



National Audit Office

REVIEW

The NAO's international work

OCTOBER 2012

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government.

The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff.

The C&AG certifies the accounts of all government departments and many other public sector bodies.

He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy.

Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

Introduction

The National Audit Office (NAO) has an active programme of international audit and support. This is through three main areas of work:

- An annual cycle of financial and value-for-money audits of UK government departments with major international programmes; for example, our audits of the UK's Department for International Development.
- Work to support accountability and transparency in the European Union.
- Our broader contribution to the management of public funds globally through our externally funded audits of international bodies, such as the audit of United Nations Funds and Programmes and other major agencies, as well as our programme of capacity building support to audit institutions and parliamentary financial oversight committees in developing countries.

The NAO seeks to identify and spread good practice. It does this by working with the following bodies:

- The International Organisation of Supreme Audit Institutions.
- The United Nations Panel of External Auditors.
- The Contact Committee of EU Member States and the European Court of Auditors (ECA).

In all our work internationally, the NAO is also mindful, as the nation's financial watchdog, of the need to lead by example. We seek to ensure that all activities we undertake are carried out efficiently and effectively and with a constant focus on controlling costs and giving value for money.

Auditing UK programmes overseas

Introduction

Each year the UK government spends substantial funds overseas. This money is used to fund:

- Diplomatic costs associated, for example, with running embassies, trade and investment initiatives and supporting dependent territories.
- International development activities, directly via support to developing countries or indirectly through our contributions to multilateral organisations, for example the World Bank, the United Nations or the European Union (EU).
- Defence costs associated, for example, with military operations or maintaining overseas bases.

The NAO provides independent assurance of these expenditures directly through our annual programme of financial and value-for-money audits and through our support for parliamentary scrutiny by select committees, as in our audits of the following organisations:

- Foreign and Commonwealth Office
- Department for International Development
- Ministry of Defence.



Foreign and Commonwealth Office (FCO)

FCO's responsibilities

The FCO operates as a global network for the British government. It promotes British interests overseas, helps British citizens abroad and provides advice to travellers. It also has a role in supporting the British economy and managing migration.

The FCO spent over £2.7 billion in 2009-10 and received £0.3 billion in income in addition to its parliamentary funding. As well as its UK offices, the FCO runs a network of over 260 overseas posts with around 13,000 staff based overseas. The FCO provides substantial funding to the British Council and the BBC World Service. It also spends some £470 million on conflict prevention, primarily through support for United Nations peacekeeping missions.

The NAO's work on the FCO's overseas activities

Financial audit – the NAO carries out annual financial audits to confirm whether the FCO's accounts present a true and fair view and transactions are in accordance with Parliament's intentions. This work also involves auditing a selection of overseas posts each year. We also work with the FCO to improve the Statement on Internal Control and have provided the FCO's Audit and Risk Committee with guidance on the Statement.

In each of the last five years, we have issued a clear (unqualified) opinion on the FCO's accounts.

In 2009, our **Financial Management Review** (HC: 289 2008-2009) looked at how the FCO managed its finances and concluded that the FCO had made significant progress in developing its financial management capability. At the invitation of the FCO, we are currently carrying out a follow-up review to track how it has responded to the recommendations in our report.

Value-for-money audits – we typically produce one value-for-money report every 18 months, considering the economy, efficiency and effectiveness of a particular aspect of the FCO's work. Recent audits with a particular overseas or international aspect have included:

Spending reduction in the Foreign and Commonwealth Office (published March 2011).

Adapting the Foreign and Commonwealth Office's global estate to the modern world (published February 2010).

UK Trade and Investment: Trade Support (published April 2009).

Other work

Review of the Conflict Pool (March 2012) – The Conflict Pool funds discretionary activities that support conflict prevention, stabilisation and contribute to peacekeeping overseas. It is managed by the FCO, the DFID and the MoD. Our review focuses on the Conflict Pool and examines: governance arrangements; decision making and allocation of resources; monitoring and evaluation; and how effectively the three departments work together.

Parliamentary briefings – In 2009, the NAO provided a briefing to the Foreign Affairs Select Committee setting out how the exchange rate movements had impacted upon the FCO's budget and how FCO had sought to manage the issue. In 2010, the NAO provided a briefing for the members of the House of Commons Foreign Affairs Select Committee on the work of the FCO in 2009-10 and its priorities for reform.

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The Department for International Development (DFID)

DFID's responsibilities

The DFID aims to reduce poverty in poorer countries in line with the Millennium Development Goals set by the United Nations in 2000. The DFID has some 3,000 programmes and projects, ranging from emergency aid for countries affected by conflict or humanitarian crises, to continuing support to improve health, education and sanitation.

The DFID spent £7.9 billion in 2011-12, of which £123 million was on administrative costs such as the employment of over 2,500 staff, of whom over half were based overseas. The Department's programme expenditure amounted to £7.7 billion, almost all of which was classed as Official Development Assistance (ODA). Much of this is channelled through the public services of developing country governments or non-governmental organisations. As a result of the Bilateral Aid Review commissioned in May 2010, the Department's aid programme is focused in 28 priority countries so that support can be targeted where it will make the greatest difference. The DFID directed some £3.4 billion (44 per cent of its total programme expenditure) through its multilateral programme which includes the World Bank, United Nations agencies, European Union, regional development banks and sector specific Global Funds.

The United Kingdom has a target of devoting 0.7 per cent of its Gross National Income to ODA from 2013. The DFID bears most of the responsibility for meeting this target. Its aid programme is due to increase from £7.7 billion in 2011-12 to over £10.7 billion in 2013-14. At the same time its administration budget will reduce by one-third by 2014-15.

The NAO's work on the DFID

Financial audit – The NAO carries out the annual financial audit to confirm whether the DFID's financial statements present a true and fair view and transactions are in accordance with Parliament's intentions. This work also involves auditing a selection of country offices each year. Our findings and recommendations are presented to management and to the DFID's Audit Committee and cover, for example, suggested improvements to their processes and areas for efficiency savings where controls might be duplicated or insufficient. We also work with the DFID to improve their governance arrangements and to provide the DFID's Audit Committee with feedback on such issues.

Value-for-money audits – Each year we assess the main risks facing the DFID and typically produce one to two value-for-money audits a year. Examples of recent reports include:

DFID: The multilateral aid review (published September 2012).

DFID: Transferring cash and assets to the poor (published November 2011).

DFID: Financial management report (published April 2011).

DFID: Bilateral Support to Primary Education (published June 2010).

Other work

Parliamentary briefings – In 2011, the NAO provided a briefing for the Members of the International Development Committee on the work of the DFID in 2010-11, and a briefing for the Environmental Audit Committee on aid for environmental projects.

Independent Commission for Aid Impact (ICAI) – The ICAI's primary objective is to "provide greater independent scrutiny of UK aid spending to deliver value for money for British taxpayers and to maximise the impact of the British aid budget". We advised the DFID and the ICAI on its early stages of formation and seconded a member of staff as Head of Secretariat at the ICAI.

Ministry of Defence (MoD)

MoD's responsibilities

The MoD is both a Department of State and a military headquarters, comprising military personnel from the Royal Navy, the Army, and the Royal Air Force – and civilian staff from the civil service.

In 2010-11, the MoD employed some 75,000 civilian staff at a cost of £2.9 billion and some 196,000 military personnel at a cost of £9.9 billion, many of whom are based or are serving overseas. In 2010-11, the MoD's net operating costs were £47.1 billion and its assets were worth over £127 billion, including £88 billion of land, equipment and buildings and £7 billion of stocks.

MoD's overseas operations

The UK's Armed Forces are engaged in operational duties across the globe, notably in Afghanistan, Iraq and Libya where £3.8 billion was spent on military operations in 2010-11. The largest deployment is in Afghanistan, where the UK had around 9,500 military personnel in 2011. In Afghanistan, the UK's Armed Forces form part of the NATO-led International Security Assistance Force (ISAF), which in 2011 included personnel from 48 countries. The Armed Forces are present in areas such as Cyprus, Gibraltar and the South Atlantic and can be called on to support a wide range of other activities, including crisis response and peacekeeping.

The NAO's work on the MoD's UK and overseas activities

Financial audit – Our annual financial audit of the MoD's resource accounts involves understanding the business, examining internal controls, agreeing the accounting policies, auditing the transactions, liabilities and assets and confirming that the accounts present a true and fair view. This work is mainly conducted in the UK but involves auditing a selection of overseas military and civilian sites each year. We also work with the MoD to improve its published Statement on Internal Control to ensure that it is supported by robust evidence that controls are sufficiently reliable and that it complies with HM Treasury guidance.

The Comptroller and Auditor General has qualified his audit opinion on the MoD's resource accounts in the last five years from 2006-07 to 2010-11. In 2010-11, the Comptroller and Auditor General qualified his opinion because the MoD's accounting policies did not fully comply with International Financial Reporting Standards.

Value-for-money audits – value-for-money reports with overseas relevance have included:

Carrier Strike (published July 2011).

Management of the Typhoon Project (published March 2011).

Other work

Parliamentary briefings – In 2011, the NAO provided a briefing for the Members of the House of Commons Defence Committee on the work and performance of the MoD in 2010-11 and subsequent months. The briefing was based entirely on publicly available documentation, including the MoD's 2010-11 resource accounts and NAO reports.

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Strengthening accountability and transparency in the European Union

Introduction

The UK is currently the fourth highest contributor to the EU budget behind Germany, France and Italy and, for 2012, will contribute about £15 billion. Funds flowing back to the UK to fund or co-fund EU approved programmes are estimated at some £5 billion which taken with the 'UK rebate' (some £3.1 billion), means the UK's estimated net contribution to the EU Budget for 2012 will be about £6.9 billion.

The NAO's work on EU funds within the UK

The NAO is keen to ensure that EU funds spent in the UK are spent well – if they are not, the UK risks having expenditure disallowed and having to repay it. In general, the NAO audits EU funds as part of its annual audit of ministries in receipt of EU monies, without a separate certification or opinion. If particular risks or irregularities are identified, the NAO will report the matter to the UK Parliament. For example, the Comptroller and Auditor General qualified his audit opinion on the 2011-12 accounts of the **Department for Environment, Food and Rural Affairs** and of the **Rural Payments Agency**, because the Department had to pay penalties to the European Commission for not complying with regulations over a number of years up to 2009, which led to incorrect payments to farmers and others. The Comptroller and Auditor General also reported evidence of a continuing significant loss to UK taxpayers because of weaknesses in the administration of the Single Payment Scheme by the Rural Payments Agency.

For 2006-07, 2007-08 and 2008-09, HM Treasury prepared, and the Comptroller and Auditor General audited, an annual consolidated statement on the use of EU funds in the UK – the last being published in January 2011. Since that time, HM Treasury has carried out a review of accountability and reporting arrangements for EU funds with the aim of improving the financial management of EU funds in the UK, and improving the transparency of the financial relationship between the EU and the UK government. The objective is to report on the UK government's net funding contribution to (or receipts from) the EU. HM Treasury will work with the NAO and the managing authorities to improve the quality of data collection, the consistency of accounting policies applied by managing authorities and the scope of reporting on the UK contributions to the EU and other EU transactions.

The NAO's work in the wider EU

The European Court of Auditors (ECA) is the appointed auditor of the EU budget and of the Commission, as the budget holder. The UK nominates one member to the ECA for a renewable term of six years. The ECA and the member state supreme audit institutions work together and share information through the **Contact Committee**.

On financial audit – Activities include exchange of audit plans, results and reports on an agreed basis. ECA reports are one source of data for NAO work-planning, as is monitoring or following up on action taken by UK management authorities in response to ECA findings. The NAO has actively developed and promoted the idea that supreme audit institutions should carry out some enhanced level of reporting on financial management of EU funds in their own member state.

On methodology – While each supreme audit institution operates independently, they do so within the established framework of International Standards on Auditing. The Contact Committee has made efforts to support their auditors by coordinating a set of working documents, based on the practices of some supreme audit institutions, and illustrating how they apply international standards to specific aspects of their national work on EU funds under EU regulations.

On knowledge exchange – The Contact Committee has established networks to help its members draw on the experiences of others in key and emerging areas of EU relevance. The audit of fiscal policy network (led by the National Audit Office, Finland) is one example which the NAO has found to be helpful in its own national work in the wake of the global financial and economic crisis.

Input to UK parliamentary activities

– The NAO has provided support to the Committee of Public Accounts agenda of improving financial management of EU funds at home and in wider Europe.

Broader contribution to managing public funds globally

Introduction

The NAO seeks to make a broader contribution to managing public funds globally. It does this on a full-cost recovery basis by:

- being appointed the external auditor of key multilateral agencies, for example the United Nations and the Special Tribunal for the Lebanon; and
- working to strengthen audit offices and parliamentary oversight bodies in developing countries and in the wider European area.

International audits

Many of the major international and regional organisations are audited by member state audit offices. In 2011-12, the NAO received some £2.4 million for this work.

Our international audit portfolio includes:

- The United Nations Board of Audit – the NAO is currently one of three audit offices (including Tanzania and China) serving on the United Nations Board of Auditors where we are responsible for audits of such areas as: the United Nations, including Geneva, New York and Vienna; the United Nations Capital Master Plan; the United Nations High Commissioner for Refugees; the United Nations Office for Project Services; and six United Nations peacekeeping missions. Also:
- The International Oil Pollution Compensation Funds.
- The Special Tribunal for the Lebanon.
- The Advisory Centre on World Trade Organization Law.



In carrying out this work, we involve audit staff from other UK public external audit institutions – Audit Scotland, the Wales Audit Office and the Audit Commission.

Adding value

Enhancing governance and strategic capability – The NAO works closely with its international clients to improve governance arrangements and to adopt best practices, for example by encouraging them to set up Audit Committees and publish Statements on Internal Control alongside their accounts. We audit major transformational change programmes helping clients make better use of information and provide advice on the use of modern management tools such as enterprise resource planning and risk management systems. We advise on the effective management of costs – particularly in areas such as procurement and contract management.

Introducing International Public Sector Accounting Standards (IPSAS)

– The NAO has also worked closely with a number of clients on IPSAS implementation, including the World Food Programme, which was the first United Nations organisation to adopt IPSAS accounting standards. Four of our current clients are adopting IPSAS for their 2012 accounts. We are actively supporting the United Nations Secretariat in implementing IPSAS across a range of bodies. IPSAS accounts mean that, for the first time, international organisations are presenting their accounts on accruals, rather than a cash, basis. This means that a full picture of the costs of running the organisation for a financial year can be seen by a reader of the accounts, as can the net assets or liabilities of that organisation. We are also engaging with our clients to ensure that IPSAS are seen as part of a major business transformational programme and part of wider moves towards more effective governance and better financial management in international organisations.

Capacity building and influencing work

Introduction

Improving accountability and good governance is one of the UK Government's core international development objectives. Fraud, corruption, waste, and poor management in many developing countries slow down rates of growth and reduce the funds available for education, health and social pensions.

The NAO plays an active role in supporting partner supreme audit institutions and parliamentary oversight bodies to modernise and become more effective. We work with these organisations to help identify needs, set priorities and implement institutional development plans. Through this work, we may be involved in helping improve the audit skills of staff, help put in place modern human resource management or IT systems and better arrangements for ensuring audit reports get into the public domain and are taken seriously by governments, the media and civil society.

By working at this global level, the NAO is able to share best practices and advice, and learn lessons which assist our own UK-based audit work. Lessons are systematically identified and disseminated across the office and many areas of the NAO can point to cases where lessons from abroad have resulted in improvements to our audits and to our corporate services.

Priorities

Our priorities in this area follow those of the UK government – in particular, developing countries in Africa, South Asia and the Caribbean and the wider European neighbourhood. This work is fully funded by the international development community. Where possible, we work in partnership – at times with organisations we once trained, with partner supreme audit institutions, and with the private sector.

Strategic interventions

We work in two main ways – we seek to undertake capacity building projects either in individual countries or regionally, and we seek to ensure that best practices are identified and disseminated widely.

Recent projects have included the following:

- Ethiopia – working with the Office of the Federal Auditor General to develop a human resources management strategy and an IT strategy.
- Jamaica – helping the Auditor General's Department audit the government's budget assumptions and fiduciary risk framework.
- Kenya – helping the Ministry of Education carry out a value-for-money study of a major programme to provide free textbooks to all primary schools.
- Kosovo – helping strengthen financial and performance audit and introducing modern human resource management systems.
- Uganda – helping the Office of the Auditor General develop a new organisational structure and new governance arrangements.

Recent influencing work has included these partnerships:

- working with INTOSAI's Capacity Building Committee to develop guides on institutional development for supreme audit institutions;
- working with the Organisation for Economic Co-operation and Development (OECD) to produce a best practice note for donors on how to support supreme audit institutions;
- working with the Westminster Consortium, including the Overseas Office of the House of Commons, the Westminster Foundation for Democracy and Reuters, to produce a guide for parliamentary staff on supporting budget and oversight committees;
- working with the INTOSAI Working Group on Environmental Auditing to develop guidance for supreme audit institutions to help them audit their governments' programmes in relation to climate change, fishing, forestry, mining and sustainable energy. Through this Working Group we have contributed to Climate Change – a first coordinated audit of climate change programmes, published in 2010, which drew international attention to the need for more coherent national programmes to reduce greenhouse gas emissions and showed the limited progress made to date in identifying the risks and actions needed to adapt to climate change;

- working with the INTOSAI Professional Standards Committee to ensure that supreme audit institutions adopt and implement consistent standards which complement as much as possible standards in the private sector but reflect the unique characteristics of public audit; and
- working with the International Audit and Assurance Standards Board, part of the International Federation of Accountants, in the development of international auditing and assurance standards.

What has been achieved

Capacity building work can take many years to generate results. Some of the impacts which have been identified from past NAO-led capacity development projects have included:

- **Ghana Audit Service (GAS)** – the NAO worked with the GAS over many years to strengthen capacity. Supervised value-for-money audits helped generate major financial savings and as a result the image and reputation of the GAS has been enhanced. Reports found the following:
 - government's centralised payroll system contained errors and overpayments totalling over £14 million, arising from the failure to prevent the inclusion of ghost names on the payroll, to delete names of leavers on a timely basis, and incorrect pay calculations;
- **Slovenia – the National Assembly Commission for Public Finance Control** adopted separate rules of procedure to strengthen oversight, which were closely modelled on the activities and operation of the UK Committee of Public Accounts.
- **Uganda Office of the Auditor General (OAG)** – NAO input was central to the passage of the Ugandan National Audit Act in 2008. Since then the NAO has helped the Auditor General and senior management implement a new organisational structure to better manage independence, work with the Parliamentary Finance Committee to develop a more transparent process for approving the OAG's budget and advised on the introduction of modern human resource management systems, including the development of a human resource manual.
- government scholarships scheme had paid over £10 million to students who had died, withdrawn from the scheme or been dismissed; and
- government had incurred additional costs of around £8 million arising from delays in completing the construction and rehabilitation of school buildings.



Appendix One

List of recent NAO value-for-money reports with an international focus

International Relations (Overseas Affairs)

Department for International Development: The multilateral aid review, HC 594, Parliamentary Session 2012-13	19 September 2012
Department for International Development: Transferring cash and assets to the poor, HC 1587, Parliamentary Session 2010-2012	9 November 2011
Department for International Development: Financial Management Report, HC 820, Parliamentary Session 2010-2012	6 April 2011
Foreign and Commonwealth Office: Spending reduction in the Foreign and Commonwealth Office, HC 826, Parliamentary Session 2010-11	29 March 2011
Department for International Development: Bilateral Support to Primary Education, HC 69, Parliamentary Session 2010-11	18 June 2010
Adapting the Foreign and Commonwealth Office's global estate to the modern world, HC 295, Parliamentary Session 2009-10	11 February 2010
Department for International Development: Aid to Malawi, HC 964, Parliamentary Session 2008-09	30 October 2009
Financial Management in the Foreign and Commonwealth Office, HC 289, Parliamentary Session 2008-09	3 June 2009
UK Trade & Investment: Trade Support, HC 297, Parliamentary Session 2008-09	3 April 2009
Investing for development: the Department for International Development's oversight of CDC Group plc, HC 18, Parliamentary Session 2008-09	5 December 2008
Department for International Development: Operating in insecure environments, HC 1048, Parliamentary Session 2007-08	16 October 2008
The British Council: Achieving Impact, HC 625, Parliamentary Session 2007-08	10 June 2008
Department for International Development – Providing budget support to developing countries, HC 6, Parliamentary Session 2007-08	8 February 2008

UK Department for Business, Innovation and Skills (BIS)

UK Trade & Investment: Trade Support,
HC 297, Parliamentary Session 2008-09 3 April 2009

Ministry of Defence (MoD)

Ministry of Defence: Hercules C-130 Tactical Fixed Wing Airlift Capability,
HC 627, Parliamentary Session 2007-08 27 June 2008

Europe

Managing the impact of changes in the value of the euro on EU funds,
HC 759, Parliamentary Session 2010-11 18 February 2011

Financial Management in the European Union,
HC 34, Parliamentary Session 2010-11 11 June 2010

Financial Management in the European Union,
HC 349, Parliamentary Session 2008-09 27 March 2009

UN High Commissioner for Refugees

International Oil Pollution Control Funds

BBC World Service

Ministry of Defence

UK Trade and Investment

Working Group on Environmental Auditing

Special Tribunal for the Lebanon

European Court of Audit

Westminster Consortium for Parliaments and Democracy

British Council

UN Office for Project Services

Advisory Centre on WTO Law

Department for International Development

INTOSAI Capacity Building Committee

Department of Energy and Climate Change

Department for Business, Innovation and Skills

INTOSAI Professional Standards Committee

Contact Committee

United Nations Board of Auditors

Foreign and Commonwealth Office

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