



National Audit Office

A SHORT GUIDE

The NAO's work on the Foreign and Commonwealth Office



National Audit Office

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This short guide is one of 17 we have produced covering our work on each major government department. It summarises our work during the last Parliament, reflecting programmes and spending before the May 2010 General Election, and as such does not reflect changes introduced by the new Government.

These guides are designed to provide Members of Parliament, and particularly select committees, with a quick and accessible overview of our recent work and how we can help with the scrutiny of government. The guides are not intended to provide an overall assessment of the departments' performance but simply to illustrate, with examples, the range of our work. Where the examples refer to specific weaknesses and recommendations, departments have in many cases taken action since to address them.

We will continue to support all select committees in 2010-11, providing further briefing on each major department and supporting specific inquiries where our expertise and perspective can add value.

introduction

about

About the Department

The Department's responsibilities

The Foreign and Commonwealth Office (the Department) operates a global network for the whole of the British government. It is responsible for promoting British interests overseas, helping British citizens abroad and providing advice to travellers before they go. It also has a role, along with UK Trade & Investment, to support the British economy and, with the UK Border Agency, to manage migration.

The Department also pursues foreign policy priorities and goals. Under the previous Government, its stated policy goals were:

- countering terrorism, weapons proliferation and their causes;
- preventing and resolving conflict;
- promoting a low carbon, high growth, global economy; and
- developing effective international institutions, above all the United Nations and the European Union.

Where the Department spends its money

The Department spent over £2.5 billion in 2008-09 (opposite) and received income of £0.4 billion. As well as its UK offices, the Department runs a network of over 260 overseas posts,¹ with around 13,000 staff based overseas. The Department also provides substantial funding to the British Council and the BBC World Service.

The Department works with various UK departments, including the Ministry of Defence and the Department for International Development, and international organisations, such as the United Nations and the European Union, to help address the underlying causes of instability and conflict. It spent £454 million in 2008-09 on conflict prevention, primarily through support for United Nations peacekeeping missions.

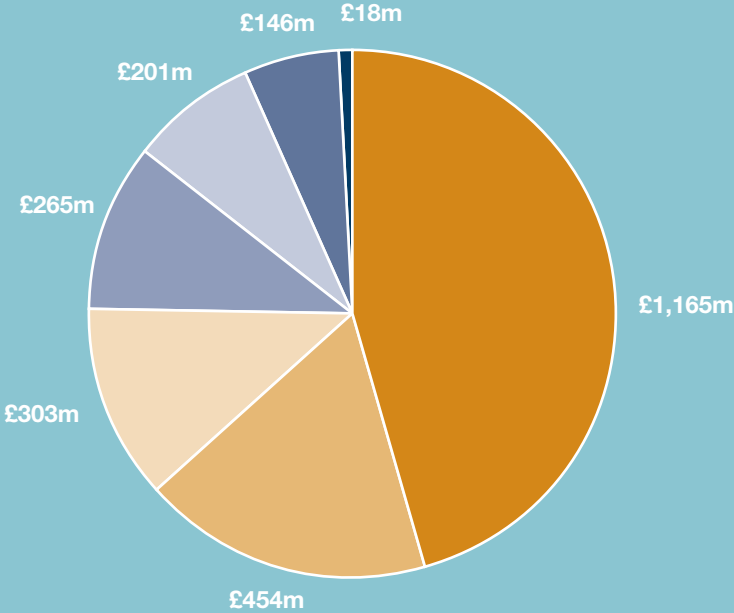
The Foreign and Commonwealth Office is responsible for promoting British interests overseas, helping British citizens abroad and providing advice to travellers before they go.

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¹ Posts are locations where the Foreign and Commonwealth Office has a base such as an Embassy, High Commission, or Consulate.

Where the money goes (2008-09 data)



- Foreign and Commonwealth Office direct spend
- Conflict prevention
- Cost of services provided to UK Border Agency (recovered from UK Border Agency)
- BBC World Service
- British Council
- Subscriptions to international organisations
- Reimbursements of duties etc. to other governments

Source: National Audit Office

financial management

Financial management

The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. To provide assurance that resources are being appropriately managed and controlled, organisations have to publish Statements on Internal Control with their Annual Financial Statements.²

Financial governance and reporting

We audit the accounts of the Department and its arm's length bodies, currently with the exception of the BBC World Service. Our audit work involves understanding the business of each organisation, examining internal controls, agreeing the accounting policies, auditing their transactions, liabilities and assets and confirming that the accounts present a true and fair view. We also consider whether the transactions of the Department are in accordance with Parliament's intentions.

We work with the Department and its arm's length bodies to improve their published Statements on Internal Control to ensure that that they are supported by robust evidence that controls are sufficiently reliable and that they comply with Treasury guidance. In 2010, we are working with the Department to identify how its Statement on Internal Control could be developed further to increase the usefulness and transparency of reporting. We have also provided the Department's Audit and Risk Committee with our own [guidance on the Statement](#).³

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FINANCIAL MANAGEMENT WORK
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² *NAO Strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

³ *The Statement on Internal Control: A Guide for Audit Committees*, www.nao.org.uk/guidance___good_practice/audit_of_financial_statements.aspx

Our **Financial Management Review**⁴ in 2009 on the Foreign and Commonwealth Office, looked at how the Department manages its finances. We found that the Department had done well in developing its capability, showing strong leadership in raising the profile of good financial management across the organisation. We concluded that:

‘The Department has made significant progress in developing its financial management capability.’

The Department introduced its ‘Five Star Finance’ project in July 2007 to improve processes, IT systems, management information and financial skills for staff. The project has been the basis for the significant improvement which the Department has made in managing resources. Whilst recognising the progress made, we also pointed out that:

‘... more needs to be done across a range of areas in order to embed strong financial management and build upon the progress already made.’

In our **Financial Management Review**,⁴ we reported that the Department rated itself at three and a half of the maximum five stars in August 2008. We concluded in our review that this was a reasonable and soundly-based assessment against the targets set within the original project plan. The Department has since, in December 2009, assessed itself at four stars and aims to achieve four and a half stars by July 2010.⁵ We have agreed with the Department that we will assess whether it has reached the milestone of four and a half stars and report our findings by the end of 2010.



‘The Department has made significant progress in developing its financial management capability.’

⁴ *Financial Management in the Foreign and Commonwealth Office*, www.nao.org.uk/publications/0809/financial_management_in_fco.aspx

⁵ *Treasury Minute on the Third Report from the Committee of Public Accounts Session 2009-10, Financial Management in the Foreign and Commonwealth Office*, page 15 paragraph 6.

Accurate financial forecasting is essential to good financial management. While the Department has a sound financial management framework, our **Financial Management Review**⁶ found that it consistently underspent its budget between 2004-05 and 2007-08, indicating poor forecasting and control of spending in-year. In 2008-09, the position improved substantially, however, with the Department spending close to its Estimate.⁷

Our **report on the Department's global estate**⁸ in February 2010, noted that the Department does not have good control of its capital spending over the year, with a consistent failure to match spending to its budget. In 2008-09, action taken to prevent a possible underspend resulted in an overspend of £11 million. As a result, money had to be diverted from elsewhere in the Department to cover the additional capital spend.

A large part of the Department's overseas posts' budgets are spent in local currency and are affected by both inflation rates and currency fluctuations. The Department and the Treasury used a tool called the Overseas Pricing Mechanism to protect local purchasing power from currency fluctuations.

The Treasury withdrew the Overseas Pricing Mechanism from April 2008. While the Department has actively managed the risk to its budget that the withdrawal of the mechanism created, the fall in the value of Sterling since April 2008 has had a major impact on the Department's business worldwide and placed a considerable strain on the Department's and posts' budgets. The Department estimated that in 2009-10, exchange rate fluctuations cost it some £100 million.

Our **Management of Exchange Rate Risk**⁹ paper of December 2009 to the Foreign Affairs Select Committee reported that measures taken by posts to stay within budget included:

- reducing the working week to four days;
- asking some locally employed staff to take involuntary unpaid leave;
- staff redundancies;
- reducing spending on security overseas; and
- reducing provision for health and safety overseas, including over 50 per cent of essential works in Africa.

This was, in the Department's view, severely affecting its diplomatic work and had led to wide-ranging cuts to programmes supporting international priorities, including counter-terrorism.

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WORK ON EFFICIENCY VISIT
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⁶ *Financial Management in the Foreign and Commonwealth Office*, www.nao.org.uk/publications/0809/financial_management_in_fco.aspx

⁷ *Memorandum by the Comptroller and Auditor General, National Audit Office*, www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/164/9102108.htm

⁸ *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, www.nao.org.uk/publications/0910/adapting_fco_estate.aspx

⁹ *Management of Exchange Rate Risk by the Foreign and Commonwealth Office*, www.nao.org.uk/publications/0910/exchange_rate_risk.aspx



Efficiency

We are undertaking a programme of work to validate the value for money savings reported by major government departments between 2008-09 and 2010-11. The Foreign and Commonwealth Office had an ongoing programme of efficiency savings at the time of the May 2010 General Election, aiming to achieve savings of £144 million by 2010-11. We do not, however, plan a review of the Department at present as its savings target represents less than one per cent of the cross-government target.

Examples of validation work¹⁰ we have performed on the savings reported by other departments can be found on our website.

Our **recent report on the Department's global estate**¹¹ examined how efficiently the Department used its estate. We found examples of good practice and innovation such as altering office space and responding to emerging security threats. However, there was unused space in many of the Department's properties overseas. We found:

- Fifty nine per cent of posts responding to our survey reported unused office space and staff accommodation. We estimated that 121 posts had much more space per person than would be ideally expected in UK-based government offices.
- Many posts had altered their offices to make better use of space, but more could be done, such as encouraging other government departments operating overseas to co-locate with the Foreign and Commonwealth Office, where feasible. However, there are a number of constraints limiting better use of underused space such as the costs of refiguration, access to funding, security restrictions and the diplomatic and representational needs of the Department overseas.

We also produce a wide range of cross-cutting work that assesses efficiency across government (Appendix 2). One in particular has commented on the Department. Our **report on service contracts**¹² in 2008, commented that the Department's contract for travel services had no formal way to measure performance and rated poorly in our assessment of the planning and governance of the contract, and of its performance management.

¹⁰ *Independent Reviews of reported CSR07 Value for Money savings*, www.nao.org.uk/publications/0910/independent_reviews_of_vfm_sav.aspx

¹¹ *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, www.nao.org.uk/publications/0910/adapting_FCO_estate.aspx

¹² *Central government's management of service contracts*, www.nao.org.uk/publications/0809/central_governments_managemen.aspx

information

Use of information

The life blood of a successful organisation is the quality of information on which it makes decisions and monitors and assesses performance. Poor quality information leads to inefficiency and waste and can result in excess or unnecessary costs. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.¹³



Testing the reliability of performance data across government

We carry out work across government to test the systems used by departments to generate performance data. This work provides assurance to Parliament and the public about whether these systems are adequate, and supports better performance management by Government.

Under the previous Government, Public Service Agreements (PSAs) were the agreements between the Treasury and individual departments which set out priority areas for the Government's work and against which the departments reported their performance. For the period 2008-2011, 30 PSAs were used by departments to measure and report progress, each underpinned by several indicators.

In October 2009, we published our **Fifth Validation Compendium Report**,¹⁴ which reviewed data systems underpinning 13 of the Government's PSAs:

'... the slow progress being made by some government departments in achieving better quality information about their own performance is a matter for concern. The NAO has found that one third of the PSA data systems used by departments have weaknesses and just over a tenth remain unsatisfactory.'

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PERFORMANCE MANAGEMENT
WORK VISIT WWW.NAO.ORG.UK



¹³ *NAO strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

¹⁴ *Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?*, www.nao.org.uk/publications/0809/5th_validation_report.aspx

Our Sixth Compendium Report, for PSAs across the whole of government, will be published shortly.

The Treasury announced in June 2010 that it had ended the system of Public Service Agreements and that in future departmental business plans would include the data the public can use to hold departments to account.¹⁵ We will continue to apply the lessons from our work validating the PSA data systems when looking at Government's performance data in future.



Use of information by the Department

The Foreign and Commonwealth Office had lead responsibility for PSA 30 to 'reduce the impact of conflict through enhanced UK and international efforts'.

Our **June 2010 report**¹⁶ looked at the Department's data systems to support PSA 30. We concluded that one of the four data systems was fit for purpose. The remaining three data systems were all appropriate for the indicator and

the Department had explained fully the implications of limitations that could not be cost-effectively controlled.

The most recent public statement provided by the Department on progress against its PSA(s) was in its Autumn Performance Report¹⁷ published in December 2009.

Other management information

In our **report on the Department's global estate**,¹⁸ we found that the completeness of estates data had improved since 2006, but its quality was poor, with a third of overseas posts who responded to our survey not using the new property management database, Pyramid. Furthermore, the Department did not collect the same data that the Office of Government Commerce expects UK-based departments to collect, such as cost and space per person. Given the lack of good data, the Department did not have strong evidence on the cost or use of the estate to enable strategic, well-informed decision-making on its estate. We reported:

'Gaps and weaknesses in estate information hinder the FCO's ability to assess estate efficiency and effectiveness accurately.'

We also found that underlying management information on capital projects was incomplete and insufficient to manage a portfolio of projects, or learn from past experience. This lack of detailed information restricted the Department's ability to monitor capital projects, assess the quality of project performance, and understand and deal with the reasons for poor delivery.

¹⁵ *HM Treasury: The Spending Review framework, June 2010* (paragraph 2.7).

¹⁶ *Public Service Agreement data systems review 2010*, www.nao.org.uk/PSA-validation-2010

¹⁷ *Foreign and Commonwealth Office Autumn Performance Report, 2009*.

¹⁸ *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, www.nao.org.uk/publications/0910/adapting_fco_estate.aspx

delivery

Service delivery

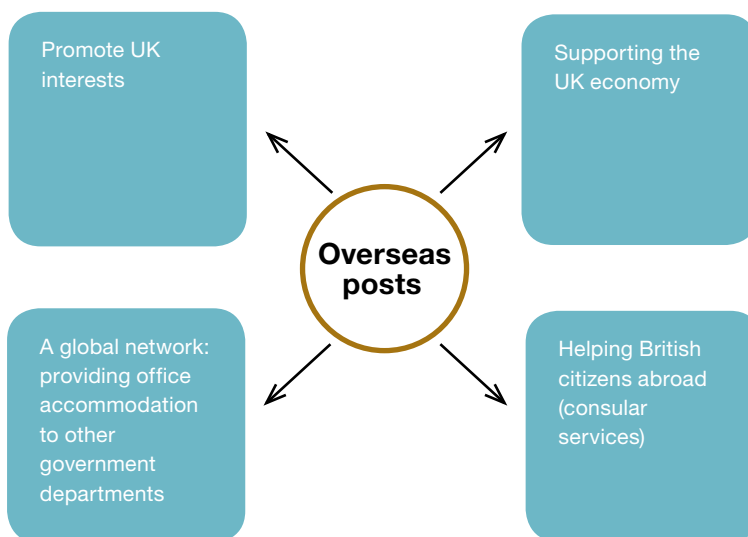
Public services are different in the way they are delivered but their quality and cost effectiveness depends on a number of common minimum requirements. For example, service delivery requires sound programme and project management, strong commercial skills, effective IT enabled business change, and a real understanding of customer needs. Many of our reports to Parliament cover these issues. We summarise below some of this work, organised by key areas of the Department's business.¹⁹

The Department's main channel for delivering services is through its overseas posts. It also delivers other services centrally in London, through various arm's length bodies, and uses other mechanisms, such as its travel advice website.

The Department is also responsible for 14 Overseas Territories. Our **report on Overseas Territories in 2007**²⁰ concluded that:

'Whilst progress has been made in managing and mitigating some risks; the degree of success in both individual Territories and across key risk areas has been mixed.'

Since 2005, we have reported on how effectively the Department supports the UK economy through UK Trade & Investment, and helps and supports British citizens abroad.



TO READ MORE OF OUR
REPORTS ON THE DEPARTMENT
VISIT WWW.NAO.ORG.UK



¹⁹ *NAO Strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

²⁰ *Foreign and Commonwealth Office: Managing Risk in the Overseas Territories*, www.nao.org.uk/publications/0708/managing_risk_in_the_overseas.aspx

UK Trade & Investment²¹

April 2009



UK Trade & Investment is accountable to both the Department of Business, Innovation and Skills and the Foreign and Commonwealth Office, and contributes to the delivery of their objectives. UK Trade & Investment provides expert advice and support to UK-based businesses wishing to trade internationally, as well as support to businesses based overseas wishing to locate and trade in the UK, and promotes defence exports. Our report in 2009 examined only the trade aspect of UK Trade & Investment work, which at the time made up 74 per cent of its expenditure. We found that UK Trade & Investment was close to achieving its targets. These targets included:

- to support at least 20,000 businesses in exploiting overseas opportunities; of which 12,000 businesses should be innovative; and at least 50 per cent of supported businesses should improve their performance as a result;
- to achieve quality and satisfaction ratings in excess of 80 per cent; and
- to increase its revenue from charging users of its services by £2 million to £4 million in 2010-11.

We noted that, since 2006, UK Trade & Investment had re-focused its resources towards markets it believed offered the greater opportunity for increasing trade, including China, India and Turkey. It was making good progress against targets and had in place a robust system of assessing delivery.

Areas for development included introducing clearer charging policies, and raising awareness of the services it offered among businesses which have yet to use UK Trade & Investment. We also found that it could not reliably measure the efficiency of its different activities, the contribution of different parts of the organisation to services provided or the relative costs and benefits of the different services it provides. We concluded that without this information:

'It was hard to show that value for money is being optimised.'

Consular Services²²

November 2005



Our report in 2005 recognised that factors such as cheaper air travel were placing increasing demands on the support and help that the Department gives British citizens abroad. We noted that:

'The FCO has also faced rising expectations from individuals about the level of support or intervention they can expect, fuelled further by intense media interest.'

Our report concluded that:

- The Department delivered high quality information to travellers but it was difficult to change travellers' behaviours.
- The Department delivered a very responsive passport service but its sustainability was in question.
- Consular staff provided effective assistance but more could be done to make the most of limited resources.
- The Department had improved its response to major emergencies but needed to emphasise emergency planning and testing.

We reviewed progress in 2009 and found that the Department was implementing the majority of our recommendations. In particular, we saw improvements in management information and consular staff training.

21 *UK Trade & Investment: Trade Support*, www.nao.org.uk/publications/0809/uk_trade_investment_trade_s.aspx

22 *Foreign and Commonwealth Office: Consular Services to British Nationals*, www.nao.org.uk/publications/0506/consular_services.aspx



Delivery through others

The Department has traditionally delivered other services through arm's length bodies such as the British Council and BBC World Service. Recently a number of services previously delivered directly by the Department have been transferred to other agencies and organisations. This includes visa issuing which is now the responsibility of the UK Border Agency, an agency of the Home Office.

We have reported on [The British Council](#)²³ which is operationally independent of the Department, although its objectives are agreed in consultation with the Department. The Council's aim is to build mutually beneficial relationships between people in the UK and other countries, and to increase appreciation of the UK's creative ideas and achievements. Our report in 2008 on the Council looked at how it measures and enhances its impact in meeting public diplomacy measures.

We found that:

- The Council's performance was strong and was valued by its customers and stakeholders.
- It was a challenge to secure consistently good performance across a dispersed global network.
- The Council was flexibly allocating its resources to align with new priorities and continued to implement numerous and extensive change programmes aimed at increasing efficiency and effectiveness.
- However, there was a need to improve support functions and business management tools.

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23 *The British Council: Achieving Impact*, www.nao.org.uk/publications/0708/the_british_council_achieving.aspx

Appendices

1 Reports by the National Audit Office on the Foreign and Commonwealth Office since 2005

			Parliamentary Session
June 2010	Review of the data systems for Public Service Agreement 30 led by the Foreign and Commonwealth Office		
11 February 2010	Adapting the Foreign and Commonwealth Office's global estate to the modern world	HC 295	2009-2010
4 December 2009	Management of Exchange Rate Risk by the Foreign and Commonwealth Office, Briefing for the Foreign Affairs Committee		
3 June 2009	Financial Management in the Foreign and Commonwealth Office	HC 289	2008-2009
2 April 2009	UK Trade & Investment: Trade Support	HC 297	2008-2009
11 June 2008	The British Council: Achieving Impact	HC 625	2007-2008
16 November 2007	Foreign and Commonwealth Office: Managing risk in the Overseas Territories	HC 4	2007-2008
November 2006	Review of the experiences of United Kingdom nationals affected by the Indian Ocean Tsunami		
24 November 2005	The Foreign and Commonwealth Office: Consular Services to British Nationals	HC 594	2005-2006

2 Recent cross-government NAO reports of relevance to the Foreign and Commonwealth Office

			Parliamentary Session
16 December 2009	Independent Reviews of reported CSR07 Value for Money savings	HC 86	2009-2010
21 October 2009	Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?	HC 465	2008-2009
5 February 2009	Assessment of the Capability Review Programme	HC 123	2008-2009
19 December 2008	Central government's management of service contracts	HC 65	2008-2009
29 November 2007	Improving corporate functions using shared services	HC 9	2007-2008
28 November 2007	Improving the efficiency of central government's office property	HC 8	2007-2008
6 June 2007	Benchmarking and market testing the ongoing services component of PFI projects	HC 453	2006-2007

3 Other sources of information

Reports from the Committee of Public Accounts

1 April 2010	Twenty-fifth Report of Session 2009-10 Adapting the Foreign and Commonwealth Office's global estate to the modern world	HC 417
17 December 2009	Third Report of Session of Session 20 09-10 Financial Management in the Foreign and Commonwealth Office	HC 164

Government Response to Committee of Public Accounts

January 2008	Treasury Minute on the Third Report from the Committee of Public Accounts Session 2009-10	CM 7818
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Foreign Affairs Select Committee

March 2010	Seventh Report of Session 2009-10 Turks and Caicos Islands	HC 469
March 2010	Fifth Report of Session 2009-10: Foreign and Commonwealth Office Annual Report 2008-09	HC 145
February 2010	Third Report of Session 2009-10: The Work of the BBC World Service 2008-09	HC 334
December 2009	Second Report of Session 2009-10: The Work of the British Council 2008-09	HC 333

Government Response to Foreign Affairs Committee Report

January 2008	First Report from the Foreign Affairs Committee Session 2007-08 Foreign and Commonwealth Annual Report 2006-07: Response of the Secretary of State for Foreign and Commonwealth Affairs	CM 7302
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4 Reports from Central Government

Cabinet Office Capability Reviews

<http://www.civilservice.gov.uk/about/improving/capability/reports.aspx>

March 2009	Cabinet Office	Foreign and Commonwealth Office: Capability Review update
March 2009	Cabinet Office	Foreign and Commonwealth Office: Progress and next steps on the Capability Review

Foreign and Commonwealth Office Reports

2009	Foreign and Commonwealth Office	Foreign and Commonwealth Office Autumn Performance Report 2009
	Foreign and Commonwealth Office	Foreign and Commonwealth Office Resource Accounts 2007-08
	Foreign and Commonwealth Office	Foreign and Commonwealth Office Departmental Report 2008-09

HM Treasury

23 February 2010	HM Treasury	Spring Supplementary Estimates 2009-10	HC 257
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Other sources

9 March 2010		Lords Hansard columns WS9-10 http://www.publications.parliament.uk/pa/ld200910/ldhansrd/text/100309-wms0001.htm
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Where to find out more

The National Audit Office website is www.nao.org.uk.

If you would like to know more about the NAO's work on the Foreign and Commonwealth Office, please contact:

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