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Report on Irish Aid

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Chairman's Preface

I welcome the publication of this PAC Report on Irish Aid.

This Report is based on the review of aid expenditure by the Committee at its meeting of 20th December, 2012 which had as a backdrop the fraudulent misappropriation of €4million of Irish Aid funding in Uganda which came to light in 2012. In addition the Report covers the review by a delegation of the Committee of aid expenditure in Mozambique following its week-long visit to that country in November 2012.

Our aid budget shows that despite the economic difficulties we have faced at home in recent years, the Irish State has maintained a commitment to the poorest people on the planet. Most of the aid programme is based in Africa and our own review Mozambique highlights that the aid programme is helping that country to unleash its enormous potential. As countries like Mozambique grow, their dependency on aid should be replaced by the growth in trade which will propel these countries into middle income societies.

While front line services get most notice when aid is reviewed, an equally important part of the development programme from a PAC perspective relates to governance and oversight. While it was disheartening to learn that aid money had been the subject of fraud in Uganda, what is important is that donor countries learn from what happened and adapt their oversight mechanisms accordingly. The Department is carrying out an intensive review of its own controls arising from the work done by its independent audit and evaluation unit which was sufficiently self-critical in pointing out mistakes made by Irish Aid in relation to the misappropriation on Uganda. This approach by the Department gives an assurance to the PAC that all issues arising are being addressed to ensure the safeguarding taxpayers money.

The whole area of risk assessment and financial was central to the PAC review of the aid budget in Mozambique. We have made recommendations about boosting the capacity of the Auditor General in Mozambique because this is where we, as a donor nation, can get the greatest level of assurance that our aid budget is being spent in accordance with the memorandums of understanding agreed between donors and the national governments. A robust and independent audit process is essential and if confirmation of this was needed, one need look no further than what happened in Uganda.

I commend this Report to the Dáil.

John Mc Guinness TD
Chairman of the Committee
21st March 2013

Chapter One
Development Aid

Introduction

Chapter 19 of the 2011 Annual Report of the Comptroller and Auditor General provides an overview of Ireland's official overseas development programme, on the way aid is delivered and on how risk is managed. That Chapter, together with the Vote 29, which accounted for 79% of the development assistance provided by the State in 2011, was examined by the Committee at its meeting on 20th December, 2012. The transcript of that meeting is available on the Oireachtas website at:
http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/ACC2012122000001?opendocument.

The examination by the Committee of aid expenditure came against a backdrop of misappropriation of €4 million of Irish Aid funds which was uncovered by Uganda's Auditor General. The Committee had access to a report by the Department's independent audit and evaluation unit into the misappropriation and was able to refer to this report when examining the issue. The misappropriation led to a decision by the Tánaiste and Minister for Foreign Affairs and Trade to suspend the aid programme in Uganda. The €4 million has now been repaid to the State.

Accountability issues

The accountability issues that arise in respect of the aid programme relate to what happened in Uganda; the way it was detected; and the lessons that arise which will protect against further misappropriation. The issues covered in this chapter therefore relate to:-

- The misappropriation of aid funding
- The systems weakness that facilitated the misappropriation
- The outcome and lessons learned.

Chapter two of Report examines the impact of the aid programme with particular reference to Mozambique.

The misappropriation of Irish Aid funds in Uganda

What happened to Irish Aid funding in Uganda has now been well documented in reports in the national media, in the published internal evaluation report and arising from the public examination of the PAC of 20th December, 2012. In summary, €11.6 of donor funds, including €4 million of Irish Aid funding, which was intended for the Peace, Recovery and Development Plan was fraudulently diverted to a previously dormant account in the office of the Prime Minister and was subsequently withdrawn by various fraudulent means. It appears that this fraud was very sophisticated and elaborate and involved exceptionally high levels of collusion at senior level which could not reasonably or normally have been anticipated. In this case, and in line with normal procedures, the money had been lodged in the Central Bank in Uganda which, in the context of risk assessment, was deemed the safest place for money to be. Clearly what the fraud has shown up is that there was corruption in high places which is an issue that has to be faced up by society in Uganda especially as it endangers major aid projects if it is not addressed. While the ingenuity and motivation of people who perpetrate a fraud cannot always be anticipated, the systems should be in place to ensure that such efforts are deterred and that they are capable of detection.

The systems weakness that facilitated the misappropriation

The main concern of the Committee was whether the fraud showed up any weaknesses in our own controls. Risks of fraud, corruption and misappropriation will always be significant factors to be taken into account in development aid programmes. There is a need for robust systems so as to assure taxpayers that funds reach their intended destination, are used for their intended purposes and that projects have the desired impact. The focus on risk is normally at the delivery end where the aid money is sent to the projects as it is at local level that it is most vulnerable to misappropriation. The Evaluation and Audit Review does highlight some weaknesses in controls which on their own would not have prevented the fraud, but could have let to it being detected earlier.

As is the case with the aid that goes to Mozambique that is covered in Chapter Two, the delivery of aid through Governments involve the pooling of resources with other donor countries. In that regard, while there are checks to ensure that the money is lodged and it can be followed through to where it will be expended, it is not possible to put a dye or a symbol on the money in order to follow its progress through the system. In the case of the €4 million, there should have been a verification process which showed the movement of money out of the account in the Central Bank of Uganda where it was initially lodged by Irish Aid into the appropriate account. While a receipt was received to show that €4 million had been lodged, the level of information held did not show what happened to the money after it was lodged. There was a weakness, therefore, in tracking the money and the receipts should have been accompanied by bank statements or other independent confirmation so that at each stage the path through which the money passed through was verified. This is an issue that is now being addressed not only in respect of Uganda but in respect of the entire aid programme. In that regard, it is not sufficient that there are receipts on file which was an issue highlighted in the Committee debate on 20th December because other donors were provided with bogus receipts.

The Committee has taken certain assurances from the reaction of the Department and to the fact that the Evaluation and Audit Review was sufficiently self-critical and outlined how the systems can be improved. The actions of the Accounting Officer, in seeking reports from all Ambassadors on financial management controls and risk assessment of aid funding, is also reassuring. It is clear that there was a level of shock in the Department and in Irish Aid that this fraud took place and that it is being used as a "wake up call" to ensure that best practice is followed. The Committee also took certain assurances from the direct evidence of the Head of the Evaluation and Audit Unit who outlined that, in the context of the work done by his unit, what happened in Uganda was at extreme variance with what is seen in other countries.

The outcome and lessons learnt

As outlined above, the fraud was a "wake-up call" for Irish Aid and it has resulted in a further stress test of its own controls and the Committee is satisfied that the thorough review now in progress will lead to stronger controls. Clearly the fact the fraud was detected by the Ugandan Auditor General shows that the overview systems work. It also gives a degree of confidence to donors, given the high level at which the fraud was perpetrated, that the system of audit is not only robust but also independent and it underlines once again the need for a well-functioning external audit service. The Committee also took assurances from the fact that the detection of the fraud was a timing issue and that the fact that funding was not being delivered to the projects would have been detected as Irish Aid has its own staff on the ground in these project areas whose job it is to monitor the outputs and that is another safeguard against misappropriation.

The impact in Uganda where it has generated a huge debate on corruption may well lead to positive outcomes which should not be discounted. The fact that senior people in the administration were caught should provide a further deterrent against this type of illegal activity.

A wider issue that arises relates to the whole systems of controls that are in place in respect of public expenditure. The Committee notes the comments of the Secretary General who has sought to appoint a professionally qualified chief financial officer at Assistant Secretary level. The Committee notes that the appointment of professionally qualified personnel in areas such as HR, ICT and Finance has been an issue on the public service reform agenda for many years and given the amount of money that passes through the various Departments, it endorses the views expressed by the Secretary General and will recommend accordingly.

Conclusion

A fraud was perpetrated in Uganda when aid monies which had been lodged in the Central Bank of Uganda were transferred illegally to a private account. It was detected by the Auditor General and the money has since been returned. The fraud has led to a redoubling of effort by the Department and Irish Aid to ensure that a more robust system of financial and risk management is in place that will deter further occurrences. The Committee is satisfied that the Department has taken appropriate steps to address weaknesses in controls highlighted by this event.

Chapter Two
Irish Aid to Mozambique

Introduction

A delegation from the Committee travelled to Mozambique for a week commencing on 25th November, 2013 and the outcome of its review is contained in this chapter. The purpose of this visit, which arose from an invitation received from the Minister of State at the Department of Foreign Affairs and Trade, was to examine two aspects of the aid programme, namely:

(i) The capacity of the financial controls and audit processes in Mozambique in ensuring adequate oversight of the expenditure of aid money is in place and

(ii) The outcomes being achieved through the intervention of Irish Aid and the extent to which the aid programme provides value for money.

Over a period of five days, the delegation visited a number of projects and witnessed at first hand the work that is being done in Mozambique that is made possible through Irish Aid. The delegation also met with a Minister of the Government of Mozambique, the IMF, other donors and a number of business people of an Irish background who are doing business in Mozambique. The delegation also examined the whole issue of financial management and risk assessment in a series of meetings with the Ambassador and his team of officials that are based in the Irish Embassy in Maputo and are also based on the provinces of Inhambane and Niassa.

Accountability issues

There are three basic themes arising from the examination of the aid given to Mozambique and these are:-

1. The <u>need</u> for aid
2. The <u>oversight</u> of the aid budget
3. The long-term development of a programme country like Mozambique.

This chapter, which is divided into three sections, will cover these themes.

Section One
The need for aid

Introduction

Mozambique receives more Irish bilateral aid than any other country and Irish Aid has been involved in the country since 1995. The programme budget for 2012 was €37 million which is down from €41 million in 2009. This includes €12 million which is Ireland's contribution to the Clinton Health Access Initiative. Mozambique remains one of the world's poorest countries and last year was ranked 184 of 187 countries on the 2011 UNDP Human Development Index, with average life expectancy at birth of 50.2 years and an estimated adult literacy rate of only 55.1%. It has a HIV rate that directly affects an estimated 11.5% of the population.

Mozambique remains a country that <u>needs the help of the developed world if it is to end poverty and emerge as self-dependant</u>. When the country emerged from a decade of civil war in 1992 its infrastructure was almost completely destroyed. It had no functioning education or health system and the consequences of this were almost universal adult illiteracy and terrible health outcomes. Mozambique is still living with these and other legacies of the civil war and while it is making progress, it is developing from a very low base. Mozambique remains dependent on external financing for 40% of government expenditure which is down from 70% a few years ago.

The main challenge facing the State is that 54% of the population are below the poverty line. Using Ireland as a comparator, the situation in Mozambique can be summarised as follows:

- Mozambique's GDP in 2011 was US$12 billion whereas Irelands was US$161 billion.
- Literacy rates in Mozambique are now at 55.1% whereas in Ireland the figure is 98%
- Life expectancy in Mozambique has now risen to an average age of 50 whereas the figure for Ireland is 80 years

Indicators of improvement

The indicators, as outlined to the delegation, show that life in Mozambique is improving and the high level indicators show:-

Education

1. Primary school enrolments are hitting 90% of the age cohort: In the last ten years the number of children in primary education has doubled to 5 million
2. There has been a significant increase in the number of children who are going on to second level education
3. 42% of girls now complete primary school and five years ago that figure stood at just 26%

Health

1. Infant mortality has dropped from 135/1000 births to 95/1000 in the last ten years
2. Over 62% of births have a trained attendant present and the corresponding figure was 40% five years ago
3. The number of people in treatment for HIV Aids has risen from 3,000 to 300,000 in the past ten years and the overall scourge of HIV and Aids has stabilised.

Economy

1. Real GDP growth has averaged 8.2% over the past ten years
2. GDP has grown from US$ 5 billion in 2004 to US$ 12 billion in 2011
3. Huge improvements have been made in building a tax infrastructure and the Government now collects 23% of GDP in taxation.

Improvements are also happening in agriculture and in the whole area of small agri-business. Rural infrastructure, so badly damaged in the civil war, is being repaired. More people have access to running water through the development of community wells and ultimately more people are in paid employment. Foreign direct investment is boosting the economy and it is clear that the country is developing at a steady pace.

The other main issues that remain a challenge for all developing countries, including Mozambique, relates to the development of government and administrative structures and societal issues in areas such as human rights and corruption. As a programme country, it is working in cooperation with donors in developing these societal aspects and the fact that it is one of only two programme countries that receive general budget support from Ireland [Tanzania being the other] gives an indication that progress is being made in these areas. The delegation was informed that current rate of progress in terms of developing its own economy and its own governance structures indicates that it should become a well-run, middle income country within the next twenty years. In the overall context therefore aid helping deliver the desired results.

The Irish Aid programme in Mozambique

Irish Aid represents 2.7% of the aid received by Mozambique and, as part of the 19 member donor group, it has agreed a number of five year agreements with the Government of Mozambique [Memorandums of Understanding] in which specific targets are set in return for general government support. Ireland does not act as an independent agent with the Government of Mozambique: instead it coordinates its investment with other donors and in return the Government of Mozambique has to commit to a range of policies, expenditure and investment that are then jointly monitored by both the donors and the Government and whose principle aim is poverty reduction.

The Committee received a detailed briefing on the way the Memorandum of Understanding (MOU) is structured and the performance indicators which are incorporated into a Performance Assessment Framework (PAF) that is regularly monitored. The PAF which covers the period from 2012 to 2014 has 35 indicators and has the following objectives:-

- Increase in Agriculture and Fisheries Production and Productivity
- Promotion of Employment
- Human and Social Development

Indicators in respect of governance and public financial management are also included in the framework document and these are a lever which propels the Government to address weaknesses in the structures and systems and to address issues such as corruption. The other features of these agreements are that it commits the Government to direct its own income to these areas and also it develops the capacity of governance which is a key issue in terms of assessing and addressing the risks associated with development aid.

Expenditure of Irish Aid in Mozambique

Irish Aid has now agreed a new five year programme of funding for Mozambique and the overall aim of the programme is to support sustainability and inclusion and to reduce poverty and vulnerability.

The €37 million budget for 2012 was allocated as follows:

Amount	**Outcome**	**Examples**
€4.1 million	Reduce vulnerability and improve livelihoods at sub national level.	Projects in Inhambane and Niassa provinces: Agricultural training in areas such a potato growing
€20.3 million	Improve health and education programmes especially for women and vulnerable groups	Funding for the Clinton Foundation (€12.5 ml) which provides screening for HIV and deals with nutrition for example
€3.55 million	Improve accountability to citizens	Working at local provincial level to develop accountability: Supporting civil society organisations to strengthen their capacity and governance
€9 million	Governance and delivery	Un-earmarked contribution to the Government to enable it to implement its poverty reduction strategy

Irish Aid money is channelled through the Finance Ministry in Mozambique and is allocated in three different ways:

1. Direct General Government Support where it forms part of the Governments funds and where specific targets are agreed (between the Government of Mozambique and the 19 international donors) in respect of poverty reduction.
2. Earmarked funding for provincial Departments and provincial governments, in particular in the provinces of Inhambane and Niassa where health and education infrastructure and in particular there is an investment in training teachers and medical aids and also funding the provincial governments rural water programme which has

seen the development of wells to provide clean drinking water near rural villages. Some of these programmes are delivered by NGOs

3. Given to support the work of NGOs, such as
    - **a.** the Clinton Foundation which provide health access facilities,
    - **b.** International Relief and Development (IRD) which delivers a home based care programme to 6000 patients across the Inhambane province
    - **c.** Technoserve which supports job creation in the agriculture and agri-business sectors including the Mozambique Organicos which mentors young farmers in food production and
    - **d.** the Halo Trust which is involved in the cleaning out of areas that had been land-mined during the civil war..

The Committee visited projects involving all four NGOs mentioned at point 3 above as part of its examination of the Irish Aid Programme in Mozambique.

Conclusion

There is an on-going need for aid in Mozambique and the evidence seen by the Committee, especially when it visited the projects, shows that the programmes are working to deliver capacity that will ultimately reduce poverty. There also appears to be a good working relationship between the Government, the donors and the various NGOs who are delivering many of the front line services.

Section Two
Oversight of aid expenditure

Introduction

Development aid from Ireland is channelled to Mozambique through what is called General Government Support. Ireland is one of nineteen partners who have an MOU with the Government of Mozambique which sets targets in key areas such as education, health, agriculture, institutional development, civic society all of which have the overarching theme of poverty reduction. As with all aspects of aid, there are risks and one of the priorities of the PAC in sending a delegation to a programme country was to establish the extent to which financial and risk management had developed so as to manage these risks. By its very nature the State is providing assistance, most of it in the form of money, to poor underdeveloped societies where corruption is most likely a societal issue and where the systems and structures of State governance are not as well developed as they are here. At a simple level the risk is that money designated to achieve certain results will be stolen: at the other end of the scale is the risk that donated monies simply replace the spend of the Government which does not take ownership of the desired outcome. Having regard to what had happened in Uganda, the Committee examined the different layers of oversight and control and these are outlined hereunder.

The Memorandum of Understanding

These MOUs, under which donor funds are pooled with those of the State, set down the parameters for the aid programme. They are used to measure progress and are subject to on-going review between Government and the donor group. The MOUs enable the donor countries to have a direct input and to influence public policy in Mozambique and effectively work as score card when measuring the progress on the achievement of objectives. At a broad level also, it forces the Government to address the concerns of donors, whether it is in social policy, infrastructure development or governance. Finally the MOUs provide the necessary assurances to donors that their funds are not simply being used to replace funding that should come from the Government.

Financial Management

As Mozambique is in receipt of General Government Support and as most of the earmarked money is also channelled through central and regional governments, the priority for the PAC was to establish that the financial management systems had the necessary controls to ensure that monies could not be syphoned off once it left the donor and that it could be tracked through to the end user. The delegation was informed that, in recent years, the Finance Ministry in Mozambique had invested significant resources on financial management systems and that almost all money received is transferred to a Single Treasury Account and that disbursements from this Account are managed though an integrated financial management system entitled “eSISTAFE” which harmonises treasury management and accounting systems. The Committee asked the office of the C&AG to review the system and have taken assurances from the fact that the infrastructure is sound and will allow expenditure to be tracked. The concerns relating to the financial management relate to the fact that the system is still being rolled out and a key concern, which is a recurrent one, relates more to the capacity of the users of the system.

Risk Management

It is accepted that the provision of aid carries a high degree of risk and this is mitigated through sound financial management and a system of overview that is robust and independent. The delegation spent a great degree of its time in Mozambique examining the oversight of Irish Aid funds. As was outlined to the Committee by the Accounting Officer at the public meeting on 20th December, 2012, once funds go into a central pool, it is not possible to distinguish those funds from those of other donors. The way of minimising the risk could therefore be categorised as “trust and verify”. The tracking of the spend is based on the agreements that are in place which sees the funding go to the projects, districts or Departments and on the ability to monitor the delivery of the service. In order to guarantee that the money hits the project, there is a need to also have staff on the ground (see below). The second level of assurance relates to the various audits (including the audit of the Auditor General and external private audits that are conducted on behalf of donors) that track the expenditure and finally there is the overall review of spending on a programmatic basis by the Embassy and by the Audit and Evaluation unit of the Department.

The work of the Embassy

The Embassy of Ireland in Maputo is responsible for evaluating and monitoring the annual budget of €37 which is allocated to Mozambique. The Ambassador, as the sub-Accounting Officer, leads a team headed up by development specialists and advisors who monitor the spend and who undertake regular inspections to ensure that the programmes are being delivered to the front line. Staff from the Embassy are also based in the two districts supported by Irish Aid and this enables verification at the delivery end because these staff can track the expenditure to where the service is delivered, whether that is a new water-well being bored, or a new school being built or school books being provided for students. Embassy staff work closely with other donors in identifying risk and the Embassy has a qualified auditor as a full time member of its team.

The Internal auditor reports on a three monthly basis to the Departments Independent Evaluation and Audit Unit. The delegation was given a comprehensive briefing on the oversight and monitoring of the spend and on the way our system of monitoring and evaluation complements the other checks and balances in the system. The Embassy has a strong team and the Committee acknowledges that it has invested in capacity through the recruitment of many Mozambiquan nationals whose expertise and knowledge complements the staff assigned from the Department and from Irish Aid. As was outlined by the delegation to the Committee meeting of the 20th December, 2012, the level of knowledge, the capacity to network and the sheer dedication of all staff in the Embassy gave huge levels of assurance to the PAC delegation that, it so far as possible, the oversight of Irish Aid money by Embassy staff is comprehensive.

Internal Audit

Irish Aid place significant emphasis and take certain levels of assurance from the progress that is being made on the development of internal audit. Each Department and Government agency is required to have an internal audit unit. In 2008 internal audit was weak with only three such units, however that number has now grown to eighty two. Overseeing these units is the Inspector of General Finance (IGF) which is located in the Finance Ministry. The IGF has responsibility for conducting inspections and audits across the public sector and is also responsible for monitoring and training of staff in individual audit units. In this area also there are indications of progress. Many of these internal audit units are in remote locations where access is difficult and where there is no guarantee for instance that they will have access to electricity. There are also issues about the standards of audit with some being deemed quite weak. Clearly there is on-going work required to develop the capacity of the internal audit units.

External Audit

The institution responsible for the external audit of Public Institutions in Mozambique is the Tribunal Administrativo (TA)[1]. As a former Portuguese colony, Mozambique has a court system whereas the other programme countries have an independent Auditor General model similar to Ireland. The delegation met the President on the day he presented his 2012 annual report to the Parliament. A number of references to this meeting are contained in the evidence of the Committee meeting of 20th December and these issues will be examined below as part of the follow-up actions that the Committee deem necessary to develop the system of audit in Mozambique. The main concern of the delegation relates to the capacity of the TA and these are outlined below in the section of this Report dealing with follow-up proposals.

Review by the Department

The Department has put in place a specialist evaluation and audit unit which aims to provide assurance that funds are used for their intended purpose and that value for money is achieved. The primary focus of the unit's audit work is the assessment of the appropriateness and reliability of the accounting and financial management systems of the partner organisations through which aid is delivered. In that regard it receives three monthly reports from the Internal Auditor in each of the embassies of the programme countries. The work of the unit is overseen by the Department's audit committee. In early 2011, the unit adopted a new policy of carrying out formal assessments of public financial management systems in countries where aid is channelled through governmental systems. These assessments encompass all elements of systems including budgeting and planning, accounting, auditing, reporting and local parliamentary oversight. There is a particular emphasis on assessing the status, independence and capacity of national audit offices. The policy is to carry out two assessments during each five-year strategic plan for a programme country. The first assessment is carried out at the planning stage and concentrates on the risks associated with channelling funds through governmental systems. The second assessment is at the mid-point of the five-year term and focuses on any changes to the public management financial environment.

[1] The Supreme Audit system in Mozambique follows the Francophone in that audit is undertaken from the perspective of judicial accountability. In this model the Supreme Audit Institution external audits have jurisdictional powers, auditors have legal backgrounds and the SAI act as a court as well.

Issues requiring further follow-up

Addressing the shortage of skilled staff

There is a huge demand, especially from the rapidly expanding private sector, for skilled workers in Mozambique. This point was made consistently to the delegation when it discussed economic development with a wide circle of people who are involved in business there and also by other donors. That demand is fuelled by the fact that there is a shortage of trained staff which is one of the legacies of the civil war. In simple terms, the civil war ended twenty years ago and the vast majority of people who were over ten years of age at that time have not received a formal education. There is therefore a huge shortfall in terms of trained and educated people in the cohort from 30 to 50 years of age and in most developed countries this cohort provide the management cadre and the leaders of society. Part of the aid programme is about developing capacity because ultimately that is the only way a developing country can become self- sustaining. This issue has implications for the public sector as it does not have access to large a cohort of skilled people to undertake audits and operate financial management systems. It was highlighted to the Committee that the shortage of skilled and experienced staff is compounded by the fact that those that are trained are leaving public sector employment to take up jobs in the private sector, where wages are higher. The indicators in respect of the education show that the gap is being bridged and with a greater focus on up-skilling staff and on staff retention, the issue can be addressed.

In order to address the issues of shortages of skilled staff, the Committee s recommends that the issue be raised with other donors and with the Government. The specific issues to be addressed are:

1. Training of staff on financial management administration so that skilled staff are inputting data and have a strong working knowledge of the way the systems work
2. The pay of skilled staff needs to be reviewed so as to address the issue of staff turnover
3. The contract of employment for highly skilled professional staff, whose training will have been paid for in most cases by the Government, needs to be reviewed so that they are required to remain in public service for a number of years after qualifying.
4. A training needs assessment should be undertaken, especially in the Finance Ministry and donors should participate in addressing how best skills gaps can be dealt with.

Developing the capacity and the standards at the Tribunal Administrative

The Committee notes:-

1. the real increase in audit activity which has seen the number of audits conducted increase from seven in 2003 to 600 in 2010.
2. The fact that the number of judges assigned to the Tribunal has increased from three to six
3. The World Bank is assisting in the training of more accountants and that four donor countries (Germany, Sweden Finland and the Netherlands) are working with the TA to build institutional capacity.
4. While the number of audits is increasing, the number of trained auditors has fallen from 150 in 2008 to 110 in 2012.
5. The Committee was informed that an Irish Institute of Certified Accountants had secured a contract to train Mozambican accountants.

The Committee has concerns about the capacity of the TA, especially as the economy grows and will make specific recommendation that will enhance the quality and extent of external audit. In particular the Committee wants to ensure that the quality of audit work meets certain standards and one of the ways that this can examined is by way of a peer review process involving other Auditors General. In that regard, a positive role could be played by the International Organisation of Supreme Audit Institutes (INTOSAI) which operates as an umbrella organisation for the external government audit community.

Conclusion

The Committee sees the development of capacity at the TA as critical not only to ensuring appropriate checks on the expenditure of public funds but also in terms of changing the culture and mind-set of those who have responsibility for or who handle public funds. In that regard it welcomes not only the initiatives that are outlined above but also the further steps that are outlined in the letter (see Appendix 1) dated 31st January, 2013 from the Accounting Officer to the Committee which address capacity issues at the TA.

Section Three
Long-term development

Give a man a fish – feed him for a day
Teach him how to fish – feed him for life

Introduction

One of the reasons the Committee agreed to send a delegation to a programme country was to get an understanding not only of the conditions that exist and that require assistance but also to try and get a better understanding of how aid promotes development. Development aid is not charity: it implies that overtime capacity is being built up and that ultimately the programme country will move towards being less dependent on aid. This Report in Section One outlined the challenges and the indicators of achievement and the delegation, from its review, did come away from Mozambique with the impression that it was a country heading in the right direction and that, provided in remains on this trajectory, it will become a country that will become less and less dependent on aid over the medium term. That impression arises not only from discussions with the Government but also from the discussions with those involved in business who met the delegation as part of the programme set down for the visit.

Developing Mozambique's potential through the aid programme.

The delegation was informed that the increasing focus of the Irish Embassy was on promoting business involving Irish companies and also in promoting trade between Ireland and Mozambique. The delegation met representatives from Irish companies who have set-up in Mozambique and they were open about opportunities that exist but also the difficulties in doing business in what is still a developing society. The main concerns revolved around issues such as shortages of skilled labour, corruption and infrastructure deficiencies especially in the area of electricity and phone connectivity. The opportunities revolve around large mineral reserves, a plentiful supply of agricultural land and a young workforce that is getting better educated. Given its location and long coast line, it has huge potential as a tourist destination.

From the Committees viewpoint, Mozambique should shortly reach a stage where it requirements for foreign aid will change as it has built up capacity to deal with the basic services but still needs help to forge ahead with its own development. That is a discussion the

Committee would like Irish Aid to start with the Government and with other donors. A simple example is whether some of the educational aid budget should now be directed away from first level (where the Government itself can step in) towards third level so that the graduates in areas such as education, health and business are available to lead the development that will take off as the potential of the country is realised. The current five year MOU will end in 2016: work will most likely commence in 2014 at developing a new programme and this presents an opportunity not only to review how far the country has progressed with the assistance but also presents an opportunity to identify where the gaps are that need to be filled if, by 2021 for instance, it has a very low dependency on aid.

The View of the Mozambique Government

One of the benefits of sending a delegation to a programme country is that it provides an opportunity to meet Government Ministers and engage in a dialogue about the aid programme and also it gives an insight into how the Government sees the country developing. The Deputy Foreign Affairs Minister impressed on the Committee the positive role that Ireland has played in the development of Mozambique. The Minister outlined how the programme of development for the country was proceeding at a steady pace and was keen to explore how trade and especially agricultural trade could grow. In that regard, the Minister spoke about having a more mature economic relationship with the developed world where trade and foreign direct investment will increasingly replace development aid. The visit by the Minster for Agriculture in Mozambique to Ireland in March 2013 is an indication of the intent of the Government to learn from our experience and a number of multi-national Irish food companies have started projects in Mozambique. Clearly as Mozambique becomes a better place to do business, it will start to attract further investment and as its infrastructure develops it be in a better position to increase its ability to export products and thus increase trade.

Conclusion

Mozambique has made steady progress in the past twenty years in developing its economy, its social structures in health and education and its society and its governance. Its growth should soon set it reach a stage where it will need a different type of development assistance so as to unlock its potential and to become more self-reliant. It has not reached that stage yet, but the agreement on a future programme to replace the current one in 2016 presents an opportunity to for the country to engage in a dialogue with its donor partners on how best they can help so as fulfil that outcome. Clearly any change in the direction of assistance presents a challenge, however the relationship that has been built up between the Government and donors should facilitate that change and it bring development assistance into a new era with a new way of doing business. While challenging, it should also be more rewarding for all stakeholders.

Chapter Three
Findings and Recommendations

Chapter One

Findings

1. Overseas Development Aid from Ireland was €657 million in 2011. Of that sum €519 million was channelled through the Irish Aid division of the Department of Foreign Affairs and Trade. The Department does not have a Chief Financial Officer to manage the overall budget of the Department of €683 million
2. A fraud involving €4 million of Irish Aid funding was perpetrated in Uganda in 2011: The fraud was uncovered by Uganda's Auditor General and the money has since been repaid.

Recommendations

1. The Department of Public Expenditure and Reform should, as part of the public service reform agenda, review financial management structures with a view to having a Chief Financial Officer at the level of Assistant Secretary appointed in all Government Departments.
2. The Department of Foreign Affairs and Trade should revise its oversight and financial management code arising from the current review of controls that is being undertaken following the perpetration of the €4million fraud in Uganda. Ambassadors, who are also sub-accounting officers, should confirm in an annual statement to the Risk and Evaluation Unit that the revised code is being implemented.

Chapter Two

Findings

1. Mozambique is developing, albeit from a low base, but remains dependent on overseas aid for 40% of overall Government expenditure
2. All the indicators and the evaluations that have been undertaken by the Department underpin the conclusion that aid is helping to alleviate poverty in a sustained way in Mozambique.
3. The Government of Mozambique, with the help of donor countries and the IMF, have invested significant resources in developing and rolling out a new financial management system that allows good oversight and control of public expenditure.

4. The dedication and capacity of the Irish team in Mozambique, led by the Ambassador, provides a strong level of assurance that Irish Aid funding is well managed and is targeted at achieving maximum outputs and outcomes. The Irish team has built-up strong relations with the Government, other donors and with NGOs and this networking is invaluable in ensuring that the aid money achieves maximum effectiveness.
5. There is a shortage of skilled workers especially in areas of administration, financial management and audit in Mozambique.
6. While audit activity of the Tribunal Administrative [TA] in Mozambique has grown steadily in recent years, it faces a challenge as the number of qualified auditors working for the TA has fallen from 150 in 2008 to 110 in 2012.
7. There is a need to ensure the quality of audit work, especially the work of external audit, is at an acceptable international standard.
8. The current five year programme for Mozambique commits Irish Aid funding of €37 million per annum, will come to an end in 2015.

Recommendations

1. As Mozambique is likely to remain a programme country for the foreseeable future, the negotiations for a new programme in 2016 present an opportunity to give greater focus to developing capacity to enable the country increase significantly its level of trade and thus its earnings potential. Any such change in the direction of the aid programme should be on the basis that the State can take over responsibility for funding and delivery of those front line services currently supported by aid funding. The Committee recommends consideration be given to refocusing the direction of aid in the context of the negotiation of the next programme in Mozambique.
2. Irish aid should consider sponsoring through the aid budget a programme on up-skilling of audit staff.
3. As part of the on-going dialogue with the Ministry of Finance, Irish Aid, in consultation with the 18 other donor nations, should request that the TA is adequately resourced and that a programme be put in place that will ensure that the full complement of staff is recruited and that these skilled staff are placed on contracts that will see their services being retained in the public sector for a minimum period of between three and five years.

4. A peer review of the TA in Mozambique should be undertaken with terms of reference that includes the examination of current standards of external audit and which can make recommendations for quality improvement where appropriate. This peer review can best be undertaken in consultation with the International Organisation of Supreme Audit Institutes.
5. Irish Aid, in consultation with the other donors, should ask the Ministry of Finance to establish minimum skills requirements in respect of staff using the “eSISTAFE” system: if necessary donor funding should be used to conduct a training needs analysis for those staff and should assist where possible in the delivery of appropriate training.

Appendix 1

An Roinn Gnóthaí Eachtracha agus Trádála
Baile Átha Cliath 2

Department of Foreign Affairs and Trade
Dublin 2

31 January 2013

Mr. John McGuinness, T.D.
Chairman
Public Accounts Committee
Dáil Éireann
Leinster House
Dublin 2

Dear Chairman,

When I appeared before the Public Accounts Committee on 20 December 2012, I undertook to write to you in relation to a number of issues, primarily in relation to the Committee's visit to Mozambique in November.

During discussion of the visit to Mozambique, you raised the issue of capacity within Government systems to administer funding to a level which would provide sufficient assurance to international donors, including Ireland. You also referred to the meeting the Committee members had with the President of the Tribunal Administrativo (very broadly, but Mozambique's nearest equivalent to the Comptroller and Auditor General) and to your strong view that you did not receive an adequate response to a series of questions on the audit of Irish Aid funding provided to the Government of Mozambique.

Following the Committee meeting, I asked our Ambassador in Maputo, and his team, to follow up on the specific issues you raised, in consultation with the Tribunal. I am pleased to attach a copy of a letter, and translation, which I understand is now being transmitted to you from the President of the Tribunal, in which he provides greater clarity on the Tribunal's systems and role in Mozambique. I hope this will provide greater reassurance in regard to the national systems of monitoring of Irish funds channeled through Government systems in Mozambique.

As you will have seen, the need to address and manage capacity deficiencies, and risk, lies at the heart of Ireland's development programme in Mozambique as we work with Government and communities to help move the country from the total devastation of civil war just 20 years ago towards sustainable economic growth and an end to extreme poverty and hunger. Based on the progress being made, we can now see the real prospect within the coming 20

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years of a bilateral relationship with Mozambique based on political and economic cooperation, including mutually beneficial trading links. Nevertheless, all the analysis of Mozambique's Government systems points to continuing constraints in terms of human capital. In recognition of this, additional accountability mechanisms have been built into Ireland's development programme.

Independent public expenditure and financial accountability assessments consistently indicate a clear trend of improvement in Mozambique's ability to manage and account for public funds, although, of course, from a low base. In 2011, a team from this Department's independent Evaluation and Audit Unite conducted its own Public Financial Management assessment of Mozambique, and its findings informed the design of the current Irish Aid Country Strategy. Specifically in relation to the work of the Tribunal Administrativo, the assessment concluded that audit coverage has improved very significantly in recent years and recommended that the capacity constraints which persisted should be addressed through cooperation with INTOSAI, the International Organisation of Supreme Audit Institutions, which Ireland supports and funds.

Under our aid programme, Ireland has worked to build the capacity of the Tribunal at regional and local level. Four other donor countries have taken the lead in supporting the Tribunal at national level. I am pleased to inform you that, taking account of the views of the Public Accounts Committee, and the recognition by international experts that our Embassy team has strengths in the area of audit, it has been decided that some €350,000 will be provided under the Irish Aid country programme in 2013 for the strengthening of the audit function of the Tribunal Administrativo. Ireland will work in this area in close cooperation with the Tribunal and the four other aid donors, Germany, Netherlands, Sweden and Finland. The Embassy team are now discussing with them the most effective and transparent way in which this funding should be provided to support the Tribunal, against a series of concrete actions to be achieved this year. I would be happy to provide the details of these arrangements and intended actions as soon as they have been finalised.

This additional support will build on existing Irish Aid annual funding of €600,000 for the Ministry of Planning and Development which focuses on the strengthening of capacity in planning, monitoring and budgeting of resources through the implementation of the Ministry Capacity Development Plan. At provincial level, Ireland will continue to support the strengthening of public financial management and good governance action plans through support to the Directorates of Planning and Finance and the Provincial Secretaries, in Niassa and Inhambane.

On a separate matter, you will recall that a question was raised at the Committee in relation to a reference in the report of the Comptroller and Auditor General to an overall qualified audit figure of 23% for two major programmes in Ethiopia supported by Irish Aid. The report reference was to Irish Aid provision of €6 million towards total programme expenditure of some €300 million. I can clarify that, in relation to both programmes, Irish Aid and other international donors have agreed action plans to address the systemic weaknesses which led to the qualified audit report. Implementation of these action plans is on-going, and it is recognised that many of the systems issues will take time to resolve. Progress on the action plans is regularly reviewed by all donors, and is central to decisions on the continued disbursement of Irish Aid funding to the programmes involved. I can confirm that a continuous audit programme is now in place for these programmes and that quarterly reports are received. Officials from the Evaluation and Audit Unit will visit Ethiopia in April 2013, and will carry out a technical assessment of progress on the action plans.

I hope this clarifies the outstanding issues from my appearance before the Committee. I am at the disposal of the Committee at all times to provide further clarification on these issues or on any aspect of the work of the Department of Foreign Affairs and Trade.

Yours sincerely

David Cooney
Secretary General

Courtesy Translation

Republic of Mozambique

Tribunal Administrativo

Office of the President

Reference No: 18/GP/TA/13

Subject: Appreciation

Excellency,

It was a great honour to receive Your Excellency and the members of the Public Accounts Committee of the Irish Parliament. I would like to express my profound gratitude for including the Tribunal Administrativo among the institutions visited during your visit to Mozambique last November.

You will recall that the development of the Tribunal Administrativo was the result the efforts made by the Government of Mozambique in partnership with organisations such as INTOSAI (International Organisation of Supreme Audit Institutions), AFROSAI-e (African Organisation of English Speaking Supreme Audit Institutions), Audit Courts from Portuguese speaking countries, and development agencies, including Ireland through support to the Programme for Financial Planning in Decentralised Government (PPFD). In addition, the development of the Tribunal Administrativo is supported by the Government's Own Resources.

The Tribunal Administrativo is a Supreme Audit Institution, established under Section 2, Article 230 of the CRM [Constitution of the Republic of Mozambique] to report and opine on the operation of the General Government Account; to inspect, control and, in advance, give opinions on the legality and coverage of acts and contracts under the Tribunal Administrativo's jurisdiction; to inspect, concurrently and retrospectively, the use of public funds; to inspect the application of funds received from external sources, especially through loans, subsidies, guarantees, and donations.

The financial control actions are under a judicial inspection regime, that is to say under jurisdiction of a court. The Tribunal (Court) acts as a college, with the functions of audit and of adjudication of financial responsibility.

The Tribunal Administrativo follows a model distinct from that of an Auditor-General, a result of this combination of audit and financial court functions.

The number of audits completed by this institution has increased considerably in recent years, covering both the State Budget and external funds.

During our meeting, we said that the Tribunal was in the process of finalising its report on the exercise of the State Budget for 2011. The report will be made public once it has been approved by parliament. At that time, a copy will be made available to the Embassy of Ireland.

With the implementation of e-SISTAFE and the Single Treasury Account, the internal control systems in public institutions have been strengthened. E-SISTAFE continues to be developed help improve the management of public funds. It is subject to annual reviews by a quality evaluation group, comprising members of Government and representatives of the Programme Aid Partners [G19 donors, who include Ireland].

In relation to a question which arose in our November meeting, regarding the fraud which took place in Uganda, we have no information which would suggest that a fraud of this type could occur in Mozambique.

Finally, I would like to thank the Embassy of Ireland as, in addition to the contribution to PPFD, Ireland will increase its support [for this institution]. The strengthening of this partnership will assist us in our goal of continuous improvement of our professional capacity and in providing rigorous reports to the Government of Mozambique and to development partners.

Excellency, please accept my best regards,

Maputo, 25 January 2013

President

[Signature]

Machatine Paulo Marrengane Munguambe

To: Mr Chairman of the Public Accounts Committee, Ireland

Dr John McGuinness

Appendix 2

Orders of Reference of the Committee of Public Accounts

(1) There shall stand established, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee of Public Accounts, to examine and report to the Dáil upon—

(*a*) the accounts showing the appropriation of the sums granted by the Dáil to meet the public expenditure and such other accounts as they see fit (not being accounts of persons included in the Second Schedule of the Comptroller and Auditor General (Amendment) Act, 1993) which are audited by the Comptroller and Auditor General and presented to the Dáil, together with any reports by the Comptroller and Auditor General thereon:

Provided that in relation to accounts other than Appropriation Accounts, only accounts for a financial year beginning not earlier than 1 January, 1994, shall be examined by the Committee;

(*b*) the Comptroller and Auditor General's reports on his or her examinations of economy, efficiency, effectiveness evaluation systems, procedures and practices; and

(*c*) other reports carried out by the Comptroller and Auditor General under the Act.

(2) The Committee may suggest alterations and improvements in the form of the Estimates submitted to the Dáil.

(3) The Committee may proceed with its examination of an account or a report of the Comptroller and Auditor General at any time after that account or report is presented to Dáil Éireann.

(4) The Committee shall have the following powers:

(*a*) power to send for persons, papers and records as defined in Standing Order 83(2A) and Standing Order 85;

(*b*) power to take oral and written evidence as defined in Standing Order 83(1);

(*c*) power to appoint sub-Committees as defined in Standing Order 83(3);

(*d*) power to engage consultants as defined in Standing Order 83(8); and

(*e*) power to travel as defined in Standing Order 83(9).

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith whereupon the Committee shall

be empowered to print and publish such report together with such related documents as it thinks fit.

(6) The Committee shall present an annual progress report to Dáil Éireann on its activities and plans.

(7) The Committee shall refrain from—

(*a*) enquiring into in public session, or publishing, confidential information regarding the activities and plans of a Government Department or office, or of a body which is subject to audit, examination or inspection by the Comptroller and Auditor General, if so requested either by a member of the Government, or the body concerned; and

(*b*) enquiring into the merits of a policy or policies of the Government or a member of the Government or the merits of the objectives of such policies.

(8) The Committee may, without prejudice to the independence of the Comptroller and Auditor General in determining the work to be carried out by his or her Office or the manner in which it is carried out, in private communication, make such suggestions to the Comptroller and Auditor General regarding that work as it sees fit.

(9) The Committee shall consist of thirteen members, none of whom shall be a member of the Government or a Minister of State, and five of whom shall constitute a quorum. The Committee and any sub-Committee which it may appoint shall be constituted so as to be impartially representative of the Dáil.

Appendix 3

Membership of the Committee of Public Accounts – 31st Dáil

Connaughton, Paul J. (FG)

Deasy, John
(FG)

Donohoe, Paschal
(FG)

Dowds, Robert
(Lab)

Fleming, Seán
(FF)

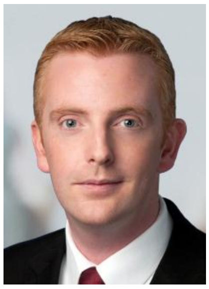
Harris, Simon
(FG)

McDonald, Mary Lou (SF)

McGuinness, John
(FF) – *Chairman*

Murphy, Eoghan
(FG)

Nash, Gerald
(Lab)



Nolan, Derek
(Lab)

O'Donnell, Kieran
(FG) – *Vice Chairman*

Ross, Shane
(Ind)