Audit Committee

of the

Department of Foreign Affairs and Trade

ANNUAL REPORT 2011

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A. Chairman's Statement

Secretary General

It is my pleasure to present to you the eighth Annual Report of the Audit Committee of the Department of Foreign Affairs and Trade which records the Committee's activities during 2011. 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	
2011 (€m)	2011 (€m)	2008 (€m)	€m	%
Vote 28 Foreign Affairs and Trade				
173	165	217	52	24
Vote 29 International Cooperation				
523	517	768	251	33

The major themes featuring in the Committee's work programme remained those highlighted in recent Annual Reports – coping with reduced budgets as budgetary stringency continued to bite; overstretched management resources as Departmental staffing levels contracted for the third year in succession; concern at perceived weaknesses in budgetary systems in partner countries; and the need for pro-active risk management.

There were also other areas of the Department's activities which the Committee prioritised in its 2011 work programme. It strongly endorsed the initiative to mainstream programme evaluation across all areas of the Department. The Committee engaged with Irish Aid's Civil Society Section on the proposed changes to the basis on which financial support to NGOs is administered, which involved (a) replacing the Multi Annual Programme Scheme for larger NGOs with a new performance-based programme scheme covering a wider range of organisations and (b) introducing a new project-based fund for smaller NGOs which would significantly rationalise the number of organisations supported. But the initiative which I most wish to highlight is the Public Financial Management (PFM) Assessment tool - developed in response to previously expressed concerns of the Audit Committee with shortcomings in partner country systems - which was rolled out towards the end of 2010. It is already showing positive results. It provides an objective framework which enables the Department to evaluate the strengths and weaknesses of financial management systems of partner governments and to take a view on the reliability and risk of working through these systems. The Audit Committee intends to review the effectiveness of the PFM Assessment initiative in 2012 and later years.

Although it is probably too soon yet to draw firm conclusions, the Audit Committee considers that the PFM Assessment tool should significantly enhance Irish Aid's management of risk thereby providing robust assurance to the Irish taxpayer that value for money is being achieved.

It is regrettable that the severe public expenditure cut-backs of the past few years have stalled progress towards the achievement of Ireland's medium-term ODA target of 0.7% of GNP. With no evidence to suggest that any relaxation of the tight budgetary stance of the authorities is in prospect for some time to come, it was timely that there should have been a major international meeting on aid effectiveness in Busan, Korea in November 2011. At this High-level Forum, a global framework for development cooperation was agreed, which assigned greater ownership of development priorities to developing countries and increased the focus on achievement of results. Meeting the Millennium Development Goals remains the objective but the realities of a fundamentally changed global economic and budgetary environment cannot be ignored - hence the emphasis at Busan on improving the quality of cooperation around international assistance. The Audit Committee understands that the Review of the 2006 White Paper on Irish Aid to be published later this year will reflect on how to implement the commitments made by Irish Aid at Busan.

It is disappointing that the Department has not yet found itself in a position to implement two appointments recommended in previous Audit Committee Annual Reports – the designation of a Chief Risks Officer with direct access to you and the appointment of a professionally-qualified Head of Finance. The Committee believes that both appointments would enhance the managerial capability of the Department and I understand from my contacts with you that while this view is shared by the Department it has been thus far unable to progress them because of staffing limitations.

It is perhaps an unavoidable consequence of three years of a rigidly-applied staffing embargo that the Department may be finding itself overstretched in managing an aid programme which requires skilled and sensitive oversight. The Audit Committee commends the actions taken to-date to mitigate the impacts of a reduced staffing complement. In particular, it welcomes the priority accorded to sustaining the numerical strength and professionalism of the Evaluation and Audit Unit. Aid simplification measures already taken by the Department and greater flexibility in regard to decentralisation issues have also contributed to ameliorating staffing pressures. However, the Committee remains concerned that the level of assurance about the prudent and effective management of taxpayers' funds may become an issue for the Department as the pressures of the recruitment embargo intensify. In those circumstances it may become necessary for the Department to contemplate wider-ranging expenditure containment measures and, at the very least, ensure that these exposures are reflected in the Department's risk register.

During 2011 the level of engagement between the Audit Committee and the Department's Risk Management Secretariat deepened. It is clear that the importance of risk management and, in particular, the identification of effective risk mitigation strategies is being recognised at all levels within the Department. The regular review of the Department's major risk register by the Management Advisory Committee is also to be welcomed. The Committee looks forward to working with the Risk Management Secretariat in further refining the Department's risk containment strategies during 2012. This is likely to see greater emphasis placed on the role of front-line

Divisions and Missions in identifying and responding to possible threats to the business of the Department.

Issues likely to figure in the work programme of the Audit Committee for 2012 are reviewing the effectiveness of the Public Financial Management initiative; the mainstreaming of a pro-evaluation culture within the Department; the changing nature of the relationship between Irish Aid and the NGO/voluntary sector; expenditure control at overseas embassies and Missions with a particular focus on accommodation costs; and a review of the financial performance of the Passport Office.

Effective participation in the work of the Audit Committee makes demands on the time and energies of Committee members – not just in attending the seven meetings which took place during 2011 but equally importantly in the considerable volume of reading and preparation between meetings. Members of the Committee serve in a voluntary capacity and I am very appreciative of the professionalism and support provided by my colleagues – Richard Boyle, Aidan Eames, Donal Corcoran and Jim Gillespie. I should also note that Aidan and Jim travelled on a Departmental field visit to Tanzania in October 2011 to view aid administration and delivery at first hand.

Maura Quinn resigned from the Audit Committee in late-2011 due to pressure of business commitments. Throughout her two years of service on the Committee she contributed wise counsel and practical know-how. Her contributions will be greatly missed. I am happy to record that Emer Daly joined the Audit Committee earlier this year and we look forward to working with her.

May I place on record my appreciation of the support provided at all times by the management and staff of the Department of Foreign Affairs and Trade. Their progress reports and presentations at meetings of the Audit Committee made an invaluable contribution to the work of the Committee. My particular thanks are extended to the staff of the Evaluation and Audit Unit – to Tom Hennessy, our hard-working Secretary, and to the other staff of the Unit headed by William Carlos, Anne Barry, Donal Murray, Seamus O'Grady and Patricia Ryan whose unfailing professionalism is greatly admired. Lastly, may I record my personal gratitude to you for your support and encouragement for our work.

Philip Furlong
Chairman
Audit Committee
Department of Foreign Affairs and Trade

June 2012

B. 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 2011, the members of the Committee were:

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

Dr. Richard Boyle is Head of Research, Publishing and Corporate Relations, Institute of Public Administration (January 2008).

Ms. Maura Quinn is Chief Executive of the Institute of Directors in Ireland (Appointed July 2009, retired November 2011).

Mr Donal Corcoran is a Chartered Management Accountant and retired management consultant (July 2010).

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

Mr. Jim Gillespie is a Chartered Accountant and a former partner in Ernest and Young (July 2011).

C. 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 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 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 of 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 at least once a year. This is for the purpose of sharing 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.

D. Review of the Implementation of the Recommendations of the Annual Report for 2010

The Audit Committee highlights in its Annual Reports recommendations to Departmental management arising from its examination of expenditures and programmes throughout the year. The purpose of these recommendations is to draw attention to issues which in the opinion of the Audit Committee warrant follow-up action, and the Committee attaches considerable importance to having them actioned. Accordingly, to enable systematic implementation of its recommendations, the Committee requested the Department to put in place arrangements for tracking follow-up actions and for preparing periodic progress reports on their implementation. These arrangements have enhanced the effectiveness of the Committee's work both by minimising the need for unnecessary repetition of recommendations and by providing a framework for dialogue with management on issues arising in the process of implementation.

The process of constructive engagement between the Committee and Departmental management was further enhanced last year with the circulation to the Committee by the Secretary General of detailed responses to the recommendations made in the Committee's Annual Reports for 2009 and earlier years. These responses were appended to the Committee's Annual Report for 2010.

This year, the Secretary General has provided itemised Departmental responses for the Audit Committee to the 17 recommendations set out in the Committee's Annual Report for 2010. In the course of his response he also acknowledged the contribution of the Audit Committee in providing him with assurance on the effectiveness of the Department's financial management systems.

The individual responses are set out at Appendix 5 of this report. In general, they reflect acceptance of the broad thrust of the Committee's recommendations. The progress being made with the installation of a robust risk management system is particularly welcome although it is evident that there is a need for further dialogue between the Department and the Committee on the importance of the position of Chief Risk Officer. The Committee had also hoped that the process of establishing a unified finance function serving all parts of the Department would have progressed rather more rapidly but it understands that this is now being addressed. The effectiveness of the unified finance function would undoubtedly be enhanced by the appointment of a professionally qualified Head of Finance. The Department has stated, however, that the current staffing restrictions have impacted negatively on the implementation of this recommendation.

E. Audit Committee Comments, Findings and Recommendations for 2011

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 2010. The audit of the Departmental Appropriation Accounts for 2011 is currently in progress.

The Audit Committee reviewed progress on the project to merge the Finance Units for the two votes and noted the completion of the upgrade of the financial management systems which means that both votes now use a common financial platform. It is to be hoped that this will facilitate early completion of the merger. The Audit Committee has been advised by the Department that there are still some issues to be considered with regard to the practicability of integrating the management structure for the function. These should be speedily addressed.

Recommendation

The Audit Committee urges that the recommendation made in its 2010 Annual Report that the Finance Units for both Votes should be merged should now receive priority Management attention and that a specific date should be fixed for completion of the merger.

2. Internal Audit

The Audit Committee reviewed the implementation of the internal audit work plan of the Evaluation and Audit Unit during the year.

The internal audit work programme embraces both votes and is additional to the Public Financial Management assessments undertaken in Irish Aid's programme countries (Section F.4.). Key assignments undertaken, and the overall conclusions in each instance, include:

2.1 Vote 28 – Foreign Affairs and Trade and Department–wide

Audit Assignment	Status	Main Conclusions
Audit of the Permanent Representation to the European Union, Brussels	Complete	The system of internal controls, both financial and non-financial, was found to be generally working well.
Audit of Embassy Berlin	Complete	Internal Control systems are operating well
Audit of Embassy Rome	Complete	Internal Control systems are operating well
Review of the Department's Risk Register/Risk Management System	In progress	Awaited The Audit Committee noted that significant progress has been made on developing an "auditable" risk register and the Risk Management Secretariat have done a considerable amount of work on codifying and prioritising risk management processes across the Department.
Audit of Departmental Expenditure on Accommodation.	In progress	Awaited
Audit of Departmental Travel and Subsistence	Complete	Internal controls are appropriate and properly applied. There has been a conscious effort over the past 2-3 years to control travel and subsistence expenditure.

Recommendation

While the Audit Committee acknowledges that the evidence adduced in the completed reports provides assurance that the Department's systems of internal control are generally operating satisfactorily, it suggests that the operational value of future reports would be enhanced by attaching a prioritised rating/ranking to each audit recommendation.

2.2 Vote 29 - Irish Aid

Audit Assignment	Status	Main Conclusions
Audit of MAPS and Emergency/Humanitarian funding to Concern	Complete	Irish Aid's funds were used to support programme objectives agreed with Concern; expenditure was generally incurred in accordance with the terms and conditions of the agreements between Irish Aid and Concern, and was properly accounted for. The audit made a number of recommendations in relation to governance, results-based management, roll-out of a new strategic plan and cost control/dilution of funding. Concern accepted the recommendations in its management responses to the audit report.

Audit Assignment	Status	Main Conclusions
Audit of MAPS and Emergency/Humanitarian funding to GOAL	Complete	Irish Aid's funds were used to support agreed programme objectives and expenditure was generally incurred in accordance with the terms and conditions of the agreements between Irish Aid and GOAL, and properly accounted for. While GOAL appears to have reasonable systems of accountability in place, due to a limitation in scope of the audit, it was not possible to establish if the governance systems were operating appropriately. The Audit Committee, in discussing the report, said that the concerns about the robustness of corporate governance in GOAL need to be addressed.
Audit of MAPS and Emergency/Humanitarian funding to Christian Aid	Complete	Irish Aid's funds were used to support agreed programme objectives and expenditure was generally incurred in accordance with the terms and conditions and was properly accounted for. Christian Aid Ireland designs and implements programmes within Christian Aid Great Britain's strategy framework, and programming structures, systems and staffing in the field (operations in over 40 countries through some 600 implementing partners). This allows it access to accountability systems of a much larger organisation which appears to work effectively.
Audit of the tracking of funding to Vita	Complete	Irish Aid's funds were used to support agreed programme objectives and expenditure was generally incurred in accordance with the agreed terms and conditions. The audit found that, as a result of delay in the disbursement of Irish Aid funds to Vita in 2010 (due to queries on the audited financial statements), funds of another donor were used to support the Irish Aid programme. The audit highlighted that this was due to governance and oversight weaknesses which have since been strengthened.
Audit of Irish Aid Vietnam Programme	Complete	Overall the Embassy in Vietnam is well organised in terms of its internal accounting and financial management system. Some opportunities to strengthen systems were identified and actions were agreed to achieve this.
Audit of Irish Aid Sierra Leone Programme		Overall the Mission in Sierra Leone is well organised in terms of its internal accounting and financial management system but is less effective in carrying out regular close monitoring of partners due to capacity constraints. The Mission is operating in challenging circumstances with particular difficulties regarding communications infrastructure. These were unlikely to have been resolved until 2012 with the completion of the move to a new office.

Conclusion/Recommendation

The Audit Committee welcomes the comprehensive nature of the audits and notes that the major recommendations, including those addressing the relationship between allocations and results, are being implemented. The Audit Committee takes the view that, in the current budgetary environment, standards of corporate governance in all organisations receiving funding from the Department/Irish Aid should be of the highest order. The Committee strongly urges that the shortcomings relating to GOAL are addressed urgently.

2.3 Fraud

The risk of fraud is inherent in development aid, and the risk is highest at partner level where Irish Aid is often not in a position to exercise effective surveillance over funds disbursed. The Audit Committee is satisfied that Irish Aid takes all reasonable steps to mitigate the likelihood and impact of fraud but notes, nevertheless, that several instances of alleged fraud occurred during 2011 – some of which are outlined below.

Global Fund to Fight AIDS, Tuberculosis and Malaria

The Global Fund is a unique, public-private partnership and international financing institution dedicated to attracting and disbursing additional resources to prevent and treat HIV and AIDS, TB and malaria. Since its creation in 2002, the Global Fund has become the main financier of programmes to fight AIDS, TB and malaria, with approved funding of US$ 22.6 billion for more than 1,000 programmes in 150 countries.

In 2010 and 2011 the Office of the Inspector General of the Global Fund issued a number of audit reports highlighting some critical problems by some countries in the use of resources provided by the Global Fund. This brought to a head a number of challenges being faced by the Global Fund in its operations. Recognising these developments, Irish Aid withheld disbursement of the €9.34 million allocation to the Global Fund for 2011 until assurances were received about revised governance and oversight arrangements, and there was a clear commitment from other donors to honour their pledges to the Fund.

Following a "High Level Panel" review of the Fund's fiduciary controls and oversight mechanisms, the Board approved a "Consolidated Transformation Plan" in November 2011. Subsequent to the November Board Meeting, on the basis of progress to date, Irish Aid disbursed its full 2011 contribution. The Evaluation and Audit Unit will continue to closely monitor audit reports issued by the Office of the Inspector General, with a particular focus on those for Irish Aid's programme countries.

UNICEF Sierra Leone

In March 2011 the Mission in Freetown brought to the attention of the Evaluation and Audit Unit that there was possible misappropriation of supplies of therapeutic foods from an Irish Aid-funded Programme implemented by UNICEF. An investigation undertaken by UNICEF found that there were weaknesses across the entire supply chain management system with particular emphasis on poor record keeping of supplies flow. The report indicated that at least 27% of the therapeutic food supplied could not be accounted for in the records system examined during the audit and further stated that, due to lack of proper records, up to 60% of stocks could have been misappropriated or "leaked". Following investigation by the Evaluation and Audit Unit, agreement was reached between Irish Aid and UNICEF to: (i) establish an effective accountability framework for the distribution of supplies in Sierra Leone and (ii) reimburse Irish Aid in respect of the unaccounted supplies, to the value of US$699,271. The successful completion of these steps has enabled Irish Aid and UNICEF to continue with the joint programme.

Fraud Policy - The Audit Committee notes that the Department's Fraud Policy and Code of Practice on Fraud in Partner Organisations have been in existence for a number of years now, and it may be timely to revisit and update them.

All reported instances of alleged fraud are recorded and tracked in a fraud register maintained in the Evaluation and Audit Unit and is reviewed regularly by the Audit Committee. The Committee commends the vigilance of the Department in pursuing instances of alleged fraud as soon as it becomes aware of their existence.

Recommendation

The Audit Committee recommends that the Department should complete reviews of its Fraud Policy and the Code of Practice on Fraud in Partner Organisations and should issue revised protocols in due course.

3. Evaluation

While a strong culture and practice of evaluation already exists in the Department's Development Cooperation Division, the Evaluation and Audit Unit's remit was expanded in 2011 to extend this culture and practice of evaluation across the entire Department. The expanded remit will include taking a lead role on undertaking all Value for Money reviews within the Department.

Within Irish Aid, evaluative studies continued to be an important input to strategy planning and several significant studies were completed in 2011. One of particular interest to the Audit Committee was the evaluation of phase 2 of the civil society Multi-Annual Programme Scheme (MAPS). Four individual NGO partner reports and a synthesis report were produced which assisted decision-making by Irish Aid on the future strategic direction of the Scheme. One of the key findings emerging from these evaluations, which particularly commended itself to the Audit Committee, was the need to develop a results-based framework for the future management of MAPS. The Committee welcomed the follow up work being undertaken by two of the NGO Partners to strengthen the results-based management approach to their work. Two Country Strategy Programmes were also evaluated during the year - Mozambique and Zambia.

Work on the development of a new model for the evaluation component of Country Strategies also commenced in 2011. The 'new' evaluation model will inform the planning of new support strategies and will set out plans for specific pieces of research and evaluation to be undertaken during the life cycle of a Country Strategy. It will help to strengthen the evidence base for programme interventions and their contribution to poverty reduction. Evaluative studies based on the new model are currently being finalised for the Malawi and Tanzania Country Strategy Programmes.

Work on developing an evaluation approach for Mozambique, Ethiopia, Zambia and Lesotho will commence in 2012. Irish Aid plans to have an evaluation-based approach for all its Country Strategy Programmes in place by 2014 and as a result the 'traditional' Country Strategy Programme evaluation will be wound down in 2012. In order to complement the new approach, another important challenge will be the development of evaluation capacity at country level. Initial work has commenced on this area with two training workshops in Ethiopia and Malawi. It is the intention of the Audit Committee to review the new Country Strategy evaluation outputs as they are completed.

In addition, Ireland participated in two joint donor evaluations, the Joint Evaluation of the UN Central Emergency Response Fund as well as the Joint OECD DAC Evaluation of Public Sector Governance Reform. Initiatives on joint donor evaluations had been suggested in previous years in Audit Committee discussions as something that should feature in the work programme of the Evaluation and Audit Unit as they would enhance coverage of programmes supported.

Following a public tender process, an evaluation framework agreement was put in place with four consultancy companies, pre-qualifying them to bid for country programme and other related evaluation work over the next four years. The new agreement will help streamline the tender process and ensure the provision of quality evaluation teams for this work.

Other projects undertaken in 2011 included the preparation of a draft Departmental Operations Manual on Evaluation which is scheduled for completion in 2012. This manual will provide detailed guidance on how to conduct evaluations for the Evaluation Unit, Line Divisions across the Department as well as Missions abroad.

A structured tracking system has been established to follow up on evaluation recommendations and is now operational.

With the widening of the Unit's remit to assume a lead role on evaluation across the entire Department, a programme of evaluation, including Value for Money reviews, will be rolled out in 2012.

The Evaluation and Audit Unit faces a severe challenge in managing work priorities with a reduced staffing complement. Meeting its obligations to undertake Value for Money Audits in 2012 will be particularly onerous as the Department of Public Expenditure and Reform requires that these Reviews must be carried out using only internal staffing resources.

Recommendations

The Audit Committee welcomes the initiative for the development of an evaluation plan for the wider Department and - noting that the new Programme for Government emphasised the need for more systematic evaluation of expenditure programmes - recommends that the evaluation plan be given support and priority across the Department.

The Audit Committee recommends that evaluation should be mainstreamed across the Department as quickly as possible and that the Operations Manual on Evaluation should be made as accessible as possible for staff throughout the Department, when finalised.

The Audit Committee recommends that programme country-related evaluation reports should be strengthened by the inclusion, where available, of relevant indicators of macro-economic performance.

4. Risk Identification and Management

The Department's risk management processes are kept under continuing review by the Risk Management Committee and Secretariat, with advice from the Audit Committee and an external consultant during 2011. In its assessment of the risk management process and the control environment, the Risk Management Secretariat identified for the Audit Committee the following major programmatic risks and challenges which face the Department.

- Promoting Ireland's interests

There are strategic, reputational and financial risks associated with promoting Ireland's interests in the EU and multinational areas. The national, European and global economic crises in recent years has increased the importance of strengthening Ireland's relationships in the international community. The Department has a critical role in maintaining these relationships, promoting a positive image of Ireland abroad, and managing the associated risks.

- Northern Ireland

The Department has a responsibility for promoting 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. This presents challenges for the Department with regard to security, community reconciliation, economic co-operation and inter Governmental issues.

- Irish Aid

Irish Aid support is delivered through multiple channels comprising governmental systems in programme countries, NGOs, Civil Society and international organisations including the United Nations. There are significant challenges in ensuring that the aid is effective in relieving poverty and humanitarian crises, is properly managed, represents value for money, is not misappropriated and has a positive impact on Ireland's international relationships.

- Passport Service

The Department is required to provide an efficient, high quality and secure passport service to the public. This presents challenges in terms of peak demand for the service, financial controls over fees received, entitlement of individuals to an Irish passport, passport fraud and issuing of passports at missions abroad.

- Consular Services

The Department has a responsibility for ensuring that Irish citizens receive timely, courteous and effective consular assistance and service when required. The consular services need to be responsive to individual personal difficulties as well as national or regional emergencies including natural disasters, terrorism and wider conflict.

- Security

The Department has responsibility for ensuring the physical security of its staff and premises in Ireland and abroad. There are challenges in regard to securing access to premises and safety of staff when travelling or working abroad. The Department maintains information and communications of a confidential or sensitive nature, the disclosure of which could damage Ireland's interests abroad or at home. This information and communications need to be secured whether in physical or electronic format.

- Human Resources

The Department faces the challenge of reduced staff levels while needing to maintain an acceptable level of service particularly in response to several upcoming increasing demands. These include Ireland's chairmanship of the OCSE in 2012 and the EU Presidency in 2013. Staff reductions can also adversely impact on governance structures, operational and financial controls, industrial relations and availability of specialised skills and experience.

- Financial Expenditure and Value for Money

The Department has accountability for two Government budget votes, Vote 28 Foreign Affairs and Vote 29 Irish Aid (changed to Vote 27 from 2012). Responsibility for these votes presents challenges in terms of value for money, adherence to public procurement policies, maintenance of proper financial controls and accountability. Recent and ongoing reductions in the budget allocation and staff numbers could adversely impact on the control environment.

The Audit Committee wishes to acknowledge the progress made during the year in refining the coverage of the Department's risk register and in making more explicit the linkage between business planning and risk management for the more than eighty separate business units of the Department. It is evident that the Risk Management Secretariat is central to the effective functioning of this network. It has a lead role in energising individual units both to assess risk and to put in place appropriate risk mitigation strategies at operational level while simultaneously reviewing and alerting the Department's MAC to strategic risk threats with the potential to derail the business of the Department. The Audit Committee welcomes this 'whole of Department' approach to risk management and the priority accorded to it at MAC.

In a volatile business environment, pro-active risk management is central to the achievement of the Department's goals. This requires 'buy in' at all levels of the organisation and one of the core tasks of the Risk Management Secretariat is to keep the system fully energized. Indicative of the priority which the Audit Committee accords to reviewing risk management is that, in its busy annual programme, it earmarks at least two sessions to consider progress reports from the Secretariat. The appointment of a Chief Risk Officer as recommended by the Audit Committee in previous Annual

Reports would make a very tangible statement of the commitment of Departmental management to risk management as a core business function and the Committee again urges the Department to explore all options for making this appointment, current staffing constraints notwithstanding.

Recommendation

While acknowledging the concerns which underpinned the Department's response to the recommendation made in the 2010 Report of the Audit Committee to appoint a Chief Risk Officer, the Committee nevertheless believes that the arguments for such an appointment remain valid and, notwithstanding current constraints, it requests the Department to evaluate all options for designating a Chief Risk Officer.

5. Organisational and Resource Matters

Evaluation and Audit Unit - As the challenging economic environment makes systematic evaluation and audit of expenditure programmes more relevant than ever, the Audit Committee urges the Department to maintain not just the Unit's staffing level but also the qualifications, skills and experience base of serving staff notwithstanding the human resource challenges faced throughout the organisation.

The Department's Evaluation and Audit Unit is an independent unit reporting directly to the Secretary General. The Unit has a staffing complement of 12 which includes a Head of Unit, five auditors, four evaluators (inc. one part time), and two support staff. There are also eight internal auditors based locally in the Department's Overseas Offices in programme countries, who report directly to their respective Heads of Mission.

The Unit undertakes evaluations, internal audits, and other accountability-related work across the Department's operations (but with a major focus on the Aid programme) under a multi-year rolling work programme. Assignments are conducted either internally or using external service providers/experts. In particular, external consultants are used for evaluations of the Aid programme, in line with the OECD Development Assistance Committee evaluation principles

The organisation structure of the Evaluation and Audit Unit is set out in Appendix 4.

Finance - the Audit Committee is advised that during 2011 there was no change in 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 expertise and efficient use of resources. The Audit Committee is also disappointed that the Department has not been in a position to action its previous recommendation regarding the appointment of a professionally qualified Head of Finance. While the Committee is aware of the severe staffing constraints on the Department, it again re-states its position that this post must be seen as a key position in the senior management structure of the Department to be filled at the earliest opportunity.

Recommendations

The Audit Committee urges that staffing levels in the Evaluation and Audit Unit should be maintained and also that there should be no dilution in the qualifications, skills and experience base of staff working in the Unit.

In order to ensure a stronger and more consistently resourced financial control function for the whole Department, the Audit Committee re-iterates its previous recommendation that a Head of Finance with an appropriate professional qualification should be appointed at the earliest opportunity. While acknowledging the limitations imposed on the Department because of current restrictions on recruitment, the Committee remains convinced that such an appointment would lead to more effective management of the finance function across the Department and ultimately to better budgetary management, and should remain a priority of Management.

Decentralisation

The Audit Committee has referred in previous reports to the particular difficulties which had arisen for Departmental management in arranging for regular and structured rotation of staff into and out of Irish Aid's headquarters in Limerick. It has been undoubtedly more difficult for the Department to optimise the deployment of staff in an environment in which recruitment restrictions have already been stretching management capacity. As recent Government statements point to a more flexible approach to managing issues arising in relation to decentralisation, the Audit Committee suggests that scope may now exist for ameliorating constraints on staff rotation.

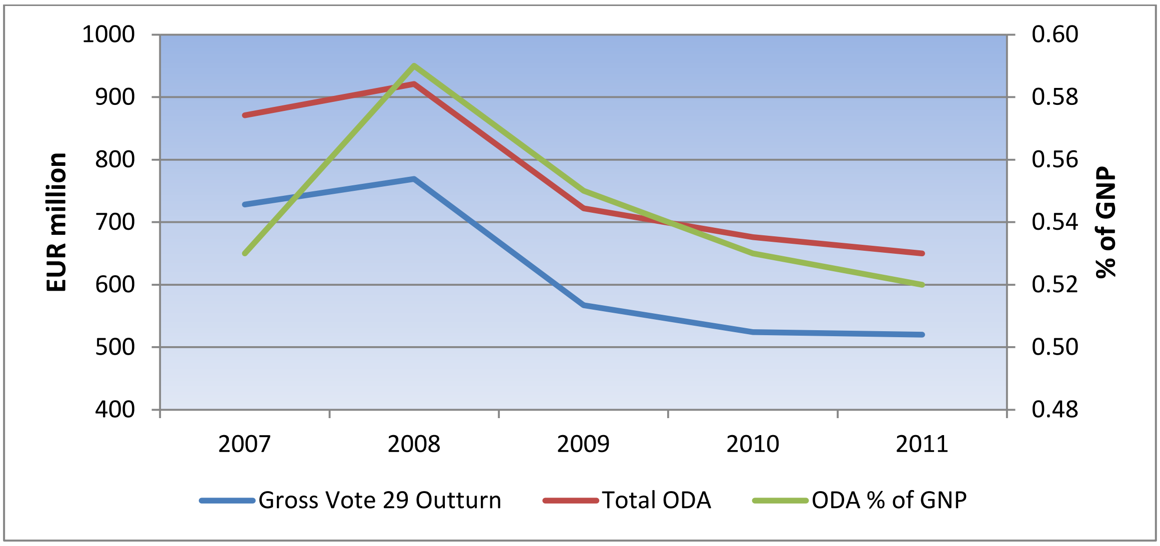
Recommendation

The Audit Committee recommends that constraints on rotation of staff in and out of Irish Aid's headquarters in Limerick largely as a consequence of the policy of decentralisation should be relaxed with a view to facilitating more effective staff mobility.

F. Specific Areas of Irish Aid Programme Reviewed by the Audit Committee in 2011

1. Overview of Irish Aid Programme

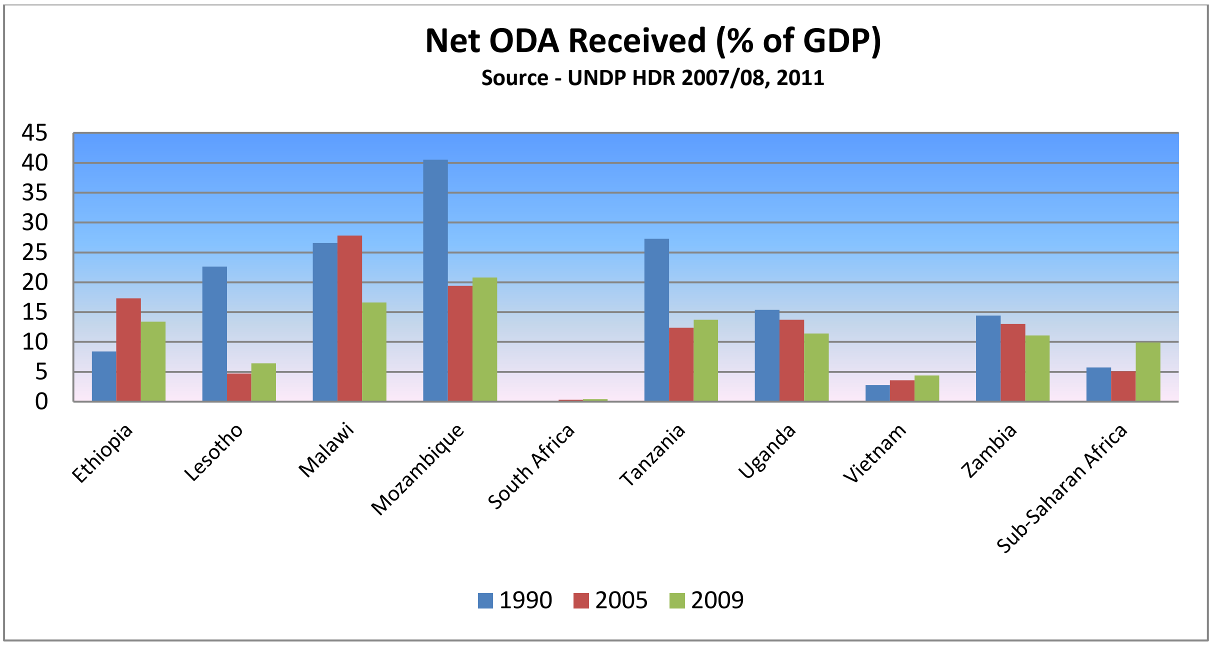
The recent downward trend in actual Irish Aid funding is illustrated in the following graph.



Note that ODA includes payments made by other Government Departments

The falling away in absolute levels of funding over the past three years is very regrettable but harsh budgetary realities could not be ignored and all expenditure programmes including those intended for the poor have had to share in the burden of adjustment.

The trend in Net Overseas Development Assistance as a % of Irish Aid's partner countries GDP (and Sub-Saharan Africa as a whole) over the period 1990 to 2009 is reflected in the following graph.



2. Country Strategy Planning Process/Results Focus

Irish Aid is committed to achieving results and demonstrating that its support, in combination with developing countries' own resources, leads to positive changes in the lives of poor people. The Audit Committee endorses this strategy and recommends that Irish Aid should focus more on the relationship between development aid and economic progress in partner countries.

Irish Aid's priority country programmes are implemented on the basis of 3-5 year Country Strategy Plans (CSP). CSPs go through a rigorous planning process in the lead-in period to a new cycle, involving Headquarters and Mission staff, learning from previous evaluations and consultation with partner Government and other key stakeholders. New CSPs are reviewed by external experts and are ultimately approved by the Programme Appraisal and Evaluation Group.

Key features of CSPs include: a rigorous appraisal process, incorporation of clear results frameworks (Managing for Development Results), provision for mid-term review (and programme adjustments if necessary) and final evaluation. Irish Aid's CSPs are also underpinned by Aid Effectiveness principles, including:

- **Transparency and accountability** to citizens in developing countries and at home to our citizens for the impact of aid, and;
- **Ownership of development priorities by developing countries**.

With regard to fragile states, Irish Aid acknowledges that these are difficult environments in which to operate and present significant risks, but there is increasing recognition that the risks of not engaging far outweigh the risk of inaction. The Audit Committee agrees with this viewpoint.

The Audit Committee understands that most of the large Irish NGOs have country programmes in Irish Aid's programme countries. However, it is not clear to what extent the experience of the NGO programmes informs Irish Aid's CSPs in these countries and there may be scope for greater information sharing or collaboration.

Recommendations

The Audit Committee recommends that future Irish Aid annual reports should address the relationship between development aid and economic performance and trade and should, wherever possible, provide specific examples of this relationship.

Given that Irish NGOs often have their own country programmes in Irish Aid's programme countries, the Audit Committee recommends that Irish Aid should negotiate specific aid protocols with NGOs and civil society in programme countries where these entities have their own aid programmes in order to maximize the benefits from enhanced collaboration

3. Busan High Level Forum

In November 2011 a major international meeting on aid effectiveness took place in Busan, Korea. At the request of the Audit Committee, the Department provided a briefing note on the main issues raised at that meeting. Over 2,500 people attended the event, including 100 ministers from developed and developing countries. The meeting reviewed global progress in implementation of commitments in the Paris Declaration (2005) and agreed a global framework for development cooperation, which for the first time includes emerging economies such as China and India. Four common principles for development cooperation were endorsed:

- Ownership of development priorities by developing countries
- Focus on results
- Inclusive development partnerships
- Transparency and accountability to each other.

The Busan Partnership aims to improve the quality of international assistance in order to accelerate progress towards meeting the Millennium Development Goals. The Busan commitments include:

- Designing and agreeing by June 2012 arrangements for a new global partnership on effective development co-operation to be supported jointly by the OECD and UN.
- Increasing the focus on post conflict '*fragile states*', countries such as Sierra Leone, Liberia and South Sudan –where extra efforts are needed if any of the Millennium Development Goals are to be achieved.
- Supporting government institutions to enable them to carry out reforms and provide quality public services.
- Developing, or improving where they exist, country-level agreements which set out clearly the results we all want to achieve and hold all partners accountable for their actions.
- Improving the quality of statistics to have the evidence base for implementing programmes, with a particular focus on women and girls.
- Implementing a common open standard for data on aid to improve transparency and help the efficient allocation of limited resources.

Irish Aid is working towards implementing the commitments made at Busan; specifically examples include:

- Working with the OECD and UN to define how the new agenda will be governed and how it will be monitored.
- Engaging with the Embassies to discuss the Busan agreements and to encourage them to meet with partners to advance implementation.
- Bringing the lessons from Busan and the commitments made into the White Paper Review Process.
- Working with Nordic+ partners to agree a common approach to advancing the commitments made by Irish Aid at the country level.

The Audit Committee endorses the approach of Irish Aid to implementing the commitments made at Busan.

4. Public Financial Management

The Audit Committee acknowledges the changing risk profile inherent in having an increasing percentage of Irish Aid's development support channelled through Government systems in programme countries. The Committee has in previous Annual Reports recorded its concern that Government systems in those countries might not be sufficiently strong to provide assurance that funds are properly accounted for and used for the purposes intended. While recognising that Irish Aid exercised a high degree of diligence and caution in respect of such funding, and had strategies in place to manage risks, the Committee believed that more needed to be done. In particular the Committee has for some time advocated that a formal independent process should be established to examine the reliability and appropriateness of country systems and identify the risks involved.

The Committee welcomes the substantial and significant progress that has been made in this regard most notably through the establishment of a formal, independent assessment process under the aegis of the Department's Evaluation and Audit Unit. The assessment process looks at key elements of financial management systems of partner governments (including audit) and advises on the level of reliability and risk of working through these systems. The assessment also advises on any additional controls or safeguards that may be needed when a decision is made to work through country systems.

The Committee has been presented with the results of three assessments carried out in 2011 covering Lesotho, Tanzania and Uganda and looks forward to receiving reports on remaining countries in 2012. The Committee notes all three assessments conclude that it is appropriate to work through national systems but with appropriate safeguards.

The Committee also commends the broader work carried out by Irish Aid in establishing Guidelines for Public Financial Management (PFM) and looks forward to further development in this area in 2012. The Committee believes that a full understanding of PFM issues is important for all involved in decision-making and management of programmes where funding is provided though Government systems. The Guidelines developed by Irish Aid serve to provide a common understanding of issues and risks around PFM and to ensure that appropriate management systems are in place and it is important to maintain the momentum of this initiative.

Recommendation

The Audit Committee recommends that PFM assessments should become a mandatory element of partner country programming cycles, and that responsibility for dealing with PFM issues should be clearly identified at all levels within Irish Aid and appropriate structures created for management/follow-up of issues.

5. Civil Society Funding (Irish Aid)

In 2011, Irish Aid disbursed €73 million to Irish Non-Governmental Organisations (NGOs) under a range of schemes as set out in the table hereunder.

Funding Scheme	Grants (€)	No. Partners
Multi Annual Programme Scheme (MAPS II)	56,694,217	5
Block Grants	10,673,187	13
Civil Society Fund	5,788,975	47
In –Country Micro Project Scheme	1,255,133	Managed by 10 Missions abroad
Misean Cara	16,000,000	89
Other	1,862,327	
Total[1]	**92,273,839**	

Civil Society organisations in Ireland and in developing countries play a major role in the advancement of the Millennium Development Goals particularly though non-governmental organisations. The funding and support of civil society organisations engaged in sustainable development activities is a pivotal link with the social and voluntary sectors in Ireland and overseas. This is necessary to underpin a more collaborative approach by Irish Aid with all elements of Irish society for real public engagement in development aid. The involvement and support at community and NGO level in Ireland is crucial for the sustainability of the Irish Aid development programme and its support from the public in a challenging economic environment when there are many other demands for government funding.

The Audit Committee reviewed Irish Aid's civil society funding schemes during the year and noted a welcome emphasis on ensuring that NGO programmes funded by Irish Aid are of high quality, with clear results guided by sound management, governance and financial oversight mechanisms. The Audit Committee welcomes the progress achieved, specifically in the following areas:

- Engagement with the NGO sector in Ireland to achieve a shared understanding of the elements of development effectiveness and greater clarity on quality standards; focus and coherence. This work has also been supported by the NGO national platform Dóchas and a number of other organisations supporting the development of standards and excellence in the sector.

[1] Notes: Capacity Building: D-Talk, Dóchas and Comhlámh.
Misean Cara: Misean Cara funds up to 89 members from the block grant.
In-Country Micro: Funds administered locally by Missions in their countries of accreditation

- The completion of the 2006-2011 cycle of the Multi-Annual Programme Scheme for larger NGOs (MAPS II) presented an opportunity to design a new funding approach that would reflect the commitment to results and performance-based allocation of resources. A new programme funding cycle was introduced in January 2012. This is consistent with the ongoing dialogue of Irish Aid across the NGO sector for increased accountability in public funding.

- A new programme fund with clear eligibility criteria has been introduced for larger NGOs seeking multi-annual funding for long-term development projects or programmes from Irish Aid. Existing MAPS partners and a range of other NGOs will be eligible to apply for this funding.

- For smaller NGOs, a new Civil Society Fund has been established that will provide project funding to these organisations.

The Audit Committee welcomes the new approach to managing civil society funding. It should result in a broader range of strategic partnerships (programme funding) and a smaller more targeted portfolio of project funding, with a clear results focus. In the case of the Civil Society Fund, for instance, the number of partners should reduce from over 70 in 2009 to less than 50 by 2012. In this connection, the Audit Committee sees merit in examining the scope for facilitating greater autonomy by these Agencies in the day-to-day administration of their grants.

Ireland has a proud tradition of support for humanitarian and development aid organisations. This is best seen in the levels of financial donations and volunteering support from the public which is often in excess of other donor countries. In order to ensure that this commitment and effort is best supported, Irish Aid has continued to look at methods to increase the impact of the development programme and to ensure that there is coherence and focus in its interaction with civil society organisations at all levels. Indeed, it is through more effective in-the-field collaboration between Irish Aid and NGOs that the overall impact of Irish Aid funding will have maximum impact and visibility.

The goodwill and efforts of Irish citizens who wish to contribute to developing countries is widely recognised. The Audit Committee believes that this spirit of generosity could become a significant element in fostering a positive international profile of Ireland.

Irish Aid has continued to measure and communicate the results of its investment in terms of long term social change and real improvements in the lives of poor people and communities. However, it faces challenges in maintaining awareness in the public space for these activities.

Recommendation

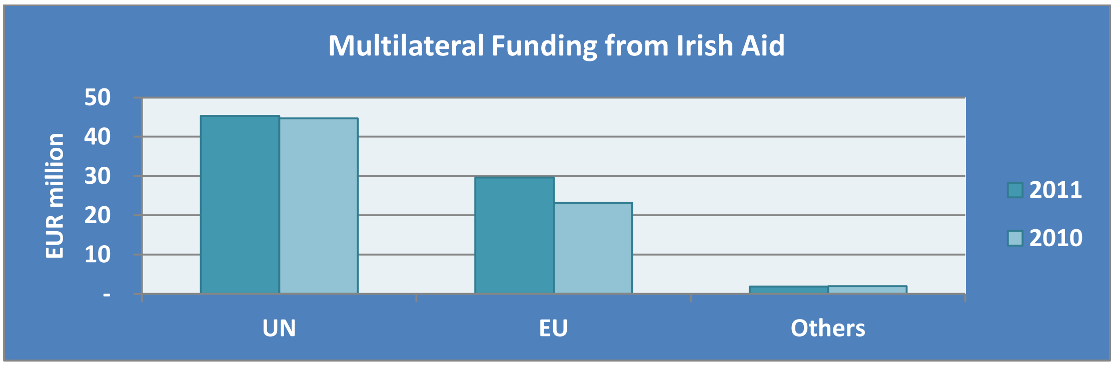
Irish Aid should consider outsourcing the management of small grant awards to civil society organisations. This would reduce costs and the management burden on Irish Aid while ensuring effective management of relationships and grant administration in accordance with best practice. This process could be implemented on a pilot basis initially (it is already operated in respect of the Simon Cumbers Media Fund).

6. Multilateral Funding

Ireland's support to multilateral aid agencies is grouped under three main categories; the development arms of the European Union, the International Financial Institutions including the World Bank, and the UN system.

Ireland participates in the governance arrangements for the multilateral institutions usually through periodic membership of the governing body or through representation in a constituency arrangement. This facilitates oversight of the funds channelled through these institutions. In general, with multilateral institutions, reliance is placed by Member States on the organisations' own systems of risk management, monitoring, audit and evaluation. The Department (and other Government Departments where appropriate) and its Missions engage with these bodies to strengthen governance and control systems where necessary.

In 2011, the Department provided €76.9 million (2010: 69.8m) in funding to multilateral bodies as reflected below.



The Audit Committee reviewed Irish Aid's engagement with the multilateral system during the year. It was informed that:

- Ireland's major UN partners continue to be UNDP, UNICEF and UNFPA. There has been some reduction in the number of partnerships in response to the budgetary and staffing constraints but Irish Aid is now satisfied that there are compelling strategic reasons to maintain most of the existing partnerships.

- Ireland engages with like-minded member States to address reform issues and improve UN performance at country-level. Most reform initiatives are aimed at improving transparency and accountability and strengthening management for results.

- Irish Aid is committed to strengthening the Multilateral Organisation Performance Assessment Network (MOPAN) process and other multilateral effectiveness assessments. In addition, Irish aid is supportive of peer reviews of multilateral evaluation systems.

- The UN *Delivering as One* initiative - which the Audit Committee has previously reviewed- has worked reasonably well in some of the pilot countries due mainly to the commitment of the local personnel. However, there remain barriers at headquarters level which reflect the complex governance and management structures of the different agencies.

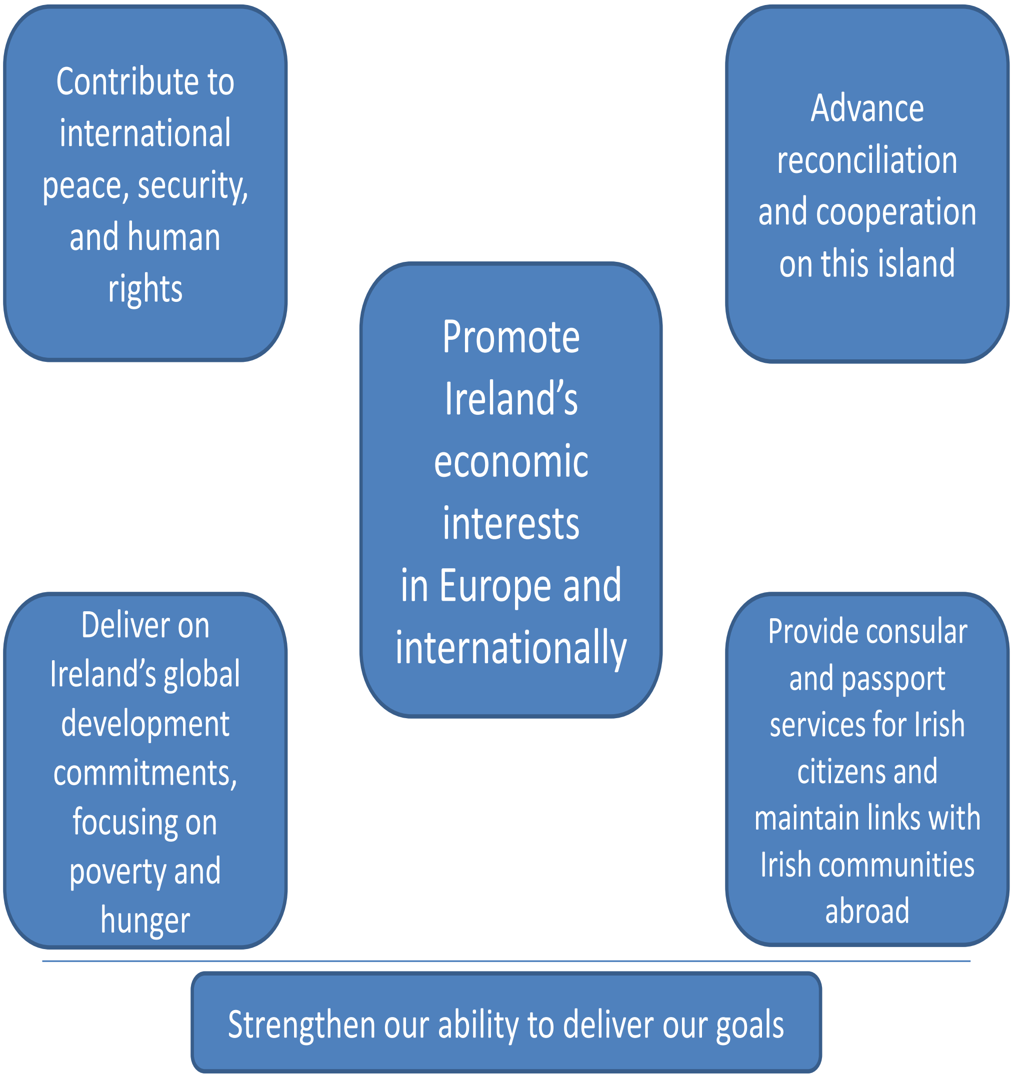
- Although staff resources in Irish Aid's Multilateral Section are quite small, management is satisfied that the Section can manage its responsibilities by drawing on support from other sections and missions as necessary.

Recommendations

While these governance arrangements generally work well, there is no room for complacency given the instances of fraud referred to earlier in this report which underline the importance of continuing vigilance. The Audit Committee accordingly recommends that Irish Aid (and the other Government Departments with oversight responsibilities) should carry out triennial reviews of its relationship with these Agencies on governance issues and, where appropriate, make recommendations to the Management Boards of the Agencies for strengthening governance arrangements.

Appendix 1 – High Level Goals of the Department, 2011 to 2014

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



Appendix 2 - Dates of Meetings and Presentations to the Audit Committee

10 February

- Evaluation of the Implementation of the Paris Declaration on Aid Effectiveness by Ireland
- Update on Audit Committee Recommendations Tracking

29 March

- World Bank Presentation to Irish Aid on Public Financial Management
- Review of the Implementation of the 2010 Evaluation and Audit Work Plan

17 May

- Review of Public Financial Management Assessments in Programme Countries
- Programme Countries Audit Coverage and Audit Issues
- Multilateral funding
- Evaluation Plan for the Wider Department

7 July

- Review of the Department's Risk Register and Risk Management Process
- Discussion on Internal Audit Reports
- Discussion with the Deputy Director General of Irish Aid
- Emergency and Humanitarian Assistance

13 September

- Implementation of the Recommendations of the Audit Committee's Previous Annual Reports
- Aid Effectiveness
- Implementation of Evaluation work plan for 2011
- Implementation of Evaluation recommendations

25 October

- Public Financial Management Assessments in Programme Countries, and other Programme Countries Audit Issues
- Review of the operation of financial control systems across the Department and Update on Vote 28
- Review of the Department's Risk Management Process
- Country Strategy Programme Evaluations in Mozambique and Zambia

13 December

- Annual Meeting with Representatives of the Office of the Comptroller and Auditor General
- Evaluation of Irish Aid's Multi-Annual Programme Scheme for NGOs (MAPSII)
- Irish Aid Civil Society Funding Schemes.

Appendix 3 – Key Documents Considered by the Audit Committee

Evaluation Reports:

- Joint Evaluation of the Paris Declaration – Phase 2 Donor HQ Study - Irish Aid
- Joint Irish Aid and DFID Country Programme Evaluation of Tanzania, 2004-2010
- The Evaluation of the Paris Declaration - Phase Two – main report (all countries) (IOD PARC)
- Mozambique Country Strategy Programme Evaluation
- Zambia Country Strategy Programme Evaluation
- MAPS II Evaluation Synthesis Report and Irish Aid Management Response
- Institute of Public Administration - Report on the Better Use of Public Money (Richard Boyle)
- Organisational Review Programme Report on the Department of Foreign Affairs and Trade
- Draft Evaluation Operations Manual

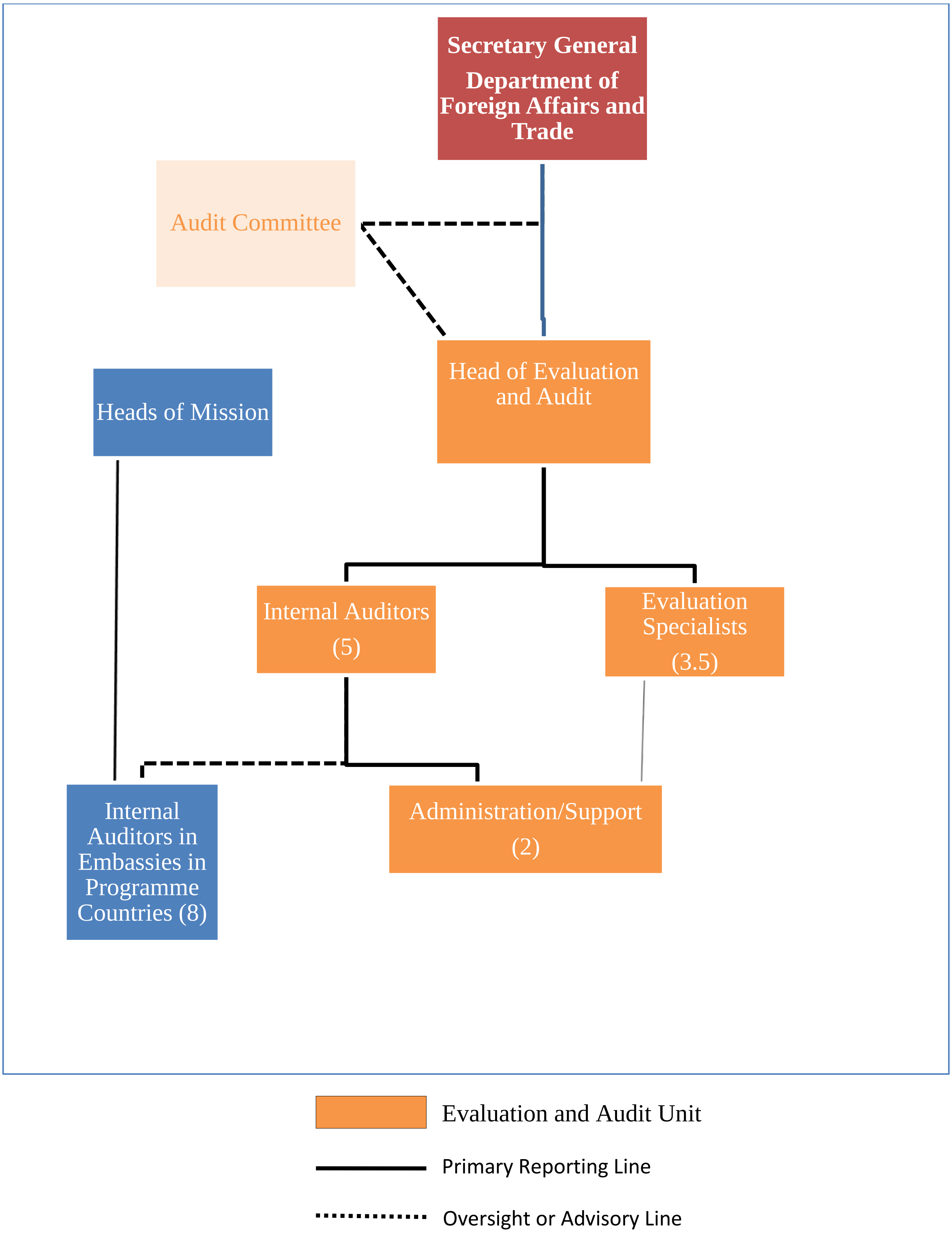
Audit Reports of Work Undertaken by the Evaluation and Audit Unit

- Irish Aid Public Financial Management Assessments on Tanzania and Lesotho
- Public Financial Management Guidelines and Guidance Notes
- Audit Reports – Irish Aid Programme Countries
- Audit Approach for funding to Civil Society Organisations
- Audit Reports – Department's Missions Abroad
- Reports on the Implementation of the Internal Audit Work Plan 2011

Other Material

- Update on Audit Committee Recommendations Tracking
- Vote Allocations for 2011
- Evaluation and Audit Work Plans for 2011 - 2013, including Review of Implementation
- Briefing Notes on ICROSS, the Global Fund and the Irish Red Cross
- The Department's Risk Register and Risk Management Briefing Notes
- Briefing Note on Irish Aid's Multilateral Funding
- Briefing Note on Aid Effectiveness and the High Level Forum, Busan
- Reports of the Comptroller and Auditor General, including Management Letters and Departmental Management Responses for Votes 28 and 29, 2011
- PriceWaterhouseCoopers Guidance Note - Survival Tips for Audit Committees

Appendix 4 – Evaluation and Audit Structure of the Department



Appendix 5 – Summary of Vote Expenditure 2011 (Unaudited)[2]

Vote 28: Foreign Affairs	Estimate Provision €'000	Outturn €'000
ADMINISTRATION		
A1. Salaries, Wages and Allowances	90,260	92,101
A2. Travel and Subsistence	6,080	4,313
A3. Training and development and incidental Expenses	4,688	3,813
A4. Postal and Telecommunications Supplies	7,408	6,553
A5. Office equipment and external IT services	15,386	14,969
A6. Office Premises Expenses	26,282	22,017
A7. Consultancy Services and value for money and policy reviews	108	28
TOTAL ADMINISTRATION EXPENDITURE	**150,212**	**143,794**
PROGRAMME EXPENDITURE – Other Services		
B. Repatriation and Maintenance of distressed Irish Persons Abroad	79	36
C. Support for Irish Emigrant Services	12,883	11,568
D. Information Services	652	424
E. Contributions to bodies in Ireland for the furtherance of International relations – (Grants in Aid)	100	100
F1. North-South and Anglo-Irish Co-operation	3,000	2,998
F2. International Fund for Ireland	195	150
G. Cultural Relations with Other Countries – (Grants in Aid)	846	846
H. Irish-American Economic Advisory Board	28	13
I. Contributions to International Organisations	47,440	48,407
J. Actions Consequent on Title v of the Treaty on European Union	418	226
K. Atlantic Corridor Project	250	250
L. Trade Promotion Funds	400	320
TOTAL PROGRAMME EXPENDITURE	**66,291**	**65,338**
GROSS EXPENDITURE	**216,503**	**209,132**
O. Deduct Appropriations-in-Aid	43,997	44,380
NET EXPENDITURE	**172,506**	**164,752**
Surplus for the year		**7,754**
Deferred surrender		**370**
Surplus to be surrendered		**7,384**

[2] The audit by the Comptroller and Auditor General is in progress at the time of completion of this report.

Vote 29: International Cooperation	Estimate Provision 2011 €'000	Outturn 2011 €'000
ADMINISTRATION - Subheads A1/8		
A.1. Salaries, Wages and Allowances	18,626	17,405
A.2. Travel and Subsistence	2,747	2,084
A.3. Training and development and Incidental Expenses	2,920	1,488
A.4. Postal and Telecommunications Services	1,920	1,563
A.5. Office Machinery and Other Office Supplies and Related Services	2,020	1,207
A.6. Office Premises Expenses	3,910	3,364
A.7. Consultancy Services and value for money and policy reviews	1,400	1,092
Sub-total	33,543	28,203
Other Services		
B. Payment to Grant-in-Aid Fund for Bilateral Aid and other Co-operation (Grant in Aid)	365,633	365,633
C. Emergency Humanitarian Assistance	51,000	50,997
D. Payments to International Funds for the Benefit of Developing Countries	34,354	34,354
E. Contributions to United Nations and other Development Agencies	39,500	39,500
Sub-total	490,487	490,484
Gross Expenditure	**524,030**	**518,687**
F. Deduct: Appropriations in Aid	1,153	1,790
Net Total	**522,877**	**516,897**
Surplus for the year		**5,980**
Surplus to be surrendered		**5,980**

Appendix 6 – Departmental Management Response to the Recommendations of the 2010 Annual Report

	Recommendation	Division/Section	Management Response
1	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.	Corporate Services Division	Following the implementation of the first phase of the project: • The financial management of the two DFAT Votes is assured by a common FMS. • It operates in the same way in both areas and uses the same account codes for common areas of expenditure. • The procedures for raising payment and making travel claims are the same in both. • Likewise managers in Vote 28 have direct access to data in Vote 27 and vice versa. • A number of "whole of department management" reports have been developed. • Joint approaches are being taken in dealing with common issues such as procurement of banking services, IT support etc. There are still some discrete approaches between the two Votes, reflecting the different sectors in which they operate. A further significant issue for consideration is the practicability of integrating the senior level management of the function which would involve the designation of a single Finance Officer with oversight over both vote areas and management authority over both staffing complements.
2	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.	Corporate Services Division	This matter has been raised regularly in meetings with D/PER with a view to ensuring that temporary staff are deployed in sufficiently good time to be of maximum benefit. The 2011 season was an improvement on 2010 with overtime costs reduced significantly. Sanction has been obtained for timely recruitment of a much increased number of temporary staff for the 2012 season This will enable management to anticipate and respond to surges in demand

	Recommendation	Division/Section	Management Response
3	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.	Corporate Services Division, Consular and Passport Division	An interim reconciliation process was put in place in May 2011 following the ending of free passports to applicants aged over 65 years. This aims to match global receipts against global applications and issues with a view to establishing a base line against which any significant deviations can be identified and investigated.
	Internal Audit		
4	The audit strategy and multi-year work plan for Vote 28 should be formalised and approved by the Secretary General.	Evaluation and Audit Unit	Recommendation accepted. A multi-annual audit workplan has been developed for Vote 28 and the strategy will be completed by the year end.
5	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.	DCD, Policy, Planning and Aid Effectiveness (PPE) Section	Recommendation accepted. Irish Aid has established a cross-Divisional Public Financial Management group and is developing guidelines on PFM assessment in its programme countries. Three PFM assessments were successfully piloted in the first half of 2011, in Lesotho, Tanzania and Mozambique. Valuable lessons were learned from the pilot exercise and these will feed into PFM guidelines that are currently being finalised. Further PFM assessment s will be undertaken in Zambia in late 2011 and in Ethiopia in early 2012 In addition, Irish Aid keeps abreast of third party PEFA assessments and developments that are relevant to its programme countries. Irish Aid's more formal process of assessing Public Financial Management (PFM) systems in Programme Countries will assess capacity issues and how Irish Aid can best address these in cooperation with partners Governments and other cooperating partners.

	Recommendation	Division/Section	Management Response
			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. Ways in which Irish Aid can engage at partner country level can range from having representation on appropriate PFM working groups to direct support for PFM reform initiatives. The PFM Guidelines will also focus on ensuring that relevant Programme Staff have a proper understanding of PFM issues and implications. Irish Aid has developed a Guidance Note on Measuring and Assessing Corruption in Partner Countries. This complements the Irish Aid Public Financial Management Guidelines, and looks at the general governance context – especially the prevalence of corruption within that. A standard format is put forward for a Corruption Profile to be developed at key stages in the country programme cycle. This will present an assessment of corruption in the country, and indicate how corruption will be responded to in terms of risk mitigation and control, decision-making, and programming. Irish Aid has also participated actively in the work of the OECD DAC PFM Task Force.
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.	DCD, Policy, Planning and Aid Effectiveness (PPE) Section	Recommendation accepted. Irish Aid is committed to continuing to support the Offices of National Auditors General in partner countries. At partner country level we remain actively involved through the PFM reform process on developments around improving capacity and effectiveness in National Audit Offices and this is a key issue for PFM assessments. Irish Aid has provided, and will continue to provide, both financial and

	Recommendation	Division/Section	Management Response
			technical assistance towards the work of the INTOSAI-Donor partnership and is on the Steering Group of this initiative. As in 2010, a payment of €200,000 was again made by Irish Aid in 2011 in support of the INTOSAI Development Initiative (IDI) Secretariat. In addition, Irish Aid hosted a seminar in March 2011 on the Value of Supreme Audit Institutions, which was very well attended by staff from all Sections of the Division. Evaluation and Audit Unit attend twice yearly Steering Committee Meetings of INTOSAI to monitor progress on funding and planned programmes. This also affords the opportunity to remain up to date on capacity development in Irish Aid Programme Country National Audit Offices.
7	Irish Aid should continue to monitor qualified audit reports, assess the reasons for them, and take appropriate corrective action.	DCD – Policy, Planning and Effectiveness Unit	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 are an important part of the guidelines for assessment of Public Financial Management systems in our 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 devise an appropriate audit strategy for reviewing the effectiveness of Civil Society organisations	Evaluation and Audit Unit	Completed
	Evaluation		
9	The Audit Committee recommends that the Department strengthens its procedures for the tracking of evaluation	Corporate Services Division, DCD, Evaluation and	This has been undertaken. A system is in place for tracking and following up on recommendations made. This tracking system was upgraded in 2010. An evaluation report and recommendations template has been developed which comprehensively tracks both the post completion status of evaluation reports

	Recommendation	Division/Section	Management Response
	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.	Audit Unit	(i.e. submitted for internal review, Audit Committee, and CNAG) and the status of evaluation recommendations (i.e. management response, actions taken by relevant Sections/Divisions/Embassies; follow up actions by Evaluation and Audit Unit , and overall status)
	Risk Identification		
10	The Audit Committee recommends the appointment of a Chief Risk Officer reporting directly to the Secretary General.	Corporate Services Division	The MAC has considered this recommendation. It concluded that it would be difficult to identify a suitable candidate for CRO given the very diverse range of functions fulfilled by the Department and the need to concentrate increasingly scarce staff resources on major current and upcoming operational responsibilities. In present circumstances, it was considered that the best available option was to maintain the existing Risk Management Committee, chaired by the Head of Corporate Services, as the mechanism for coordinating risk management across the Department and reporting to the MAC, whose members have ultimate ownership of the various risks to which the Department is exposed.
11	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	Corporate Services Division	A revised format of risk register has been put in place that more clearly defines risk ownership and draws closer links to defined business actions has been put in place for 2011. A further review will lead to a more streamlined process for 2012 especially for smaller missions. A review of the Department’s Risk register by the Department’s Evaluation and Audit Unit is underway. Recommendations flowing from that study will also be incorporated for 2012.

	Recommendation	Division/Section	Management Response
	strategies, and should be completed as soon as possible.		
12	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.	DCD, Policy, Planning and Aid Effectiveness (PPE) Section	Irish Aid maintains a strong and continuing focus on ensuring that the programme remains targeted on those areas where Irish Aid has particular strengths. Irish Aid is also maintaining a continuing focus on measuring impact and achieving value for money, 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). Irish Aid has developed an Action Plan to implement the Accra Agenda Actions across all areas of the programme. This aims to ensure the programme is focused on areas where Irish Aid can add real value and is targeting, and delivering tangible benefits for, the people in most need. 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. Irish Aid, through the country planning process, has reduced the number of sectors of involvement in a number of Programme Countries, based on a review of comparative advantage. This is in line with the EU Code of Conduct and the Accra Agenda. 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. In the most recent survey by the OECD on implementation of the Paris Declaration Ireland performed among the best, globally. Ireland's experience on implementing its aid effectiveness commitments was used to inform our position in the recent high level forum on aid effectiveness in Busan.

	Recommendation	Division/Section	Management Response
13	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	DCD Finance Unit, Evaluation and Audit Unit	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. 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 review by the Audit Committee. 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 their audited annual account on their website. There are now eligibility criteria for those organisations seeking funding. Irish Aid will encourage organisations to publish evaluation reports on their websites. The appraisal process for Civil Society funding examines six areas, one of which is governance and financial oversight. In this area, the focus is on sound governance, management of risk and oversight of liquidity, solvency, and cost effectiveness. A basic check on financial policy and procedures is also covered. This area receives a score as part of the performance allocation to each organisation.
14	The Department should review its Fraud Policy and the Code of Practice on Fraud in Partner Organisations and update the documents where necessary.	Corporate Services Division	This work is being undertaken by the Evaluation and Audit Unit

	Recommendation	Division/Section	Management Response
15	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.	Civil Society Section	Irish Aid now has in place a clearer basis for eligibility, appraisal and allocation of grants to Civil Society partners. The most recent call for proposals under the programme and project rounds sets out a clear basis for eligibility The appraisal standards have also been developed (for programme and projects), including a requirement for solid results frameworks as part of any agreement with Irish Aid. Monitoring the next programme cycle (2012-2015) will be based on the agreed results frameworks. The MAPS II programme came to an end in December 2011. New funding arrangements will be put in place for MAPS and Block grant partners, from the beginning of 2012, with an emphasis on performance and results. A resource allocation model has been developed which operates by allocating a base amount calculated through a combination of average organisational income and previous grant history with Irish Aid. Once the appraisal is completed, scores based on performance will translate into an additional allocation. The base amount and performance amount will translate into a percentage allocation for each NGO. The weighting between the base amount and the performance allocation is 2:3. The resource allocation model will be applied to all NGOs applying for programme funding. A major evaluation of the MAPS programme is completed and the recommendations emerging from the evaluation have influenced elements of current developments as outlined above.
16	Irish Aid Annual Reports should publish comparative data on macroeconomic performance in partner countries to facilitate tracking of progress being made by these countries.	DCD Programme countries Section, Policy Planning and Aid Effectiveness (PPE) Section	Irish Aid, at both HQ and mission level, monitors a range of economic and social reports and data measuring various aspects of progress and performance in partner countries. We also engage with partner Governments on national budgetary data. This informs ongoing analysis, dialogue with partner Governments and other stakeholders and ultimately, programming decisions. However, there are challenges in relation to consistency and reliability with many sources and indicators.

	Recommendation	Division/Section	Management Response
			As regards the specific recommendation that certain economic data on Programme Countries be published in the Irish Aid Annual Report, the Department is examining the proposal in detail in order to determine the most effective approach.
	Organisational and Resource Matters		
17	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.	Corporate Services Division	The current moratorium on recruitment and the ineffective functioning of the redeployment mechanism means that it has not been possible to satisfy this recommendation. In the meantime it is noted that both internal and external C&AG audits have reported satisfaction with the management and operation of the Finance Unit. Despite the lack of formal accountancy qualifications, it is clear that the management team are performing well and maintaining a strong level of control and propriety in this area.