House of Commons
International Development Committee


Fifth Special Report of Session 2014–15

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The International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for International Development.

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Dr David Harrison (Clerk), Chloe Challenger (Senior Committee Specialist), Louise Whitley (Committee Specialist), Richard Ratcliffe (Committee Specialist), Zac Mead (Senior Committee Assistant), Paul Hampson (Committee Support Assistant) and Hannah Pearce (Media Officer).

Contacts

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Fifth Special Report


Government response

Introduction

The Department for International Development (DFID) welcomes this report by the International Development Select Committee, which examines ICAI’s work as described in its Annual Report 2013-14. Government responses to the report’s conclusions and recommendations are set out below.

DFID Response to the Conclusions and Recommendations

The Triennial Review of ICAI

RECOMMENDATION 1. We welcome the recommendations made in the Cabinet Office’s Triennial Review of ICAI. We are pleased to see that ICAI has already undertaken two broader, thematic inquiries (‘How DFID Learns’, and ‘DFID’s Private Sector Development work’), and that a number are included in the Year 4 workplan. However, it is important to keep IDC and ICAI work distinct. ICAI’s memorandum of understanding with DFID prevents it from trespassing into policy areas, and whilst we currently have no cause for concern, we will ensure that ICAI keeps to its MOU when pursuing its new, more wide ranging inquiries. (Paragraph 8)

Noted.

RECOMMENDATION 2. Following the Triennial Review, our sub-Committee Chair has participated on the selection panel for ICAI’s future Chief Commissioner. We will hold a pre-appointment hearing for the Secretary of State’s preferred candidate for Chief Commissioner in the autumn. We will continue to develop our formal role in signing off ICAI’s workplan. (Paragraph 9)

Noted.

RECOMMENDATION 3. Our new practice of taking formal evidence—as opposed to simply holding an informal meeting—for each ICAI report as it is published is working well. The process has helped strengthen the collaboration between us and the Commission; and it has enhanced our scrutiny of DFID. We plan to continue with the
model over Year 4 of ICAI’s operations. We have found it useful when ICAI has submitted evidence to our own inquiries, and request that ICAI does this whenever it can. (Paragraph 12)

Noted.

Lessons for DFID

RECOMMENDATION 4. We have noted ICAI’s ongoing concerns about the ability of multilateral agencies to deliver consistently and well at country level. Like ICAI, we are anxious that improvements to the central management of multilaterals filter down to country level. We were concerned by the failings in engagement with the EU which ICAI noted. We welcome ICAI’s forthcoming inquiry on multilaterals; it should look particularly at the extent to which bilateral and core funding of multilaterals are ‘joined up’. DFID plans to carry out a Multilateral Aid Review in 2015. We recommend that, at the same time, it also undertakes a bilateral aid review. These simultaneous reviews should include comparisons between delivering aid multilaterally and bilaterally so that the relative opportunities and challenges connected with both mechanisms can be assessed. We also recommend that DFID ensure that the 2015 Multilateral Aid Review includes a careful analysis of the Department’s in-country capacity to manage multilateral partners, and that the Department has the right skills and processes in place to ensure its funds are spent wisely. (Paragraph 20)

Partially Agree.

As part of the next Resource Allocation exercise, DFID will conduct a process to allocate resources across both multilateral and bilateral channels.

We agree that comparison of value for money across delivery routes must increasingly guide the decision whether to allocate resources to multilateral organisations or alternative delivery routes. We are identifying areas where it is appropriate and feasible to do such comparisons, recognising that many development programmes are specific to local contexts that can change rapidly. We will continue to work closely with multilateral organisations to strengthen the evidence base to guide allocation across alternative delivery routes, and will update our approach to making comparisons between channels as part of our preparations for the next full MAR in 2015.

Where comparisons of effectiveness of multilateral and bilateral aid are not feasible, we are developing alternative methods to ensure value of money. For example, in the recent resource allocation round, when developing our future programmes we have taken into account the countries and sectors in which multilateral organisations work. This enables us to consider how best to influence the work with these organisations to deliver our goals and to improve the effectiveness of our bilateral programmes.

We will consider the most effective way of assessing DFID’s in-country engagement with multilateral partners. Earlier this year we strengthened programme management
processes to enhance programme delivery in a wide range of difficult operating environments. We also regularly undertake project visits, often with other development partners, sharing findings with them and partner governments to help improve their learning and management capacity and strengthening DFID's programme management.

RECOMMENDATION 5. As we indicated in our report on *DFID’s Performance in 2012–13*, like ICAI, we welcome the measures DFID is taking to improve programme management. But we note ICAI’s concern that DFID has yet to develop strategic guidance on when and how contractors of different sizes and specialisms can deliver most effectively so that an appropriate contractor is engaged for the programme or project. We will follow up these and related concerns about programme management, including progress in implementing changes, in our report on DFID’s Departmental Annual Report this autumn. (Paragraph 25)

Noted.

DFID has pursued a number of initiatives to ensure that the correct contractor is engaged for the appropriate programme. DFID’s guidance has been updated to emphasise the importance of the Delivery Route appraisal. Business Cases valued at more than £5m continue to be approved by the Secretary of State. Procurement and Commercial Department continues to build commercial capacity across DFID, empowering key stakeholders to make informed decisions on programme delivery routes whilst complying with DFID guidance (Smart Rules). Recent examples of this include Commercial Leadership training for all existing Senior Civil Servants in addition to commercial training for DFID’s Programme Management Cadre and Senior Responsible Officers.

DFID has made significant efforts to engage with potential delivery partners from all sectors earlier in the procurement process to better understand the different options available prior to going to market. DFID has also developed a Supplier Engagement Strategy through which we proactively engage across all delivery channels (including Small and Medium Enterprises and Civil Society Organisations) to stimulate interest in DFID activities leading to an increased supply market and more competition to deliver programmes.

RECOMMENDATION 6. The revelations about TradeMark Southern Africa in December 2013 demonstrate the damaging consequences of weak programme management. We were disappointed that DFID’s Director General Finance and Corporate Performance could give us no updated information on the improvements to DFID’s internal audit promised by the Secretary of State when she closed down TMSA in December 2013. *DFID should provide an update on internal audit in its response to this report.* (Paragraph 26)

Noted.
Internal audit in DFID has been significantly enhanced since the start of the year in order to strengthen assurance over DFID’s risk management, control and governance. The Internal Audit Department (IAD)’s capacity has been increased in line with the Secretary of State’s commitment to the IDC. We have recruited additional staff increasing the team by 60%. New team members have been recruited to enhance skills, experience and capabilities including from private sector, development and policing backgrounds. They hold a range of professional qualifications including accountancy, audit and procurement. The budget has increased by 44% to £2m to reflect additional pay, training and travel costs.

The coverage of the IAD has increased. The IAD will now audit every country office at least every two years, which marks a significant improvement from the previous average of four years. The scope of each country office review is broader and deeper, to ensure increased quality and coverage of country programmes. A five year strategic assurance plan has been developed which, in addition to country office coverage, ensures that all head office functions are covered over a five year period. Professional services support in the specialist area of IT risk has been put in place.

The counter fraud section has been restructured in order to focus on investigations, fraud assurance and fraud detection.

RECOMMENDATION 7. ICAI is concerned that DFID’s corporate results agenda—and in particular its use of ‘reach indicators’—is distorting programming choices. This is something we intend to keep an eye on. We will follow up ICAI’s points in two forthcoming inquiries, Beyond Aid, and DFID’s Departmental Annual Report 2013–14. (Paragraph 28)

Noted.

DFID has a strong focus on results across all of its work, with development results being monitored and managed at project level (against logical frameworks), at portfolio level (against Country Operational Plans) and at corporate/DFID-wide level (against the DFID Results Framework (DRF). This is a key pillar of driving better value for money from UK aid.

DFID is focused on delivering against our results commitments set out in the DRF, Country Operational Plans and project logframes to ensure we achieve maximum impact. Our results commitments are based on priority needs that central teams and country teams have identified and not distinct programming choices. Programming choices and decisions are then made based on evidence and analysis of what offers the best value for money for delivering results to meet these priority needs. Delivering results sustainably is a key element of this at the design, procurement and delivery stages.
DFID’s self-evaluation function

RECOMMENDATION 8. We find it worrying that DFID does not know how much exactly it spends on self-evaluation. However, the amount committed from central budgets alone is £200 million, which is a huge amount. Such spending might be justified if the lessons learnt were widely diffused through the organisation but it appears they are not: ICAI’s recent finding that DFID has a culture where staff often feel afraid to discuss failure is of great concern to us. DFID’s spending on self-evaluation dwarfs ICAI’s costs, which at only £3 million per year represent good value for money. In its response to this report, DFID should state the total amount that it spends on self-evaluation. (Paragraph 32)

Noted.

DFID commissions evaluations that are carried out by independent external teams through the Global Evaluation Framework Agreement (GEFA). When GEFA was set up in 2012 the market was initially given an estimated figure of £150m as the potential pipeline of business but to date this has not been realised. As part of monitoring the overall portfolio, the DFID Evaluation Department has started more closely monitoring evaluation costs. In 2013/14 DFID published 28 evaluations at a total cost of £8.84m. This does not include evaluation costs contributed by other donors for joint evaluations.

DFID-commissioned evaluations are distinctly different from ICAI reviews. DFID commissions evaluations that are tightly focussed, in-depth, and systematic, using robust internationally accepted methodologies to measure impact. ICAI has developed its own methodology to scrutinise official development assistance and effectively complements DFID evaluations by providing a range of short, accessible snapshots of DFID’s performance. As ICAI said at the recent IDC hearing, DFID evaluations will in future provide a rich source of detailed material on which ICAI will be able to draw as they increasingly move towards carrying out broader more thematic studies.

Transition

RECOMMENDATION 9. We agree with ICAI that all possible effort must be made to ensure a smooth transition for Commissioners, contractors and the Secretariat in May 2015. There are many risks: for example, whether the new contractors are appointed on time. We are concerned that there is a risk of a big gap in 2015 in reports and other ICAI functions is minimised. Another priority for us that possible organisational changes, and changes in personnel, do nothing to impede ICAI’s independence from DFID. In its response to this report, DFID should set out how it is managing the risks. We will be keeping a watchful eye on preparations for the transition, as well as DFID’s progress in addressing the important recent ICAI findings set out in this report, all of which we intend to follow up in forthcoming inquiries this autumn. (Paragraph 35)

Partially Agree.
DFID has been working closely with the ICAI Secretariat on planning to ensure a smooth transition. Alison Evans, the Secretary of State’s preferred candidate for the post of Chief Commissioner, will appear in front of the Committee in the near future for a pre-appointment hearing. If her appointment is confirmed by the Secretary of State, she will participate in the selection of a new Board of Commissioners as recommended by the Triennial Review.

The process for selecting new contractors should be complete early in the New Year. The new Chief Commissioner will be on the selection panel. A representative of the IDC will be invited to observe the final selection.

At DFID’s suggestion, the ICAI Secretariat has recruited a Transition Manager for one year to help ICAI manage the transition effectively. Additional Secretariat staff are currently being recruited. DFID will continue to work closely with ICAI to manage the risks of transition.

A short of extension for the current contractor and Commissioners has been agreed up to the end of June 2015 so that remaining work from Phase 1 and handover with new contractors and Board can be completed satisfactorily.