

DPE 022/002/2013

2 July 2013

To: Accounting Officers

Circular 9/2013:

Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts Report on Irish Aid.

A Dhuine Usail,

1. I am directed by the Minister for Public Expenditure and Reform to enclose, for your information and guidance, a copy of the Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts Report on Irish Aid.
2. **Issues raised**
The Minute addresses formal management / control and related issues.
3. **Enquiries**
Enquiries in regard to this circular can be addressed to Government Accounting Unit, Department of Public Expenditure and Reform, telephone: +353 1 6767571, LoCall: 1890 661010 or email: govacc@per.gov.ie.

Mise le meas,

Mr. Robert Watt,
Secretary General.

**Minute of the Minister for Public Expenditure and Reform in response to the
Committee of Public Accounts Final Report on Irish Aid**

The Minister for Public Expenditure and Reform has examined the Committee's Report and has taken account of its conclusions. In relation to the Committee's recommendations, his response is as follows.

Recommendation No. 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.

The Department of Public Expenditure and Reform notes this recommendation.

Within Government Departments, it is the role of each Secretary General to decide the level at which management responsibilities are assigned within their organisation, and this is provided for in the PSMA ...94. Generally delegated responsibility for financial management lies with the Principal Officer and/or Assistant Secretary grades in support of the Accounting Officer (typically the Secretary General) in respect of his/her statutory role in relation to the Vote(s) under their aegis.

The Committee will be aware, that, when submitting the Appropriation Accounts to the Comptroller and Auditor General every year each Accounting Officer is required to also submit an annual statement of control which confirms that appropriate mechanisms are in place to review and evaluate the Department's financial management and control systems on an on-going basis. The Statement also confirms that financial responsibilities have been assigned at management level with corresponding accountability.

Within this existing framework, it is accepted that there is a continuous need to enhance financial management capacity and structures across Departments. The initiatives under public service reform agenda, are contributing to this through a range

of measures including the development and enhancement of necessary skills, and the re-configuration of the delivery of financial management through the shared services model.

Recommendation No. 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.

The Department of Foreign Affairs and Trade accepts the recommendation.

The Department has undertaken a significant amount of work in recent months to strengthen financial management and oversight systems through all Embassies which administer development programmes. This work has been undertaken as part of the implementation of the recommendations of the report of the Department's Evaluation and Audit Unit investigation into the misappropriation of Irish funds in Uganda. A risk review was carried out by all Irish development Missions, and a meeting of Heads of Mission was held in Lusaka, Zambia in February 2013 to emphasise the importance of appropriate risk management.

A Review of Internal Control and Risk Management Systems is currently being carried out in all Missions which manage Irish Aid development programmes by the Evaluation and Audit Unit of the Department of Foreign Affairs and Trade. This review will result in a report, with recommendations, to be submitted to the Secretary General of the Department in June 2013. Ambassadors will be required to implement the recommendations within this report.

In addition, as part of the on-going improvement to the financial control environment, the existing Irish Aid Financial Guidelines and Procedures Manual is being revised and strengthened. Recommendation made by the Evaluation and Audit Unit resulting

from the reviews of internal and risk management systems will, where appropriate, be incorporated into the revised financial procedures manual. In the context of their responsibilities for financial management and control, the ambassadors will provide confirmation annually to the Accounting Officer in relation to implementation of the revised guidelines.

Recommendation No. 3

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.

The Department of Foreign Affairs and Trade accepts the recommendation.

The current Mozambique Country Strategy provides for strategic cooperation with the Mozambican Ministry of Industry and Commerce, together with the World Bank, designed to reduce the obstacles to doing business in Mozambique. Building on this cooperation, the Mozambican Minister for Industry and Commerce has visited Ireland in April and met Government and a range of Irish business potentially interested in investing in Mozambique.

A mid-term review by the Department of Foreign Affairs and Trade of the current Country Strategy will be conducted in the third quarter of 2014. This review will, amongst other matters, examine trends and projections in Mozambique Government expenditure and related policies and start the process of outlining the parameters for a new strategy beyond 2015. Among the issues that will be examined as part of the mid-term review process will be the capacity of the Mozambican Exchequer to take on increased responsibility for funding of service provision and, given the relatively low

level of development, where the priorities would lie for Ireland to play its part in ensuring that continued economic growth is as inclusive as possible.

Influencing the approach of the Department of Foreign Affairs and Trade will be ongoing analyses of spending by the Government of Mozambique. In 2012, 66% of Government expenditure, after debt and interest repayments, constituted pro-poor expenditure including social services delivery. The Government has also continued to increase tax revenues. As a percentage of GDP, revenues have increased by approximately 0.5% since 2006 and currently the intake is 23.8% up from 22.5% in 2011. The year 2012 also saw, as a percentage of GDP, a decline in donors' proportion of the budget, reflecting, in part, the increasing proportion of government revenue. The IMF indicates that the 'own resources' portion of the budget is likely to stay at around 23% of GDP for the next few years, with a substantial increase in revenues likely only from the middle part of the next decade, as income from extractive industry investments begins to come on stream.

Recommendation No. 4

Irish aid should consider sponsoring through the aid budget a programme on up-skilling of audit staff.

The Department of Foreign Affairs and Trade accepts the recommendation.

Under the current Mozambique Country Strategy, approximately 10% of the budget is focussed on improvements in accountability mechanisms and is a central part of Ireland's aid programme. There has been a particular focus on enhancing financial capacity and controls at the sub-national (district) levels, particularly through the programme in the northern province of Niassa and also the Department's support to the National Programme for Decentralisation (through which funds are allocated to the Administrative Tribunal (TA) and the Internal Control Function of the Ministry of Finance).

Following the visit of the Public Accounts Committee to Mozambique and the subsequent meeting of the Committee on 20th December, 2012, it has been decided to

directly support the Administrative Tribunal. The Irish Embassy in Mozambique has allocated €300,000 for this in 2013. Subject to agreement of the Capacity Development Plan which is currently being finalised by KOSI, the Irish consultancy company working with the Administrative Tribunal, support will prioritise staff recruitment, retention and training of staff and judges of international standards and updating Mozambican law.

Recommendation No. 5

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.

The Department of Foreign Affairs and Trade accepts the recommendation.

The Irish Mission in Mozambique is pursuing this matter directly with the Mozambican government and in donor coordination. Issues around improving public financial management, including the strengthening of audit coverage through a stronger Administrative Tribunal and Ministry of Finance internal control function, have been the subject of two political dialogues between the Government and the donors who provide general budget support (the G19), in March and April 2013. In addition, staff allocation, audit coverage and follow-up of recommendations will form a central part of the Government's Annual Assessment of Mozambique's performance.

Recommendation No. 6

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.

The Department of Foreign Affairs and Trade accepts the recommendation.

The International Organisation of Supreme Audit Institutions (INTOSAI) is currently undertaking a Peer Review of the Administrative Tribunal. This report is expected to be finalised later this year and will be used to inform the work and investment plans of the joint donor support to the TA. The Department of Foreign Affairs and Trade, through Irish Aid, also provides funding directly to INTOSAI.

Recommendation No. 7

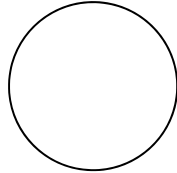
Irish Aid, in consultation with the other donors, should ask the Ministry of Finance to establish minimum skills requirements in respect of staff using the —eSISTAFE system: if necessary donor funding should be used to conduct training needs analysis for those staff and should assist where possible in the delivery of appropriate training.

The Department of Foreign Affairs and Trade accepts the recommendation.

The Mozambique Government Department responsible for the roll out of the eSISTAFE integrated financial management system, which harmonises treasury management and accounting systems, has a Training Unit with representation at the provincial level. As part of the Annual Review, the performance of this training programme is monitored. On-going monitoring of the implementation and roll out of eSISTAFE confirms that this needs to be a continuous process. Roll-out of eSISTAFE is among the issues that have been raised in political dialogue between Ireland and Mozambique in March and April and the Irish Embassy in Mozambique will continue to highlight the importance of this matter.

Given under the Official Seal of the Minister
for Public Expenditure and Reform on this the
day of July, 2013

L.S.



Robert Watt
Secretary General
Department of Public Expenditure and Reform