motion a comprehensive reform agenda.

The recently appointed Executive Director of the GFATM was invited to Dublin in September 2013 by Irish Aid and the purpose of his visit was to strengthen collaboration between Ireland and the GFATM, discuss recent reforms in financial and programmatic oversight, and areas of mutual interest for the evolution of the Fund.

A member of the Audit Committee took the opportunity to discuss a number of issues with the Executive Director including:

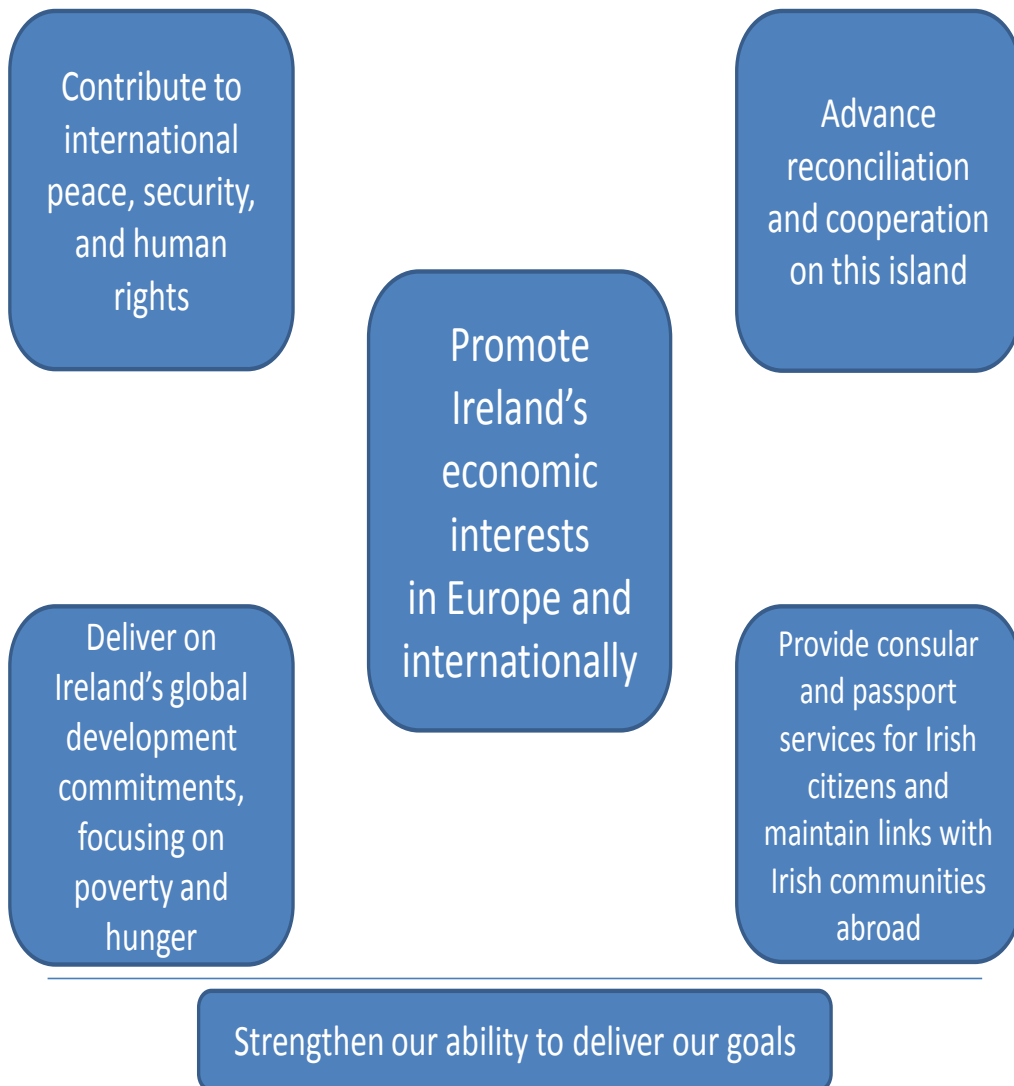
- Role of the Office of the Inspector General and Relationship to the Secretariat
- Organisation and Staffing
- Risk Management
- Evaluation
- Governance structure

On the basis of the discussions, the conclusion from the meeting was that the GFATM has made significant progress in implementing reforms to address the issues related to fraud and undocumented expenditure identified in 2010.

Two members of the Audit Committee had a follow up meeting with the Inspector General of the GFATM in February 2014. This meeting addressed the role and independence of the OIG, the publishing of audit reports and the staff resources available to execute its mandate. This meeting provided further assurance in regard to the governance structures within GFATM.

Appendix 1 - High Level Goals of the Department

The High Level Goals of the Department of Foreign Affairs and Trade for the period 2011-2014 are to:



Appendix 2 - 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 27 (International Cooperation) and 28 (Foreign Affairs). As appropriate, it will advise the 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 3 - Summary of Recommendations

Departmental organisation and management

1. The Department should address areas identified in the ICT Audit where there are gaps in responsibility, and consider the creation of a post of Chief Information Officer, who would have responsibility for the overall ICT agenda and taking forward the recommendations of this report.
2. Internal audit reports should use a clear traffic light system to distinguish the significance of opinions, findings and recommendations.
3. Management responses included in internal audit reports should indicate clearly whether recommendations have been accepted and set out follow up actions with deadlines and responsibilities. Management should take subsequent ownership for ensuring that follow up actions to implement internal audit recommendations have been taken.

Evaluation review

4. With regard to Value for Money and Policy Reviews, the Audit Committee recommends that it should be given the opportunity to input into the process of identifying topics for future VFM rounds before the Department's submission to the Department of Public Expenditure and Reform.

Risk management

5. In furthering the development of risk management in the Department, the Committee recommends that consideration be given to:
 - a) Ensuring that the major Risk Register is clear as to ownership of risk, risk mitigation strategies, and the probability of occurrence of these risks.
 - b) The Department employing a more top-down approach to risk identification on the basis that the Management Advisory Committee is likely to have a better overall perspective of the risk environment.
 - c) Ensuring that senior level responding officers have been identified for high level (external) risks, in the event of these occurring.

Fraud

6. With regard to the response to the Uganda fraud issue, the Audit Committee recommends that:
 - a) Irish Aid ensures that the management structures for a programme delivered through NGOs in Uganda are robust.
 - b) Irish Aid carefully assesses the prudence of funding future programmes in Uganda via the Government of Uganda treasury system
 - c) Evaluation and Audit/Irish Aid monitors the further investigative work of the Office of the Auditor General and satisfies itself as to the rigour of that work

7. The Department should review its monthly reporting routines for Missions to include notification of incidences of fraud. Staff performance management reviews should take account of any failure to promptly report material instances of fraud and other irregularities, whether internal or external to the Department.

Other matters

A small number of recommendations were made by the Committee during the course of the year which arose in relation to issues not highlighted elsewhere in the annual report, and are set out here for completeness.

8. The Department should establish a formal code of practice for whistleblower protection for staff.

9. Irish Aid should ensure that the NGOs and other organisations funded under its programmes have suitable child protection policies in place.

10. The Department should satisfy itself that appropriate remuneration policies are in place in civil society organisations funded under its various programmes.