

International Development Committee

Oral evidence: [ICAI's Annual Report 2015-16](#), HC 685

Tuesday 18 October 2016

Ordered by the House of Commons to be published on 20 October 2016.

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Members present: Stephen Twigg (Chair); Fiona Bruce; Dr Lisa Cameron; Jeremy Lefroy; Albert Owen; Mr Virendra Sharma

Questions 1 - 74

Witnesses

I: Dr Alison Evans, Chief Commissioner; Richard Gledhill, Commissioner; Marcus Cox, Lead Contractor; and Andrea Baron, Head of Secretariat, International Commission for Aid Impact

II: Mark Lowcock CB, Permanent Secretary; and Joy Hutcheon, Director General Finance and Corporate Performance, Department for International Development

Examination of witnesses

Witnesses: Dr Alison Evans, Richard Gledhill, Marcus Cox and Andrea Baron

Q1 **Chair:** Good morning, everyone, and welcome, Alison and her team, for this session on the ICAI annual report. The format for this is that we are aiming to have a two-hour meeting. We have two panels. We will spend an hour with the commissioners and then an hour with DFID. We know who you are, but very briefly introduce yourselves and then I will kick off with the first question.

Dr Evans: Hello, I am Alison Evans. I am Chief Commissioner of ICAI.

Richard Gledhill: Richard Gledhill, Commissioner.

Andrea Baron: Andrea Baron, Head of Secretariat at ICAI.

Marcus Cox: Marcus Cox, technical director on the service provider to ICAI.

Q2 **Chair:** Thank you very much indeed. We have 11 questions that we are seeking to cover over the next hour, so we have roughly five or so minutes on each. Let me kick off. As you will know, we took evidence last month from the Secretary of State. She has criticised the department for waste and funding lost as a result of fraud. She informed us that she had had to close several programmes. However, ICAI have given DFID a green/amber on its management of fiduciary risk. Can you set out for us whether you think this is a difference of opinion and, if so, how you explain your point of view compared with the Secretary of State's?

Dr Evans: Certainly. Thank you very much, and thanks for this opportunity to be here today. The Secretary of State's reference particularly to waste and potential waste in the aid programme is obviously something that is of major concern to ICAI.

It is worth elaborating a little bit on what we mean by waste. Waste comes in a number of forms. It is potentially a consequence of poorly designed programmes, of ineffective or inefficient delivery of programmes, but also even if one has programmes that are well designed and look, at least at first sight, reasonably well implemented, one can still have underachievement against objectives. To the extent that any of those things are under the control of the Department for International Development or any spending department of ODA, one might be able to classify those as areas of waste.

That is somewhat different from specific issues around fraud and corruption. We need to be very clear that there are very specific definitions about what constitutes fraud, and what constitutes potential corruption. We are interested in fraud and corruption in ICAI too, of



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course, but we are not set up to investigate live cases of fraud and corruption. That is the role of the Internal Audit Department within the Department for International Development and other departments. It is also something that the National Audit Office looks at closely in its ongoing auditing, in its role as statutory auditor of the department.

We are, however, in a position to be able to assess how the department and other spending departments handle the upstream and downstream consequences of fraud and corruption, where it has been identified ex post. We certainly looked at that in the context of the fiduciary risk review, which we are going to discuss with you tomorrow morning, I think. That review concluded that many of the procedures one would want in place to be able in the first instance to identify but, failing that, to address the consequences of an identified fraud and corruption are indeed in place. Particularly in contexts of conflict and fragility, where the risk to the stewardship of funds is that much greater, we felt that many of those systems and procedures were appropriate and being appropriately used. We will have a deeper conversation tomorrow about areas where we felt there were significant gaps.

The fact that fraud and/or waste may exist in the system does not contradict the fact that many of the systems and procedures are in place. The point is how the department is tackling those instances of fraud and/or waste. We felt that many of those systems were effective, and in fact I suspect the fact that the Secretary of State has been able to announce so early on a number of areas that she regards as targets for closure is precisely because those systems are working.

Q3 Chair: Would you be able to put a figure on how much funding is lost to fraud?

Dr Evans: Up until relatively recently in the annual report of the Department for International Development they declared the gross and net losses associated with fraud. In the last two annual reports, that has not been published. However, I do understand that there was a freedom-of-information request from the Thompson Reuters Foundation that did ask for information on fraud and losses associated with fraud. That is information that we have seen, and we were going to talk to you about that in tomorrow's inquiry.

But putting it in some perspective, the estimate is about 11p in every £1,000. The Permanent Secretary is behind us, so I hope he will give some sense to that. But 11p in £1,000 has been subject to some kind of loss due to fraud.

Q4 Chair: You are confident of that, are you? We will pursue this tomorrow, but are you confident of that figure?

Dr Evans: That is not a figure that we have separately verified and it is not a figure that came directly from the annual report of the department. It is a figure that came through a freedom-of-information request.



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Q5 **Chair:** Do you feel you have the tools to separately verify it if you wanted to?

Dr Evans: As I say, we are not directly set up to investigate live cases of fraud and corruption. That is simply not what we are there to do. That was certainly the case from the establishment of ICAI—that we were not set up with those investigative powers, if you like. We can certainly interrogate the data that has been made public. We would certainly take advice from this Committee on whether you want us to do that. But as will come up again tomorrow, where there are ongoing cases that are being investigated by internal audit, we do not have access to them.

Q6 **Chair:** Would you want to? I am trying to get a sense of whether you would want to. I realise you do not have that power at the moment.

Dr Evans: I think it would have aided us enormously if we had had a stronger understanding of the details of those live cases.

Chair: Right. Virendra, did you want to come in on that?

Q7 **Mr Sharma:** Can you co-ordinate with the Audit Commission to make sure that they come? They have got the power, but you can assist. Could you ask them to do that, or work together on that?

Dr Evans: We have certainly built a working relationship with the Internal Audit Department within DFID. We have a strong working relationship with the National Audit Office. In both cases information is openly shared. However, on the issue of active investigations internally within the department on fraud and corruption, which I should stress is different from a general concern about waste—which can come in many forms, so I would like to draw a key distinction there—internal audit is clear that we cannot see those.

Q8 **Mr Sharma:** Waste and fraud are two separate issues? You cannot include those together?

Dr Evans: Fraud comes with intent, and is certainly a subclass of a much broader issue around the non-achievement of results, due to factors within the control of the department. Factors outside of the control of the department are another matter entirely.

Q9 **Albert Owen:** One concern that I have is that this figure of the 0.1% fraud was obtained from a freedom of information request. Do you think it would be in the interest of the department if it made that figure available? The perception is that there is a huge amount of fraud.

Dr Evans: That figure was made available, certainly until 2013-14, as I understand it. I do not know why it is no longer made available. There is a general view, though, that levels of fraud across all government departments have a tendency to be under-reported, and that the Department for International Development has historically done quite a robust job in making sure that that data are indeed reported. You will



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have to ask the Permanent Secretary and the Director General why it no longer appears in the annual report.

Albert Owen: We will. I just wanted your opinion. Thank you.

Q10 **Chair:** Would you be able to look at old cases, cases that are not live, and review how they were handled and learn lessons from them?

Dr Evans: Yes, and we did include some of those cases in our fiduciary risk review.

Chair: We are going to explore this further tomorrow. Thank you very much.

Q11 **Jeremy Lefroy:** Good morning. If we consider briefly the transition from ICAI Phase 1 to ICAI Phase 2, there was a feeling on this Committee that there was a big hiatus, and I would like your comments on that. Clearly, you were subject to the rules laid down by the Government, but there did not seem to be a clean movement from ICAI Phase 1 to Phase 2.

Dr Evans: Thank you for the opportunity to respond on that. First, I think the objectives around transition were not as clearly established at the outset as they could have been, but the ambition around it was also perhaps slightly misplaced. I certainly felt, at the point where I was in front of your predecessor Committee in December, being confirmed in this role, that we had a huge opportunity to be able to hit the ground running as a new Commission, potentially as early as April, to get our new work plan in place and also make any changes we wanted to make.

The reality was that with the process of putting in place a new contractor consortium, a new commission board, and changeover in the secretariat, all of which happened simultaneously, and an election, and a new IDC, and the fact that the existing commission were still finishing quite a large number of reports right up until the end of June, the time for transition got massively compressed. We did do a certain amount of work in the shadows. But we agreed with the outgoing commission that we would not go public on our consultation process and take up our public face as the new commission until the beginning of July, so that there was no confusion in anyone's mind about who was the commission.

That meant that we did not start consulting on any of our work plan, with you as an incoming Committee or with stakeholders, until well into July. We started scoping the initial reviews but really did not get going on those until September, partly through timing issues in August. While the impression was that by April we really would be ready to go and have everyone in place, the reality is that we did not even begin the work planning process properly until July.

Could that have been done differently? I am sure it could have been, and we could have decided perhaps some agreement about the nature of the handover between the old commission and the new commission, so that we really did get going properly in April. But that really was not so much



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the issue. It was the fact that everyone was new. I said, as I recall, in my confirmation hearing that having a degree of stability by holding on to either the same contractor consortium or some commissioners would have been a better way of allowing us to start more quickly and more rapidly, even in July, as things panned out. As it was, everything was new and we really worked from the ground up.

Just to finish—and perhaps this will come out in this discussion—we also did set about a major reflection on all the things that ICAI was doing in order to set out a new work programme. We took on quite a lot in those first few months.

Q12 **Jeremy Lefroy:** Thank you. It seems to me that there is an awful lot to learn for Parliament, this Committee and the department to make the transition next time a lot smoother. We have lost time because of this transition period. How much did you engage with the previous ICAI team?

Dr Evans: I attended a board meeting with the previous commissioners, and the commissioners, including the Chief Commissioner, gave a lesson-learning session for the new incoming board. The secretariat, for those members who stayed through the transition period, also did a lesson-learning process that fed in to the thinking of the new commission.

Q13 **Jeremy Lefroy:** Do you think there could have been more engagement—for next time round?

Dr Evans: Yes, I am sure there could have been. But as we were onboarding people, it all happened rather non-sequentially. It was more difficult to focus on that stage of the process. Undoubtedly, more is always better in that regard, and we could have invested more in that.

Jeremy Lefroy: Thank you, Chair.

Q14 **Albert Owen:** The annual report does not cover the performance of the contractor consortium or the enlarged secretariat. Now that some of the contractor responsibilities have moved over to the secretariat, can you tell us how well they are working together?

Dr Evans: Certainly. I am going to ask Andrea to talk specifically about the contractor performance side, and I can reflect a little on the secretariat.

Andrea Baron: I have been in post since January of this year. Since coming into post we have made a number of changes, including changing the way that we are working with our contractor consortium. One of the things that we have done includes setting out common performance standards against which we are now measuring the contractor. There is no formal requirement for ICAI to put contractor performance in the annual report. We made the decision that it would not be appropriate or fair at this stage to put an assessment of contractor performance in this



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annual report, because the common standards that we have agreed were not in place for the full year.

The annual report does set out who the contractor is, the amount they have been paid per review and some of the work that we have done with them over the past year. We intend to put contractor performance in the annual report going forward, now that we have got these common standards. We are very proactive in the way we manage our contracts and we have recently had an audit. In that audit, contract management was singled out as an example of good practice.

Q15 Albert Owen: Could you explain how the cost and quality of the contractors is measured and monitored?

Andrea Baron: We have put in place KPIs with our contractor, which measure specific points of delivery, both for internal and external products. There are penalties if there is delay due to something not out of their control. We have also put in place guidance around what needs to be included in reports. We will measure quality according to that and according to how much reworking the secretariat and commissioners feel that they have had to do on the products that we get from the contractor.

Q16 Albert Owen: One final question: have there been any unforeseen difficulties with the smaller lead contractors?

Andrea Baron: From our perspective, there occasionally have been some challenges in terms of some bottlenecks. This is something that the contractor is aware of and they have responded very positively to. There is more that can be done to make sure that all three partners of the consortium are having their skills fully utilised at all times.

Q17 Albert Owen: Dr Evans, is that your view?

Dr Evans: Yes, indeed. The fact is we have a contractor consortium that does have within it a considerable amount of development and scrutiny expertise, as well as the ability to access more, which is very valuable. It is also telling that very early on, during that transition phase in fact, our head contractor was part of the previous contractor consortium. They were heavily involved in finishing up reports from Phase 1, which meant we did not have access to them, more or less, between April and the end of June. That is only three months, but it did take out some of the bandwidth that we needed to get moving fast. That was a capacity issue at that point. That is being addressed in ongoing discussions with the contractor to make sure that we do not get in a situation of loss of bandwidth when we absolutely need it. The fact that we are scaling up rapidly now is an indication that that has been addressed.

Can I make a point about internalising the management function into the secretariat? That was a lesson learned from Phase 1. It was absolutely right, but it has taken time for that to really bed in and really work, partly because of getting the roles and responsibilities between the contractor and the secretariat sorted. There were some bumpy months at the



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beginning where that was not sufficiently well defined to everyone's satisfaction. We are in a really good place now, and all credit to Andrea for doing that.

Q18 Mr Sharma: Given the change from Phase 1 to Phase 2 has caused some delays in terms of the productivity, could you explain why you have only produced four reviews in 16 months?

Dr Evans: I would like to push back on this perception that we have only done four things and that not being adequate. Let me just preface that by saying that we have evolved ICAI's approach, very much based on the findings of the triennial review in 2013. Already there was a move within Phase 1 to take on board the findings of the triennial review, which basically recommended a move to a much more thematic, strategic work programme, doing fewer reviews but looking at a much wider area of DFID programming to be able to do more compare and contrast within the DFID portfolio to address some of the big development questions that were motivating UK aid.

We spent quite a bit of time reorienting the way we work to pursue that or meet that recommendation. We put in place strategic themes. We are working in a much more thematic way, and the four reviews that you refer to are much bigger chunks and slices of DFID's work than perhaps some of the reviews that were undertaken before. There is no value judgment there, but they are taking on large areas of portfolio.

In that same period that you refer to, we also did the support work on allocation for this Committee. We put together our approach and how ICAI is sitting within this changing aid landscape in the position paper. We have also, in this annual report, presented to you all the follow-up work and also the ODA mapping work, which in previous commissions have been presented as two separate stand-alone reports. We decided to contain them in this annual report in order to give a sense of looking back and looking forward—a comprehensive corporate outlook, if you like. In future we may on your advice delink those things, but for now that was the reason.

The work that has gone into those is the equivalent of two reviews, because they are extremely time-consuming exercises, particularly the follow-up, because all commissioners who were involved in those were not involved in the original individual reviews. I would like to challenge the idea that the four reviews that we have produced are the only work output that we have produced in the last 16 months. It is certainly not the case.

Q19 Mr Sharma: In the first year of Phase 2 of ICAI, the total cost was £2.1 million, compared with £3.6 million for the last year of Phase 1, during which time 11 reports were published. How do you account for the relative cost of this year given the low level of output?



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Dr Evans: I am going to ask Andrea to talk specifically about costing, but in that breakdown one must think differently about cost per review, which is by no means out of order with Phase 1, and some of the new functions that were baked into ICAI as a result of lesson learning from Phase 1, particularly on the management and administration side, which accounts for the slightly higher costs. But I am going to ask Andrea to be specific to you on that.

Andrea Baron: In terms of the cost of full thematic reviews, we have done an assessment and for year 4 of ICAI Phase 1, the thematic reviews range from £304,000 to £420,000. This gives an average cost of £370,000. If you look at the first year of ICAI Phase 2, if you take the largest reports, which are VAWG, WASH, and fiduciary risk, the average cost of a thematic review is £303,000. The cost per review is lower.

In terms of other costs, the secretariat is slightly bigger than it was under Phase 1, which has meant there has been an associated increase in costs around that side of things.

Q20 **Mr Sharma:** You intend to produce six to eight reviews a year. How did you decide on those numbers?

Dr Evans: Not by a particularly scientific method, I will confess. This is more a sense of looking closely at some of the recommendations of the triennial review, thinking about the ambition that we have around some of these reviews in terms of their systemic focus on issues across the department and across government, and putting that together with what we feel is a reasonable load, both for commissioners, given that they are always very part time, and also the service provider.

We have come round to an understanding that, in undertaking these much broader reviews with what we think are more strategic recommendations, it is also putting a higher ask on part of the department in how they respond to those recommendations. We do need to get to a stage where what we have is a department that is fit for purpose, not fit for scrutiny, i.e. that they are not spending all of their time responding to us and to you, and not getting on with the job. We feel six to eight—probably eight—is a reasonable caseload on an annual basis, given the breadth of issues that we are trying to take on. That does not include the annual report, I should say.

Q21 **Mr Sharma:** Thank you. I think that Andrea has indicated that there is an extra cost in the secretarial work. Why this increase from £44,000 to £85,000 a year in that area?

Andrea Baron: Is this relating to the accommodation and office costs?

Mr Sharma: Yes, accommodation and other office costs.

Andrea Baron: The accommodation and other office costs do include our rent, but they also include IT costs; they include printing and stationery costs, and they include web development costs. In actual fact our



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accommodation costs are broadly similar to what they were last year. The additional costs in that category relate largely to the website development costs and some work we have done on redesigning our reports. The reason we did that was to bring the website up to government digital service standards to ensure that they are fully accessible and to ensure that they are sufficiently usable for the UK public.

Q22 Mr Sharma: It is nearly double the cost, from £44,000 to £85,000. The “other” aspect looks quite high to me as a layperson, when accommodation has not increased.

Andrea Baron: The “other” costs primarily relate to web development, which is a one-off cost. As part of the triennial review, it is also important for ICAI to make all our reports accessible to the general public who may want to read it. We got our website up to the standards that are required across government, and we also did some work on the design of our reports to ensure that they are user-friendly.

Mr Sharma: Thank you.

Q23 Fiona Bruce: Good morning. You have talked, Alison, already about why you reviewed the type of reviews, and you have got the three distinct ones: learning, performance and impact. Is there anything else you want to add about why you chose to change those reviews to have them in three distinct areas, and perhaps how it is working so far? I have a couple of supplementaries, if I may. The second sentence of the foreword in your annual report says, “Effective scrutiny of aid or any form of public spending plays a crucial role in ensuring value for money.” Yet it is really only the performance reviews that really focus on value for money. Could you tell me how you ensure that value for money is scrutinised in the other two areas?

Chair: Do you want to get an answer and then do your other one?

Fiona Bruce: Yes, by all means.

Dr Evans: I am happy to take your third one, if you like.

Fiona Bruce: Yes. You have reviewed your reviews, but in your report you also say that there are discussions ongoing about how to further develop ICAI’s approach to reflect the new UK aid strategy. I am interested in that.

Dr Evans: Thank you very much. Yes, we did take quite some time thinking about how to take on board two sets of issues. One was the recommendations around the triennial review towards more thematic studies, and a desire I think on the part of all the new commissioners to take this more systemic look at how the department was operating but also to take in this increasing shift of ODA outside the Department for International Development. So, it was this more systemic look, and



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whether or not we had the framework right to be able to do that based on how it was approached in Phase 1.

Secondly, this was also an environment in which the aid space was changing very rapidly. We wanted to take into account the fact that some of the big development questions and challenges, linked to the global goals, which were at that point still in preparation, had changed the ambitions. We wanted to make sure that our ICAI reviews were also touching on how the department and other spending departments were responding to that. We took all that on board and came up with the idea that really what we wanted was to have more than one instrument for scrutiny that would ask slightly different questions about the overall results chain in the department.

Impact reviews really look at the sharp end: can we challenge and verify the results claims the department is making for its development assistance? Are the individuals, communities and institutions that are targeted by UK aid being benefitted in the direction that we are being told they are? That is the purpose of impact reviews. But it is also the case in impact reviews that we are addressing the issue of value for money, and you will know from the WASH report that value for money did come up as a concern. It is also there in a report that you will see very shortly on cash transfers, which is an impact review too. We are looking at the way the department is looking to maximise impact through those reviews, and value for money is all about that. We are looking at the tools and procedures that are being used to maximise value for money.

Performance reviews are basically our instrument for looking at all the business processes, internal workings and relationships between inputs and outputs and outcomes in the department. They are possibly more similar to the reviews that happened in Phase 1. There we are really trying to push very hard on the extent to which value-for-money concerns exist at not only the programmatic level but the portfolio level.

Then learning reviews are our opportunity to get in early to ask tough questions about areas that the department is developing where we really want to understand the relationship between evidence, knowledge and programming. The violence against women and girls review, which was our first learning review, also took this on to ask, "How is the department setting itself up to try to achieve value for money in this area? Is it learning from good practice? Is it putting in place all the appropriate checks and balances to ensure that the value-for-money test is applied consistently across its programming?" It is there.

We are trying to address the fact that in the relatively short life of this commission we have had the spending review, the CSPR and the aid strategy, and also had major stalling on the MAR, the BAR and the Civil Society Partnership Review, as you know. It has been a period of incredible flux, but we are focusing our efforts now on cross-government working, and on the funds that exist outside of DFID. We have instituted



a series of shorter reviews, which, again, the triennial review suggested. These are rapid reviews that allow us to take a very quick look at the early stages of how that ODA spend is being both conceptualised and programmed in non-DFID departments. We have got a current review on the prosperity fund looking at that, and we are doing one on the migration response in the central Mediterranean.

Q24 Fiona Bruce: Thank you for all that. Could I ask how DFID are responding differently to the different reviews? For example a learning review—are they improving and embedding learning in accordance with your recommendations?

Dr Evans: We, in a sense, have to wait and see a little bit. We have been very encouraged by the level of civil servant engagement in all these three different types of review. We felt very strongly that our engagement has been enhanced by the fact that these reviews take a slightly different look at the way in which the portfolio is operating. In order to really answer your question we really need to have a few of these products in place and be able to look back and say, “We can absolutely see how these different types of review have had traction in the department.” That is what the follow-up process is partly about.

Q25 Fiona Bruce: Will you also perhaps be reviewing whether the very different nature of your reviews from Phase 1 really does work as effectively in terms of the fact that they were that much more comprehensive, looking in the round at delivery objectives, impact and learning all together?

Dr Evans: Of course, yes. But you will also remember well that, while those were the four questions that were asked in every single review, the amount of evidence that could be brought to bear against each of those areas varied enormously across reviews, including on the impact side, where a lot of the focus has been around the likelihood that programmes could achieve impact. We have really tried to stretch that around our impact reviews to ask very much not just the likelihood but what has happened, what the independent evaluation evidence is telling us, and what we can conclude about the quality and quantity of the results claims that DFID is making. We are trying to push the boat out, but I absolutely accept that ongoing reviews of how we are doing are part and parcel of what we should be doing.

Q26 Albert Owen: I listened very carefully to your response to Fiona then with regard to the different types of reviews. You give a very comprehensive answer, but can you give assurances to this Committee that, as an Independent Commission for Aid Impact, aid and impact is the thread that goes through it all, and that delivery and impact are not going to be lost in the time spent on the other reviews?

Dr Evans: It is quite the opposite, to tell you the truth. I will concede that we come at the value-for-money question in slightly different ways in the three reviews. We almost have to, by definition. But we are really



trying to interrogate what value for money means and looks like, operationally and programmatically. Impact, learning and performance are really about looking at how fit for purpose aid programming is in order to achieve impact. Impact reviews are, "Right, let's go and find out exactly what is happening on the ground." To the extent that we cannot verify what is happening on the ground, that is a huge potential finding in relation to the kinds of results claims that are being made across the aid programme. The impact reviews are as much about what we feel confident we can find, and also what we cannot find and the extent to which that is a real challenge to the department.

Q27 Jeremy Lefroy: Just to follow up on that if I may, clearly you have looked at some extremely important issues over the past year, WASH, violence against women and girls, the tax avoidance and evasion report and fiduciary risk. But there are some major issues that are ongoing at the moment that we are not looking at and, at the moment, are perhaps not proposing to look at. That is something that maybe we as an ICAI Sub-Committee can review with you. The first is something that the Secretary of State came up with, which is her priority, which is jobs and livelihoods, which are a theme throughout the department's work. The second is climate change, which the previous ICAI looked at but is again of huge impact and is increasingly being talked about in the context of the UK. I was at a meeting yesterday in my constituency in which we were discussing that. Conflict and governance are things we are addressing in some ways, but we have got increasing numbers of unstable states or states that are becoming unstable in places where we are a strong bilateral partner. Again, I think the public would expect us to look at that. Finally, humanitarian aid is a hugely increased element of our work in DFID over the past two or three years. What will you be doing in those areas? The public, and we, would expect them to be covered.

Dr Evans: I hear that loud and clear. We have a review that has already started looking at the whole inclusive growth agenda, particularly in the geographic area of Africa, with a focus on jobs and livelihoods. That will focus exactly on the jobs agenda, and the extent to which the economic development portfolio within the department has moved in the direction of supporting more inclusive growth and labour-market-type initiatives. That is on our work programme and it is due to report hopefully around April/May. Richard is the lead commissioner on conflict and governance.

We have a country-specific review ongoing, looking at all the UK aid assistance in Somalia, specifically the extent to which it is tackling the drivers of conflict and fragility. That is looking at Somalia in toto if you like, and looking not only at DFID spend but also the CSSF and related programming that is ODA. That is under way, and Richard is due to be in Somalia in early December on that. We are hoping that will be a deep dive into some of the issues around conflict and governance. It is worth saying that given the department's commitment to a 50% spend in



fragile states, I cannot imagine that we will not be mainstreaming a focus on conflict and fragility issues throughout our portfolio.

In fact we were all set to do one of our first reviews around the humanitarian agenda, looking particularly at disaster response. On finding that the National Audit Office was already doing a review around protracted crises, we backed away. We have an intention to do something on humanitarian in the next cycle. We have got a work planning meeting tomorrow, so your points are very well taken.

On climate change, again we left a little bit of clear water between the review of the ICF, the International Climate Fund, and there have obviously been some changes in the architecture of government around who handles climate change. We certainly have that on our agenda again and hope to bake that in to the cycle for 2017. I agree those are top issues.

Q28 Chair: Alison, when you gave evidence to the Committee for your pre-appointment hearing, you questioned the use of evidence, both by ICAI and DFID. You have spoken today about the importance of evidence. You suggested in that hearing, to quote you, "There could be a more muscular approach to address DFID as an evidence-based and learning organisation, but also evidence in the context of its own methodology." What progress are you making on that?

Dr Evans: Yes. One of the important lesson-learning points from Phase 1 was that it is really powerful and influential to have an area that is repeatedly addressed in every single review. The Phase 1 commission did a fantastic job on bringing to light the issues around beneficiary feedback in particular. That has now made a huge impact in DFID—there is no question about it.

For us, evidence is one of those issues that we are looking at in every single review. The generation and investment in evidence building, the utilisation of evidence within the department and other government departments, the thinking about what works that flows from that, and then the subsequent lesson learning and the extent to which that is then feeding back in to new areas of programming. Whether it is a learning review, a performance review or an impact review, we are looking at the use of and investment in evidence. This is one of the issues on which we really want to press the department.

For us in ICAI, that means our mythology has to take in quite a lot of the ways in which DFID is investing in evidence and influencing others externally and internally to utilise that evidence. At times the metrics for doing that systematically are not really available, so we are having to come up with ways in which we can really judge the significance of the evidence base that DFID is both investing in and utilising. We see it as part of our role to stress test that. We are not in a position as ICAI, as a really tiny scrutiny body, to generate lots of new primary evidence for ourselves. We are really in the business of stress-testing the quality and



quantity of the evidence base that the department and other government departments are using to inform their programming.

Q29 Chair: How do you see that then in terms of the broader public debate? Clearly there is a lot of public controversy or concern around aid spending and aid impact. Where do you see ICAI fitting in, if at all, in terms of the public engagement on the impact of aid, making an argument about impact where the evidence supports that, but also demonstrating that ICAI plays a role in holding government to account if money is not spent as wisely as it might be?

Dr Evans: We are absolutely about those two things. We are about acknowledging and verifying areas where aid is absolutely achieving what it is intended to achieve. At the same time, we are being extremely clear about where there are examples and instances of underachievement, poorly designed programming and weakly conceptualised ways of working in seeking to deliver outcomes. We are about both of those things. It is really important that we are not in the business of simply throwing red meat to a baying media about this. We have to walk a tightrope in being as evidence based as we possibly can. We pay a lot of attention to that.

Richard Gledhill: We spoke earlier about the efforts we have been making with the website and on communication more generally. One of the values we see from our report is not just issuing the report and then saying, "Job done," but wider engagement with academics and NGOs involved in the areas we are looking at, and also the wider public.

On the tax review, which has just been published, we have been very encouraged, first of all by how well the messages from our report were picked up by the media. Quite often we find that messages are not always picked up clearly by all the newspapers, but they were picked up and communicated well by the media. We also were able to drive a good dialogue in social media on the key issues you raised in the report. It is through those activities that we can get broader reach and wider engagement with the public on aid issues.

Q30 Fiona Bruce: As well as revising your reviews, you also revised the ratings. In the two reports that our Sub-Committee has looked at with you, VAWG and WASH, we have questioned both of the ratings, the green for VAWG and the green/amber for WASH. Had you looked again at the ratings in the light of our concerns that there were a number of criticisms in the body of the report that perhaps were not reflected in the ratings? Also how are you going to ensure that there is consistency across your reviews when you have a very wide range of ODA to review? How are you going to ensure that the new rating system does work effectively?

Dr Evans: We did have to take a look at how some of the language around the ratings was framed, because of the fact that we have three different scrutiny products that we have put out and the fact that we are taking a more thematic focus. We needed the language to reflect the fact



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that we had to be able to score consistently across the three reviews, hence the change in language. We consulted on how we would do that in order to ensure that we had a way of, precisely to your point, being consistent.

The architecture of the scoring has not changed a great deal. We still have the four elements. In terms of what each one of those elements means, it is broadly the same as previously. There are slightly different words attached to each of those four scores.

Our points of difference perhaps are not necessarily driven by the scoring but are driven by the fact that the score is ultimately an aggregate score. It is very much a blunt instrument given what is often quite a mixed picture underneath it. We to this point have been quite slavish in wanting to make sure that the way we score the sub-questions in the reviews is a straightforward aggregation up to the total score, because we want it to be entirely transparent and consistent.

That mixed picture to some extent, however, can be slightly glossed over in the fact that we have to come to an overall score. We have discussed this previously. We are about to have a review of how the scoring is working. We have a new head of reviews arriving in the secretariat, and one of his first jobs is to have a look at whether we are getting it right. I would be happy to come back to you in hopefully not too long a time to tell you how we have come out on that.

Fiona Bruce: That is very good to hear.

Chair: That is really good to hear.

Q31 **Jeremy Lefroy:** You have made it clear that the increase in non-DFID ODA is going to require more work for ICAI. What does that mean? Does that mean more days to be spent? The table you produced, table 3 in the report, shows that ODA is being spent by six other departments—if you add in the Ministry of Defence, that would be seven departments—at a total of probably over £10 billion in the course of this Parliament. How are you going to address that, given that you have a responsibility for all ODA and not just DFID-spent ODA?

Dr Evans: Let me say a very quick response and then I will perhaps ask Richard to come in on that too. We need to remember that ICAI represents 0.001% of the UK aid programme. Just in leverage terms, it is important to keep that in perspective. But we are absolutely committed to undertaking proportionate, meaningful scrutiny of ODA that is being programmed now by other departments. We have been active over the last number of months, since the aid strategy was published, in building relationships at working level but also at commissioner level across those other departments. We have done a certain amount of having to communicate what ICAI is about and what we are for. A number of departments really had no understanding of the role of ICAI, so we have had to do a fair amount of investment in communicating what our purpose is and why it is relevant for us and within our mandate to be



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knocking on their door and asking tough questions about their ODA spend. We are also baking it in to our reviews. Richard, do you want to say a little bit about how we are doing that?

Richard Gledhill: Yes. In parallel with the analysis of implications for ICAI's work plan and the discussions we have had with individual departments, we have also had discussion with you, with the NAO and with other parliamentary Committees to look at how best to ensure that we can maintain effective scrutiny in the transition to spending by other government departments as that spending takes place.

This has already started to translate into coverage in our reviews. We are currently reviewing the prosperity fund and the Government's response to migration. Both of these involve multiple government departments. The review that Alison mentioned earlier of work in Somali will look at DFID's work in Somali, but also the work of the CSSF. I have just completed the international tax review, which you will be reviewing shortly. The primary focus of that review was on the work of DFID, but we also looked at how they are working with HMRC and Treasury. We had some important recommendations as to how that cross-government working should work on international tax. We also do some learning frontiers as to how that might read across to other situations where other government departments were coming in relatively new to the ODA space, and how important it was to share the learnings from DFID, and to make available the expertise of their country officers, and their expertise in capacity building, so that you get a smooth transition and build on cumulative expertise.

Q32 **Jeremy Lefroy:** How have you found co-operation with other departments so far?

Dr Evans: Andrea might give an answer for you on the working level. At commissioner level, it has been very polite. That is good—that is a good basis on which to start. Where we need to go is to be able to get access and at a working level for them to be understanding that we are in a legitimate role and this is a legitimate area for us to be scrutinising. Andrea, any progress on working level in that respect?

Andrea Baron: At working level, it is relatively similar. We have had a few queries about who we are and why we are relevant for particular departments. Generally many have been quite open to engaging with us.

Q33 **Jeremy Lefroy:** Has there been any interest from the other Select Committees in those departments?

Dr Evans: Yes, we have an increasing number of requests into the secretariat to brief Committees—the Foreign Affairs Committee for example. We have done a briefing with the Joint Strategy Committee around the NSC. We do briefings before they go into inquiries.

Q34 **Chair:** We recognise as a Committee this is going to be, for obvious reasons, an increasingly important focus, for your work and also for ours,



so thank you for that. The final question before we move on to the panel from DFID is really to ask you about the responses from DFID to your reports. We know that you have written to express disappointment at the management responses for your recent reviews on VAWG and on WASH. Can you firstly just say a bit about why you were disappointed but also update the Committee in terms of progress in your discussions with DFID about their responses?

Dr Evans: Yes, thank you, Chair. I did draft a letter to the Permanent Secretary, setting out a number of areas around which we were concerned about the change in response from DFID that coincided with a change in commissions also. We had a number of specifics, but the first broad reason why we were disappointed was unwillingness in the response to really engage point by point with each recommendation. There was a narrative around them, rather than a clear acknowledgement of whether or not each recommendation was accepted or not, and reasons why. We felt that there were a whole number of problem statements that we had linked to those recommendations that were simply not appearing in the response; they were not engaged with. That was the first reason.

We were also concerned about the lack of clear timeframes. We do recognise, and this has been part of the conversation with DFID, that we are pushing up the recommendations in terms of systemic importance and therefore timeframes are going to look a little different. It is not all going to happen within three to six months of a review being published. But we would like to see some engagement from the department with what are feasible timeframes, even if it is, "We will come back to you in three months and tell you what the timeframe is." We just want much more clarity.

We have had a good response from the department; they recognised our concerns. I know this is something they also have to discuss with Ministers. We have now received revised management responses—I think they are now called DFID responses—to VAWG and to WASH. I would say that the response to violence against women and girls we are broadly pretty happy with. It is much better. It is still light on timeframes but it is much better. On WASH it would be fair to say it is a mixed picture. If you want more detail I am sure Richard will speak to that.

Fiduciary risk we will discuss tomorrow. The management response is more granular, so we are pleased about that, but there is still an absence of commitment around timing. That is now the conversation we need to still have. It will be interesting to hear from the Permanent Secretary on that. We feel it is in a much better place, but the conversation is still going on as to how we get to a point where we have clear timeframes, because that is essential for our follow-up process.

Q35 **Chair:** Thank you. Richard, do you want to add something specifically on WASH?



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Richard Gledhill: The major disappointment in relation to WASH was that we had had such a good dialogue with DFID staff in presenting the report and the conclusions, and we were expecting a very constructive response. The initial response was very general and high level and unspecific. In many areas the second response is greatly improved. We would still look for great granularity and specificity on one or two of the recommendations. We will take that forward in discussions with DFID.

Q36 **Fiona Bruce:** Are you going to go back again then and say to them, “We still feel unhappy”?

Dr Evans: That is a good question. We have not done that.

Chair: They are sitting behind you.

Dr Evans: We are now trying to push forward. There will be a certain amount of limited value-add right now in pushing them again. We now have to take that and push again in our conversations and be clear about what we are really hoping for, recognising that that has to be something led by Ministers inside DFID. It also sets a precedent for what is happening in other departments, which is why we really want to make sure this looks right.

Chair: That is absolutely crucial.

Dr Evans: We have, for example, in WASH, made a recommendation around the need to think about scaling up. That is an area on which historically the department has been unwilling to come up with a very firm answer, because that is a policy decision. We recognise there is always going to be a grey area in their response on that. In other respects, we have been incredibly specific and we would genuinely like more specific responses.

Q37 **Chair:** Thank you very much indeed. As ever, we have covered a lot of ground in the space of an hour. Please feel free to stay for the next panel. We as a Committee feel very strongly that the creation of ICAI was a very important innovation and reform and is part of our armoury in holding the Government to account. Through the Sub-Committee, which Fiona chairs, the relationship between us is very important. We look forward to seeing you again tomorrow, when we are looking at your report on fiduciary risk.

Dr Evans: Thank you.

Chair: Thank you very much indeed.

Examination of witnesses

Witnesses: Mark Lowcock CB and Joy Hutcheon

Q38 Chair: Welcome. It is good to see you. We have about an hour and nine questions we are seeking to cover in that time. I am going to go first to Albert.

Albert Owen: Thank you. I am tempted to respond to the response we just had from the previous panel, but I will move on to something different.

You were in the gallery while the previous panel were giving their evidence, and you will have heard the question the Chair asked the previous panel with regard to the Secretary of State's comments that too much of the UK aid budget was being wasted, stolen or spent poorly—and her insistence that every pound of British aid spent abroad will be scrutinised. How important is ICAI in that scrutiny process?

Mark Lowcock: Thank you very much. Good morning. For the record, I am Mark Lowcock. I am the Permanent Secretary of the department, and I am with Joy Hutcheon, Director General. May I also, Mr Owen, address the other points that you followed up on all in one? There are some additional facts I have that maybe will move us on a little bit.

Any waste or fraud or loss is too much, and that was the central point the Secretary of State was making. We have to drive very hard as to whether every programme is performing well and, if it is not, fix it. We have to chase down every loss.

The numbers the Chief Commissioner gave you about total losses are correct. As an order of magnitude, 11p in £1,000 is roughly right; it goes up and down a little bit. If you were to look at page 81 of the annual report for 2015-16, you would see that the total loss figure is set out there for the 2015-16 year and, indeed, for the 2014-15 year. The NAO are doing a piece of work that will provide more information for everybody on the scale and level of problems.

I did not know that we did not, as a generality, give ICAI access to the Internal Audit Department's work, and my brilliant team, while we were listening, checked with the Head of the Internal Audit Department, too—and he did not know that either. I am very happy to confirm that ICAI can have access to the vast majority of IAD's reports.

There is a small category of pieces of work, rather than reports often, to which it would not be consistent with my wider responsibilities as the Accounting Officer to give people access, as a generality. I am talking about highly sensitive pieces of work, normally into an ongoing issue.



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You can probably all imagine the kinds of cases I am talking about, but that is a small percentage, and it is things that the vast majority of the staff of the department do not have access to either.

Q39 Albert Owen: Thank you. That was very useful, and you got your defence in first. Now, if you could just come to the question, how important is ICAI in scrutiny, and how does it fit in with other forms of evaluation in your department?

Mark Lowcock: The Chief Commissioner was right: ICAI's mandate is not to be the auditor or the organisation that chases after losses. We have doubled the capacity of the Internal Audit Department; we have excellent relationships with the law enforcement system across the UK. We have signed a large number of information-sharing agreements with other major organisations in our business. And the National Audit Office, who audit the figures we put in the annual report—

Q40 Albert Owen: Specifically, how important is ICAI?

Mark Lowcock: That is not ICAI's main role. ICAI's main role is about impact, aid impact. There have been cases—some members of the Committee will remember them—where ICAI have done a piece of work that threw a light on something that was going wrong that we had not spotted. That is a valuable role, but it is not the central thing that ICAI was created for.

Q41 Albert Owen: Does ICAI have enough public profile and is it not in your department's interest to promote the public understanding of systems of scrutiny in development spending?

Mark Lowcock: The thing I would observe, Mr Owen, is that ICAI has plenty of profile where they find a problem, and that should be in the profile, but they have less profile—

Albert Owen: That is not the spirit of my question, with respect.

Mark Lowcock: Okay.

Q42 Albert Owen: The spirit of my question is that the public out there are looking at aid and defence spending and feel that there may be some waste. Maybe the Secretary of State has fanned some flames in this direction, but here you have an independent body that is looking at it. Is that of value to your department, to the Government and to the British public?

Mark Lowcock: Absolutely, yes. It is good if more people have a better understanding that the vast bulk of the resources we use make a big difference in improving the lives of the world's poorest people. I absolutely agree with that.

Q43 Albert Owen: Yes, but again that was not quite the spirit of my question. Does it aid and help you having ICAI do this independently, and should it raise its profile so that more people know about it? That is the crux of my question.



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Mark Lowcock: It definitely aids and helps us, because scrutiny is a good thing. It helps drive improvement. I find it difficult to understand, as you can tell from my answers, exactly what you are driving at. Yes, it is good when more people know the good stuff that is happening and that, where something bad happens, we chase after it.

Q44 **Albert Owen:** No, not just when something bad happens—but the confidence that there is an independent body looking at it.

Mark Lowcock: Yes, that is a good thing.

Albert Owen: Thank you.

Q45 **Mr Sharma:** ICAI Phase 2 will be producing six to eight reviews a year, with each focusing on one of three specific areas: impact, performance or learning. How will the changes improve scrutiny of aid spending? Is the question clear?

Mark Lowcock: Yes. I do agree with the description the Chief Commissioner gave you that driving value for money requires doing a bunch of different things, including looking at the evidence and trying to promote a culture of learning. Those categories of impact reports and those categories of learning reports seem, to me, to be likely to improve value for money in the way I have just said. Also, however, the performance reports are important. It is quite a good taxonomy of different kinds of reports, and it will help improve value for money.

Q46 **Jeremy Lefroy:** I have a slight follow-up on that. Obviously, you know the work DFID is doing. Are there areas that you would like ICAI to look at, because it would help in the sense of getting a better understanding of whether you are having impact or not, which we are not looking at and not proposing to look at?

Mark Lowcock: That is quite a dangerous question, Mr Lefroy.

Jeremy Lefroy: That is why I asked it.

Mark Lowcock: I took a sort of self-denying ordinance after my first meeting with Alison to say, "It is not a very good idea if I am chipping up with ideas for what to look at, because that is susceptible to misinterpretation in all sorts of ways." For what it is worth, the list of things you ran through was a very good list. However, people are in danger of thinking that the department is nudging and winking as to what ICAI should do—and that is 180 degrees the opposite of what we do and what we should do.

Q47 **Jeremy Lefroy:** I totally appreciate that. I fully understand, and I respect the answer. However, the answer was nevertheless very helpful. At the same time, when you have people, such as you, who are extremely committed—you have spent your whole career in this area—you would know areas where you would really like to know if the work you are responsible for is having an impact.



Mark Lowcock: Let me say one more thing to you, Mr Lefroy, on this. As I say, I took a self-denying ordinance. However, the approach I have with Amyas Morse when he sets the forward work programme—

Jeremy Lefroy: Amyas Morse being who?

Mark Lowcock: Amyas Morse is head of the National Audit Office. When he sets the forward work programme the NAO is going to do on the department, once a year he comes along and he and I have a discussion. He asks me the question: if I were him, what would I have on the work programme? I give him an answer. If the Committee and the Sub-Committee and ICAI want to institute that process—and it is clear that we are doing it because you want me to do it—I am willing to revisit my self-denying ordinance, but otherwise it would not be a good idea, unless it is clear to everybody that I am responding to a request.

Q48 **Fiona Bruce:** Good morning. There has been a significant gap in reporting between Phases 1 and 2. Just to recap, ICAI Phase 1 produced 11 reviews in the first 12 months; ICAI Phase 2 has produced four reviews and a position paper in the first 16 months.

The Chief Commissioner, who you heard just giving evidence, agreed that we lost time because of transition, answering a question from Mr Lefroy. Yet when we took evidence from you on last year's annual report, you reassured us that you had built in an element of overlap for both the commissioners and the contractors to facilitate a smooth transition.

Could you confirm how you did that, bearing in mind what has happened? Do you feel that was satisfactory? What have you learnt?

Mark Lowcock: Thank you for the question. Can I ask Joy to lead off on that?

Joy Hutcheon: Good morning. We did work hard with the new Chief Commissioner, with Alison, to try to make sure the transition was smooth. We put a transition manager into ICAI; we overlapped the commissioners by having some pre-paid days for them to start on their work. However, we acknowledge the issues the Chief Commissioner has raised. We have agreed with the Chief Commissioner that we will look at this in the review that is coming up in the autumn. We will look specifically at the transition and how that worked.

There are some trade-offs between changing everything at once and trying to overlap things. As it turned out, there was some continuity in the contractor between Phase 1 and Phase 2, but that meant Phase 2 did not have very much access to the contractor for Phase 2, because they were finishing off Phase 1. There are some complexities that we will need to look at here.

From the receiving end, if you like, we had seven reports from ICAI in 2014 after the change to a more strategic set of reports. We had seven reviews and two rapid reviews. Then in 2015 we also had seven reports,



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plus *UK aid in a changing world* and the resource allocation review. We have had a similar number of products in 2015 as in 2014, and we will have a similar number of products in 2016. Although they were bunched towards the beginning of the year in 2015, it does not feel, from the DFID end, as if there has been a complete hiatus.

- Q49 **Fiona Bruce:** My question related to the new commissioners' productivity and whether you feel that has been satisfactory, bearing in mind the transition process. Also, do you feel the lack of any continuity between commissioners is satisfactory? It is a huge learning curve, is it not, for a whole new group of commissioners? Would you do that again or would you look again at that?

Joy Hutcheon: You can argue this either way, and we will definitely look at this really carefully in the review this autumn. I am sorry—I was going to say something, and I have completely lost my thread.

Mark Lowcock: Can I just make a point while Joy is thinking? You have to decide what model you like with these things. More importantly, what Secretaries of State have decided is that a model where it is a single-term tenure has quite a lot of attractions, because it means you get a refreshed look basically every Parliament. You can see the benefit already of a slightly different approach. You and the Chief Commissioner have commented about some of the benefits of that. You could go to a model where there is more than one term, but there are some downsides to that as well as some upsides.

- Q50 **Fiona Bruce:** At the moment, I think the Committee have commented more on the disbenefits rather the benefits, but we will wait and see. Joy, did you want to come in?

Joy Hutcheon: I do apologise: I was thinking faster than I was talking. The work that ICAI did on *UK aid in a changing world*, and that taking of stock at the beginning of the new Parliament, as Mark said, has been really significant. The work on resource allocation, that real-time review of a really significant resource allocation process, was an important thing for ICAI to be doing during that early stage.

I know we have been talking to the commissioners about the amount of time they need to invest in building their relationships with other departments. We had a conversation about providing more commissioner days to allow the commissioners to build that set of relationships, which is going to be crucial in this next period.

There have been a set of things that we know the commissioners have been doing that have not necessarily been visible in report output at this stage.

- Q51 **Fiona Bruce:** Can I just ask about the fact that the Phase 2 commissioners have more international development experience than, maybe, a number on Phase 1? How is that working? Has that caused any problems in terms of allocating roles on reports if, for example, there



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might be an appearance of conflict of interest? Is there sufficient independence on the part of these commissioners from the development world?

Mark Lowcock: Dr Evans is one of the UK's leading thinkers on international development. We are very lucky to have her as the Chief Commissioner. She has a completely different skillset to Mr Ward and the previous commissioners. That is a massive asset, candidly. I know she went through a very careful process to think about other things she does and how to avoid both the perception and the reality of a conflict. We have absolutely no concerns on that score. We are not worried about that at all.

However, we are seeing the benefit of the expertise and experience of one of the country's leading thinkers on these issues, with decades of experience being brought to bear. In the department, we are hovering up the benefit of that. We can see it in the reports.

Joy Hutcheon: The teams are reporting having very good engagement with ICAI teams as the review evolves, and there is an emerging findings meeting that has been put in. There is real engagement and discussion of the meat of the issues, which is generating energy around the department.

Fiona Bruce: Thank you.

Q52 **Dr Cameron:** ICAI have expressed concerns, which they reinforced today, with the detail of your management responses to their reviews so far, as we have regarding some of the responses to Committee reports. Can you tell us about your process for responses, the level of detail, the timeframes you are providing and how you will address the concerns that have been raised?

Mark Lowcock: Thank you and good morning, Dr Cameron. When Nick, Beverley and Gwen were here last year, you had a bit of discussion on this as well.

The process is this: when ICAI are happy with their draft, they send it into the department for fact checking. Now, at the beginning of ICAI's establishment, Mr Bayley, when he was on the Committee, asked me a series of questions about who did what on the fact checking. He expressed a worry that the fact-checking process would be used by the department to negotiate away unattractive judgments. We made it clear to everybody at that time that fact checking should not and did not involve people at the very top of the organisation—in order to deal with that anxiety people had.

We had to make a small adjustment in the light of the TMSA experience. There were things that were exposed in that review that were going wrong, and we could not just sit on our hands and watch them going wrong for another eight weeks while we did the fact checking, so we made a small adjustment.



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Essentially, however, the fact-checking process is done at the working level in the department between them and ICAI. ICAI then publishes the report, and civil servants submit it to me, to Joy and to Ministers at roughly the time of publication. We then have a proper, organisation-wide digesting of the report.

There was a slight misunderstanding in the first phase about who the responses were from. Because they are described as “management responses” and they come in a letter from me to the Chief Commissioner and the Chair, some people thought that was somehow independent of Ministers. We have said this before, but just to say it again: the responses the department gives to ICAI reports, just like the responses it gives to Select Committee reports, are approved by Ministers and determined by Ministers, obviously on the basis of advice from civil servants.

That is as it should be in the way our system of government is established. For each report, we have to decide what commentary to offer, as well as what substantive response to give to recommendations. We have taken delivery of the concern that we were maybe not providing enough commentary, so in the latest one, the 30 August response we did on fiduciary risk conflict—which, if I have understood her, the Chief Commissioner gave slightly more positive feedback on than the earlier ones—we have provided more commentary.

Chair, I know you have written to the Secretary of State on the broader issue of how we respond to Committee reports. She and I have not had a chance to talk about that, but she will want to reply to your letter, obviously.

The test of ICAI cannot be that, if the Government agrees with every recommendation, that is the definition of ICAI doing a good job. In the same way that sometimes the Government does not feel able to agree with your Committee reports, it must be theoretically possible that, for a variety of reasons, it might not be able to agree with ICAI recommendations.

A better test is: when you take the work as a whole, is it clear that the Department is taking seriously the big things ICAI is saying and doing something about them? In the Annual Report, you have a detailed analysis and description from ICAI of what has happened not just at the moment we reply, as a department, to the report but in the following six, 12, 18 or 24 months.

Everyone has their own reading of this, but a fair reading of this report—it is an extremely detailed report—is that we pursue the vast bulk of things ICAI recommend and we accept. For me, in a way that is the most important test.

Q53 Dr Cameron: It sounded this morning as if ICAI were saying they would like more specific responses to their recommendations and within a clearer timeframe. Is that something you are working towards?



Mark Lowcock: On the timeframe issue and on the nature of the response, increasingly, my basic view is that we should have a similar sort of approach to the one we have for Select Committee reports. We should try to make both high-quality and have a broadly similar sort of approach on both issues.

The level of specificity is a bit tricky. Sometimes, the recommendations are very broad. Even in the case of the response on fiduciary-risk management, the recommendations are quite broad and our response, correspondingly, is quite broad. There is a bit of a balance to be struck.

I would also like to say about this that the response goes beyond the piece of paper. We are finding with the new ICAI commissioners that some of the best follow-up work is coming from discussions in meetings we have with the commissioners and the people who have done the work, with the relevant teams in the department, which adds to the insight we generate and motivates the learning.

I hope everybody will be able to see there is a broader thing than simply what we write down on the piece of paper. Mr Lefroy made this point very well at last year's hearing: government departments and civil servants tend to be quite good at writing strategies and guidance documents and reports on this, that and the other—and that is completely different to the question of what things changed as a result. We are really interested in behaviour change and doing things differently. That is accelerated and advanced by these other kinds of discussions, which go beyond filling in the form, if you like.

Q54 **Dr Cameron:** I can understand that there is much more to it and there is a lot of work in the background, but it sounded as though they require more specific responses in order to have the follow-up process work properly. How are you going to address that?

Mark Lowcock: The proof of the pudding will be in the eating. When we come to have a discussion on this one, the fiduciary one, and the next one, which is I think the tax one, if the Government provide a response and there are some things in it that ICAI want to press them on a bit more, the meeting process should be able to address that.

As it happens—this is another really good example of a broader way in which ICAI adds value—after fact-checking and so on had been done on the tax one, I read it and it exposed, for me, some interesting insights into a related issue we were working on—not the issue directly covered in the report, but a related issue. I thought, "Let's get the ICAI team in and have a bit of a chat about it, because they clearly know a bunch of things that might help us on this related issue."

From my point of view, anyway—the commissioners who you have heard from today were both at the meeting—we had a really good discussion about it last week. That is a broader way in which the ICAI system can add value, which goes beyond the narrow issue of the reports.

Q55 **Chair:** I am going to bring Fiona in a moment. Can I just pursue that



further? When we heard the evidence earlier both from Alison and from Richard, they appreciated that there had been an improvement in terms of the VAWG—violence against women and girls—response, but distinguished between that and the response on WASH. Could you comment on that from your point of view? You heard the evidence they gave.

Mark Lowcock: I will have to go and have a look at the responses again, Chair. To be honest, I did not refresh my memory on those responses.

Chair: That is fair enough. Can you write to us on that? It was a substantive point where they, as I understood it, accepted there had been an improvement in the revised response on one, but they still had concerns in terms of the revised response on the other. It would be helpful for us to have your view on that.

Mark Lowcock: I will have a look at it, Chairman.

Q56 **Fiona Bruce:** Yes, could I just ask about the timing of your responses. At present, you publish management responses three weeks after publication of an ICAI report, but you have asked for longer in order to bring your responses in line with the timeframe for responses to Committee reports.

As we understand it, you already see ICAI reports some time earlier so you can fact-check, meaning that the appropriate timeframe you could be asking for is something over two months for responses after you have seen the report. Of course, bearing in mind that some of the reports have a timeliness, the Committee is keen that they are published quickly. It is causing some concern. What is an appropriate timeframe for a response?

Mark Lowcock: First, on what these reports are called, I am trying to move us on from the sense that these are management, as opposed to departmental, responses. Ministers decide what the department is going to say in response to ICAI reports.

On the timeliness question, as I said, the fact-checking process is done at the working level by teams and does not involve senior staff or Ministers. There is a tension between having a very rapid response, which, candidly, is likely to be a little bit cautious and not as full, versus having a slightly more thought through response, which is likely to be a bit more comprehensive. We can take this away and have another think about it, but there is an intrinsic tension there.

We are trying to have the best quality and the best overall follow-up. It is not necessarily the case that a very short timeframe for deciding what to write on a piece of paper is the most conducive way to do that.

Fiona Bruce: We accept that, but nine weeks or so is a very long time—bearing in mind, as I say, some of the reports are time-sensitive. Perhaps some of the fact checking could be done at the same time as



management consider the issue.

- Q57 **Jeremy Lefroy:** I would like to turn, now, to the follow-ups on the year 4 reports of the previous Commission. There was some concern expressed over the results framework relying on reach indicators and that might create some perverse incentives. For instance, you might say that a radio broadcast that officially had 2 million listeners would, therefore, create 2 million people reached by a particular programme. I know the department is looking at how to improve the results framework. Could you perhaps talk about that?

At the same time, could you comment on whether, because we are talking about impact, there needs to be a longer term view—and not just of the programme? Perhaps the programmes themselves need to be longer duration to achieve impact or, as happens in some countries, we need to look at the impact way beyond the end of a programme, because sometimes you will not see it for four or five years until after the programme has stopped.

Mark Lowcock: I completely agree with you on all of that, Mr Lefroy. We need to do three things, basically. We need to track the indicators during implementation. At the end of that period, we need to provide an answer to the question: “Did you achieve what you were trying to achieve?” We do the first of those things through our annual-review system and the second through what we publish in every annual report about whether we are on track with the high-level deliverables in the department, mostly coming from the manifesto the Government stood on.

The third thing, more crucially, is that we need to have a longer term view as well. Our programme of evaluation work, which we have invested more in over the last few years, is intended to get at that bit. Quite a lot of the ICAI work programme gets at that longer term issue as well. Sometimes, you do need quite a lot of patience to understand the very long-term impact of things you are doing. You do confront what, in the jargon, people call the attribution problem there. 10 years after, it is a bigger claim to say, “The ultimate results were this,” than it is at the time you stopped delivering—because other things can intervene as well. We need to do all three things you talked about, however.

- Q58 **Jeremy Lefroy:** How will that fit with something the Secretary of State has raised with us, which is perhaps an increased dependence on payment by results? How is it going to be possible to determine results when they may lead people to focus on very narrow figures?

Mark Lowcock: I am going to ask Joy to comment on this, but people mean different types of things by “payment by results”. Firstly, there is a sort of performance agreement with an institution. When we replenished the Global Fund recently, we said £90 million of it was available subject to the achievement of a set of indicators. That is a high-level version of payment by results.



A second version is the education programmes in Ethiopia and Rwanda, which again last year you discussed a bit with Nick and Beverley, where we basically said to those Governments, "If girls and boys leaving school"—particularly in Ethiopia at one point—"attain the following levels of literacy and numeracy, there will be an additional payment."

Obviously, there is a bit of a risk there, because you create an incentive for the test to be easier or for other distortions, but that is one of the other things people mean by "payment by results". The department is doing a bit more of that—possibly a bit more than the Select Committee think we should do, I know, but we think we should try to generate a bit more evidence.

The third sort is the sort of arrangement we have with contractors, where we make payments to them against milestones of what they are supposed to deliver. Contractors tend to like that when they think the milestones are easy to hit and not like it when they think they are hard to hit. Again, we have to be a bit canny to avoid being gamed. We are trying to build up the evidence base and test things in all three of those areas, but Joy can give you a few more details, if that is helpful.

Joy Hutcheon: All I would add to that is that we agree that the evidence base needs building on payment by results, and so we are going at this very carefully in order to build that evidence base. As Mark described, there is a whole spectrum of things encompassed in the term "payment by results". You have innovative programmes at one end, and then we have this outcome or output-based contracting at the other end.

On the contracting, we try to make sure the milestones are delivering long-term results by focusing really clearly on the theory of change in a programme. When a programme is designed, we ask about the theory of change: "How is this going to lead to long-term change?" All of the things we are doing are long term. "What is the evidence? Can you cite the evidence that the things you are going to do are going to deliver that long-term change?" Then, we ask for that to be reviewed every year.

Even if we are asking a contractor if the milestone is an output and not an outcome, we are checking all the time that the evidence is telling us that that output is going to deliver a long-term outcome.

Q59 **Jeremy Lefroy:** Have you had any payment-by-results contracts so far where you have not paid the results-based payment?

Mark Lowcock: Yes, we have. Shall we dig out a couple of examples for you?

Jeremy Lefroy: Yes, that would be helpful. It would also be helpful to understand how you were able to enforce it, because presumably you have got a disagreement with the contractor as to whether it had been achieved or not.

Joy Hutcheon: We did agree with ICAI that we needed to have another look at our guidance for payments-by-results contracting. We agreed



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that that was probably expanding rather more rapidly than it perhaps might have. We have had a look at the guidance. ICAI said in this report that we have substantially addressed their concerns.

We are now seeing payment-by-results contracts still increasing, but at a less rapid rate. That is to try to remove some of those cases where we found we did not get it quite right, and we have had to kind of agree with the contractor as to how we were going to proceed with the programme.

Mark Lowcock: It is important, because Mrs Bruce has pushed us on this in the past. I made it clear that I agree with the direction of the critique. The alternative to a payment-by-results approach to contracting is that you just pay for time spent. You have said to us in the past, "You need to be a bit careful about that, because people spending their time just have an incentive to spend more and more time in that case."

It is not as though we got into this because we left a perfect world and have deliberately decided to go into an imperfect one. We are trying to improve the value for money we get from our delivery system and to address the problems that were there, which the Committee flagged to us, with the previous system.

Q60 **Jeremy Lefroy:** May I pursue this, Chair? The one point that would occur to me over payment by results is that, if I were a contractor and a certain percentage of what I was going to be paid was tied up with results, I would ensure that my costs excluded that payment—for purely business reasons, so I did not go out of business because my costs exceeded my income.

Is there not a risk that, because that happens and because, in effect, the payment-by-results element would be a bonus, we are not going to get value for money, because they are going to do less work on the project. There is a risk for them that, for reasons perhaps beyond their control, they are not going to be able to achieve that result on which they are going to get paid.

Mark Lowcock: It is a really good example of something to be wary of. Obviously, we will try to specify the milestones or outputs triggering the payment in a way to avoid that risk, but you basically illustrate the point that the devil is in the detail, and you have to be really careful to keep your incentives aligned to maximise value for money.

Q61 **Jeremy Lefroy:** Have you found that payment by results excludes smaller contractors, because they cannot take those risks?

Mark Lowcock: Again, this is a really important point. As I said when I was last here with the Secretary of State, more than 30% of our contracting is going to SMEs. We find a way through that, but, conceptually, the smaller businesses probably do have a bit less capability to manage a more sophisticated contracting relationship.

That is something we need to keep an eye on. I am not sure that we have had lots of specific cases where it has been a problem, because



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most of the results-based contracting tends to be on the bigger programmes, which tend to be won by the larger firms.

Joy Hutcheon: This is an area that we are very specifically looking at through the Girls Education Challenge fund, where we have been trialling payment by results with a range of suppliers. The mid-line evaluation of that will be out in the next few months.

We did find we had a set of issues, particularly in fragile states, where the methodology we had looked to apply in assessing results turned out not to be manageable. We flexed that so we were pulling back a bit from outcomes, closer to outputs—outputs that were more manageable, easier to monitor and assess, and assess against a control group. We have been very flexible in that process. We are looking at that very consciously as a lesson-learning programme for exactly that question, Mr Lefroy.

Q62 **Jeremy Lefroy:** Just finally, I have a question about a comprehensive picture of spending in any particular country. That is something we have raised on a number of occasions before. I wondered how far the department has reached on that. Clearly, we had concerns back in 2014 that there was no overall picture of what was being done in a particular country.

Mark Lowcock: We are making quite good progress within the department's spend, and I am very happy to set that out to you in a bit more detail in writing, if that is helpful.

Of course, the proportion of the Government's total ODA the department manages is also declining as more departments—the Foreign and Commonwealth Office, the Department for Business, Energy and Industrial Strategy, the MoD, DEFRA, the Department of Health and so on—play a role. We are going to need to keep working across government on that, because there is a risk that we make lots of progress in the department, but there is a bigger story that we are in danger of missing.

Q63 **Jeremy Lefroy:** Would you agree with me that it is absolutely essential that the Government as a whole knows exactly what is being done in each of our partner countries and that that information should be readily available to the Government in one place and, indeed, to Parliament?

Mark Lowcock: Absolutely, yes, of course. I completely agree with that.

Q64 **Chair:** Can I move us on to fragile states? In ICAI's fragile states review, they recommended more detailed guidance on working in fragile states, and the department disagreed with that on the basis that this is now the core business of the department rather than the exception. In light of that, can you set out what the department has done to adapt capacity and resources to the increasing operation in difficult environments?



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Mark Lowcock: The annual report says a bit itself about a range of the things we have done. We have the new 50% target. We have the work we have done on risk appetite and the fiduciary risk study, which we talked about a bit in response to Dr Cameron's questions earlier. We have a major focus on trying to ensure the multilateral system is more geared up and effective in fragile states. The area that we were not sure about was whether we should write another guidance document, another strategy document.

That was basically because we have a whole series of things that we think are better ways to influence what the staff of a department do as a practical matter to deal with the additional problems we get in places that are more fragile. The passage of time will determine whether we are right that there are other interventions that are more likely to achieve the objective we share with ICAI than simply writing another guidance document.

Q65 **Chair:** Can I probe that further with a specific example, one you know the Committee feels very strongly about, which is jobs, livelihoods and economic growth? Can you update us on how you have adapted your private-sector development portfolio specifically in fragile contexts?

Mark Lowcock: As you know, Chair, we are due to publish a series of documents soon that will set out a bit more of the detail on that. We could certainly give you a few examples of specific things we have done in terms of the private sector in fragile environments.

The Committee is very familiar, for example, with a lot of the work we have been doing on infrastructure in Nigeria, and that is quite a good example of ways in which you can move things forward. We have some quite interesting things on job creation in Somalia, on which we could perhaps provide a bit more information. Let me see if I can find a few other examples as well.

Again, however, the issue is what we are doing in practice to improve the lives of the poorest people, especially their livelihood opportunities, as opposed to, "Do we need another DFID guidance document?"

Q66 **Chair:** That would be very helpful. You mentioned that the reviews will be with us soon. Are you able to tell us how soon is "soon"?

Mark Lowcock: Chair, my track record is so dreadful on giving you a timetable for this, I dare not go beyond that.

Q67 **Fiona Bruce:** ICAI has expressed concern that, whilst moving the security and justice programme into the CSSF might provide a clearer strategic focus, it might lead to a shift away from community-justice initiatives, such as those with women and girls. I wondered whether you had any plans in this area to continue with what works.

Mark Lowcock: Yes, absolutely. The programme on trying to identify the risks women and girls face, especially in conflict, is a growth area. It



is still a growth area. It is one of the biggest things we have been trying to shine a light on and have programming on, particularly in the Middle East.

We have to make some choices, in general, across the programme about the priorities for justice-sector reform. We were finding on community justice that some of the projects we were doing were basically drowned out by the overall environment. If the legal framework was deficient or if the core institutions of law and order were in need of reform, you were tinkering away at the symptom without addressing the root causes. That was really behind the thought on that.

However, this is definitely a key area of activity for the department, where the work of the department is still growing—and we will be reporting more on that.

Q68 Jeremy Lefroy: I would like to turn, now, to the report on the private sector and development capital from the last Commission. At the time, there were some concerns raised over the department's capacity to deal with the increasing amount of what is called non-fiscal spending or returnable capital, i.e. investments recognised on DFID's balance sheet.

With the Government now committing at least £5 billion over the next spending period of DFID's budget in the form of non-fiscal spending, that becomes ever more urgent. What changes has DFID made to ensure you have good, professional oversight of what is an increasingly large asset on your balance sheet?

Mark Lowcock: The current position is that we have more good uses for that sort of money than we have money. We are beyond the problem you described, which we had at an earlier stage. Two or three years ago, we restructured the department to bring in more capability and expertise to deal with things that should appear on the balance sheet. We brought quite a lot of additional expertise into the group that David Kennedy supervises.

We have also strengthened quite substantially the team in the finance complex that Joy supervises, who track valuations and update me and the other senior staff on how investments are performing, so we can see what is going on and whether we are going to face an issue or not. As we recorded in the accounts for 2015-16, performance for those investments has been not bad so far. They are still mostly quite small.

We have concluded that working mostly through intermediaries—CDC and the regional development banks and the Private Infrastructure Development Group—is genuinely likely to be the best approach, but there are a few areas, for example the innovative work you know we are doing in India, where we think we have been right to take a bit more risk on our own balance sheet directly, where the investments are performing reasonably well.



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It would not be the best approach for us to say to lots of country officers around the system, "Okay, you can now have a little bit of this money and manage it for us." It is going to be much better to use the organisations whose skill that is, especially CDC, to do the bulk of that work for us.

Q69 Jeremy Lefroy: In effect, the department is developing a quasi, mini development bank within itself, even if it is using other people to do the investment for it.

Mark Lowcock: Yes, we 100% own CDC. As you know, they are going through a strategy refresh process at the moment, and that is pointing to the fact that the experience we have had so far with them investing directly in businesses, taking equity stakes and then lending to businesses has been, basically, a good experience.

CDC's financial performance has been good over the last five years in these new areas of business, and the measures available to us of its development impact have also, if I am honest, outperformed what I thought might be the case. They have certainly performed substantially above the targets we set them.

It is important to say that this is still an immature portfolio, and it would be extraordinary if one or two things did not go wrong over time. But that direction of travel—using an institution that has got the core skills and broadening the set of things we ask it to do—is proving the right one so far.

Q70 Jeremy Lefroy: Are there any instances of returnable capital, non-fiscal spending, that are on the balance sheet that are not done through a third-party institution where you are directly managing them? If so, do you believe you have got the capacity to do that management?

Mark Lowcock: There are four or five investments in that category. They are virtually all in India. As I say, I am satisfied that we have a system where we track the valuations and the performance of the investment. It is flagged in the management information, and we can see what is going on.

As it happens, at the moment, there are no major performance problems. It would be surprising to anybody who has a background in this if every investment we made turned out to be a good one, because that is not typically what happens doing this in the countries we operate in. Typically, you expect to have a few really good ones, probably a few that do not work you have to cut your losses on, and then some in the middle.

In these early days, the performance of those directly managed is, as I say, not bad. We can extract more of the detail of them, if you like, from the balance sheet, but it is all on the balance sheet.

Jeremy Lefroy: I would appreciate that. We would appreciate having a detailed list of the investments, both those that are managed through, for



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instance, PIDG, CDC, all the multilateral development banks, and those you directly manage.

- Q71 **Fiona Bruce:** You will recall, Mr Lowcock, that in the last Parliament the Committee expressed considerable concern about the ICAI report on private-sector work. I note in the annual report a number of comments that do not lead me to be any less concerned. On page 10, the report says that ICAI has suggested a range of measures that DFID could take to strengthen its business partnerships. It says there are a few positive developments, but perhaps the tone is damning DFID's work with faint praise there.

The conclusion is, "Overall, however, DFID did not engage actively with our analysis or recommendations. It made it clear that business in development is not a topic that resonated with it." Why is that?

Mark Lowcock: As you know, the origin was that the then Secretary of State did not agree with the recommendations that came forward from the report. It follows that if we do not agree with the recommendations, the level of follow-up will be affected by that.

To be honest with you, I have not refreshed my memory of the whole of the follow-up to this report. I am happy to take it away and have another look, but what I have said to you is really the core message. I am sorry not to be fully prepared on this one, Chair. Can I take it away and come back to you?

- Q72 **Fiona Bruce:** You certainly can. I would appreciate if you would look at it, because would you not agree that with the current Secretary of State's emphasis on trade, for example, this is a key area the department needs to focus on?

Mark Lowcock: This report was on not the whole gamut of business in development or the whole gamut of the private sector but a narrower subset of relations the department has with certain sorts of businesses. Let me take it away, however, and come back to you.

Fiona Bruce: Perhaps you could write to us, please.

- Q73 **Chair:** You could write to us; there are a number of points that have come up through the evidence session that you have promised to come back to us on. Thank you.

I have one final question on non-DFID ODA, non-DFID aid, and some of the challenges that arise from that. ICAI, two years ago, recommended action in terms of statistics on non-DFID ODA and how they are published as part of your annual publication of statistics on international development. Clearly, data is absolutely crucial. Can you tell us a bit more about how that is progressing?

Mark Lowcock: Statistics on international development do aim to capture all of the UK's official development assistance, whichever department is sending it. That will remain the forward objective, and I am confident the raw data is going to be in there, because we gather that



all the way through every year in the department, not least to manage against the 0.7% target.

The bigger issue, though, is how the Government is going to provide a wider narrative on how the 27% of the total development budget, projected by 2020, spent outside of DFID is being used and what it is achieving. In a way, the role ICAI play there is going to be very important. When the 2015 Bill was going through Parliament, the Government made it clear that the evaluation provision in there was very important.

Since it has been put on the statute book, we have also made clear that we see ICAI as having a fundamental role in providing assurance and information to you and to the public at large about how all that money is being spent and what it is being used for. The Chief Commissioner has put quite a lot of useful information on it in her report, and she has told you it is going to be an important part of the work programme, so that is good.

Q74 Chair: Are you confident that officials in other government departments recognise that role of ICAI and will give them the levels of co-operation that have developed in DFID's case?

Mark Lowcock: I heard Alison's use of "polite".

Chair: Indeed, yes, indeed.

Mark Lowcock: I understand the point, and I will pursue it again with my colleagues. Realistically, it is going to be a bit of a work in progress. One thing that will interest me is whether other Select Committees, for example through their annual report process, end up having an interest in what those departments are using those parts of their budgets for. Chair, I will take that away and have another look at how I can pursue it with my colleagues.

Joy Hutcheon: There is an ODA group that we co-chair with the Treasury; a senior nominated person from each department that spends ODA attends. We have talked about ICAI's role there and value-for-money issues more generally.

The Chief Commissioner and I have discussed this, and we have offered to do a pincer movement with her on departments, if that would be helpful, if you like, so that, at the same time the Chief Commissioner is approaching them, we are reminding them that ICAI has this whole-of-government remit and we can help with the experience of how to engage with ICAI. It is the start of a process, but there is more we can do.

Chair: That pincer movement will be very important, and I am sure it is one we as a Committee would welcome. There is a challenge for us—and I will take that forward—to talk to the other Select Committees to ensure they recognise that in those departments that will be delivering



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increasing amounts of ODA they have a scrutiny role, as well as us having a scrutiny role.

It is just important that it is seen as a priority by all three parts of the triangle: you, ICAI, and also us as the International Development Committee. As I said earlier, we will focus more in our inquiries during this Parliament on non-DFID ODA, because it is a bigger element of UK official development assistance.

Thank you very much indeed for being with us today and giving evidence.

Mark Lowcock: Thank you.