



House of Commons
Committee of Public Accounts

**DfID Financial
Management**

**Fifty-second Report of Session 2010–
12**

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 12 October 2011*

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
Dr Stella Creasy (*Labour/Cooperative, Walthamstow*)
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Mr Austin Mitchell (*Labour, Great Grimsby*)
Nick Smith (*Labour, Blaenau Gwent*)
Ian Swales (*Liberal Democrats, Redcar*)
James Wharton (*Conservative, Stockton South*)

The following member was also a member of the committee during the parliament:

Eric Joyce (*Labour, Falkirk*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

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Summary

The Department for International Development (the Department) is one of only two government departments protected from overall expenditure reductions. The Government has committed to increasing the UK's aid spending to 0.7% of gross national income by 2013. The Department faces a substantial challenge to improve its financial management and secure value for money from its rapidly increasing programme budget over the next four years, while reducing its administration costs by a third.

The Department acknowledges the importance of financial management and focussing on value for money but, despite previous recommendations from this Committee, has not made enough progress to date. We welcome the planned introduction, in 2011, of a finance improvement plan. The Department must now keep up the focus on better financial management, rather than let it slip, as happened in April 2010.

We were concerned that the Department does not quantify the likely level of leakage through fraud and corruption. And the Department is only considering fraud risk at the level of delivery method rather than at a country level. Management of fraud risk will require a stronger framework for ensuring money is properly spent on the ground, with effective monitoring and pro-active anti-fraud work. This is particularly important in the context of the growing budget and the expected efficiency savings in administrative expenditure.

The Department's programme budget is due to increase by a third in the next four years. The Department lacked certainty about the future split between bilateral (country to country) funding and funding to multilateral organisations (which then determine how to distribute the aid worldwide). On provisional plans, however, the proportion of the Department's spending that will go through multilaterals is set to increase. We were unconvinced that an increase in funding to multilaterals would ensure value for money as the Department does not have the same visibility over the cost and performance of multilaterals' programmes as it does over its own bilateral programmes.

The Department's plans to increase spending in fragile states and in sectors where it has less experience increase the risks to value for money, especially given the Department's patchy evidence on costs and outcomes, and its poor understanding of the levels of fraud and corruption.

We are concerned that the Department still has insufficient data to make informed investment decisions based on value for money. The Department was not clear about whether it needs to generate more data, or whether the data exist but need to be better collated. We heard testimony from the Department that it has made progress in collecting data on primary education in developing countries and we look forward to receiving the Department's progress report. The Department, however, needs to generate similar data

for all of its aid portfolio.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Department for International Development on its financial management capability, its increasing focus on value for money, and the challenges it faces in managing its increasing programme budget while reducing its overall running costs.

1 C&AG's Report, *Department for International Development: Financial Management Report*, Session 2010-12, HC 820

Conclusions and recommendations

1. While most departments are under increasing pressure to reduce expenditure, the Department for International Development's (the Department's) spending on aid is due to increase by a third in real terms over the next four years. At the same time the Department is expected to reduce its administrative expenditure by £34 million to £94 million (a real terms reduction of a third). The Department is planning to do more work to help those most in need, including in sectors in which it has less experience, and in more fragile and conflict-affected countries which pose a higher risk in terms of poor security, delivery capacity and leakage of funds through fraud and corruption. Sound financial management and a stronger focus on value for money are essential to inform the Department's investment decisions. We welcome the Department's recognition that it needs to improve its financial management and its focus on value for money. The following recommendations are intended to help the Department tackle some of the challenges that lie ahead.
2. **The Department increasingly recognises the importance of financial management but has not consistently prioritised its improvement and does not have enough financial expertise in the countries in which it works.** Worryingly, the Department stopped monitoring its finance plan, the Money Action Plan, in 2010 when it undertook a more fundamental review of how it allocates resources to secure impact and value for money from aid. In order to keep financial management as a high corporate priority, the Department should set out in its 2011 finance improvement plan clear and auditable outcome measures for the plan's activities, including how it will increase financial expertise in the countries in which it works, who is responsible for delivering the plan's activities, and when targets should be achieved. It should report on progress publicly.
3. **The Department does not estimate levels of leakage through fraud and corruption, which undermines its ability to make informed investment decisions and gain assurance that it has appropriate and effective controls in place. Fraud investigation is reactive and reported levels of fraud are unbelievably low.** The selection of aid projects is not based on a good understanding of the scale and likelihood of fraud in each country, nor how proposed project design mitigates the risks. The Department should assess the level of leakage across each of its programmes in its 27 priority countries. It should also increase the attention given at all levels of its organisation to tackling fraud, with a stronger framework for ensuring funds are spent properly on the ground, with effective monitoring and pro-active anti-fraud work. Each project and programme business case should set out: how the Department has designed the project to reduce the risk of leakage; an assessment of any residual risk of leakage; and how this risk will be managed. Subsequent annual reviews of projects should include updated fraud risk assessments.
4. **There is a risk that the Department will increase its funding to multilaterals and partner organisations simply because it has insufficient capacity to spend its increased budget through its own bilateral programmes.** The Department is still identifying and designing many of the projects and programmes needed to reach the

UK's aid target of 0.7% of gross national income by 2013. The Department plans to increase the proportion of its funding spent via multilaterals but does not have the same visibility over the cost and performance of multilaterals' programmes as it does over its bilateral programmes. Furthermore, the strategy to increase DFID spend through multilateral programmes appears to have more to do with it being easier for DFID to do this than for it to assess the viability, effectiveness and value for money of bilateral programme proposals. The Department must be able to demonstrate that any increase in funding to multilaterals is based on a clear assessment that it will achieve value for money, and that it represents better value for money than investing in alternative bilateral programmes.

5. **The Department channels funding through complex delivery chains, some of which have high running costs. Total running costs for the delivery chain as a whole are not known.** The Department has a corporate target to reduce its running costs to 2% by 2014-15, but partner organisations and multilaterals also incur further layers of running costs, which can often be much higher. In order to maximise the resources that get to the frontline, the Department should develop clear plans to reduce or control running costs when delivering through multilaterals and partner organisations, and set a target for total running costs for the delivery chain as a whole.
6. **The Department does not have all of the data it needs to manage and prioritise effectively its aid programme, or to measure whether all its projects and programmes are value for money.** The Department has introduced a new information system, but it does not provide integrated performance and financial data to support well-founded decisions. The Department needs to develop an explicit information plan setting out how and when it will improve data coverage and quality for all its programmes, including unit costs, with clear milestones against which we can judge progress.
7. **The Department says it has increased its focus on value for money and there is a clearer understanding of top level corporate priorities, but it cannot demonstrate that it has optimised value for money.** The Department must be able to demonstrate unequivocally that it allocates resources on the basis of value for money, but staff do not have the information or strong incentives to do so – particularly given the pressure to spend increased resources. Country offices protect their own budgets, and have been unwilling to release funds which could be better spent elsewhere. The Department should develop clear and auditable mechanisms which ensure that staff in both Headquarters and country offices have value for money criteria at the heart of their decision making, and that they reallocate funding to the best possible alternative when projects are delivering weaker value for money than expected.

1 The Department's financial management capacity

1. The Department for International Development (the Department) is one of only two government departments protected from overall expenditure reductions. The Government has committed to increasing the UK's aid spending to 0.7% of gross national income by 2013 (0.56% achieved in 2010), and in real terms, the Department's spending is due to increase by a third over the next four years. The Department is the UK's main funder of overseas aid, contributing £7.4 billion or 88% of the UK's total in 2010.² Spending by the Department of Energy and Climate Change, the Foreign and Commonwealth Office, the Ministry of Defence and other government departments accounted for £0.6 billion (7 per cent) of the UK's overseas aid spending with non-departmental expenditure accounting for the remaining £0.4 billion (5 per cent).³

2. In 2008, the Department recognised the need to strengthen its financial management. It undertook a number of initiatives including; implementing ARIES - a new financial and management information IT system; recruitment of accountants at both the central and divisional level; and the introduction of the Money Action Plan. The Plan included milestones for introducing a continuous professional development strategy, improving the quality of cash forecasting and for achieving further benefits from ARIES. Progress against the Money Action Plan was formally monitored by the Department's Management Board until April 2010, when the Department deliberately stopped its separate reporting process. Instead it focused resources on a fundamental review of how it allocates resources to secure impact and value for money from aid.⁴

3. The National Audit Office found that the Department's various initiatives to improve financial management were not being fully coordinated and there was a risk that, without an overall strategy, the Department would not develop its financial management to the required standard.⁵ The Department told us it was due to publish this year, an updated finance improvement plan that would progress the different elements of the Money Action Plan.⁶ The finance improvement plan would include four key elements;

- improving financial capability, leadership, skills and training;
- improving cash forecasting, budgeting and management information reporting;
- maximising the value of every pound of taxpayers' money; and

2 C&AG's Report, para 1.6-1.7, page 14

3 Department for International Development Statistical Release, Provisional UK Official Development Assistance as a proportion of Gross National Income 2010, March 2011.

<http://www.dfid.gov.uk/Documents/publications1/2010-Provisional-Statistical-Release.pdf>

4 Q 1; C&AG's Report, para 2.2-2.3, page 18

5 Q 2; C&AG's Report, para 2.5, page 19

6 Q 1; C&AG's Report, para 2.3, page 18

- dealing with fraud and corruption in the countries in which the Department works.⁷

4. The Department's programme budget is due to increase from £7.7 billion in 2010-11 to £11.4 billion in 2014-15 (35% in real terms). At the same time, its administration budget of £128 million in 2010-11 is going to reduce by a third in real terms, as part of the Department's plan to reduce overall running costs to just 2.09% of its total budget by 2014-15.⁸ We expressed concern that the Department may lose its ability to exercise good financial management control over its rapidly increasing budget.⁹

5. Since mid-2009, the Department has recruited 11 qualified finance staff to fulfil roles both within the centre and within operational divisions. This increased the number of fully qualified finance professionals to 15, around one in five of all staff in the Department's Finance and Corporate Performance Division.¹⁰

6. The Department acknowledged that it needed to do more to ensure financial expertise was deployed where it was needed.¹¹ The Department told us it was planning to further increase the capacity in its core financial functions, including in internal audit. It was planning to increase the number of professional people in the countries with the biggest problems by 150 in 2011-12, which would include recruiting more qualified finance staff.¹² The Department was also planning to free up existing finance staff, some of whom are performing largely transactional work, to focus on value for money, financial management, risk assessment and fraud control work.¹³ It acknowledged that it would be a substantial management challenge to re-shape the organisation, putting more professional resources into the places where it has the biggest programmes and where the challenge is greatest, and to free up resources from other parts of the organisation.¹⁴

7. The Department said it had done a number of exercises over the years to try and quantify the scale of leakage – money lost through fraud and corruption. But as yet the Department has no systematic or comprehensive approach to quantifying the extent of fraud and corruption, and was unable to provide an estimate of the scale of leakage.¹⁵ The Said Business School in Oxford had told the Department that the levels of reliability and plausibility of the data were so low that the Department could not take seriously the numbers that were generated. The Department said that as corrupt activity is often hidden it is very difficult to know the true level of leakage.¹⁶

7 Q 1

8 Q 17; C&AG's Report, Figure 3, page 16; Running costs include the Department's administrative costs and the costs of those staff which manage development programmes or deliver advice directly to recipient countries.

9 Q 17

10 Qq 52-54; C&AG's Report, para 2.18, page 22

11 Q 51

12 Qq 17, 54-56, 61

13 Qq 54, 56

14 Q 17

15 Qq 25, 27, 29; C&AG's Report, para 3.18, page 32

16 Q 30; C&AG's Report, para 3.18, page 32

8. In 2009-10, the Department detected total losses due to fraud of £459,000 (0.008% of overall expenditure).¹⁷ The Department's figures show that for 2010-11 losses rose to £1,156,000 (around 0.016% of overall expenditure) and a further loss of £1,500,000 had been confirmed since the end of the 2010-11 financial year, which the Department is expecting to recover in full. Recoveries of losses rose from £199,000 in 2009-10 to £1,071,000 in 2010-11.¹⁸ The Department's approach to identifying leakage through fraud and corruption is, however, largely reactive and the Department's internal auditors consider that the Department significantly under-captures incidences of fraud.¹⁹ The Department accepted that it needed to do more in terms of proactive identification and prevention of fraud.²⁰ In specific instances where fraud or losses had been identified, the Department's Counter Fraud Unit had a good record of investigating and recovering losses, although this could be a lengthy process. We were unconvinced that figures of around 0.01% were an accurate reflection of the scale of fraud, and were concerned that no instances of fraud were identified in half of the countries to which the Department gave aid in 2010-11. In our view, current levels of reported fraud are unbelievably low.²¹

9. The Department acknowledged that there are risks of corruption and abuse in developing countries. However, it told us that it manages risk through its choices about how to give aid. The witnesses gave the example of the Democratic Republic of Congo, where the Department chooses not to finance the budget of the Government because its assessment is that the risks are too high. Instead the Department does its own procurement using international suppliers with whom it has more confidence than suppliers in the country. The Department told us there is therefore a difference between the risk that the Department faces because of the way it manages its portfolio, and the risk that is generic to the environments in which it works.²²

10. In designing each programme or project, the Department makes an assessment of the level of risk, which includes political risk, security, delivery capacity, and can include the risk of leakage.²³ Given the Department's poor understanding of the scale and likelihood of fraud, we were unconvinced that the Department sufficiently takes this in to account when designing its projects. We questioned the Department about how, once it had designed projects, it managed the residual risk. The Department acknowledged that it had been better at identifying generic risk rather than managing the residual risk once the programme or project had been implemented, and that it needed to do better than it had in the past.²⁴ The Department told us that it was strengthening its skills capability and its frontline presence to improve the management of residual risk through the life of the programme or project.²⁵

17 Q 23; C&AG's Report, para 3.25, page 33

18 Q 23; C&AG's Report, para 3.25, page 33; Ev 17

19 Q 23; C&AG's Report, para 3.21-3.22, page 32

20 Q 77

21 Qq 23, 47-49

22 Qq 32, 34, 81-82

23 Qq 31-32

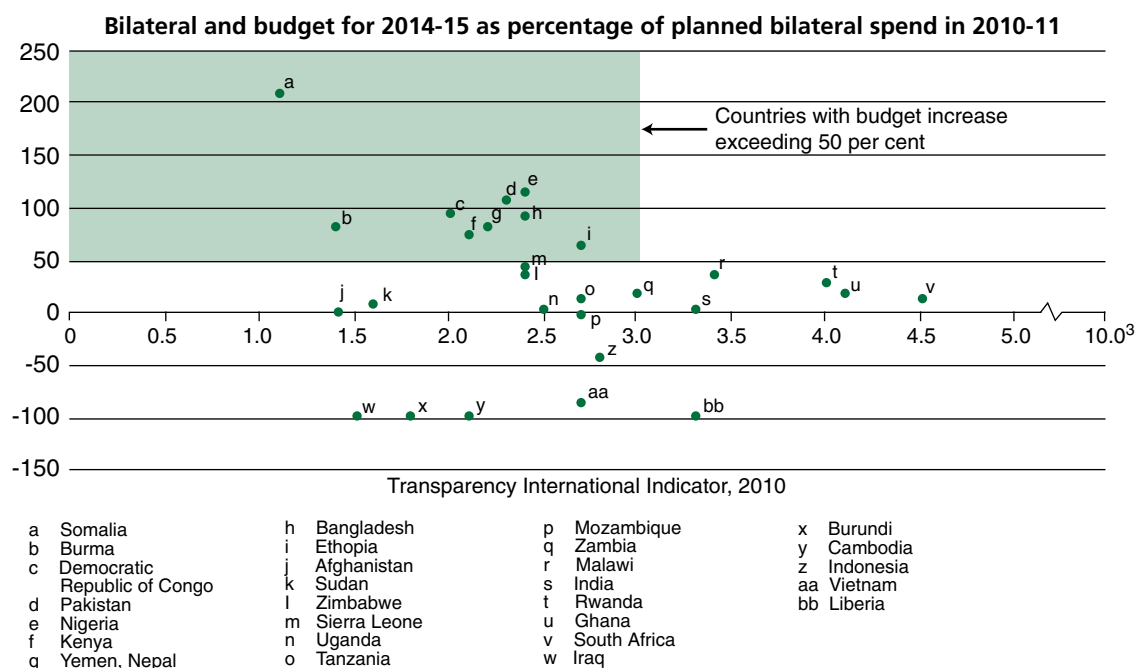
24 Q 42

25 Qq 42, 44

11. The Department's future plans involve channelling increased funding into more fragile states that typically have high levels of deprivation but also weaker governance. All of the countries in which the Department plans to increase its spending by more than 50% over the next four years have a score lower than 3.0 in the Transparency International index of the perceived extent of public sector corruption (on a scale which ranges from zero which represents 'highly corrupt' to 10.0 which represents 'very clean') (Figure 1). Whilst the Department's actual risk exposure depends on aid modality (the way in which it gives aid) and the controls it puts in place, operating in high risk environments means the potential for increased risk of leakage through fraud and corruption.²⁶

Figure 1

The Department's spending plans for countries compared with the Transparency International corruption perceptions index 2010



NOTES:

1. Tajikistan (score 2.1) and Kyrgyzstan (score 2.0) are excluded as the Department has not yet published its forward spending plans for these two countries.
2. The Figure includes countries that DFID plans to withdraw from by the end of 2014-15.
3. The scale runs from zero, which represents 'highly corrupt', to 10.0 which represents 'very clean'.

Source: *The C&AG's Report, Figure 6, page 31*

12. The Department told us it was planning to get a better handle on the nature and scale of leakage through fraud and corruption.²⁷ The Department said it would be carrying out fraud and risk abuse assessments for key areas of its programme, focussing on the risks associated with different delivery mechanisms, as opposed to the risks of particular countries.²⁸ The Department stated that it would put the bulk of its investigative fraud

²⁶ Qq 84, 86, 97; C&AG's Report, paragraph 3.17, page 30

²⁷ Qq 23, 50

²⁸ Qq 26, 28, 85-87

management resources into the countries where it has the biggest programmes and where it identifies the risks to be greatest.²⁹

2 The Department's strategic direction and focus on value for money

13. The Department told us it was due to close a third of its overseas offices and focus on a smaller number of countries where the challenge was greatest.³⁰ The Department was also focussing on sectors in which it has relatively less experience, including private sector finance and climate change. The Department intends to focus more on fragile and conflict-affected states which pose higher risks in terms of poor security, delivery capacity, measurement of costs and outcomes, and leakage of funds through fraud and corruption.³¹

14. At the time of the hearing, the Department was identifying and designing many of the projects and programmes needed to reach the 0.7% target.³² Given the challenge of developing a large “pipeline” of new projects, we were concerned that, in order to hit its target, the Department would simply increase its funding to multilateral organisations (who determine how and where to spend funds) and to overseas governments through budget support. These mechanisms are both ways to provide large amounts of money for comparatively small amounts of administrative cost and time, when compared with the resources required to manage the Department's bilateral programme.³³

15. The Department lacked certainty about the future split between bilateral funding and the funding it gives to multilateral organisations. But on its current plans, the proportion of its funding spent via multilaterals is due to increase from 37% of its budget in 2009-10 to approximately 45% by 2014-15.³⁴ When the Committee took evidence from Suma Chakrabarti in 2002, two Permanent Secretaries ago, he agreed that the Department could not ensure that the aid it provided through multilateral organisations was best applied to reduce poverty, as it had little direct control over how multilateral development organisations use funds.³⁵ The Department still has limited input into the financial management of multilaterals at an operational level.³⁶ As such, we were concerned that the increased funding going to multilaterals could increase the level of the Department's spending which is lost to fraud and corruption.³⁷

16. The Department admitted that it had previously had concerns over a number of multilateral organisations which did not have a strong enough record in fiduciary risk management.³⁸ The Department said it was putting money where it could maximise value

30 Q 17, C&AG's Report, paragraph 1.9, page 15

31 Q 17

32 Q 127; C&AG's Report, paragraph 3.16, page 30

33 Qq 18, 127

34 Qq 19-21, 108; Based on the Department's current plans, bilateral aid is also expected to be 45%. Around 10% of the budget is as yet unallocated.

35 Q 31; The Committee of Public Accounts, Department for international Development: Performance Management - Helping to Reduce World Poverty, Forty-Eighth Report of Session 2001-02, HC 793, paragraph 3, bullet 1

36 C&AG's Report, para 5, page 4

37 Qq 39-40, 60

38 Q 40

for money and had stopped funding a number of multilateral organisations that it thought were poor value for money.³⁹

17. The Department channels funding through complex delivery chains, and most of it is spent two or three steps removed from the Department's control.⁴⁰ The Department has a corporate target to reduce its running costs to 2.09% by 2014-15, but partner organisations and multilaterals add further layers of running costs, which are often much higher. The Department cited the example of UN organisations which have running costs of 13%, although this was not strictly comparable to the Department's own definition of running costs. Total running costs for the delivery chain as a whole were not known.⁴¹

18. Despite previous recommendations from this Committee, the Department still has insufficient data to make informed investment decisions based on value for money. The Department's Bilateral Aid Review was supported by only limited data, and relied on people's experiences of what they could deliver with the resources available.⁴² The Department also had insufficient data on its projects and programmes, including a lack of timely data and information on unit costs.⁴³ We reminded the witnesses of our November 2010 hearing on primary education where we found a lack of measurement on whether the Department's programmes were actually keeping children in school and leading to an improvement in standards and outcomes. The Department told us that it has made progress in collecting data on primary education in developing countries and would provide a progress report in autumn 2011.⁴⁴ The Department gave examples of how it was improving its evidence base more generally, including through external research, sharing lessons internally, through its new business case approach and by working with countries to access and generate better data.⁴⁵

19. The Department's financial and management information system, ARIES, does not provide integrated performance and financial data to support well-founded decisions.⁴⁶ The Department told us that its priority was to collect the data it needed; integrating all of the results and unit cost data into a single IT system was not, in its view, an urgent priority.⁴⁷ The Department was not clear about whether it needed to generate more data, or whether the data existed but needed to be better collated.⁴⁸

20. We questioned whether the culture within the Department was sufficiently focussed on value for money. On entering office, the Secretary of State said "The flipside of having the privilege of a protected budget is you have to strain every sinew to get every possible pound to work as hard as it can", and the Department told us that there was a clearer

39 Q 18

40 Q 35

41 Qq 102-106

42 Qq 14, 17

43 Qq 130, 132

44 Q 4

45 Q 16, 17, 132

46 C&AG's Report, paragraph 10, page 6

47 Q 132

48 Qq 17, 132-135

understanding of top level corporate priorities.⁴⁹ While the Department had increased its focus on value for money, it acknowledged that it had not yet maximised value for money in everything it was doing and could do more.⁵⁰

21. We were unconvinced that value for money was at the heart of all the Department's decisions, as staff did not have the information or incentives to demonstrate unequivocally that they allocate resources on the basis of value for money. Departmental staff told the National Audit Office in 2010 that forecasts had been compromised by a reluctance to forecast underspends, because of concerns that unspent funds would be withdrawn.⁵¹ The Department admitted that country offices had been protective over their own budgets, as they wanted to hold on to all the resource they could in order to deal with the problems within their own countries. The Department agreed that where projects in one country were not delivering value for money, it should reallocate funding to other projects or to other countries.⁵²

49 Qq 71-74

50 Q 17

51 Q 75; C&AG's Report para 2.32, page 26

52 Q 75

Formal Minutes

Wednesday 12 October 2011

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon	Austin Mitchell
Mr Stephen Barclay	Nick Smith
Dr. Stella Creasy	Ian Swales
Matthew Hancock	James Wharton
Jo Johnson	

Draft Report (*DfID Financial Management*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Conclusions and recommendations 1 to 7 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Fifty-second Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 17 October at 3.00pm]

Witnesses

Monday 4 July 2011

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Mark Lowcock, Permanent Secretary, **Richard Calvert**, Director General, Finance and Corporate Performance, and **Liz Ditchburn**, Director, Value for Money, Department for International Development

Ev 1

List of printed written evidence

1 Department for International Development

Ev 17

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
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Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty-third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398

Oral evidence

Taken before the Committee of Public Accounts

on Monday 4 July 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Matthew Hancock
Joseph Johnson
Mrs Anne McGuire

Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Amyas Morse, Comptroller and Auditor General, **Chris Bedford**, Director, National Audit Office, and **Gabrielle Cohen**, Assistant Auditor General, gave evidence. **Mark Andrews**, Director, National Audit Office, and **Marius Gallaher**, H M Treasury, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Department for International Development Financial Management Report (HC 820)

Examination of Witnesses

Witnesses: **Mark Lowcock**, Permanent Secretary, **Richard Calvert**, DG Finance and Corporate Performance, and **Liz Ditchburn**, Director, Value for Money, gave evidence.

Q1 Chair: Welcome to you all. Welcome, Mr Lowcock, to your first appearance before a Select Committee, and I hope the first of many constructive engagements with you. Liz Ditchburn, we welcome you back too.

I read this Report and thought it was quite negative. If I put a bad/good news thrust on it, the bad news is that you have not at present got a clue as to whether or not there is value for money in the spending that you undertake, and the good news is that you do recognise that. Having taken that bit, although I am very disappointed about not a lot happening even in the last year or so, we want to hear a lot from you today about what you are going to do about your lack of financial management and control and value for money approach, and some idea about when quite a lot of that is going to be implemented.

You had a Report in 2008 that was called “Making it Happen”, which presumably was a Report about sorting out your in-house systems to make more sense of them. Within that there appears to have been a financial plan called your Money Action Plan. Then suddenly in April 2010, you stopped monitoring it because it was a lower priority: page 18, paragraph 2.3, you deliberately stopped your separate reporting process. At best, to me, that seems worrying, at the worst shocking. Perhaps you would like to explain why, and what you have done more recently.

Mark Lowcock: Thank you, and Richard and Liz may help me with part of this. Firstly, our whole agenda in the Department is focused around maximising the value we do get for our money. That is one of the first things that the Secretary of State said to us when he took office in May last year. He also said to us that he wanted a different approach to value for money, and the core reason why we moved beyond the 2008 Money Action Plan was that the new Government

came in with a different focus on value for money and a slightly different agenda. We do have a forward strategy, which the Report recommends, called our Finance Improvement Plan. We talked to the whole of our top leadership in DFID last week about it and we have had some helpful advice from the NAO on it.

There are four key elements to it. The first is about financial capability, leadership skills, training and so on. The second is around the basics you referred to, forecasting, budgeting and management information reporting. The third is this whole area around excellence, how we ensure we maximise the value. I think in lots of areas we get quite good value for money at the moment. What we want to do is to strain every sinew to get 100 pence of value for every pound of the taxpayers’ money. The fourth area is dealing with the substantial challenge that there is in the countries in which we work on, fraud and corruption.

Q2 Chair: That all sounds good, but if I take you to page 19, paragraph 2.5, it says there, “Our investigations showed that the various initiatives are not being fully coordinated. Our experience shows that it is very difficult to deliver cultural change without a clear plan, or without senior ownership and responsibility for delivery of that plan. There is a risk that, without an overall strategy, the Department will not develop its financial management to the required standard.”

Actually, we heard some of that discourse when you last gave evidence, which was—

Liz Ditchburn: December.

Q3 Chair: December. We are now six months on, and the Report indicates that there has not been much progress in those six months on what, even at that

time, you recognised was an enormous and important problem.

Mark Lowcock: Let me give you a couple of areas where we have made progress over the last six months. In the 2009–2010 year, as the Report says, we incurred significant charges because our cash forecasting was not as good as it should have been. In the 2010–2011 year there was a 90% reduction in those charges. To give another example of areas of improvement, we completed earlier this year major reviews of the Bilateral Aid Programme and the Multilateral Aid Programme, and we set out in detail the results we will achieve over the next four years with the money the taxpayer is contributing.

This deals particularly with the concern I know the Committee had last time about whether we could be clear about the results that we will achieve over the period ahead. So we have said, for example, that we will protect 30 million people from malaria around the world. We will vaccinate at least 80 million children through the Global Alliance for Vaccines and Immunisation. We will ensure that at least 11 million girls and boys get a chance to go to school. In a whole set of areas, we have been very clear about the results we will deliver, which is partly a response to the concerns that had been expressed.

The main point I would like to make, though, is that the paragraph you flag refers to our need to have an overall coherent strategy and a programme with accountability—and that is what our Finance Improvement Plan, which I mentioned earlier, provides for us.

Q4 Chair: But if I can pick you up on just one thing you said there, you have clearly had a policy review, which is absolutely right, but I do not think having a policy review is an excuse for not having decent financial systems. Reading this Report, it seems to me that you decided, “Right, we’re having a policy review, you can forget about the finance.” One of the issues you said you now have a clear policy objective on is so many children going into primary education. Our criticism of that last October/November/December was that there was no measurement as to whether or not getting them into a school kept them there or led to an improvement in outcomes and standards. It sounds to me as though you have not changed tack and you will be spending money very much in the same direction with the same sort of output figures, which will give you no greater sense of value for money.

Mark Lowcock: We are due and on track to report to you later in the year on the detailed implementation of all the recommendations from your examination of the education work. We have made a lot of progress on unit costs for keeping a child in school. We have generated more information on unit costs for teachers, textbooks, classrooms and so on. We are very clear about the results we will deliver and we have a very proactive approach to transparency and the desire for scrutiny. As you know, the Government has set up a new watchdog on aid impact, which will look at the extent to which we are delivering the results that the Government has told us to prioritise.

Q5 Chair: There is a difference between delivering the results, getting the money out there and into projects—people spending the money on getting more kids into school—and delivering value for money. That is what we honed in on when we looked at DFID’s investment in primary education. And your discourse does not sound that different.

Mark Lowcock: I agree there is a difference, and the central challenge for us is how well we hit our value for money definition in DFID. For us, value for money means maximising the impact on poverty with the resources we have. So taking the education example, are we buying the inputs economically; are we translating them efficiently into outputs; do we know what the unit costs are; and are we achieving the ultimate effect? Are children not just in the school, but are they, as you say, improving their learning outcomes? Those are the things we will track and put in front of you.

Q6 Chair: There is a group of people wanting to come in, so just give a yes or no. When you come back, as you said you will, in the autumn, will you be able to prove to us at that point on the primary education that you have really developed value for money indicators against which you will measure your investment?

Mark Lowcock: Yes, we will.

Q7 Chair: Who are your non-executive directors? Are they in place?

Mark Lowcock: Yes, the lead non-executive director is Vivienne Cox.

Q8 Chair: Who is she?

Mark Lowcock: She is a person who spent a substantial part of her career at BP. We have another non-executive director called Doreen Langston, who is the chair of our Audit Committee, and has a background in finance in the City.

Q9 Chair: How many BP people are non-executive directors? I just wonder, because I do not know how open the process has been. I did not know that was the answer I would get, but it just makes me question the openness of the process to appoint non-executive directors, being led by the ex-chairman of BP.

Amyas Morse: Because of Lord Browne being an ex-BP person.

Chair: Yes; we do not want it filled with ex- or current BP people.

Amyas Morse: I am not aware of a sort of torrent of BP non-execs, as far as I know. It does not strike me as a problem.

Q10 Chair: Does anybody from the NAO know?

Gabrielle Cohen: Not that I know of.

Q11 Chair: Well it would be very helpful if the NAO could—

Amyas Morse: We have got the names of the non-execs.

Chair: And what was the mechanism for appointment?

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Q12 Mr Bacon: Is Vivienne Cox still at BP?

Mark Lowcock: No. She has a portfolio career. She is involved in climate change and a variety of other areas. She has a significant background in development. For example, she has worked closely with the Save the Children Fund, so she certainly brings added value, knowledge and expertise to our deliberations.

Chair: I do not doubt her personal attributes; it is just that one wants a pretty open and transparent system for the non-executive directors.

Q13 James Wharton: Mr Lowcock, you have talked about the Department changing priorities and changing how spending is being used to deliver more output. Just looking at the Report, it does state at paragraph 10, on page 6, “The Department has not to-date tracked outputs or unit costs against project plans through its core systems.” Isn’t it a bit back-to-front to channel your spending towards delivering better outputs when you do not have the data to decide how effectively you can do that? What evidence did you base the decisions on if you are not measuring properly whether you were actually getting value for money outputs when you made those decisions?

Mark Lowcock: The approach we took to the forward strategic allocation of resources was to ask the teams in the Department to set out, against the priorities in the business plan that Ministers had set—girls into school, healthcare, climate change, wealth creation and so on—what results they could deliver and at what value.

Then we were able to present that package of offers, if you like, which had to compete against each other, to Ministers, so they could pick which they thought were the best value from the set of offers. Then we had to translate that through our new business case system into individual investment proposals where we need to apply the 3E Framework, making sure that we do buy the textbooks or vaccines as cheaply as we can, and we translate them effectively down through the delivery chain.

Q14 James Wharton: So effectively, at that beginning level, it was done based on people’s experience—what they felt they could deliver with the amount that was available. Is that right? What are you doing to get a stronger evidence base for future decisions? Because it does strike me that, although we are talking about experienced people who are making judgments, it is not hard evidence as to where value for money is going to come from.

Mark Lowcock: That was the first stage of the process. We then subjected all that to independent scrutiny. We had a bunch of people from outside the Department who came in, mostly from a financial background or from other organisations in our world. Bill Gates nominated someone to do it, and other people of that sort gave us ideas of people who could help. And they tested all the proposals that came up from our teams before we put them to our Ministers to make the set of choices they were to make.

Q15 Chair: But against what? We are value for money. Did they test it against deliverability or value for money? Not effective delivery, but value for money.

Mark Lowcock: Absolutely. I think I understand your question—against all of them, actually. It might be the case that it is cheaper to send a girl to school in Rwanda than in DRC, but it can still be very good value for money to do that in DRC. Deliverability is clearly relevant to value for money because if the unit costs are low, but you are not confident you will be able to have the whole delivery, that undermines the value. So you have to weigh the things together, particularly in some of the contexts in which we work.

Q16 James Wharton: Could you tell us what you are doing now to build a stronger evidence base than you had before to actually assess the value for money in this project? Also, if, as you now go through the process of implementing some of these new projects, you discover that some are not as good value for money as you thought they would be and some are better, does that mean that the announcements we have seen about targets or the decisions of Ministers could be revisited as you try to get better value for money from that budget that you are spending?

Mark Lowcock: The answer to your last question is yes. Last year, we closed down £100 million worth of programmes because we were not satisfied that they were generating the levels of value for money we aspire to in future.

On the first question, how are we improving the evidence base, we have a big research programme across all the sectors we work in, so we bring in ideas from outside. We are also sharing lessons better than we were in the past within the Department. And because of our new approach, in our business case, to developing each intervention, we are generating better data, in particular better cost data than we used to have. We are in a better position, for example, to say to the team from Bangladesh, “The team from Ethiopia say they can do a similar sort of thing in a different way at better value for money—why can’t you do that?” So in that series of ways—external, internal within the team and across the teams—we have a better set of incentives and competition, and a better framework.

The Secretary of State keeps saying to us, and we keep saying to the teams in the countries, that we are in a privileged position, having a ring-fenced budget; it is beholden on us to make an extraordinary effort to get the maximum value for that. But in addition, if we don’t get the maximum value, if we don’t inoculate as many children as we could, because the overall scale of the need we are trying to deal with is so much bigger than what we on our own could possibly do, there is some girl out there somewhere who is not going to school, or a baby who is not being inoculated. So there is a very strong internal incentive to use all the information systems and processes we can to get maximum value for money.

Q17 James Wharton: May I ask one last question? I appreciate I have had a good run. Where did your understanding of the initial costs and the start-up costs

actually come from when you did the Bilateral Aid Review if you did not have that information in your core systems?

Mark Lowcock: We have some information, not adequate in the past, from our core systems. But we also have an ability to scrutinise across what other development organisations do to look at the research evidence. This whole area of generating better evidence and information on value has been a growth area over the last decade, I would say, so we are able to draw on some things that did not exist in the past. I would like to emphasise, as the Report says, that we are not saying we have maximised the value for money in everything we do at the moment. We have got to improve on that, but I think the direction of travel is a better one than we were on before.

Joseph Johnson: You referred to the double duty point. At a time when DFID's budget is increasing at 34% over the course of the Spending Review period—it is going to end up at more than £11.4 billion, I think, by 2014; it would be bigger than the Home Office and the Ministry of Justice—it really matters to the taxpayer that you do make progress on the value for money point. At a time when you are simultaneously seeking to reduce the administrative costs within DFID by 33% to 2% of your total budget, I am worried that you are going to lose your ability, such as it is at the moment, to exercise good financial management control over this ballooning budget.

If DFID were a venture capital operation, it would be one of the most successful businesses this country has ever seen, in the sense that it was started in 1997 and it has ballooned into an £11.5 billion business. I am really concerned that you are simply not going to be able to manage the growth over the next three to four years, particularly given the new priorities that the Ministers have identified for the Department, moving into many more fragile countries where governance is weak and corruption is likely to be more of a problem. You are doing more measurement, which is the most expensive thing for aid organisations to do. So you are changing the way you operate as a Department. The last point is that I mentioned the geographical focus, but you are also moving into new areas as a Department. You are focusing more on private sector finance, climate change and civil society, bits of which are of themselves not only costly to measure but very, very difficult to measure. So all these different pressures are adding up and making me very worried that you are going to lose what grip you have at the moment.

Mark Lowcock: You are right. We have to work out how best to use our scarce professional resources against that set of challenges. We are increasing the capability in our core finance functions, including internal audit. Because we are closing a third of our overseas offices, we move to focus on a smaller number of countries where the challenge is biggest. We are able to afford a substantial increase of about 150 professional people in the current financial year in those hardest countries where our biggest programmes will be.

We need also to strengthen our systems and our lesson learning so that we do not just do a good job within each country, but we learn lessons and we manage the

risks between the countries. But it is clearly the case that it is a substantial management challenge to re-shape the organisation, putting more professional resources into the places where we have to deliver the most and where the challenge is biggest, and freeing them up from other parts of the organisation.

Q18 Joseph Johnson: To what extent will increasing the proportion of the budget that is going to multilaterals be something of a safety valve for DFID—i.e. it does not really require much effort on your part and does not consume too much by way of administrative time and cost?

Mark Lowcock: We do not view it in terms of a safety valve. The approach we have taken to the multilaterals is to put money where we can maximise our value for money. So we have left a number of multilateral organisations that we thought were poor value for money. We have constrained the funding to others with which, again, we were not satisfied. Where we think we will get better value, we have been willing to put more money into them. For all of them, whether we are happy at the moment or not, in each case we have set an agenda for improvement. We do have a substantial work programme to track that improvement and make sure it happens.

Q19 Chair: What is the planned split by 2013–2014?

Mark Lowcock: Between bilateral and multilateral? It does move in the direction somewhat that—

Q20 Chair: So what is the planned split?

Mark Lowcock: Ministers have not allocated the full budget for 2014–2015 yet, because they have held some back.

Q21 Chair: What is the planned split so far?

Mark Lowcock: The planned split so far is about 45 bilateral, I think, and about 45 core multilateral, but then there is some flex between the two of those.

Q22 Joseph Johnson: When you did your analysis, the multilateral review, which were the best multilaterals in terms of value for money, and which were the worst?

Mark Lowcock: Overall, probably the best were organisations like the Global Alliance for Vaccines and Immunisation, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and some of the private sector infrastructure funds. At the other end of the spectrum, the United Nations Industrial Development Organisation, UN-HABITAT, the United Nations International Labour Organization and the United Nations International Strategy for Disaster Reduction performed poorly.

Q23 Joseph Johnson: Moving from the value for money side to the leakage and corruption side of the piece, my worry would be increased if your financial management capabilities become increasingly stretched over this massive budget over difficult areas of the world. I was really shocked when I read the Report and saw that DFID has reportedly identified as fraudulent only 0.01% of its budget, some £459,000. This simply beggars belief. It is so far off the scale of

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what one would rationally expect to be the case. What do you think the real level of fraud within your budget is?

Mark Lowcock: We have to strain every sinew to make sure that we do not suffer losses. We do have a five-point plan, essentially, to deal with that. Firstly, we have set up a new group at senior level, which Liz chairs, and she can talk about it, to look at that, including trying to get a better handle on the nature and scale of leakage and fraud in different places. We have tightened up our fiduciary risk assessment, so we do not just identify but also manage the risk. Crucially, we are strengthening our approach to recovery. As the Report says, we have quite a good record on recovering losses once they occur. We aspire to improve on that record.

Joseph Johnson: But even half of £459,000 that you have recovered is £200,000 in a budget of £6.4 billion.

Stephen Barclay: £6.6 billion. You cannot describe a recovery of £200,000 out of a budget of £6.6 billion as a good record.

Mark Lowcock: Well, the record is against losses that we have identified.

Chair: But you are reactive.

Nick Smith: Hold on, your own internal audit department says you significantly under-capture incidence of fraud.

Q24 Joseph Johnson: My question is, what is the real rate of fraud?

Mark Lowcock: Well, I think it would be ridiculous for me to say I can guarantee that we identify every loss. No organisation is in a position to do that.

Q25 Joseph Johnson: Across public procurement as a whole, the Cabinet Office is projecting a rate of 1% for public procurement. That is a starting point for some attempt at estimating your fraud levels. Would you say 1% applied to DFID, or is it higher or lower?

Mark Lowcock: It is very, very difficult to put a number on it.

Q26 Chair: Can Liz Ditchburn answer that?

Liz Ditchburn: We have started a rolling programme now of working our way through fraud and risk abuse assessments, which will do exactly the kind of work that you describe.

Q27 Chair: Can you answer Jo's question?

Ms Liz Ditchburn: We do not have a number.

Q28 Mr Bacon: You do not have a number at all?

Liz Ditchburn: We are starting on the high-risk areas now, and working our way through the programme. We will be carrying out fraud and risk abuse assessments for key areas of our programme.

Q29 Mr Bacon: But as of now, July 2011, you do not have an estimate.

Liz Ditchburn: There is not a single number that we can put on the whole programme.

Q30 Matthew Hancock: When did the work start?

Liz Ditchburn: Earlier this year.

Mark Lowcock: We have done a number of exercises over the years to try to quantify this. We have asked people—for example, we asked the Saïd Business School in Oxford this question, and they said to us that the levels of reliability and plausibility of the data are so low that you should not take seriously the numbers that are generated. This is one of the points that the Report itself makes: by definition, any abuse typically involves a minimum of two people, neither of whom have any incentive to be truthful about it. When you aggregate all that it is very difficult to know what the total level is.

Q31 Mr Bacon: So you have levels of assurance, and they may be quite low. But this is not exactly new stuff.

First of all in your own area, DFID, the problem with fraud has been talked about for a long time. When Suma Chakrabarti was Permanent Secretary, two Permanent Secretaries ago, he agreed that part of the problem with money going multilaterally was that the rate of fraud of what went multilaterally was higher than what went bilaterally.

DWP has got a huge amount of experience in this. They use what are basically akin to opinion polls through market research to get some sort of estimates. Then having got those sorts of estimates, by whatever means, you can then attach to them some level of assurance; it might be on this tranche, on this segment, on this particular stratum we have got a very low level of assurance, on this bit slightly higher, on this bit slightly higher still. But it sounds like you are not even at first base.

Mark Lowcock: We can provide assessments of the level of risk and the kinds of things that go wrong in different environments and circumstances.

Q32 Chair: But as I understand it, it is the level of risk in the political situation in the country, which is different from the level of risk in relation to the project.

Mark Lowcock: No, the level of risk can include the level of leakage risk, for example. You can look at various things when you come to aggregate all that, having tried for a number of years, as you say, and having asked everyone else what they think levels are, and having looked particularly at our particular portfolio. What we are talking about here is, if I have understood your question, the risk of loss on our portfolio, which it is quite different to, for example, some of the things Transparency look at, which is referred to in the Report, where they identify levels of risk in the environment as a whole. There are some risks in the environment that we are not at all subject to.

Q33 Joseph Johnson: I will try and get a degree of progress on this point. If the Cabinet Office is projecting 1% in the UK for Government procurement, and the UK is a stable OECD country, then you can logically expect the level within DFID's budget to be significantly higher, can you not?

Mark Lowcock: Well, most of the procurement we manage ourselves and run from the UK.

Q34 Joseph Johnson: I am just extrapolating from the Cabinet Office estimate for UK procurement to what you might logically start seeing in terms of the leakage within DFID's budget. I am not just focusing on your procurement specifically.

Mark Lowcock: My response to you is that there are lots of risks of corruption and abuse in developing countries. A lot of them are ones that we do not subject ourselves to. For example, we do not finance the budget of the Government of the Democratic Republic of Congo because it is too risky. We do our own procurement there.

Chair: But that is political, not programme.

Mark Lowcock: We use international suppliers. We have a higher degree of confidence than would prevail in the general environment. So there is a difference between the risk that we face because of the way we manage our portfolio, and the risk that is generic to the environment that we are in.

Q35 Ian Swales: If we refer to Figure 4, isn't the real issue actually that DFID officials are not the final spending arbiters of so much of the money? 40% of it goes out through multilateral organisations. Even in the bilateral, a huge chunk—almost a third—is going out via multilateral organisations, and then other chunks via governance and not-for-profit. So it is nice to paint this picture of DFID officials placing an order for textbooks, but the vast bulk of this money is spent two or three steps removed from your control. Would you agree with that?

Mark Lowcock: That is correct. It is true particularly on the multilaterals, and also when we give grants to NGOs. So we put responsibilities on all of the intermediaries we work with to account to us fully for the funds. We test their ability to manage their own fiduciary risks. But your central point is right: we work through third parties.

Q36 Ian Swales: So if you ask this third party, "Have you seen any corruption in the way you are spending the money?" and they say no, that may not be that great an assurance, really, when that organisation itself may be party to fraud or corruption.

Mark Lowcock: We don't simply take what people say at face value for those reasons. We have to do our own checking, our own fiduciary risk assessment; we need to put more resource into this than we have in the past, particularly because we are moving into tougher places.

Q37 Ian Swales: Just take one example, and then I will finish. There is £1.2 billion going out to the European Commission. How do you satisfy yourself that that is value for money in the way it is spent and that there is no corruption or fraud at the end of it?

Mark Lowcock: Two-thirds of that is a requirement of being a member of the EU. So there is a Treaty obligation; there is no discretion on the Department over that. That is governed by the European institutions, essentially. So we have to do the best we can in the management committees to be bringing these issues forward, and battling away with the Court of Auditors and the Commission and others to be raising these issues, which is what we do.

Q38 Ian Swales: So if you ask, in those management committees, what level of fraud there is via European institutions for our £1.2 billion, is the answer almost nothing there as well? Do we ask the question?

Mark Lowcock: I would have to check what recent dialogue we have had on that with the European institutions. But the core assurance we are able to provide, as one of the 27 members of the EU, is through Europe's own institutions and the voice we can raise.

Ian Swales: To me, this explains the discrepancy. Whatever fraud we might have a perception of is actually happening round the edge of this rim, not under the direct control of the Department.

Q39 Chair: Just so that we are clear what we are saying as a Committee, the particularly worrying thing is, if we are right, that when the amount going to multilateral organisations increases—Jo Johnson said that actually fraud is greater within those multilateral organisations, and you have not even got a baseline and you are very reactive in your responses—a great chunk of the increased spending that everybody supports on international development is at risk of fraud and corruption.

Mark Lowcock: Yes—

Chair: Yes.

Mark Lowcock: My response to that is, regarding the areas for improvement, we have agreed with the multilateral organisations that they need to give a lot of prominence to their own fiduciary risk and other management.

Q40 Chair: But do you share our concern?

Mark Lowcock: There are a number of multilateral organisations that do not have a strong enough record in this area. That was one of the things we bore in mind, together with unit cost effectiveness and so on, when we made the judgments we made on how to allocate resources.

Q41 Ian Swales: I think FIFA is a multilateral organisation run mostly by Europeans, and nobody would be confident about their governance arrangements at the moment, would they?

Mark Lowcock: And I am not accountable for that, I am glad to say.

Q42 Mr Bacon: Can I just ask about this fiduciary risk assessment? You say that there is cause for concern about these, but you take the fiduciary risk assessments into account. What about after you have made your delivery choices? There is still a residual risk. Do you assess it?

Mark Lowcock: Yes, you absolutely have to assess during implementation whether risks are being actively managed and what is happening. That is an area in which we have to do better than we did in the past. We have been relatively better at identifying than managing every element of the risk, and that is why we are strengthening our skills capability, the frontline presence, to improve the handling of the management, not just the identification.

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Q43 Mr Bacon: So you do assess residual risks?

Mark Lowcock: Well—

Chair: Yes or no?

Mr Bacon: You hesitated.

Mark Lowcock: I want to make sure I understand your question.

Q44 Mr Bacon: The ones that remain after you have made your delivery choices, the ones that are still left, what conclusions have you drawn about them?

Mark Lowcock: What we have to do is satisfy ourselves that we can manage the results we are trying to manage, given the risk framework. The point I was going to make in response to your last but one question, I think, is that once we have approved something it is not our starting point that we have dealt with all the risks. In a way, that is when the risk management has to start. That is what I mean by managing the residual risk, through the life of the programme and the project, through the procurement, implementation, evaluation and so on.

Q45 Stephen Barclay: Has any of the £200,000 fraud that has been recovered come from areas where you gave grants to multinationals or other parties? Is that purely from the element that you give as bilateral aid?

Mark Lowcock: That is a figure from the 2009–2010 year, and I would need to check. The 2010–2011 year did include some recoveries from multilateral, yes.

Q46 Stephen Barclay: I have not got the 2010–2011 year here, so on the 2009 we have got the figure of £200,000 recovered. Is that purely from that bit of the budget that you give as bilateral aid?

Chair: Liz, can you help on that?

Mark Lowcock: I would have to write to you on that, Mr Barclay.

Chair: Within a week, please.

Q47 Stephen Barclay: Could you tell us how many countries you give aid to that no fraud was identified in?

Mark Lowcock: In the 2010–2011 year we had 102 referrals made to the central fraud team, of which a third were either definitely proved or strongly indicated. From memory, probably two thirds of those were in named countries. So breaking that down, in that year we were probably doing 60 or 70 countries, so we would not have been identifying a specific case in about half the countries.

Q48 Stephen Barclay: So in half the countries you are giving aid to. Perhaps you could give us a note with a breakdown of the countries you gave aid to, the amount of fraud recovered in each, and the number of staff who are full time in terms of identifying fraud within those countries. It would be quite interesting to match up those. I really want to focus on those countries where you are giving aid and no fraud has been identified whatsoever. Did that not set any alarm bells within the Department that perhaps something needed to be done?

Mark Lowcock: We are not providing very much to some of the countries, and it might be completely

managed through the UK. So if the only thing we are doing is providing a grant to Oxfam and Save the Children and one or two others—

Q49 Stephen Barclay: We are talking about half the countries you are giving aid to; I do not think that example stands for half the countries.

Mark Lowcock: In many of the countries in which we are providing aid, we are providing only relatively small, often very tightly controlled amounts. So the biggest focus for us on our forward looking fraud and abuse risk assessment is the countries where we have the biggest programmes and where we identify the risks to be greatest. That is where we are putting the bulk of our forward looking investigative fraud management resource.

Q50 Stephen Barclay: And how are staff incentivised to identify fraud?

Mark Lowcock: This is something pushed from the top of the Department; the Ministers and management of the Department have told everybody that this is a top priority. All of our top 100 people in the organisation have to have financial management objectives in their job plans. How well they perform on their job plans determines their pay. Beyond that we have a skills enhancement programme, a training programme, so that people have the knowledge, ability and lessons from elsewhere to enable them to—

Q51 Stephen Barclay: So every member of staff in the country has done some fraud training.

Mark Lowcock: Everybody has got to be financially competent if they are doing financial work. We have got a bigger programme of training in this area that we need to push through, and I am not sure that we have got everybody in exactly the right place at the moment. So we definitely need to do more here.

Q52 Chair: You have only got one in five of your head office staff with a financial qualification.

Mark Lowcock: Well, we have a number of different groups of financially qualified staff. We have the core—

Q53 Chair: Is this Report wrong? I read somewhere that one in five of the people working in the finance function in head office, maybe in Kilbride, have a financial qualification.

Mark Lowcock: Maybe I could ask Richard to speak to that.

Richard Calvert: In terms of full financial qualifications, it is correct that that is the proportion of the finance staff. We have more staff who would be part qualified. I wonder whether I could just add one point, though, on the fraud and corruption.

Q54 Chair: Are you happy with that, just before you add another point? One in five of people responsible for the financial function in a Department that looks pretty chaotic have a financial qualification.

Richard Calvert: A full financial qualification. Around half the staff would have some sort of qualification. And no, I think—

Chair: And half the staff would have no qualification.

Richard Calvert: That number has been increasing, and it needs to continue to increase. One of the reasons why the number has been high in the past is actually to do with systems. We have had a lot of people doing quite transactional work in the Department that has not necessarily required a financial qualification. As we go forward, one of the things we really need to do is get our finance staff to stop just doing transactional work and do the more value added work.

Q55 Chair: And as you reduce your numbers by a third, you will be able to recruit more finance staff, is that what you are telling us this afternoon?

Richard Calvert: We are going to recruit more qualified finance staff.

Q56 Chair: Within that reduction of a third?

Richard Calvert: Yes.

Mark Lowcock: That is what we are going to do. We are going to have fewer people who are simply putting data into the system, and more people doing the value added, value for money, financial management, risk assessment and fraud control work.

Q57 Stephen Barclay: But surely it is those who are in country who are best equipped. Even a very elementary starting point would be to have some sort of online e-learning programme that everyone has gone through so you could say, "Yes, everyone's been through this minimum training." It just beggars belief.

Mark Lowcock: Yes, and we have that.

Q58 Stephen Barclay: So that is in place?

Mark Lowcock: Yes.

Q59 Stephen Barclay: Can I just come back to the multinational point in terms of the EU? What was the level of fraud? In terms of the money you gave to the EU last year, which Mr Swales touched on, what was the level of fraud within that budget, or do you just have no data at all on that?

Mark Lowcock: The European Court of Auditors publish Reports on that. I'm afraid don't have in my head the numbers from the latest Reports, but we can provide that to you.

Q60 Stephen Barclay: You are just about to increase the amount of money you give to those organisations. It just seems strange, if you are about to give more money to organisations that are already leaking money through fraud, that you would not be in an active dialogue with them on those issues.

Mark Lowcock: On the case of the European institutions you talk about, we have very limited discretion on the British share of the budget. So frankly it would be the case that if we had total choice over how much to give to the European budget as opposed to some other things, Ministers might make other choices. But the system for financing the European Community budget is not one that we determine in the Department.

Q61 Joseph Johnson: Back on the staffing levels, you said you are going to reduce the number of staff, but

increase the proportion of staff with financial services skills. I am always quite sceptical when I see organisations with two headquarters, particularly when you have fewer than half of your staff, about 1,000 odd people, based here in the UK. Why do you need two headquarters?

Mark Lowcock: For about 25 years we have had a head office in East Kilbride. We hire a lot of very capable people there. The skill base there is different to the one we have in London. It is cheaper to run that location, so we get very good value for money from having two headquarters. Clearly we need a London headquarters to service a set of things that can only be done from London.

Q62 Joseph Johnson: So there are no plans to consolidate your operations on one site?

Mark Lowcock: We have no plans to move to a single headquarters, no.

Q63 Chair: How much do you spend on travel?

Mark Lowcock: Between London and East Kilbride? We can provide those numbers to you. It is clearly much better value for money for us to have the two sites we currently have than it would be if we had to move everyone back to London. That would not be an investment choice I would recommend.

Chair: Sorry, where did you get this?

Q64 Stephen Barclay: That was just in the *Mail*. Sorry, I was just pointing out to the Chair the *Mail* story about the Department spending over £2 million on first class travel and business flights. It is in the public domain. I don't know how many vaccines that would pay for. I am sure there are people who can work out how many vaccines or how many mosquito nets that equates to. Is that value for money?

Richard Calvert: I was just going to give a sense of the relative costs of the two headquarters just to see if we can reassure you on that point. The London office costs us between £8 million and £9 million a year to run. The office in Scotland costs us less than £2 million. So the relative cost of having staff based in London is much higher.

Q65 Joseph Johnson: But how many are in Scotland?

Richard Calvert: Around 500 are in Scotland, and around 800 are in London.

Q66 Joseph Johnson: Why not take more out to Scotland?

Richard Calvert: We are doing just that actually; we are relocating some more work at the moment.

Q67 Chair: And you still spent £2 million on first class and business class travel.

Richard Calvert: The level of overseas air travel at business class has reduced substantially over the last six months.

Q68 Joseph Johnson: What proportion of the workforce will be based in East Kilbride in 2014–2015?

Richard Calvert: At the moment it is probably a little less than half, about 40%, of our UK workforce. We are looking to reduce our footprint in London either by

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subletting more of Palace Street, or potentially moving to another building. That may lead us to move some further work.

Q69 Joseph Johnson: But what percentage, do you think, will be in Scotland by then?

Richard Calvert: I suspect it will still be broadly in the 40% to 50% range.

Q70 Joseph Johnson: But you are going to increase it.

Richard Calvert: At the moment we are moving more jobs, and we keep under review the case for potentially moving more work to Scotland. It is not something where we think there is a right answer. We get good value from the office in Scotland, and we should carry on looking at the scope to move work.

Q71 Matthew Hancock: Can I ask you about the culture of value for money in the Department? There have been concerns for a long time that value for money was not considered a serious issue in the Department. You have certainly been clearer than your predecessor ever was about its importance.

Given that you have a dual headquartered organisation in which only 55%, if I am correct, of staff work in either of the domestic HQ, and therefore you have a very dispersed staff, how do you manage culture change to put value for money higher on the agenda, as you stated was your wish?

Mark Lowcock: Culture change in an organisation like DFID is driven primarily by the priorities that Ministers set, and that top management cascade through the organisation. In DFID we have an additional driver, which is that the people, as the Report says, who work in the Department want to maximise the number of girls who go to school, or children who get inoculated. So a big implicit drive for them is that if we do not get fantastic value for money across all of our investments, we all go home in the evening worrying that there are some people out there for whom we could have done a better job. So that is the motivation and the leadership. We have then got a set of things we have to do to give people the skills, the incentives, the tools, the processes and so on.

Q72 Matthew Hancock: In terms of that leadership, though, and the incentive that comes from the girl who does not go to school in Rwanda if you get value for money wrong, that has always been there. And yet in the past, and still, the organisation has had a pretty poor value for money record. So you cannot use that as a drive, can you?

Mark Lowcock: If we inoculate a child for a few pounds, or provide £5 or £8 for a bed net to stop a family getting malaria, I think that is good value for money. The issue is how do we maximise the value for money. I do think one thing has changed since the coalition Government came into office in 2010: the first thing the Secretary of State said to us was, "The flipside of having the privilege of a protected budget is you have to strain every sinew to get every possible pound to work as hard as it can."

Q73 Mr Bacon: If you were worrying about the fact that if you were only trying harder, if you were doing a

better job, you could be inoculating more children, why were you not straining every sinew beforehand? That is surely Mr Hancock's point.

Mark Lowcock: One of the things I have said is because the Government came in with what I am saying is a different, higher priority approach in this area, and because we did not have quite the same privileged budgetary position, that does change the psychology inside the Department.

Q74 Chair: Are you saying value for money was not a concern of the previous Government?

Mark Lowcock: No, I think it was a concern, but I do think it was given more prominence. As someone who has observed the Department for a long time, this is my observation since May 2010.

Q75 Matthew Hancock: So in the Report on page 26 it says, at paragraph 2.32, "Staff acknowledge that forecasts have been compromised by a reluctance to forecast underspends, because of concerns that unspent funds will be withdrawn." That points to a culture in which value for money is secondary to the need to keep spending totals in your little area, even if it could be spent saving more children's lives in a different part of the Department, given of course that you have, as you say, a protective budget. Does that not show that the culture has not changed?

Mark Lowcock: No, I think what that shows, Mr Hancock, is that for reasons that I find understandable, the team in country x, which sees the staggering needs in that country, is particularly keen to hold onto all the resource they can to deal with the problems in that country. They may have less prominently in their minds the difficulties in other places or other possible alternatives, so we need to deal with that. If we cannot get fantastic value for money in country x, we should reallocate it to other places.

Q76 Stephen Barclay: So are you collecting data on a monthly basis in order to assess that, at the centre?

Mark Lowcock: Yes, we collect different sorts of data on different regularity, but there is a lot of things we collect on a monthly basis.

Q77 Nick Smith: Liz Ditchburn, I wonder if you could tell me more about the proactive measurements that you are introducing to get reliable data on fraud. It has been hinted at the start of this session, but I am not hugely confident that much more has been done to identify fraud.

Liz Ditchburn: On fraud, I think as the Report acknowledges, that we have a good record of investigating allegations and recovering money. But the Report says, and we accept, that we need to be doing more in terms of the proactive identification, but more critically in terms of prevention of fraud. All of us would prefer to be in a situation where we are able to be clear that our controls and our prevention systems are such that actually we are not exposed to fraud.

Q78 Nick Smith: Hold on, just to challenge you here—and I mentioned it earlier on—your own Department says you under-capture instances of fraud. You have to be more honest about the poor record you

have had up until now to give us confidence you are going to do well in the future.

Liz Ditchburn: There are two issues. There is the issue about how good we are at assessing risk, and what we do with the information about how we assess risk. And then there is a separate question about how able we are to quantify potential leakage. We need to be very clear that quantification is not necessarily the answer to whether you can prevent or not.

Not having a single number that we can put on the whole programme and hold up does not stop us from targeting high risk areas, learning lessons across the programme, or putting in place things like more use of independent audits, and making sure that when we identify risks we actually follow those through into safeguards within the programme design, and that we follow up recommendations made by audit reports, etc. These are all things that we can do proactively without having a single number. And what we want to put our effort into is those kinds of safeguards.

Q79 Nick Smith: Okay, so which countries trouble you most about large-scale fraud?

Liz Ditchburn: The first area where we are doing fraud and risk abuse assessment is about the whole modality of financial aid, because we do recognise that when we are using Government systems—

Q80 Chair: You have not answered the question. Can you answer the question?

Liz Ditchburn: I would not answer it in terms of a particular country; I would answer it in terms of types of programme.

Chair: But you were asked it in terms of country.

Mark Lowcock: If I may, whether we face a high risk of fraud in a particular country depends partly on the country and partly on what we do in that country. So a lot of the way we have of managing minimisation of the risk is to choose not to do risky things.

Q81 Nick Smith: Which countries are you looking at to minimise that risk?

Mark Lowcock: We do not provide financial aid in countries like DRC, Nigeria, Somalia or Burma. We do not use Government systems in those countries.

Q82 Mr Bacon: We are talking about budget support.

Mark Lowcock: Not just budget support, Mr Bacon, but including budget support. Other financial aid as well. We do not provide through Government systems in those countries because our assessment is that the risks are too high for us to do that. So in those countries we will work through organisations we can trust and have confidence in, or we will do our own procurement of things like condoms, bed nets or books.

Q83 Nick Smith: So which countries trouble you most about large-scale fraud where you spend a lot of money?

Mark Lowcock: There is a big fraud problem in lots of the countries in which we work, which we inoculate ourselves from because we do not go anywhere near those fraud areas. So for example, I think there is a very big fraud problem in Nigeria. Because we don't finance—

Q84 Chair: But you said you don't invest in Nigeria.

Mark Lowcock: We protect ourselves against that in Nigeria by managing a lot of the activity through intermediaries we have confidence in, but we don't put money through the Government budget.

Stephen Barclay: Just building on Nick's point, one of the things it says at paragraph 3.22 is, "The Department's current approach is largely reactive—it doesn't attempt to quantify its actual and estimated losses." I think that is exactly the point that Nick was speaking to. If one looked at one of the graphs, figure 6 on page 31, we have Somalia, which on the Transparency International corruption index is 1, which is pretty much as high as you can get, and that is an area that you are going to double aid to. So will you estimate the losses? Before you ratchet up aid into Somalia, to what extent will you quantify what you estimate the losses will be, so that in 12 months' time we as a Committee can assess that?

Mark Lowcock: In a minute, I will bring Liz in on this. But firstly, we will only increase our programme in Somalia if we are confident that we can deliver value and deal with the risk. So at the moment in Somalia, the central issue is the thousands and thousands of people who are so hungry that they are moving across the border, and how we provide relief aid and food to those people.

Last year, the biggest part of our programme in Somalia was providing food and other emergency relief. It is clearly a very difficult environment in which to do it, and we did suffer some losses. About 1% of our total programme we lost in an attack by some rebels on a food convoy, part of which we were able to recover because we got some help from UNICEF to get the food back.

But we have a choice in those kinds of environments about how to organise ourselves, and whether we are still going to take some risk because we want to reach those people who, for want of 30 pence a day's worth of food, will starve. So we have to manage the risks, but ultimately we have to make a choice about whether some risks are worth taking, given the benefit that we are trying to generate.

Q85 Stephen Barclay: But again, with respect, that was not my question. One fully appreciates the incredibly difficult decisions in terms of whether one goes in or not. The question was: are you estimating that in advance? You talked about the 1% there. I think you also said the Department's total losses were £100 million, so it is far less than 1% across the piece. What I am saying is that we have a finding in the Report that says one of the issues is the Department is acting in a retrospective and reactive way, and is not estimating losses moving forward. If we want to measure this in 12 months' time, will we have estimates from the Department which we can then judge your performance against?

Liz Ditchburn: You will have the first of our quantified estimates that we are working on. But I want to stress that we are not taking a country by country approach to this—

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Q86 Stephen Barclay: Sorry, can I just clarify that? When are we going to have estimates across each of the countries that you give aid to?

Liz Ditchburn: I want to clarify this. We are not going to do it country by country because that is not the most sensible way to do it. As the NAO Report says itself, whilst the Department's actual risk exposure depends on how it spends and the controls it puts in place, of course we recognise the data that the NAO is putting in front of the Committee around the levels of, for example, the Transparency International data, etc. But the key determinant as to the actual risk and the residual risk that you talk about is how we operate within those countries. We can operate in a very high risk country in a safe way, and we can operate in a moderately safe country in a high risk way.

So the way we think we will get more useful information from quantification—because the reason to quantify is to be able to learn lessons and inform our approach—will be through looking at this modality. So we want to take financial aid first. We are already working on financial aid. We will look at what we think the kind of estimates that might be out there might tell us around potential leakage through Government systems, and we will look at what that tells us about the kinds of controls we need to put in place. We will do that for financial aid and we may do it for the civil society sector, which is an area where we know that some of the smaller NGOs have quite weak control systems. So we want to take an approach that is not country by country, but looks at the way we operate, the risk of those different mechanisms, and then can flow that forward into our design.

Q87 Stephen Barclay: Sure, and that is part of a risk matrix. But your logic seems to be that we do not need to estimate losses in countries where we have a third party, an intermediary providing the aid, because that is a lower risk than the Department doing it directly, and therefore we will not in those instances provide an estimate of aid. It comes back to the point that flows from Jo's earlier questions.

There is still likely to be an element of loss, of fraud, even with those intermediaries and with multinationals. So the estimate you put in place may be lower, but there should still be an estimate put in place for those countries as with other countries. And at least perhaps you should be in a position to say to the Committee, "For the half of the countries where we give the most money, we can come back to you in three months' time with an estimate." I do not get a sense of proportion on this.

Liz Ditchburn: And on a programme by programme basis we will be assessing the risks on any particular programme, whether it is a programme through multilaterals, through an NGO or through financial aid. But we do not think it is sensible to try and artificially aggregate that to a country level and say, "That is the risk in, for example, Bangladesh."

Q88 Stephen Barclay: So if you do not want to do it by country, what percentage of your programmes within the next six months will you have an estimated loss attached to?

Liz Ditchburn: I do not have a figure; we can come back to you.

Stephen Barclay: You could write to us with a note, thank you.

Amyas Morse: Can I just check something with you? I do not think anyone listening would say that if you are trying to give aid to some of these territories it can be a risk-free process. It would be a ridiculous thing to expect. So you can have an adult conversation with people and say it is unavoidable; if you have got places of very acute need, even if we are taking quite high risks, it is still the right thing to do. You want to take the lowest risk channel, but you still want to reach people there, don't you?

I think the Committee is asking, "Can we understand the thought process that goes on there?" We do understand that you might find there is a particular territory where there is very acute need and there is no low-risk way, so then you take the least bad way, and it still might be the sensible thing to do in terms of delivering aid against an area on your acute need map, which I think you do probably have. So there is a factor we are not talking about, which is the level of acute need against leakage, and those two play against each other, don't they? So is it actually difficult for the Department to say that and bring that into the debate a bit more?

Mark Lowcock: The reservation we have about putting a precise number on leakage is not because we are sanguine about the risks or—

Amyas Morse: I did not think you were.

Mark Lowcock:—we are trying to cover anything up. We do not want to put a number out there that we do not have any confidence in, which is essentially spurious. Every time we have asked people, "What's your best guess of the number and your methodology?" and other people come and critique that, they basically say to us, as the Saïd Business School did, you cannot give any credibility or weight to this. We have a zero tolerance approach to this. We are not satisfied to accept any losses.

Q89 Chair: I have to say this is a bit daft. All we are asking is that you make your best estimate. You have heard it from all round the Committee table that obviously it will not be precise and you are working in a risk environment, but you must in sensible business planning put in an estimate of how much you think you will leak. It just seems to be so obvious that you as the management team in the Department ought to be taking that seriously. And what we take from that is you are not willing to share that with us. If you do not have the figure, that is outrageously bad planning.

Mark Lowcock: As Liz said earlier, we have got a programme of work that will generate better information in future than we have now.

Q90 Chair: Yes, but when? Everybody is saying to you when, and you never answer these questions properly.

Q91 Joseph Johnson: The Department seems to be somewhat complacent, because you are suggesting that other countries and donors have higher loss rates to fraud than yours, and yet you are not telling us what

your real loss rates are. So how do you know with confidence that other countries and donors are losing more when you do not really seem to have a grip on what you are losing?

Mark Lowcock: I am not aware of any other organisation like ours that has generated the kind of number you are asking us to generate.

Q92 Joseph Johnson: The Report on paragraph 3.21 says, “The Department believes that loss rates from its programmes are lower than those suffered by other donors, but we have found that there are no reliable, independent sources of evidence to estimate fraud levels.” So how do you have this confidence that DFID is so much better?

Mark Lowcock: We can observe that there are some sorts of frauds that others have suffered that we have not. I think that is where we generate that conclusion from. But as the second half of the sentence says, nobody feels confident enough in the estimates that have been attempted to give them any credibility.

Q93 Joseph Johnson: But it is not saying just from some programmes you have seen lower levels of losses than on comparable programmes run by other countries. It seems to be across the board, at least according to this sentence.

Mark Lowcock: I am not sure that was the interpretation meant by that sentence. I am not sure that would be a claim that we would make. The truth is that we operate more in some of the most difficult countries than some other donors do, so I think compared to some, there are probably some things we do that have a higher risk level and therefore probably a higher loss rate attached to them.

Liz Ditchburn: We also have a particularly strong country network, which I think is really important in terms of making sure that we have more people who are close to where money is being spent, which is in contrast to some of the donors who have less heavy field presence. And that makes it very hard for them to be on top of the money.

Q94 Austin Mitchell: In countries where corruption is endemic like, for instance, Nigeria, you prefer to work through multilateral organisations rather than directly. That is what I understood you to have said.

Mark Lowcock: We do not provide money to the Government in countries like that. We might give it through NGOs, foundations, UNICEF or other organisations of that sort to manage on our behalf.

Q95 Austin Mitchell: Wouldn't it be easier to safeguard it, ensure value for money and eliminate corruption if it was direct project aid Government-to-Government—from the British Government, rather than going through a multilateral?

Mark Lowcock: Yes, indeed, and we do a lot of that.

Q96 Austin Mitchell: So you do that in countries with a high corruption problem?

Mark Lowcock: Yes. For example, in Nigeria, to take that case, quite a lot of what we do is delivered by competitively let contracts to manage the delivery of goods and services on our behalf.

Q97 Austin Mitchell: I am sure the corruption problem, which you have not been able to index or specify for us, is going to be more serious because you are going to be giving more aid to more shaky countries. The table on Figure 6, page 31: I am not quite sure I understand it, but here is a more than 50% increase in expenditure in several countries that are high in the corruption perceptions as measured in 1910—I am sorry, 2010.

Ian Swales: We have not been here that long, Austin.

Chair: Austin has.

Mark Lowcock: The choices Ministers made over where we should focus most of our effort were driven by the scale of the problems they wanted us to tackle and their judgment on our ability to deliver value for money in those areas.

So for example, in northern Nigeria, which has the biggest malaria problem of any non-conflict zone in the world, three or four years ago very few people were sleeping under a bed net. We have financed the delivery of millions of bed nets, which means that more people sleep under them so there are fewer women and children dying of malaria. That has been a safe, reliable programme we have been able to deliver. So we are balancing the difficulty of the environment we are in and the corruption and other risks with the scale of the problem we are trying to tackle, and our assessment of our ability to tackle it effectively. We are juggling all those things.

Q98 Austin Mitchell: It must follow that corruption is going to increase. These countries where aid is increasing by more than 50% include Somalia, Burma, Democratic Republic of Congo, Pakistan, Nigeria and Kenya. So you are going to have a more serious problem of dealing with corruption.

Mark Lowcock: If we make good choices on investments and we deliver them effectively, we will deliver a lot of results with a limited problem. If we make bad choices, yes, we will get into the problem you described.

Q99 Chair: Do you accept the thesis we have got here? If you are putting more money into Somalia, Congo, Nigeria, etc, etc, all for the best of intentions—nobody here would not support those intentions—do you not accept there is a greater risk of fraud and corruption?

Austin Mitchell: It is a yes or no.

Mark Lowcock: I do not really accept that, because whether we face a bigger risk or not depends on our programmes.

Chair: Okay, we will test you against it over time.

Q100 Mr Bacon: The risk could be the same, but the amount of money could be larger. Therefore the total amount that might disappear might be larger, but the level of risk could be the same. Is that what you are saying?

Mark Lowcock: Yes, or—

Q101 Mr Bacon: In that case, do you accept that the total amount of money at risk is larger if you put more money into these countries?

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Mark Lowcock: That sounds to me as though we are just saying, “Are we putting more in country x rather than y?” For example, we can do risky things in less risky environments.

Chair: Okay, you clearly do not accept our thesis, but we hear that.

Q102 Ian Swales: I think all this questioning is about the fact that as taxpayers we want to see the maximum amount of money hit the front line, however we define that. Many of the things you do are also covered by huge charities and not-for-profit organisations. In fact, I have heard you say that you yourself channel money that way. When we donate to those charities we think about the publicity and administration costs.

I would like to go back to this whole issue of multilateral organisations and the extent to which you measure how much of the money—forgetting corruption for the moment; we have done that—is actually hitting the front line, and who are the good ones and the bad ones. You said earlier that you had seen some of the United Nations organisations not doing well, whereas you mentioned the vaccination programme is doing very well. And that might be a clue as to why, because it is obviously very targeted and does not need a lot of administration. It is a long question, but really my question is about what proportion of the money, if you measure it, is hitting the front line through these various organisations.

Mark Lowcock: Yes, we do measure that. The choices we made over which institutions to leave or give less money to, as opposed to the ones to provide more support to, were significantly driven by that question precisely.

Q103 Ian Swales: What did that analysis tell you? Were there really large amounts going to administration? What was the worst percentage you saw that was not hitting the front line—can you remember?

Mark Lowcock: A lot of UN organisations have a standard arrangement of 13%, which is not directly comparable with the 2% that it is going to cost us to run our organisation because categories are slightly different. But in our opinion, a number of those organisations have too high a level of overhead charge. So we have taken the appropriate decisions in respect of that.

Q104 Ian Swales: And do you have freedom? Do we as politicians need to give more strength to your wishes? I think you said with the EEC that a lot of it was via treaties and so on. Do we need to do more to help you target the money better?

Mark Lowcock: Ministers in the coalition Government have been clear on their intention, and acted on a desire to leave organisations if they thought the value for money was poor. That has been an important determinant of it. So Ministers can always decide to leave an international grouping. Of course, with some of them the costs of departure are higher than others. If we leave the EU, that gets us into a whole bunch of costs.

Q105 Joseph Johnson: These admin costs are layered one on top of another. So at the moment DFID is at 2.7% in terms of admin costs, and did you say 13% for the UN?

Ian Swales: On some of the UN agencies.

Joseph Johnson: You have to add these two, so you are talking about 15.7% before you are even starting.

Mark Lowcock: Not quite, Mr Johnson, because the amount of our 2.7% that we allocate to those organisations is very low, so you would be adding a much smaller number to the 13%. But your broad proposition is right.

Q106 Joseph Johnson: How much of the 2.7% are you attributing to the money you are giving to the multilaterals?

Mark Lowcock: I would guess it would be significantly less than a quarter, maybe less than a fifth of our total. Actually much less than that—probably 0.15 of 1% of our total admin budget is going on servicing the multilaterals.

Q107 Ian Swales: As a final one on this, let’s just take the example of the World Bank. It is nearly 10% of your budget. How much of that ends up in aid projects that you would identify as the front line?

Mark Lowcock: The World Bank is in an unusual situation because its administration budget is not paid from the money we give it. It is essentially paid from profits it makes by lending to better off countries.

Q108 Austin Mitchell: I see from Figure 4 on page 17 that 37% of the spending goes through multilaterals, and the biggest one is the European Commission, which is a notorious byword for inefficiency, bureaucracy and inadequate delivery on the ground, but you say that is mandated. What percentage, compared with that 37%, goes through direct Government-to-Government aid?

Mark Lowcock: For the year we are in now, the comparable figure, direct Government-to-Government, is about 40%. Then there are a series of other ways in which resources—

Q109 Austin Mitchell: Is that including projects?

Mark Lowcock: Yes, it is.

Q110 Austin Mitchell: So what goes directly to Governments?

Mark Lowcock: I beg your pardon. That is what we call the financial aid in our jargon. Sorry about the jargon. This is the broad category Mr Bacon referred to earlier as budget support. So in our last financial year, that figure was about 15% of the total bilateral—so something like £634 million.

Q111 Austin Mitchell: Just one final point. I am not altogether sure that in the past the Department has wanted to uncover corruption. It would rather give the impression that all the aid budget goes direct for humanitarian purposes. I had a case of a constituent, Howard Horsley, who went out from being a headmaster to work in Ghana with the Government educationally, and found evidence of corruption. When he blew the whistle he was promptly brought back, his computer records were deleted and he was fired. This

indicates to me that the Department was more concerned to hush up allegations of corruption than actually to investigate and publicise them, and thereby probably shock the community.

Mark Lowcock: That case, as you know, has been looked at exhaustively over a period. I am going to give absolute top priority to turning every stone over under every allegation of misuse, abuse or corruption for the reasons I set out earlier. That is fundamental to maximising our value for money, and to giving you and the taxpayer assurance that we do the best we can with the budget we have to maximise our impact on poverty.

Q112 Mr Bacon: How many staff does DFID employ directly?

Mark Lowcock: 2,370.

Q113 Mr Bacon: Of those, how many are in the UK and how many are overseas?

Mark Lowcock: About 53% or 54% are overseas, and about 47% are in the UK at the moment.

Mr Bacon: So around 1,100 or 1,200 people in the UK.

Mark Lowcock: Yes.

Q114 Mr Bacon: And presumably some of those 1,100 or 1,200 go out to specific countries like Haiti or wherever if there is a specific crisis.

Mark Lowcock: That is right.

Q115 Mr Bacon: But of the others, are most of those 1,100 or 1,200 in the UK most of the time?

Mark Lowcock: The proportion who have to do some travel for their work, I would guess, is more than half.

Q116 Mr Bacon: It just sounds rather high, that you need 1,200 people in the UK to run your organisation. Is that the right balance?

Mark Lowcock: As it happens, Mr Bacon, I agree with that. That is why the proportion who will be overseas will increase over the next four years. We need more of our people in the front line, and we need to cut back on our corporate functions.

Mr Bacon: Finally, a specific question about financial aid—I do not know if it is covered by this—and physical cash. I remember raising this with OLAF, the Anti-Fraud Agency in Brussels some years ago, and specifically in relation to the Palestinian territories where cash was the medium of choice for aid. In fact they said it was essential, and there were fraud risks associated with it. To what extent does DFID get involved in handing out cash? I mean banknotes.

Mark Lowcock: Yes, banknotes very rarely. Increasingly we send, for example, to several hundred thousand people in Northern Kenya who do not have enough to eat typically, a text every two months. That gives them an entitlement to go to a guy who sits in a shed at the end of a village, and put their thumbprint in, and get cash from him. That is a much cheaper way of supporting those people—better value for money than if we were to ship food all the way up from the coast. So we do have a growing area of activity, which the NAO are about to do a value for money study on, on the transfer of purchasing power. Not banknotes, but money more broadly defined, to the most vulnerable, poorest people.

Q117 Mr Bacon: You send them a text?

Mark Lowcock: Yes.

Q118 Mr Bacon: To their mobile phones?

Mark Lowcock: Yes.

Q119 Mr Bacon: So they can afford a mobile phone, but they cannot afford to eat—that is the obvious next question.

Mark Lowcock: They probably share a mobile phone amongst 100 people.

Q120 Mr Bacon: You mentioned Kenya. I promise this is the last question. When I was in Kenya I met an organisation called the Jamii Bora Trust, which was a microfinance institution. It was extremely impressive and had very low admin costs. Do you work with microfinance institutions much?

Mark Lowcock: We do a lot of work with microfinance institutions. But one of the things that are happening is that the formal banking sector is getting better at reaching those poorest people through its own formal financial services. So they are learning a lot of lessons from the microfinance sector.

Q121 Mr Bacon: There was a Radio 4 programme about this only a few weeks ago and it did not sound to me like it was particularly good lessons they were learning. Instead of borrowing the money to finance a vegetable stall they are borrowing the money for their third colour television, and it is not actually producing economic growth, which is what it was designed to do. Did you hear the programme?

Mark Lowcock: I did not hear the programme.

Q122 Mr Bacon: That is an anecdote, but how much fairness is there in that characterisation?

Mark Lowcock: I think some microfinance programmes are very good and others are less good. In general a big dimension of people's poverty is their lack of access to an ability to save or to borrow a few pounds to invest in a business. When they have a chance to access financial services, poor people typically do three things. They buy food, send their kids to school and they start a business.

Q123 Joseph Johnson: Just going back to your point about budget support, £634 million, equivalent to 15% roughly of the total bilateral aid. First of all, what oversight of this money is there at present, or is it literally just a blank cheque to the finance minister of said country?

Mark Lowcock: The oversight starts with the sister organisations of the NAO and your sister organisation; we provide a lot of support to the NAO sisters and other PACs. We then typically will have our own additional audit arrangements beyond that. And then in addition to that, we will have teams on the ground who are doing special studies, often with other donors, tracking from the central Government down to the school whether the money is going there. So there is a complex system of oversight.

Q124 Joseph Johnson: And how do you ensure that it simply does not displace money that would have been

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spent by that country's exchequer on development related issues?

Mark Lowcock: Most countries in which we provide this form of assistance are able to raise so little money—in the case of Tanzania maybe £30 a head per citizen—that it would be inconceivable that they could send every child to school, vaccinate every child, safeguard their borders or run some institutions for the justice sector without that top up.

Q125 Ian Swales: India?

Mark Lowcock: Well the International Development Select Committee has just offered the view that what poverty reduction we achieve in India would not happen in the absence of the DFID programme. We do have a distinctive value adding contribution there.

Q126 Joseph Johnson: So you are saying that India would not have succeeded in lowering poverty rates without DFID?

Mark Lowcock: No, I am saying that at the margin the DFID programmes add to what would otherwise happen. To be honest, it is not me saying that, it is the International Development Select Committee saying that.

Joseph Johnson: But you are citing and approving it.

Mark Lowcock: I agree with them.

Q127 Joseph Johnson: Okay, well you are saying it. My last point on this run of questions is DFID really needs to shovel money out of the door between now and 2014 if you are to hit the 0.7% of GNI target. But this Report suggests your pipeline of approved or viable projects is not sufficient to do that.

My worry is that you are going to use the various release mechanisms that you have at your disposal, multilateral organisations or straight budget support—i.e. just giving money to finance ministers around the world in order to hit your target, especially given that the Department is already closing down some very big country programmes and freezing India in relative terms to the rest of the programme. So are you not simply just going to shovel money to the multilaterals and in budget support?

Mark Lowcock: My projection is that the proportion of general budget support will probably roughly halve over the next four years. So no, we will not do that.

Q128 Joseph Johnson: To 7.5% of the bilateral programme?

Mark Lowcock: I think to about 6% for general budget support. I will have to write to you with the precise number. We have got the numbers. You are right to say we have a big portfolio to build up. Most of it needs to be in place from the 2013–2014 year. The reason we are substantially increasing our professional capacity now, hiring an extra 150 people for those tough environments, is so that we do give ourselves the two years to build up all those projects so that we are not left with poor choices to make in two years' time.

Q129 Chair: I only have one final question. You clearly have got a long way to go on the necessary information you need to have the financial controls.

You tried to upgrade your IT system and it got caught up in the moratorium. How long was it delayed for?

Mark Lowcock: We had to adjust the way we implemented the system in order to avoid getting caught completely on the moratorium. But we did suffer some delays.

Chair: How long?

Mark Lowcock: I think a few months on one or two—

Chair: How long?

Liz Ditchburn: We have changed the way in which we are trying to develop the system. We have an IT system that has good functionality, but we know that we can get better use of it if we use it in different ways. So what we want to focus our time and effort on is using it in different ways primarily. There will be some system investments—

Q130 Chair: I don't want to get back into it, because we are running late. The Report says that you have not got the information. There is no timely data, especially on the projects. You do not have business plans for the £3 billion you are pulling out. Data on your IT system does not match payments. £3 billion spent in 2009–2010 for which no project forecasts are being entered into the system. So where you think you have good functionality, I had assumed that your new IT project was going to deal with some of these things that were going wrong.

Mark Lowcock: Those were primarily issues of migration between the old system and the new system.

Q131 Chair: So what were you spending the money on? Were you wasting the money before it was stopped?

Mark Lowcock: No, we were taking the time it took to migrate the data from the old systems onto the new ones. That was what was happening in that—

Q132 Chair: So what was stopped?

Liz Ditchburn: There are two issues about data availability. There is the absolute data availability. We are working in countries that do not have, as the Report acknowledges, fully developed data systems, so there is work on actually substantively getting the data and getting access to the data.

Then there is a second issue that the Report flagged, which is about whether we hold all the data in a single, integrated IT system. We do not hold all the unit cost or results data in a single IT system. We hold all our financial information in a single IT system. We know we can use that better. There are some areas that the Report has pointed out to us that we were already working on. But on the question about whether we seek as an urgent priority to integrate all of the results and unit cost data into a single IT system, we are saying that is not our immediate priority.

Chair: It was before, but it no longer is.

Liz Ditchburn: Our priority is to get the data to ensure that all the programmes have unit cost information, to make sure that we have the skills in place to do that. Then we may still want to come back to whether we should get all the results—

Q133 Chair: What were you buying with an IT system that was stopped by the moratorium? Can you just answer? You are very evasive. What were you buying?

The Report says there was an IT system that was supposed to give you the data that allowed you to do better monitoring and financial control. That was stopped. What was it, and therefore what have you changed since? Just directly, please.

Richard Calvert: We bought an IT system in 2007 which we rolled out in 2007–2008. That system was bought well before the moratorium. That system continues to work and is our core finance system.

Q134 Mr Bacon: That is ARIES?

Richard Calvert: That is the ARIES system.

Chair: And then there is another one with another name.

Richard Calvert: Yes, AXIS.

Q135 Mr Bacon: What bit has been chopped?

Liz Ditchburn: Developing that system further, not a new system.

Richard Calvert: The point of AXIS was not to buy a new system in place of ARIES or to fundamentally change ARIES. The point of AXIS was two things: firstly, to improve the way we used ARIES, so some of the ways the system had been set up; and secondly, to look at whether we could integrate all our performance data. As the NAO quite rightly pointed out, some of our project level performance data is not held on ARIES, it was not set up to do that. So the second part of AXIS was to look at whether we could integrate that into the ARIES system.

The position after the moratorium is that we have put that second piece of work on hold. We do not think that fundamentally matters because we still gather all the project data, we just hold it in a separate system from ARIES. What we have continued to do, irrespective of the moratorium—and the moratorium does not prevent us—is improving the way we use ARIES. So for example, the issue that you pick up in the Report about the gap between spend and cash forecasting of £3 billion in 2009–10 was a transition issue with the first full year of ARIES. That issue is fully resolved. A lot of the issues around forecasting and cash management are now resolved, and the moratorium has not prevented us from doing that.

Q136 Chair: Is it the view of the NAO that chopping AXIS was wise?

Chris Bedford: It allowed some items to go forward.

Q137 Chair: Was it wise?

Chris Bedford: It was a decision that the Department took.

Q138 Chair: Was it wise? If people were absolutely straight, we could finish this session.

Chris Bedford: It was wise in the circumstances, yes.

Chair: It was wise in the circumstances. And you will not be coming back in a year's time telling us we have not got the information we need to make sensible financial claims.

Chris Bedford: They have got developments to do.

Q139 Chair: So you will not be coming back to us and saying that in a year's time?

Amyas Morse: No, we are not guaranteeing that we will not be coming back to you.

Chair: Oh, dear, dear, dear.

Q140 Mr Bacon: We had the Tanzanian Public Accounts Committee here recently. They are very concerned about the £29.5 million that is owed to the Tanzanian Government by BAE Systems, and which BAE Systems agrees that it should pay. They would like it to be paid to the Government of Tanzania; they regard it as Tanzanian taxpayers' money. I have not yet had the chance to have a proper discussion with BAE Systems about it yet, although they have offered one, but can you tell us what role you have played in discussions on this?

Mark Lowcock: We sent you a note on this. In summary, at the request of the Director of the Serious Fraud Office, we helped the Government of Tanzania develop a proposal for the possible use of that money. We have facilitated the dialogue between British Aerospace and the Serious Fraud Office, who are actually the parties. It is also the case that the Secretary of State shares the concern that you have expressed and is himself in dialogue with BAE.

This has been running on a while, as you say; substantial expectation is being built up. Across the political spectrum in Tanzania, the Chair of the Public Accounts Committee is one of the people who came, and who you have probably met. So it does seem to us that the parties need to make faster progress and British Aerospace in particular has some things to do to move this forward.

Q141 Mr Bacon: I know from my experience in Kenya and from previous hearings that your willingness to engage in budget support depends not only on different countries but on different Ministries. So for example, years ago DFID was happy with the Kenyan Ministry of Education, but much less so with the Ministry of Health. If you were to characterise the Tanzanian Government generally and its fitness to receive budget support, where would it be on a scale of one to 10 where 10 is very good and one is dreadful?

Mark Lowcock: I think they are closer to 10 than to one, in the education sector in particular.

Mr Bacon: 5.1 is closer to 10 than to one.

Mark Lowcock: Well, 7.5 if you like.

Q142 Mr Bacon: Do you have quite a high level of confidence?

Mark Lowcock: Certainly in the education sector. If you look at what has happened, there used to be 4 million girls and boys in school. There are now 8 million. The pass rate of exams at the end of primary has seen a fivefold increase. The transition rate from primary to secondary over the last decade has gone up fourfold. And that is notwithstanding the fact that the Government of Tanzania, which spends 20% of its total national budget—a very high figure by international standards—on education, still can only afford £2.50 per child for books and equipment and so on. So the Government of Tanzania have said to British Aerospace, "Can you please use this money to buy us 4 million more textbooks, 120,000 desks and to improve

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the other infrastructure in our schools?" And in our opinion, if that was done it would be good value for money.

Mark Lowcock: I am sure they would be happy to compete for the tender from the Government.

Mr Bacon: They would be happy to compete, I am sure.

Q143 Mr Bacon: There is a very good school furniture manufacturer in South Norfolk, by the way.

Chair: Okay, thanks very much.

Written evidence from Department for International Development (DFID)

Thank you for sending me the transcript of the recent PAC hearing for comment. I attach the oral transcript with some minor tracked changes included (Annex A). The additional information requested by the Committee is set out below:

1. QUESTION 46

The amounts recovered in 2009–10 all related to bilateral aid.

2. QUESTION 48

I attach a table (Annex B) which details the countries we provided bilateral aid to in 2009–10 and 2010–11 and the amount of fraud losses identified and recovered in each. It is a core responsibility of all DFID's programme and administrative staff in-country to deter, prevent and detect fraud and other abuse, and we design our programmes and our internal procedures to achieve these objectives. We also engage external auditors and monitoring agents at country level to check the financial performance of DFID-funded programmes, which includes a role in identifying potentially fraudulent expenditure, as well as taking assurance where appropriate from some of the controls operated by DFID's key partners such as the World Bank. In addition, a number of central teams at headquarters are responsible for addressing specific aspects of fraud and corruption risk, including the Counter Fraud Unit, the Anti-Corruption Team and Finance and Corporate Performance Division.

3. QUESTION 59

The European Anti-Fraud Office (OLAF) recovered a total of EUR 47.6 million from the EU's external aid budget between 2005 and 2009. If you require further information, OLAF's report can be accessed through the link below:

<http://ec.europa.eu/antifraud/reports/olaf/2009/3n.pdf>

4. QUESTION 63

Details of travel costs between London and East Kilbride are set out below:

	<i>Air</i>	<i>Rail</i>	<i>Total</i>
2009–10	£323,236	£105,661	£428,897
2010–11	£248,424	£126,108	£374,532
2011–12 (1st quarter)	£67,919	£28,243	£96,162

5. QUESTION 88

We are undertaking a rolling assessment of DFID's exposure to the risk of fraud and other abuse across all its programmes and its administrative processes. This risk assessment is drawing on both qualitative and quantitative data, including information from our partners and other sources as well as DFID's own experience, and is helping us strengthen our systems to deter, prevent and detect fraud.

We are conducting our fraud risk assessment by aid modality, working progressively through those areas which we consider to have the greatest exposure—with an initial high-level assessment followed by further work to drill-down into more detailed risks and responses. The first area under examination is financial aid, which forms around 290/0 of DFID's bilateral programme, and we have provisionally identified civil society organisations and our major multilateral partners as the next two areas for assessment after that.

6. QUESTION 128

In 2014–15 it is estimated that DFID will provide approximately 3.70/0 of its bilateral programme as general budget support. This is based on projections of what DFID would spend on general budget support programmes not all of which have yet been approved. If sector budget support is included the figure would be 9%.

7. I would also like to clarify, in our response to question 54, that the number that has been increasing refers to staff with financial qualifications and the number that has been high in the past refers to staff with no financial qualifications.

3 July 2011

Annex B

LOSSES AND RECOVERIES IN DFID'S BILATERAL AID PROGRAMME 2009–10 AND 2010–11— ANALYSED BY COUNTRY

	2009–10		2010–11	
	<i>Gross Loss</i> £	<i>Fraud Recovery</i> £	<i>Gross Loss</i> £	<i>Fraud Recovery</i> £
Afghanistan	167,870	167,870		
Balkans (includes Bosnai, Serbia, Kosovo)	4,021	4,021		
Bangladesh	9,135	6,045		
Burundi				
Caribbean				
Central Asia, South Caucasus, Moldova				
China			14,383	14,383
Democratic Republic of the Congo	231,248	1,257	2,018	-
Ethiopia			278	278
Ghana	3,322	3,322	44,529	13,000
India			252,317	252,317
Indonesia			44,323	44,323
Kenya			101	89
Liberia				
Malawi	3,000	—	658,434	619,409
Montserrat			1,461	-
Mozambique				
Nepal				
Nigeria			1,494	1,494
Overseas Territories				
Pakistan	668	668	7,969	7,969
Palestinian Authority				
Rwanda	37,746	13,720		
Sierra Leone			116,471	116,471
Somalia	270	—		
South Africa			1,300	1,300
Southern Africa Regional (inc Lesotho, Angola)				
Sudan				
Tanzania	295	—	310	310
Uganda			12,700	-
Vietnam				
Yemen				
Zambia			1,793	-
Zimbabwe				
Grand Total	457,575	196,903	1,159,881	1,071,343

1. The figures in the table above do not include a £1.5 million loss in Kenya, which was DFID's share of the losses to fraud and other abuse in the Kenya Sector Support, Programme, as this loss was not confirmed until 2011 with the finalisation of the Government of Kenya's investigation. We expect to recover the whole of this amount.

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