FIRST REPORT FROM

THE FOREIGN AFFAIRS COMMITTEE

SESSION 2007-08

FOREIGN AND COMMONWEALTH OFFICE

ANNUAL REPORT 2006-07

RESPONSE OF THE SECRETARY OF STATE

FOR FOREIGN AND

COMMONWEALTH AFFAIRS

Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
January 2008

Cm 7302 £9.25

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RESPONSE OF THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

The Secretary of State for Foreign and Commonwealth Affairs welcomes the First Report from the Foreign Affairs Committee in Session 2007-08 on the 2006-07 Annual Report of the Foreign and Commonwealth Office (FCO). This Command Paper sets out the Government's detailed response to the Report, in particular to the Committee's sixty specific conclusions and recommendations.

Form of the Departmental Annual Report and related papers

1. Given the scale of its efficiency programme, we recommend that in its next Annual Report the FCO considers devoting more space to reporting progress on meeting its efficiency target. (Paragraph 8)

FCO Response: We welcome the Committee's feedback on the overall balance of the narrative in the FCO Departmental Report 2006/07. The length of the Efficiency section was based on HM Treasury guidance* that *"for most departments, 1-2 pages [devoted to efficiency reporting] should suffice."* However, given the scale of our efficiency programme, we shall look to provide the Committee with more detail on progress against our targets in our Departmental Report 2007/08 (which will look forward to CSR07 VFM savings as well as report on delivery of SR04 efficiencies).

Comprehensive Spending Review settlement

2. We conclude that the Comprehensive Spending Review 2007 (CSR07) settlement for the FCO, one of the tightest in Whitehall, risks jeopardising the FCO's important work. We recommend that in its response to this Report the FCO sets out what impact an average real annual reduction in its budget will have on its programmes over the CSR07 period. (Paragraph 21)

FCO Response: In common with Departments across Whitehall, the CSR requires the FCO to deliver annual efficiency savings of 3% in real terms on its baseline budget, within which we must achieve annual real terms efficiency gains of 5% on our Administration spend. We intend to achieve these challenging targets through a range of efficiency measures which aim to standardise, simplify and streamline our corporate services and management and support functions overseas. This will allow us to focus our diplomatic effort, and programme expenditure, on our highest priorities. In particular, additional resources will be devoted to achieving four policy goals (listed in response to Recommendation 13 below). This will mean reducing the FCO's resources devoted to certain other issues, although our global network will continue to deliver the whole of the Government's agenda overseas. As the Foreign Secretary commented in his blog at the time of the CSR announcement: "[this] settlement gives us the money we need to make a difference on the most important foreign policy issues, to continue to deliver excellent services to the public, and to modernise – it reflects the importance of the FCO in delivering the Government's agenda in an increasingly globalised world, and should help us strengthen the UK's global influence".

*(*HM Treasury Public Expenditure System (2006), 20 December 2006: Guidance for the Spring 2007 Departmental Reports, section 9).*

3. We recommend that in its response to this Report the FCO set out what items of one-off and time-limited expenditure were excluded in the baseline for calculating the FCO's CSR07 settlement and the grounds on which it was considered reasonable to exclude them. (Paragraph 22)

FCO Response: The FCO's CSR baseline did not include sums allocated in RfR2 for Conflict Prevention together with in-year claims against the DEL Reserve. This follows standard Treasury practice.

4. We conclude that it was wrong that the FCO had much of its activity defined as administration during the Spending Review 2004 period and that the reclassification of £300,000,000 for front-line diplomacy activity from "administration" to "programme" expenditure is to be welcomed. We recommend that in its response to this Report the FCO clarify what the outcome was of its discussions with the Treasury on this point. (Paragraph 24)

FCO Response: The FCO welcomes the Committee's conclusion on this issue. The CSR Settlement agreed with the Treasury confirmed that the £300,000,000 of the Department's Near-Cash Resource DEL expended on meeting the direct costs of front-line staff overseas will in future be treated as Programme, rather than Administration as hitherto.

5. We conclude that the FCO should not have to meet the growing cost of international subscriptions without a corresponding increase in its budget and recommend that in its response to this Report the FCO also set out whether its budget was raised accordingly for the CSR07 period. (Paragraph 25)

FCO Response: The FCO's CSR Settlement recognised the growing burden of international organisation subscriptions and adjusted the balance of the existing cost-sharing agreement with the Treasury so that in future the FCO budget will only be required to meet 40% of costs above the £102,000,000 baseline set in SR2002. However, the Chief Secretary to the Treasury did not agree to an increase in this baseline.

6. We conclude that the estates security programme begun in Spending Review 2004 must not be disrupted, since it affects the safety of staff. We recommend that in its response to this Report the FCO explains whether it has received the funding it requires to continue this programme and that it breaks down how the £183 million in capital additions will be used. (Paragraph 26)

FCO Response: We are confident that the additional capital allocation of £183m over the CSR period will enable us to deliver our estates security programme.

The details of the programme are still being developed. We will be happy to share these with the Committee, as they become available.

Measuring performance

7. We recommend that in its 2007-08 Annual Report, the last report covering its performance against its SR04 PSAs, the FCO provide more evidence to support its assessments against target indicators. We are disappointed that the FCO was unable to assess its performance against all but one of its consular targets in its Annual Report because the IT system was not able to produce the data required. We find it surprising that Compass was not designed with this functionality and we recommend that in its response to this Report the FCO inform us of progress in adding this functionality to Compass. (Paragraph 34)

FCO Response: We will provide more evidence within our 2007-08 Departmental Report in support of the final assessment against our SR04 PSA target indicators.

For the consular targets, with improved reporting systems in place by March 2008, we hope to provide better evidence of our assessment against them. Unfortunately, because the cycle of our annual data collection is not in line with the reporting cycle (which is being rectified), all the data will not be available in time for the publication of the 2007/08 annual report.

As part of the Consular Strategy Programme, we have started a Management Information Project to improve the quality of reporting within the Directorate. For the next financial year, 2008/09, we are introducing a number of IT and business systems to produce the data that is required. These new systems include the ability to report from Compass (for Assistance work), BRIT (for passport related data), and consular posts on a monthly basis. So, from the start of the next financial year we will be able to report more regularly and within cycle on how we are measuring up against our targets.

8. We recommend that in its response to this Report the FCO set out what representations it has made to other EU Member States in order to try to reach a common position on Kosovo. (Paragraph 42)

FCO Response: We agree with the Committee's assessment of the progress of the Kosovo status process and with Lord Ashdown's argument that an absence of EU leadership risks a vacuum which others could fill.

We consider that an early resolution of Kosovo's status is crucial to the stability and security of the Western Balkans and Europe as a whole. We have made clear that a settlement should be acceptable to the people of Kosovo and promote a multi-ethnic society offering a future for all its citizens.

The FCO has worked closely with our EU partners to build the consensus needed for the EU to show leadership by signalling its determination to see the Kosovo status process through to rapid completion. Embassies in EU countries have been in regular touch with host Foreign Ministers setting out UK thinking and emphasising the need for an effective and united EU position. There have been intensive contacts with EU partners at Ministerial level. On 7 December, the Foreign Secretary, together with his German, French and Italian colleagues, wrote to EU Foreign Ministers underlining the need for the EU to demonstrate its readiness to meet its responsibilities in respect of stability and security in Europe by playing a leading role in bringing the Kosovo status process through to completion and in implementing a settlement.

In recent meetings of the EU, there has been strong recognition that the Troika process has exhausted all options, that the status quo in Kosovo is unsustainable and that an early settlement is vital. At the European Council on 14 December, the EU underlined its readiness to play a leading role in strengthening stability in the region and in implementing a settlement defining Kosovo's future status.

9. We welcome Lord Ashdown's positive assessment of the FCO's work in Bosnia and Herzegovina, in particular his praise for the Ambassador and other Embassy staff. Nevertheless, it appears that sufficient progress is not being made in the state. We recommend that the FCO urge its EU partners to drive forward constitutional change in Bosnia and Herzegovina, in particular by sending out more positive messages about the prospects for the state's eventual accession into the EU if certain reforms are carried out and Karadzic and Mladic apprehended, if in that country. (Paragraph 50)

FCO Response: We welcome Lord Ashdown's positive assessment of our work in Bosnia and Herzegovina (BiH) and his praise for the Ambassador and other Embassy staff.

The FCO agrees that insufficient progress is being made in BiH. We have been working energetically to encourage political leaders to turn away from recent rhetoric and focus on delivering reforms necessary for moving to the EU.

We welcome the recent initialling of BiH's Stabilisation and Association Agreement (SAA) which, while a technical step, reflected the EU's commitment to BiH's European perspective and the recent progress by political leaders in agreeing an action plan for police reform.

We agree on the need to continue encouraging reform progress, including on constitutional reform. This is a point we continue to press with our EU partners. In its conclusions of 19 November, the General Affairs and External Relations Council (GAERC) called on political leaders in BiH to "ensure the full functioning of State institutions and to advance reforms which are essential for Bosnia and Herzegovina to move forward."

We will also continue to make clear to our EU partners, and directly to BiH political leaders, that meeting the EU conditions – which include ICTY co-operation – would unlock the road to signature of BiH's SAA.

That said, significant challenges in BiH remain and we may have to deal robustly with additional challenges from Bosnia's political leaders against the Dayton framework.

10. We are very concerned that almost half of the total budget for the Global Conflict Prevention Pool was spent in Iraq and Afghanistan in 2006-07. We conclude that the FCO should not have to direct funds away from long-term conflict prevention into crisis management. We recommend that the FCO should receive funding from the Treasury contingency reserve for the civilian costs of crisis management in Iraq and Afghanistan. (Paragraph 53)

FCO Response: The FCO welcomed the announcement of the creation of a new Stabilisation Aid Fund (SAF) as part of the CSR07 settlement. This fund will take over from the Global Conflict Prevention Pool as the prime source for funding of conflict stabilisation work in Afghanistan and Iraq from April 2008. The SAF will be established on MOD's baseline to cover expenditure alongside military activity in 'hot conflict zones', placing funding for Iraq and Afghanistan on a much firmer footing. We do, however, remain concerned that these proposals do not fully solve the problem of resourcing civilian deployments alongside the military, as there is no new money for activity which does not qualify as overseas Development Assistance. We agree with the Committee that there should be access to the Reserve for the additional costs of civilian deployments.

In tandem, the Global and Africa Conflict Prevention Pools will be merged to create a single pool for conflict prevention activity. By merging the two pools and creating a new fund for Iraq and Afghanistan, more resources will be made available for long term conflict prevention in the rest of the world, allowing the Pools to re-focus on the type of activity they were originally intended to do, in line with the Committee's wishes.

11. We were disappointed not to have been consulted on the FCO's draft targets far earlier in the process and recommend that the FCO in its response to this Report set out why this was not done. (Paragraph 58)

FCO Response: Throughout the process of drawing up a new PSA set, we were conscious of the strong views expressed by the Committee on perceived shortcomings in its predecessors in measuring foreign policy success. Our offer to brief the FAC on the CSR07 PSA targets after the Easter recess was made at a time when it was assumed that the CSR would conclude in June. However, the delay in the CSR until the autumn, and slower than anticipated progress in developing the PSA framework, meant we were not in a position to fulfil our undertaking before the House rose for the summer recess. Regrettably, the first opportunity to do so thereafter came only a week before the publication of the CSR.

12. We welcome the fact that it was the FCO, rather than DfID or the MoD, that led on developing the new PSA on conflict. This sent an important signal that the Government was committed to diplomacy as the best form of conflict prevention. We also welcome the new structure of the target, which appears to avoid over-reliance on quantitative measures or purely narrative assessment. We recommend that in its response to this Report, the FCO sets out the extent to which the NGOs and academics it consulted influenced the final conflict Public Service Agreement and any lessons learned from this consultation process. We also recommend that the FCO consults widely on the development of its future targets. (Paragraph 63)

FCO Response: The FCO is grateful for the Committee's support. In developing the PSA with DFID, MOD, PCRU and other parts of Whitehall, we have been careful to engage with both the NGO and academic communities. This engagement has taken the form of set piece events, such as HM Treasury's "PSA Challenge Panel", which involved representatives of both the NGO and academic communities, and informal and ongoing dialogue with the Peace and Security Liaison Group of NGOs and the Human Security Centre. This engagement continues in the second phase of the PSA's development, as the FCO leads efforts to generate the necessary detail to underpin the broad framework of targets. Engaging with these external stakeholders has been particularly useful in setting ambitious and measurable targets, and in identifying the specific UK Government role in their achievement. To demonstrate the Department's commitment to delivering on this PSA target, the Permanent Under Secretary will be chairing the Programme Board to oversee progress on the PSA targets.

As well as the Conflict PSA, the FCO will also be a major contributor in the delivery of the Counter Terrorism, Climate Change, Migration, and International Poverty PSA Targets throughout the CSR07 period. Although not the lead department for these PSA Targets, the FCO will, where possible, consult a wide audience in order to shape the individual PSAs' outcomes and indicators of success (targets).

13. We conclude that the current system of performance targets is less appropriate for the FCO than it is for other departments, and may absorb time which could be better spent on core functions. We also conclude that ten strategic priorities is too many. We recommend that both targets and priorities be simplified and reduced in number and we hope that the FCO's consultation on the "new diplomacy" will assist in this process. (Paragraph 69)

FCO Response: We agree that the current system of performance targets poses particular challenges for the FCO. Measuring the foreign policy targets within the SR04 performance framework has proved problematic, and is an area we have had very much in mind in developing targets in particular for the Conflict PSA.

The Foreign Secretary launched a Refresh of the FCO's Strategy in July with the objective of giving the FCO greater clarity on our role and a sharper, more strategic set of objectives. One of its early conclusions, in line with the FAC's own recommendation, was that the existing ten strategic priorities were too many. So, in the new strategic framework we have been developing, we have identified a much shorter list of policy goals based on our assessment of where the FCO can add the greatest value on issues that are of the greatest importance to the UK. The new policy goals are to: counter terrorism, weapons proliferation and their causes; promote a low carbon, high growth global economy; prevent and resolve conflict; and develop effective international institutions, above all the UN and EU.

In addition, the FCO remains committed to delivering excellent consular services, trade and investment promotion through UKTI, and visa services (for which the lead will pass to the UK Borders Agency from April 2008). Maintaining an effective global network will also now be an explicit priority for the FCO.

To inform the Strategy Refresh, we invited contributions from the public through a 'Have Your Say' page on the FCO website. The Foreign Secretary launched this with a speech broadcast live on avaaz.org, an internet-based organisation that co-ordinates global campaigns on major international issues such as climate change and global justice. We also sought contributions from our stakeholder network, including FCO staff. Our CSR07 performance framework will reflect this new strategic focus.

14. While we welcome greater joined-up working between the FCO and other Government Departments, we recommend that there should be a clear recognition across Whitehall, including from the Prime Minister's Office, of the FCO's responsibilities for foreign policy and are disappointed that Simon McDonald was unable to appear before us after his appointment as special adviser to the new Prime Minister. (Paragraph 76)

FCO Response: We welcome the Committee's recognition of the benefits of greater joined-up working between the FCO and other government departments. The Strategy Refresh will bring greater clarity to the FCO's role and how its resources can best be deployed to add value for the rest of the Government. We are currently discussing with other Government Departments arrangements to ensure our global network also pursues their international priorities.

It is not usual practice for the Prime Minister's advisers to appear before Parliamentary Committees. The Prime Minister himself appeared before the Liaison Committee on 13 December and answered questions on his foreign policy priorities.

Operational efficiency

15. We recommend that the FCO keep us informed about progress of the Future Firecrest Programme, including giving us advance warning if there are likely to be further delays to its introduction. (Paragraph 81)

FCO Response: The Future Firecrest Programme is on course for deployment to the UK, starting with a pilot on 3 March 2008 and overseas with 3 pilots on 8 July. We expect full deployment to begin in the UK on 17 March and overseas on 30 September. The programme remains within budget. The FCO undertakes to keep the Committee informed about progress of the Future Firecrest Programme, including any possible delays.

16. We recommend that the FCO sets out in its response to this Report exactly how it plans to identify the additional posts it needs to relocate to meet its Lyons target. (Paragraph 85)

FCO Response: We are on target to complete our commitment under Lyons to relocate 450 posts by the third quarter of 2010-11. Relocation of 210 permanent posts has already been achieved through a strategic decision to base 79 additional staff slots at Hanslope Park rather than London, and the relocation of 131 other jobs to the same site.

Our current plans include a further 16 slots to be relocated to Hanslope Park in this financial year and arrangements are now well advanced to relocate the main bulk of our Legalisation Office, comprising around 30 staff, to Milton Keynes by end of May 2008. Together with the 200 British Council jobs which the OGC have previously agreed can be included in our programme, scheduled for relocation from the Spring of 2008, we currently expect to meet our target and deliver a total of 456 slots by 2010-11.

17. We conclude that although the Shared Services Programme has great potential for efficiencies, it also carries some financial and operational risks. We welcome the fact that the Programme has had an OGC Gateway 0 review and recommend that the FCO share the review's findings with us. We also recommend that the FCO confirm whether the Treasury has provided funding from its Restructuring Fund to meet short-term redundancy costs related to the Programme. (Paragraph 91)

FCO Response: The FCO welcomes the FAC's recognition of the potential benefit of the Shared Services Programme and also of the risks inherent in such a transformational change programme. The OGC Gateway 0 review conducted in May 2007 provided advice to help shape the future work of the Programme. The recommendations of the review were helpful in prompting a clearer strategic vision and strengthening of the governance structures for the programme and its main projects.

We will invite OGC to further review the Programme and its projects in the early part of 2008.

The Treasury did not provide funding from the Restructuring Fund. However, to meet redundancy costs, the Treasury agreed that the FCO can access resources available under End-Year Flexibility arrangements.

18. We recommend that the FCO and UKTI work together to ensure that any reduction in FCO management and support costs that occurred as a result of UKTI reducing its presence in a post is recorded as accurately as possible in order to prevent any double counting of FCO and UKTI efficiencies. (Paragraph 96)

FCO Response: As a result of the 2004 Spending Review settlement, UKTI was required to identify FCO staff with a Full Economic cost of £20m for redeployment on other FCO priorities. UKTI first identified priority markets and services for its customers, and then matched available resources to these priorities, with the aim of maintaining overall service to its customers. Having done this, UKTI identified efficiencies either by releasing staff time, or by regrading posts and, where appropriate, by making greater use of locally engaged staff. These approaches helped UKTI achieve its £20m target.

The FCO did not aggregate UKTI's £20m reallocation to its own reported efficiencies. However, it was always acknowledged that some of the freed resources would be in the form of a member of staff stopping work on FCO's trade and investment work and being redeployed on another FCO strategic priority. The FCO and UKTI are aware that this redeployment of resources would enable the FCO to release spare capacity staff and that there would be a potential overlap of efficiency savings. Both sides have been working closely together to ensure that the risk of double counting on staff, management and support costs is fully taken into account and adequately managed.

Management and leadership

19. We welcome Sir Peter Ricketts' commitment to improving management capability in the FCO, in particular signs that the FCO is opening up competition for senior management roles to professionally qualified, experienced individuals from outside the FCO. We recommend that in its quarterly management reports to the Committee, the FCO continue to update us on progress against the four key areas for action highlighted in the Capability Review. (Paragraph 105)

FCO Response: The FCO continues to make progress on the four Capability Review key action areas as part of the wider High Level Change Plan. Our goal is an organisation which is focused on changing the world, not on administering itself; has most of its resources abroad, where we make the biggest difference; looks outward, not inward; and does more delivery with less bureaucracy. We will continue to update the Committee on our progress through the quarterly management reports.

20. We are not convinced that the decision taken by the FCO Board in April 2007 to hold back money from some of its programmes will not have affected their work. We are especially concerned about the possible impact on bilateral projects and the Global Opportunities Fund. We recommend that in its response to this Report the FCO set out these programmes' current financial position and whether money has been recommitted to them. (Paragraph 109)

FCO Response: The decision to hold back £10m, resulted in the following changes:

Global Opportunities Fund	Budgets Before	Budgets after
Afghan Drugs	£16.3m	£16.3m
Climate Change & Energy	£4.9m	£4.6m
Counter Terrorism	£8.8m	£7.7m
Drugs and Crime	£5.9m	£5.08m
Economic Governance	£4.9m	£4.26m
Human Rights	£3.1m	£2.7m
Islamic World	£8.2m	£7.7m
Migration	£1.5m	£1.4m
Reuniting Europe	£6.1m	£5.8m
Sustainable Development	£1.56m	£1.46m
Overseas Territories	£4.99m	£4.99m
Bilateral	£19.5m	£15.5m

The above figures account for £8.26m with the balance being found from a projected underspend and anticipated administrative savings. Given ongoing budget pressures and continued uncertainty over projected Visa and Consular income, we have judged it prudent not to recommit funds to programme budgets. All programmes expect to be fully spent, although given the volatile external environments they operate in, this is always difficult to judge accurately.

21. We welcome the faster closure of the FCO's accounts and the steps being taken to improve financial controls and management in the FCO. We recommend that the FCO keep us updated on the progress it is making in this area, including its Five Star Finance programme. (Paragraph 118)

FCO Response: The FCO welcomes FAC acknowledgement that progress has been made with the faster closure of the Annual Accounts. Indeed, we plan to improve further this year and sign off the Accounts up to 3 weeks earlier than last year (i.e. by the end of June).

Improvements to financial controls have been specified in response to the recent report by the NAO and we aim to have these implemented fully by the end of the current financial year.

The FCO will keep the Committee updated in this area, including its Five Star Finance programme, in the quarterly management letters.

22. We welcome the fact that the FCO's Strategic Risk Register now better reflects potential sudden demands on its resources, such as Iraq, and we recommend that in its response to this Report the FCO explain to us its proposed changes to the Register. We also recommend that the FCO share with us the recommendations of its Internal Audit Department's review of the FCO's risk management framework and the action it is taking as a result. (Paragraph 123)

FCO Response: We have made the risk management process more coherent and more responsive in order to create greater understanding and ownership from staff in London and overseas. As a result, we have received positive feedback from Directorates and risk owners on how the process has become clearer and more effective. The dynamic nature of the risk environment means that we continue to seek improvements. Therefore, we continue to work with senior management, internal auditors and those involved in the process to make further advances.

We are happy to provide the FAC with the Internal Audit report on the Top Risks Register (TRR). We also include our Implementation Plan to show the Committee how detailed recommendations have been addressed. In summary, the main objective was to bring the framework for strategic risks in line with that for operational risks. In order to do this, we have formalised the Strategic Risks Register (SRR) and have begun to use the Risk in the Network (RitN) process to feed in reports on strategic, as well as operational, risks from overseas posts. The three political Directors General now discuss the SRR quarterly, agree the ratings of individual risks, and identify which entries should be elevated to the TRR. In recognition of this progress, Internal Audit Department have closed the TRR audit and confirmed that we have addressed all the recommendations in their audit report.

23. We welcome Sir Peter Ricketts' stated objective of reducing the FCO's dependence on management consultants. We recommend that in its response to this Report the FCO set out the exact areas in which it is currently being assisted by outside expertise, where it plans to build internal skills and the expected savings in consultancy costs. (Paragraph 127)

FCO Response: The Foreign and Commonwealth Office operates a devolved system for the contracting of management consultants and no central record is yet maintained of the exact areas in which it is currently being assisted by outside expertise. To address this issue the FCO's Corporate Procurement Group is in the process of creating a central database that will contain complete and accurate information on engaged consultants. However the main areas where it is currently being assisted by outside expertise are as follows:

IT

Future Firecrest Programme – delivery of a desktop/infrastructure solution world-wide
Development of the FCO's Intranet service
FCOWeb – delivery and support of the FCO's website
High Classification Programme – delivery of secure information systems
Programme Management and Programme Delivery Office resources
Enhancements to the FCO's Enterprise Resource Planning system known as Prism

Estates

The FCO has a three-year contract with a Strategic Construction Partner who has responsibility for delivery of a range of projects around the world. Projects currently underway are in Harare, Warsaw, Manila, Algiers, Shanghai, Sarajevo and Mumbai.

In addition the FCO has a range of framework contracts in place to provide outside expertise in the following areas:

Architectural services
Mechanical and Electrical design services
Quantity Surveyors
Construction Project Managers
Structural Engineers
Interior Designers
Building Services Engineers
Landscape Architects
Building Surveyors
Seismic advisers
Civil Engineers
Health and Safety Planning supervisors

Shared Services

Development of the FCO's Shared Services programme

Consular

Programme and project management consultancy in relation to scoping/study phase of Passports Next Generation Programme which will deliver second generation biometric passport services overseas.

UKVisas

Consultancy support to the Biometrics programme
Consultancy support to the Commercial Partnerships programme
Information Systems programme management

In line with the FCO's policy of Value for Money, external consultants should only be commissioned where they will bring significant benefits to the Department which cannot otherwise be delivered more cost effectively through internal resources; these benefits may include novel approaches to a problem or experience of commercial best practice.

The use of management consultants helps to contribute towards the success of projects by providing relevant new knowledge, specialist skills, experience and an independent view of key issues not available in house. This wider experience and broader perspective, drawn from their work with other organisations, can add value to the FCO's business. Whilst we are seeking to reduce our reliance on such consultants, there is likely to remain a requirement to continue contracting where particular experience or independent views are required for specific projects.

The FCO is however committed to improving the way it assesses the need for, and the procurement and use of, consultants in general. This is in line with the NAO's report of 13 December 2006 on the Central Government's use of consultants. We are therefore developing clearer and more detailed guidance on policies and procedures for engaging external consultants. Where the estimated cost of using a consultant is expected to exceed £15,000 the engaging manager will in the future be required to prepare a business case which will require approval by the appropriate Director before any steps are taken to seek competitive bids for the service. In addition, all non-competitive procurement of external consultancy with a likely value in excess of £50,000 and competitive procurements with a likely value in excess of £250,000 require approval by the Director General Finance, with cases at double these thresholds requiring PUS approval.

The FCO is committed to increasing professional skills. We are currently recruiting at Band D level staff with skills in Financial Management, Project Management and Change Management. Increasing expertise through recruitment, interchange and Professional Skills in Government (PSG) training will reduce our dependence on consultants. We are also undertaking work to professionalise the FCO's finance community. This includes offering staff a range of external professional finance training opportunities, as well as developing a financial skills framework that will set standards for financial management skills in specialist areas.

Where management consultants are still required, we also seek to maximise the potential for skills transfer and the business case referred to above must include an outline of the arrangements for this.

There is some work underway to identify the expenditure on consultants in the finance community; however at this stage it is not possible to quantify potential savings as a result of building such internal skills. In addition, the devolved nature of the FCO's budgeting system means that it is not possible at this stage to identify the expected savings that might be realised as a result of building other internal skills.

However, as part of our CSR07 efficiency targets we expect to realise £2.7m of savings in the area of external consultancy as a result of:

a) improving procurement processes for external consultancy (including the letting of more restrictive framework contracts)

b) improving robustness of business cases challenging the need for all consultants through justification processes.

24. We recommend that there should be discussions of both foreign policy and corporate issues at the Senior Leadership Forum and Annual Leadership Conference. (Paragraph 130)

FCO Response: The Senior Leadership Forum meets twice yearly to discuss key corporate and foreign policy issues. Senior Leadership Forum members also help shape the corporate agenda by commenting on the monthly Board papers. The Annual Leadership Conference aims to strengthen the corporate leadership of the FCO, ensuring delivery of the Government's international agenda across the network. The agenda covers both corporate and foreign policy issues.

25. We conclude that the FCO's rejection of the NAO's recommendation to offer expert mediation to those individuals whose complaints initiated the review of grievance procedures sends the wrong message about its commitment to improving its procedures. We recommend that the FCO reverses this decision. (Paragraph 133)

FCO Response: The FCO welcomed the review of its grievance procedure and the opportunity to refine it further. The FCO worked closely with the NAO and with ACAS who conducted the fieldwork. All but one of the 16 recommendations were accepted and taken forward. Our procedures have been updated as a result.

The FCO stands by its decision not to implement NAO recommendation number 5. It continues to believe it has already done as much as any employer could reasonably be expected to do in the circumstances of these particular cases.

FCO Services

26. We welcome the benefits that have been realised since FCO Services became an Executive Agency. However, we are concerned that once it transforms into a Trading Fund and becomes increasingly reliant on non-FCO clients, there is a risk that the quality of its services to the FCO may decline. We recommend that the FCO put safeguards in its Terms of Business and Service Level Agreements with FCO Services to ensure that it will be able to obtain good quality services from FCO Services at a reasonable price. (Paragraph 139)

FCO Response: The FCO welcomes the Committee's recognition of the benefits delivered by FCO Service as an Executive Agency. The FCO believes that additional benefits will be delivered once FCO Services becomes a Trading Fund (TF), but we will continue to monitor the quality of service carefully, to guard against the risk identified by the Committee.

As a TF, FCO Services will remain an important part of the FCO and the relationship between the two will be more than simply customer and supplier but rather one of strategic partnership with shared long-term objectives and mutual interests. This means that FCO Services will work closely with the FCO to deliver the services that really meet the FCO's needs, to the right quality and at a reasonable price (Value for Money).

The existing Service Level Agreements already include quality management tools such as Key Performance Indicators (KPIs) and definitions of Business Critical Services. These KPIs will be closely monitored to ensure that the levels of service provided by FCO Services to FCO do not decline through their wider market work. In addition a programme of Value for Money reviews has been agreed which will be carried out over the first three years of the TF. The basis for these reviews will be included in the Terms of Business Agreement and they will seek to establish through benchmarking that both the delivery process and price represent good value for the FCO.

Both FCO and FCO Services recognise that good quality services at a reasonable price are the keys to enhanced FCO effectiveness and the ability of FCO Services to sell their services into wider markets.

27. We recommend that the FCO reconsiders the proposal to close its language centre. High quality language training is a vital part of successful diplomacy and we are not convinced that it will be successfully delivered by an outsourced model. In particular we are concerned that there appears to be a significant drop in the number of staff receiving language training over the last two years. (Paragraph 145)

FCO Response: The FCO shares the Committee's belief in the importance of high quality language training. The Language School closed on 2 October. A new Framework Agreement is in place, which contracts a range of high quality language suppliers to provide training to FCO students. We shall closely monitor the contract and ensure that the system of quality control built into the contract is rigorously managed.

The FCO Language Policy review involved a global review of each job that requires language training. Around 900 jobs have been confirmed to require language skills for operational purposes. Staff bidding to fill these positions will be assessed in advance to determine their language capability and training will be provided to bring those successful up to the required language proficiency level. Language training numbers will fluctuate depending on a number of variables: the posting cycle for speaker jobs (some 3 year overseas tour lengths were extended to 4 years a couple of years ago; the effect may be coming through now); the existing language proficiency of those selected to fill jobs; the cycle of jobs coming through to be filled. Some years there are more jobs with language requirements than others. We hope to smooth this more over the next couple of years. We are in a position to monitor systematically language training in future and we shall look carefully at trends, including in those Head of Mission posts where we have increased the standard of proficiency required.

28. We are concerned about the impact on staff morale of the redundancies related to FCO Services' new business strategy. We recommend that the FCO inform us whether it has formally assessed staff morale in FCO Services and the results of any such survey. (Paragraph 149)

FCO Response: FCO Services measures staff morale in an annual employee opinion survey; FCO Services staff are also included in the FCO's own annual survey, which was last conducted in November/December 2007.

The feedback we received from last year's FCO Services staff survey (March 2007) was that over two thirds of staff understood why FCO Services was becoming more commercial, with over half in favour. FCO Services is going through a period of significant change and it is clear – and to be expected – that there are different views among staff about this change. Some are uncertain about their ability to meet the demands of the new environment while others are becoming actively involved in making the changes happen.

Members of the FCO Board including the PUS have visited Hanslope Park and held open meetings with staff to discuss their concerns. The tone of these meetings has been positive.

We have put in place a range of mechanisms to deal with the feedback we have received and to increase staff involvement in the change process. These include promoting two-way / face-to-face communications, with new forums to cascade and discuss information with senior managers and the Executive Committee. We have also put in place a comprehensive programme of targeted training to enable staff to develop the skills they will need in the new environment.

We continue to monitor progress through feedback from training and communications channels (the latter including a mini employee opinion survey covering leadership, change management and communication) and through the 'Investors in People' (IiP) process.

Diplomatic representation overseas

29. We welcome the increases in FCO staff in high priority places, such as Afghanistan, India and China. However, we do not think such redeployments should be decided without consideration of the impact on the FCO's network as a whole. We note the apparent success of the Zero Based Review of the FCO's European network and repeat the recommendation in our previous Report that the FCO should carry out a Zero Based Review of its entire network. We also recommend that in its response to this Report the FCO set out whether the CSR settlement will enable it to sustain higher level activity in Afghanistan in the longer term. (Paragraph 154)

FCO Response: As part of the strategy refresh process, the FCO Board and Ministers considered carefully the overall disposition of UK-based staff in the network, and agreed that as part of implementing the CSR settlement there should be a further shift of staff to reflect an overall judgement as to the right pattern of overseas presence for the FCO to deliver its priorities for the future. As a result, we will be moving UK-based staff from more developed countries, primarily Europe (where we have a historically strong presence but the rest of Whitehall finds it fairly easy to operate), to countries where the FCO can offer more value added, primarily Asia, the Sub-continent and the Middle East. This will enable a sustained higher level of activity in Afghanistan in the longer term.

30. We welcome the FCO's decision to invest in premises in Mumbai. However, we are concerned by the decision to put building projects on hold while there is a major review of asset sales. We reiterate our recommendation in last year's Report that the FCO should base sales solely on the merits of each case rather than on a revenue raising target. (Paragraph 161)

FCO Response: We note the Committee's concern over putting estate projects on hold. This was necessary while the CSR outcomes remained uncertain. Our CSR settlement is such that we now have sufficient capital to deliver a comprehensive estate programme.

We continue to work towards Treasury asset recycling targets, which for the CSR period is of £54m over the next 3 financial years or £18m each financial year. As above, the primary driver will continue to be the FCO's operational requirements and the need to dispose of those assets which are no longer providing good value for money.

31. We recommend that in its response to this Report the FCO give a public update on its latest plans for the Ambassador's residences in Dublin. We also recommend that it explain who was responsible for the failure to carry out an invasive survey of Marlay Grange prior to acquisition. (Paragraph 166)

FCO Response: Our decision to sell Marlay Grange dates back to 2003 and was fully examined by the NAO in their 2004 report on the rationalisation of the Dublin Estate. The property no longer meets our requirements so we are disposing of it. We will keep the Committee informed of the outcome. The Ambassador continues to live in Glencairn.

The owner of Marlay Grange declined our request for an invasive survey as they were still living in the property. However, we decided to go ahead with the purchase as it was the only suitable property available at the time and we already planned, as a result of the non-invasive survey, to fully refurbish the house and replace its mechanical and electrical services. In any event, the asbestos has now been removed and is no longer a factor in deciding the property's future.

32. We are disappointed that there does not appear to have been a joined-up approach to the future of the Defence Attaché network, with the FCO simply taking a unilateral decision to withdraw its contribution to funding in order to reduce demands on its budget. We recommend that the Government reconsider the decision to make cuts to the Defence Attaché network, which is critically important to several Government departments and agencies, in order to ensure that the network has the necessary funding to perform all its roles effectively and efficiently. (Paragraph 172)

FCO Response: The role of Defence Attachés is to provide the Defence contribution to the promotion of the Government's priorities for international security co-operation, and we acknowledge the importance of its contribution. The Comprehensive Spending Review required Departments to focus their spending on their top priorities. The FCO concluded that in pursuing FCO Strategic Priorities we could not give priority to funding the Defence Attaché network at the expense of resources required for our own diplomatic staff. This decision was shared with MOD at a senior level at an early stage. The assumption by MOD of full responsibility for resourcing the Defence Attaché network has led to the MoD rebalancing and giving greater focus to its programme of international engagement in pursuit of defence priorities. The Secretary of State for Defence made a Written Statement about this to the House of Commons on 17 September 2007.

The FCO will continue to provide a base for the Defence Attachés through our network of overseas posts. We will charge the MOD on the same basis as we do all other government departments for which we provide support at our posts overseas, in line with HM Treasury rules. Defence Attachés will remain valued and welcomed members of our overseas posts, co-operating with FCO diplomatic staff on the Government's international security objectives, just as the MOD, FCO and other Departments cooperate in the UK.

33. We welcome the publication of the consular strategy and the many new initiatives that have been established in consular services since the NAO's review. In particular we were impressed by the new Consular Crisis Centre. However, the FCO must ensure that its planning includes the risk of an increase in demand for support from other EU Member States' nationals. We recommend that in its response to this Report the FCO inform us how it is managing this risk. (Paragraph 178)

FCO Response: The UK, like all Member States, is under a treaty obligation to provide consular assistance to unrepresented EU citizens in both crises and individual cases. In our recent experience, providing assistance to unrepresented EU citizens in individual cases does not impose a significant burden on our consular resources. In 2005-2006, we recorded only 120 serious such cases worldwide. We will continue to monitor this caseload. But we do not believe it will develop into a significant risk to our resources in the short term. Where it does, Member States have recourse to Council Decision 95/553/EC of 19 December 1995. This provides for the agreement of practical arrangements to allocate unrepresented EU citizens amongst represented Member States.

The risk to our consular resources is more serious with respect to crises. In order to mitigate the risk of being responsible for a high number of unrepresented nationals in a crisis, the UK and France launched an initiative to structure better the way EU member states collectively prepare for crises. This resulted in a Lead State Framework, which was agreed by the GAERC in June 2007. The framework is designed to identify which represented Member States should be responsible for unrepresented nationals in each third state. This will promote clearer communication and information sharing amongst affected Member States and facilitate better co-ordination on resources. The framework is designed to be implemented locally, with represented Member States agreeing which of them should take on the voluntary role of lead state and the nature of that role. Operational guidelines are being developed to encourage this process, based partly on the experiences of two UK-organised crisis exercises run in Thailand and Egypt in 2007. It has been agreed that where the lead state takes the initial financial burden of evacuating the nationals of another Member State, the principle of 'per capita' reimbursement of the costs incurred will be applied, ensuring that the Lead State is not financially penalised for its role.

Lead states have three broad areas of responsibility: assisting unrepresented nationals; facilitating communications and information sharing; and co-ordinating the sharing of resources. In appropriate third countries where several EU member states are represented, there could be more than one lead state. We believe this process will ensure that:

- those member states that are best resourced in the third country, and therefore capable of offering assistance to unrepresented nationals, are the ones to take on the responsibility;
- unrepresented member states will be required to provide lead states with information about the number of their nationals and their locations. By knowing the additional responsibility the lead state holds, they can appropriately mitigate the risk through more accurate crisis planning (which all British missions already carry out);
- rather than having to take on responsibility in the heat of a crisis, the UK can be clear in advance when we will be acting as lead state, and the capacity required there (with unknown numbers of unrepresented nationals, there is a risk of over-resourcing;)
- in countries where the UK has a smaller presence than other member states or is not represented at all, British nationals will benefit from the collective resources of the other represented member states (eg in parts of Africa, the French will include British nationals in their evacuation planning).

The lead state framework builds on an existing co-operation between member states and draws on existing resources. The European Commission has produced proposals (in their Green Paper on Diplomatic & Consular Protection) that suggest a greater role for the Commission in both individual and crisis consular service provision (through the use of common offices). We believe the most efficient and effective way of delivering assistance to British nationals is by enhancing and making best use of member state resources and networks that already exist rather than creating new structures. To this end, we are also assisting some smaller member states to improve their crisis capacity through involvement in our crisis training programmes and sharing best practice.

34. We are concerned that the FCO's change programme for passports may mean British passport applicants overseas have to travel long distances to give biometric data and for interviews. We welcome the consideration the FCO is giving to using commercial partners to collect biometrics and to remote alternatives to interviews. However, we believe the FCO should also have a target for the maximum distance applicants will have to travel and we recommend that it develops such a target. We also recommend that the FCO share with us the business case for merging the overseas passport operation with the Identity and Passport Service, when it is brought to the FCO Board in November 2007. (Paragraph 183)

FCO Response: As the Home Office and the FCO look at options to integrate our passport operations, we must balance levels of customer service; the cost of delivering that service; and the need to increase document security. Because we have to recover costs from the passport fee, the more places where we deliver this service, the more expensive passports will become. It is difficult to commit to a meaningful maximum distance that people will have to travel, as the distances between FCO posts are, in some parts of the world, very large (a maximum distance target in a very sparsely populated part of the world would not be relevant in, say, Western Europe where we would ensure that British nationals would have much shorter distances to travel). But minimising the additional inconvenience to customers will be a top priority as we design the system. The Identity and Passport Service and FCO will look at the service levels provided by other countries and how we can use other government departments and commercial partners to help us deliver our services. At this stage options are still being investigated including online applications, repatriation of printing to the UK and establishment of interviewing and enrolment capability away from consular offices. No decisions have been made and these will be partly dependent on when we start to take biometric data, and the technology available to us at that time.

The joint FCO/IPS Outline Business Justification, after further analysis of the FCO cost base and clarification of transition arrangements, will now be submitted to FCO and Home Office/IPS investment and management boards in February and March 2008. We would be happy to share this information with the Foreign Affairs Committee thereafter.

35. Given the basic weaknesses in VFS' online facility, we agree that it should not be reopened. We are particularly concerned that, according to the findings of Costelloe Baker's independent investigation, UKvisas did not follow best procurement practices nor adequately respond to prior warnings of the security weakness. We welcome the action set out in the FCO's response to the investigation. In particular we conclude that it is vital that UKvisas carry out an audit of all its commercial partners' data security procedures. We recommend that UKvisas share the results of this audit with us. (Paragraph 188)

FCO Response: UKvisas has initiated a series of audits of its commercial partners' data security procedures. We are also participating in the wider cross-Government review of data security announced by the Prime Minister on 21 November. We will take stock of these two strands of activity in early 2008 and update the Committee on the results.

36. We are concerned by the cost of calls to Posts on outsourced lines managed by Abtran Ltd. While we understand why Posts with high levels of inquiries might wish to outsource phone-handling, we find it unacceptable that British nationals are having to pay as much as an average of £8.00 to call the British Embassy in Canada. We recommend that in its response to this Report, the FCO share with us the process of procurement leading up to the central framework contract with Abtran. In particular we would like to know whether it considered the likely average call charges and whether these charges are limited in the contract. (Paragraph 192)

FCO Response: Originally eight Posts (Copenhagen, Dublin, Dusseldorf, Madrid, Ottawa, Rome, Washington and New York) each had an individual contract with Abtran to cover visa applications, customer information service on passports and in some Posts details on notarial work (e.g. birth and death registrations).

The current Framework Agreement was put together by FCO Services in an effort to consolidate and standardise these individual contracts as an interim solution to ensure that the specifications, standards and service levels were consistent and contract management costs reduced.

This Framework effectively took over from the previous individual Post agreements and was negotiated singularly with Abtran who agreed to set aside the previous individual Post agreements in favour of this new Framework.

Call charges are not limited in the contract. The calls are charged at premium rates according to the amounts that apply within that country, and the service is self-funding – i.e. Abtran cover the costs of their operation from the telephone revenues. However, the average length of a Consular call is 3.5 minutes and the cost of a call in Canada is C$2.80 per minute making the current average cost to a customer in Canada £5.00.

The central framework agreement with Abtran took effect from 1 April 2006 and expires on 31 March 2008. Consulate Directorate has considered how telephone information services can be provided from 1 April 2008. In light of the proposed merger of the passport operation with Identity and Passport Service and the changes which might occur in the overseas passport network as a result, it has been decided to extend the Abtran contract for a further year. This will enable us to take a more strategic approach to a global customer information service in the longer term. We take note of the Committee's views and will update the FAC as decisions are taken.

Transparency and openness

37. We were very disappointed by the previous Foreign Secretary's decision to withdraw a commitment to send us a quarterly management report. We welcome the fact that under the new Foreign Secretary this decision has been overturned. We remind the FCO that the other aspect of the commitment made to the Committee, was an assurance that we would be sent information, particularly key management papers, on a systematic basis. We recommend that in its response to this Report, the FCO set out whether it now intends to send the Committee key papers being considered by the FCO Board, such as the "Top Risks Register". (Paragraph 198)

FCO Response: We wish to assure the Committee of our commitment to provide it with prompt and full information on management issues. As the Committee notes, the quarterly management report addresses the current agenda and we shall continue to provide information on key management decisions taken by the Board. On the question of systematically providing management papers being considered by the FCO Board, these often control options for the purpose of formulation or development of policy. Sharing these papers may inhibit the free and frank provision of advice to the FCO Board. We therefore propose to maintain the existing practice whereby the Committee is informed promptly of all key decisions, but is not part of the decision-making process.

38. We recommend that the decision to ban valedictory telegrams should be reversed, other than in respect of comments about the governments to which the outgoing Ambassadors or High Commissioners are accredited or comments likely to cause diplomatic embarrassment. (Paragraph 208)

FCO Response: We have not stopped Ambassadors producing reports giving their final thoughts on leaving their post (or the Diplomatic Service). Heads of Mission are encouraged to have regular frank and confidential exchanges with London on the full range of management and policy issues throughout their postings.

The changes we have made involve only the format, not the content of valedictory assessments. We have moved to a more targeted distribution using modern communication methods. Valedictory messages about a particular country or international institution are shared with a smaller group of contacts with a real interest in the issues under discussion – this avoids distribution to several thousand people with no direct involvement, as happened with the old valedictory telegrams. The change has reduced the reputational risk associated with the leak of sensitive judgements when such documents receive wide distributions.

Public Diplomacy

39. We conclude that it appears that the BBC World Service has been able to play a positive role as an observer on the Public Diplomacy Board without affecting its editorial independence. However, the Board must also respect the operational independence of the British Council. We recommend that the Board focus on developing strategies rather than discussing the detail of operations. At the same time, the British Council must ensure that it keeps the BBC World Service aware of its activities, particularly those that have the potential to be broadcast. (Paragraph 215)

FCO Response: We attach great importance to the editorial independence of the BBC World Service and to the operational independence of the British Council, and recognise that they are key ingredients of their effectiveness. The Public Diplomacy Board respects fully the relevant independence of both organisations. It has additionally reaffirmed its commitment to focusing on the strategic direction of the UK's public diplomacy.

The British Council has provided the BBC World Service with a matrix of its future activities, and a number of possible collaborations are under discussion. We agree that it would be useful to step up still further the identification of activities which could be broadcast in order to maximise public diplomacy impact. The British Council will explore with the BBC World Service how best this could be achieved.

40. We welcome the fact that there has been an increase in contacts between the British Council and FCO ministers and senior officials since the decision was taken that the Permanent Under-Secretary should not sit on the British Council's Board and recommend that this increase in contacts should be sustained. (Paragraph 218)

FCO Response: The FCO and the British Council both value and benefit from regular senior level contact, which we confirm will be sustained. Both organisations remain committed to a close working relationship at all levels.

41. We conclude that the decision to pilot targeted activity for public diplomacy activity is to be welcomed and support the approach of selecting three very different strategic priorities for the pilots. (Paragraph 222)

FCO Response: We are grateful for the Committee's endorsement of the Public Diplomacy Board's approach to piloting new approaches to Public Diplomacy activity.

42. We recommend that the FCO keeps us informed of possible proposals for the shared evaluation framework. (Paragraph 225)

FCO Response: We welcome the Committee's interest in the new evaluation framework for Public Diplomacy. Tools for the system are currently being piloted and we will report to the Committee the outcomes and conclusions of that exercise.

43. We recommend that in its response to this Report the FCO share with us the findings of its review of the Chevening programme and explain the basis on which Posts will be able to select scholars for the Chevening Programme. (Paragraph 229)

FCO Response: We accept this recommendation and are separately sending the Committee our review of the Chevening scholarship scheme which was completed in November 2006. The review describes in paragraph 3.1 the basis for Posts' selection of candidates.

British Council

44. We recommend that the British Council presents income data by country in both tables and piecharts in its next Annual Report. (Paragraph 231)

FCO Response: The British Council is in the process of updating the design of its annual report and will take the Committee's recommendation into account as part of this process.

45. We welcome the British Council's increased audience figures, in particular the huge rise in its remote reach. However, three of its corporate outputs are still below target. We recommend that the FCO set out in its response to this Report what steps the British Council is taking to ensure it meets these targets the following year. (Paragraph 242)

FCO Response: Of the three below target corporate outputs, two were partly met: output 4 (self-development) and output 5 (creativity). The British Council achieved results of 77 and 75 respectively against a target of 78, which was a significant improvement on the 05/06 output. One target was not met: Evaluation of Long-Term Outcomes (ELTO). However, the 06/07 result represents a marked improvement on 05/06 and was achieved against challenging targets.

The British Council has assured us that steps have been taken to improve its ability to meet its output targets for 07/08. Contributory targets at regional and country level are now more closely aligned to corporate targets. In addition, overseas operations will monitor progress on a quarterly basis with a more rigorous commentary on progress against targets.

46. We recommend that in its response to this Report the FCO set out what safeguards are in place to ensure that the British Council meets its 2007-08 efficiencies target without reducing its effectiveness. (Paragraph 246)

FCO Response: The British Council's efficiency savings for 2007-08 come from a number of different sources. It is those relating to regionalisation and the move from small country specific projects to larger global and regional products which could compromise effectiveness. Safeguards to ensure that this does not happen include:

– Tracking effectiveness through a scorecard system in year, including comparing the impact scores of regional programmes against country specific projects (with encouraging results to date).

– Communicating the changes to stakeholders in country and in the UK.

– Strengthening the system for commissioning new products to ensure there is a pipeline for new activity.

47. We welcome the fact that the British Council has further defined its aims beyond the 1934 objective. However, we conclude that China and Russia should be a major part of the British Council's strategy and recommend that the British Council refers to these countries in its four objectives. (Paragraph 254)

FCO Response: The British Council takes full account of geographical priorities in developing its strategy and designing its activities and, as a result, significant resource is allocated to China and Russia. However, top level objectives are set thematically rather than geographically so the British Council suggest that it would not be appropriate to identify specific countries in their wording.

48. We welcome Lord Kinnock's confirmation that the British Council's shift in resources out of Europe will not involve a reduction in funding for activities in Bulgaria, Romania or Turkey and his reassurance that British Council operations in the Balkans will continue to receive increased resources. We recommend that in its response to this Report, the FCO clarify whether it has any concerns about the extent to which the Council will be able to achieve its objectives and retain control of projects when relying on partners. (Paragraph 259)

FCO Response: The FCO welcomes the reassurance provided by Lord Kinnock regarding the funding of operations in Bulgaria, Romania, Turkey and the Balkans.

The British Council has a track record of experience of working with and through partners to deliver key projects. For example, the British Council is working in partnership in Bulgaria, Turkey and seven other South East European countries to promote science among young people. In Turkey, working with a national television company and the Middle East Technical University, this project reached thousands of young people directly and 7 million television viewers. Partnership working delivers increased audiences and greater public profile for the UK at no additional cost. This previous experience makes us confident that the British Council will continue to achieve its objectives when delivering projects through partners.

49. We recommend that as part of its shift of resources into the Middle East, North Africa and South and Central Asia, the British Council should be aiming to expand its English language teaching work. We recommend that, as well as strengthening links with countries' education systems, this expansion should include providing cheaper or free places for English language lessons in the highest priority areas, such as Afghanistan. (Paragraph 261)

FCO Response: We agree with the recommendation that the British Council should expand its English teaching operations where appropriate, something which it is already doing. The British Council is also developing new models of English teaching provision, which are being piloted in India. These will seek to increase coverage and address issues of access, including, in some cases, the provision of cheaper places. English teaching provision in other high priority countries, including Afghanistan, will be developed in line with experience from these programmes.

50. We accept that in some circumstances it may not make financial sense to keep traditional library or teaching facilities open and we welcome the expansion of virtual educational services as a means of reaching a wider audience. However, we recommend that the British Council ensure that in any alternatives it provides to direct language training or library services, it is made clear that the British Council is the source of the material. (Paragraph 267)

FCO Response: The FCO agrees with the Committee's conclusions and welcomes the expansion of virtual education services. The British Council has provided assurance that the provision of direct language material or library services makes clear, as far as is possible, that the British Council is the source of the material.

51. We welcome the successful activities the British Council has been able to carry out in Russia, against a background of obstruction from the Russian authorities. We recommend that in its response to this Report, the FCO set out what representations it has made to Russia to urge it to conclude a Cultural Centre Agreement as soon as possible. (Paragraph 275)

FCO Response: The Government has set out clearly our position on the status of the British Council to the Russian Government. The Council's activities in Russia are fully compliant both with Russian and international law, under the Vienna Convention on Consular Relations (1963). Under the 1994 UK/Russia Cultural Agreement, the Council is fully entitled to operate in Russia, both in Moscow and elsewhere.

For the past nine years, the FCO has been keen to conclude a further Cultural Centres Agreement with Russia and has made regular representations to the Russian Government, including high level approaches on the British Council's status in Russia, at the level of the Prime Minister, Foreign Secretary, and Minister for Europe, as well as the British Ambassador to Moscow and senior FCO officials. The Government's representations have included high level follow up to the face to face talks held at official level in January 2007 to seek to conclude a Cultural Centres Agreement with Russia. Pending such an agreement being reached, the 1994 Agreement remains in force. A Cultural Centres Agreement would set out agreed activities of Cultural Centres, including on the provision of language teaching

52. Given that the British Council is facing a real reduction in its total budget over the three year CSR07 period, we recommend that in its response to this Report the FCO set out whether the Council will now have to divert funding from more activities than previously planned in order to fund the additional investment in its Reconnect programme. We conclude that the Council should also have received additional funding for restructuring in this period so that it could achieve greater successes more quickly. We also recommend that the Government give a firm statement that it would be willing to give the British Council additional resources to further improve the security of its estates if it faced unexpected security issues during the SR07 period. (Paragraph 280)

FCO Response: The British Council had already planned to commit £20 million programme funds to the Reconnect programme. The additional £6 million received in the CSR settlement will allow expansion of the programme. The British Council will not be diverting more funding as its planning had been completed on this basis.

As a part of the CSR settlement, the British Council received restructuring funds of £2m, £6m and £1m over the triennium.

Security of the British Council estate is a priority and we engage in regular, detailed discussion with them to ensure that, where they are to maintain their presence, necessary improvements are identified and effected.

BBC World Service

53. We welcome the BBC World Service's performance over the last financial year, in particular its record audience figures, achieved against increasing worldwide competition. However, there are areas where improvement is required, including scheduling and marketing in Africa and partnerships in Latin America and parts of Eastern Europe. We recommend that in its response to this Report, the FCO update us on the Service's progress on these areas. We also recommend that the Service keep us informed of any new targets it develops for measuring the impact of the web. (Paragraph 291)

FCO Response: BBC World Service has made progress in all areas –

Africa

- Recent, high profile marketing initiatives have included the BBC Africa Radio Awards and BBC Swahili's award for business innovation in East Africa. Both generated extensive and positive press and TV coverage in Sub Saharan Africa.
- An initiative is also under way to schedule African English more effectively, giving the overall schedules a much stronger African flavour, while retaining both regional and international news coverage. Research indicates that this move is likely to be popular with audiences.
- There are signals that the Nigerian government is keen to have a constructive relationship with the BBC and we are hopeful that they will allow BBC news programmes back on to FM. BBC World Service is working hard to restore BBC news services in English in Nigeria as a result, and success will inevitably support the BBC audience.

Eastern Europe/Latin America

- As the Committee is aware, the BBC World Service has, in recent years, moved some of the focus of its activities away from these areas, with full agreement of the FCO. The BBC World Service continues to explore opportunities to improve distribution in increasingly competitive markets in Eastern Europe. In Latin America, it continues to seek innovative ways of building audiences through traditional rebroadcasting partnerships while at the same time developing online portal relationships – for example with MSN and GI Global in Brazil and MSN LatAm in Spanish. These portals showcase original BBC news material, as well as carrying other BBC audio content.

We are currently in discussion with the BBC World Service about performance measurement from 2008 onwards, which will include ways of measuring the impact of its online and interactive services. We will keep the Committee informed of agreed targets.

54. We conclude that the BBC World Service's investment in improving its distribution system is to be welcomed. (Paragraph 294)

FCO Response: We welcome the Committee's endorsement of the BBC World Service's investment in this area.

55. We recommend that the FCO should support the BBC World Service by also making representations to the Indian government about removing restrictions on FM broadcasts. We also

recommend that both the FCO and BBC World Service should make representations to All India Radio about the potential weakening of radio as a medium if it is not liberalised. (Paragraph 297)

FCO Response: We will identify through our High Commission in New Delhi how we might make appropriate representations to the Indian Government.

The BBC has made representations at the highest levels to the Indian authorities over the past few years, including meeting the responsible Minister and senior officials. The radio market in India is currently buoyant, with the Government encouraging growth in private sector FM. However, coverage of news and current affairs on radio remains restricted to the state broadcaster. This restriction applies to all domestic and international providers. While the Indian Government is currently preparing a new Broadcasting Bill, looking at the regulatory structure and provisions, Ministers have said that there is no proposal at present to permit transmission of news and current affairs. The Indian government is thought to be concerned about risks to community cohesion if the regulations are relaxed.

56. We conclude that we can find no evidence to support claims that the BBC Russian Service was weaker than the main BBC news. However, we also conclude that the development of a partnership with the international arm of a Russian state broadcasting network puts the BBC World Service's reputation for editorial independence at risk. (Paragraph 301)

FCO Response: We fully accept the Committee's assessment. In 2007, the BBC Russian Service became a content provider for a new FM radio station in Moscow, Bolshoye Radio. This station is privately owned. Voice of Russia was also a content provider to this station. However, the Russian authorities put pressure on Bolshoye Radio to remove BBC content, and so the partnership was ended; all outstanding legal and other issues have now been resolved.

The BBC World Service's position on partnerships is clear. All partnership agreements are made completely in line with the BBC's editorial policy, with editorial independence being paramount. Any attempt to compromise that independence is unacceptable. The BBC World Service seeks partnerships with maximum reach wherever possible, but would not consider any relationship which did not comply with that core principle.

57. We agree that it is sensible to focus resources in China on those media that are less subject to jamming. However, this must not be treated as a signal that the UK is giving up on persuading the Chinese government to make media more accessible. We reiterate our recommendation in our East Asia Report that the Government should make strong representations to China about this issue. (Paragraph 304)

FCO Response: We will work with our Embassy in Beijing to identify how best to continue to make appropriate representations.

58. We recommend that any decision to close further language services should be driven by declining audience need and reduced impact, and not by an arbitrary savings target. (Paragraph 309)

FCO Response: We endorse the Committee's recommendation. Decisions to cut or close language services are made where audiences are declining and impact is weaker. Such decisions are determined by a number of factors, including geo-political importance, strength of impact and market need, and are fully discussed with the FCO. Resources freed in this way are retained by the BBC World Service for redeployment to areas of higher priority. The closing or opening of any language service requires the approval of the Foreign Secretary and the BBC Trust.

59. We welcome the BBC World Service's strategy to move from being a radio broadcaster into a multimedia network. However, this will require a joined-up approach with the rest of the BBC's services. We recommend that in its response to this Report, the FCO set out what consultations it has had with the Service about this new strategy and what measures the Service is taking to ensure clear editorial lines and a coherent mix of services. (Paragraph 315)

FCO Response: The FCO meets regularly with the BBC World Service to discuss strategic plans and future opportunities. This is done at both director and working level. The FCO and BBCWS also meet formally several times a year. This includes four quarterly meetings at director level, four financial quarterly meetings, two strategic reviews of a particular region and an annual meeting at ministerial level.

In the autumn of 2006, the then BBC Governors agreed that the BBC would take an integrated, multimedia approach to international news. As a division, BBC Global News now comprises the following services: BBC World Service, BBC World and bbc.com/news. A group of directors has been put in place with overall responsibility for this portfolio of services. The BBC is working hard to offer audiences around the world a compelling multimedia news experience; the World Service itself is no longer simply a radio service for example and includes a significant presence in online news in 10 languages. In early 2008, the launch of Arabic television will see the World Service move into broadcast television news as well as radio and online.

60. We welcome the confirmation of £15 million annual funding for the Farsi language television service and an extra £6 million to extend the BBC Arabic television service. We also conclude that the BBC World Service should have received additional funding in CSR07 for its planned new investments and redundancy costs and recommend that in its response to this Report the FCO set out what the outcome was of the Service's discussion with the Treasury on this point. (Paragraph 322)

FCO Response: The CSR process included extensive discussion of the bid from the BBC World Service. We believe that the outcome was positive, with the award of funding to extend Arabic television, launch Farsi television and to set up a project to reach Diaspora populations in the UK. The CSR settlement additionally includes £2m in 2008/9, £4m in 2009/10 and £3m in 2010/11 to contribute to the costs of restructuring.

FOREIGN & COMMONWEALTH OFFICE

INTERNAL AUDIT REPORT

TOP RISKS REGISTER

OCTOBER 2006

AUDITORS: Paresh Patel
Steve Davis

Report No. XUA/450/1/54/06

CONTENTS

1. AUDIT SCOPE, OBJECTIVES & RECOMMENDATIONS

1.1 The audit of the Top Risks Register was undertaken as part of Internal Audit Department's 2006/2007 Work Programme agreed by the Audit & Risk Committee and the PUS. Its purpose was to provide to the PUS an assurance as to the adequacy of the relevant systems of governance, risk management and control and, where necessary, to make recommendations for improvement.

1.2 The audit recognised that the process for reporting and monitoring risks remains under constant review and the audit was conducted looking forward to evolving processes rather than looking back at earlier processes which are being overtaken by new ideas. Through discussions with FPPD, a selection of risk owners and other interested stakeholders, the audit reviewed the adequacy of control mechanisms now in place or planned for the coming months, to reduce to a defensible level the exposure to key risks. The key risks, the likelihood of them materialising and the impact if they did were identified and agreed with FPPD at the outset. These are shown at Annex A.

1.3 The recommendations resulting from the audit are shown at Annex B. Auditees will also receive (with the final report) an Implementation Plan showing all recommendations prioritised as follows:

- Priority 1 - recommendations that relate to key controls. The absence of these key controls increases significantly the likelihood of error, loss, fraud or the non- achievement of business objectives, regardless of how robust the remainder of the control system is. These recommendations to be implemented within 1 month of the final report.

- Priority 2 – recommendations to address other controls whose absence themselves is not likely to be serious, but were other key controls to lapse there could be a problem. The timeframe for implementing this category will be 2 months.

- Priority 3 – relatively minor and not directly related to prevention / detection of fraud but likely to improve efficiency. To be implemented within 3 months of receipt of the final report

2. MAIN CONCLUSIONS

2.1 Work carried out by FPPD, the Directors General, the Audit & Risk Committee and others in the last year or so has significantly improved the strength of risk management relating to the Top Risks Register (TRR), particularly in the areas of risk identification and reporting. Further improvements are planned including greater involvement in the process by the Audit & Risk Committee (ARC).

2.2 We assess the overall management of risks associated with the TRR as satisfactory, although three key weaknesses are identified: the lack of clarity on the purpose of the TRR; the lack of clarity on the criteria against which key risks should be evaluated and elevated to the TRR; and the lack of a formal structure for identifying, recording and reporting strategic risks.

2.3 The management of risks associated with the identification and reporting of operational risks is satisfactory. There is a clear structure in place for reporting operational risks. This has been strengthened this year by the introduction of the Risk in the Network exercise which requires Posts to report key risks to operational performance on a quarterly basis to their Regional Directors for review and elevation to Director General Corporate Affairs. Recommendations have been made to improve guidance available, to strengthen existing controls and to increase accountability.

2.4 The management of risks associated with the identification and reporting of strategic risks is assessed as weak. Unlike operational risks, there is no clear structure in place for reporting strategic risks. There is a lack of clarity on the purpose of recording strategic risks (e.g. what the impact on the FCO will be and what influence the FCO has on the outcome). We have included recommendations that a Strategic Risk Register is introduced and an owner appointed.

2.5 Our work in the verification of mitigating actions was aimed at providing further evidence of the processes that feed into the TRR. Given that it has recently been agreed that the ARC will be taking more responsibility for overseeing operational risks and identifying those which require elevation to the TRR, we assess risk management over the verification of mitigating actions to be satisfactory. However, to protect the role and independence of the ARC, the Board needs to determine the criteria to be used for evaluating and elevating risks to the TRR. We have also highlighted the need for the ARC to review its own Terms of Reference to ensure they are compatible with this additional role.

2.6 There is a lack of clarity on the purpose of the TRR. Some risk owners see its purpose as providing management information to the Board whilst others see it as a tool to request action by the Board. Since it is presented to the Board in final, it is also not clear what action, if any, is expected of the Board. Again, a recommendation is made that the Board considers clarifying the purpose of the TRR.

ANNEX A

Risk Assessment

Sub-Systems	Risk	Likelihood	Impact	Strength of Risk Management
1. Identification and Reporting of Operational Risks	Significant risks not identified	M	M	Satisfactory
	Wrong risks reported	M	M	Satisfactory
	Incoherent basis for reporting	M	M	Satisfactory
2. Identification and Reporting of Strategic Risks	Significant risks not identified	H	M	Satisfactory
	Wrong risks reported	H	M	Weak
	Incoherent basis for reporting	H	M	Weak
3. Verification of Mitigating Actions for Operational Risks	Inadequate/ ineffective risk treatment	M	H	Satisfactory
	False or vague assurances (unverifiable)	M	H	Satisfactory

Strength of Risk Management

Good (G) – There is an effective system of risk management, control and governance to address the risk that objectives are not fully achieved;

Satisfactory (S) – There is some risk that objectives may not be fully achieved. Slight improvements are required to enhance the adequacy and/or effectiveness of risk management, control and governance;

Weak (W) – There is considerable risk that that system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance and to place reliance on the system for corporate governance assurance; and

Unacceptable (U) – The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Immediate action is required to improve the adequacy and effectiveness of risk management, control and governance.

AUDIT: TOP RISKS REGISTER

SUB-SYSTEM 1: OPERATIONAL RISKS – IDENTIFICATION AND REPORTING

Key Risks:	Strength of Risk Management
Significant risks not identified	Satisfactory
Wrong risks reported	Satisfactory
Incoherent basis for reporting	Satisfactory

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Central Guidance and Training for Operational Risk Owners (OROs)		
FCONet contains a Risk Management Homepage. This has a link to general guidance on tools and techniques of risk management, but there is no formal guidance specifically for OROs.	Satisfactory. The OROs consulted were aware of the guidance but their use of it varied. The existing guidance available is not sufficient to enable OROs to perform their roles fully. FPPD has also recognised the need to overhaul the guidance pages on FCONet.	1.1. FPPD should review and update the existing risk management guidance and consider adding specific content for Operational Risk Owners. (P2)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Aside from that mentioned above, there is no formal guidance for those involved in risk management within FPPD.	Weak. We acknowledge there have been changes to the structure of FPPD but staff should have clear handover notes and a documented overview of the operational risk management processes and individual responsibilities. This is particularly important with a high turnover of staff.	1.2. FPPD should ensure that staff in FPPD involved with risk management have clear handover notes and a documented overview of the risk management processes (operational and strategic) and individual responsibilities. We accept this may take longer than the 2 months allowed. (P2)
Risk management sessions are included in existing courses (e.g. HoMs Course and Management Course) but there is no specific course on operational risk management generally available for staff. Current FPPD staff involved in risk management are planning to attend a specialist training course at the Institute of Risk Management.	Satisfactory. Sessions provide basic overview but Risk Management Assessment Framework (RMAF) paper published in July 2006 noted the need for a "more systematic and focused risk training programme for senior managers and for delegated grades to further improve risk handling capability throughout the office." None of the OROs consulted had received any specific risk management training.	1.3. FPPD should consult further with stakeholders to develop more focused operational and strategic risk management training (as proposed by FPPD in the RMAF Paper). (P3)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Identification of Operational Risks (UK-Managed Risks)		
Operational Directorates tend to have existing overarching risks that they monitor and manage. Lower level risks contributing to these are identified (and existing risks revised) through a variety of processes, including reviews of business plans (e.g. performance against objectives), departmental specific reviews (e.g. security reviews, reviews of travel advice, etc.) and the requirement to include risks in all submissions.	Satisfactory. The majority of operational risks are on-going or variations on a theme and are reviewed anything from weekly to six monthly to ensure existing risks are kept up to date and new risks are identified. With the creation and circulation of an Operational Risks Register (see below for details), the frequency of these reviews at Director level will increase to a minimum of every three months. We therefore make no recommendation.	None.
Identification of Operational Risks (Overseas-Managed Risks)		
Posts are required to report key risks to operational performance on a quarterly basis to their Regional Directors, who in turn submit consolidated returns to DG Corporate Affairs (DGCA). The process is known as Risks in the Network (RITN).	Satisfactory. This new process (which will be the subject of a separate audit later in the year) provides a structured format for Posts to report to London top operational risks. To improve its reliability, DGCA should ensure that responses are received from all Regional Directorates: three failed to submit returns for the last review. There is also a risk that the quality of the reviews by the Regional Directors may vary and therefore contribute to inconsistencies and/or omissions in reporting.	1.4. DGCA should consider introducing a formal escalation policy to ensure the Risks in the Network process produces returns from all Regional Directorates. (P2) 1.5. In connection with 1.1 above, FPPD should review and update the existing guidance for Regional Directors reviewing Risk in the Network returns from Post. (P2)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Recording of Operational Risks		
Operational risks are recorded in the operational Directorates’ Business Plans (BPs) and in the Operational Risks Register (ORR) (formerly the top half of the Top Risks Register).	Satisfactory. There is a formal structure for the recording of operational risks. However, we note that not all BPs are widely accessible.	1.6. FPPD should encourage operational Directorates to consider making their Business Plans more accessible, e.g. by placing them on FCONet. (P3)
Updating of Operational Risks Register (ORR)		
The current version of the ORR will be circulated to all operational Directors in advance of the quarterly Audit & Risk Committee (ARC) meetings for review and updating. FPPD will use replies to update the ORR, clearing amendments with DGCA.	Satisfactory. For the last ARC meeting, the Top Risks Register (TRR) was circulated to OROs to review and update. According to FPPD, the quality of the reviews varied across the Directorates with some feedback coming from officers below Director level. Without formal sign-off at Director level, there is a lack of accountability and a risk of risks being reported wrongly. We note that for the last ARC meeting, the TRR was circulated to OROs to review and update. The ORR was created by extrapolating the operational risk data from the TRR after it had been updated. In future, an ORR will be circulated.	1.7. FPPD should ensure that quarterly reviews and updates of the Operational Risks Register are signed off at Director level. (P2)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
FPPD analyse the consolidated RITN returns from the Regional Directors and provide feedback to DGCA who decides what changes should be made to the ORR.	Satisfactory. DGCA uses the process to review trends, question whether issues are already incorporated in existing risks and update the ORR. DGCA would usually consult OROs, some of whom may have already been copied in by Posts or Regional Directors, but there is no formal process to ensure OROs are consulted before the ORR is updated.	1.8. DGCA should consider implementing a more formal process of consultation to ensure that Operational Risk Owners are aware of any proposed changes to the Operational Risks Register arising from the Risk in the Network exercise that affect their area of responsibility. (P2)
Review of Operational Risks Register and Identification of Top 5 Operational Risks		
The ARC has agreed to review the ORR on a quarterly basis, to challenge risk owners on the ratings and mitigating actions listed and to identify the top five risks to be elevated to the TRR for submission to the Board.	Weak. The FCO Board meeting on 19/05/06 agreed that in order to give further scrutiny to the FCO's top risks, the ARC would review a full ORR at its quarterly meetings. DGCA minuted Directors on 05/07/06 and stated that "ARC will be taking more responsibility for overseeing operational risks, and identifying those which require elevation to the Top Risks Register." But what has not been agreed is how the ARC will do this and against which criteria. This change in the role of the ARC also brings into question its independence if it moves from an advisory role to a decision-making role. I.e. deciding which operational risks are to be reported to the Board. We have made an appropriate recommendation to protect the role and independence of the ARC.	**1.9. The Board should consider setting out how it expects the Audit & Risk Committee (ARC) to review operational risks and against what criteria. This will enable the ARC to perform its role effectively and be able to decide which risks to elevate to the Top Risks Register. (P1)** 1.10. The ARC should consider reviewing its Terms of Reference to ensure they remain compatible with its additional role of reviewing the Operational Risks Register and elevating key risks to the Top Risks Register. (P2)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Overall Ownership of Operational Risks		
No one has been formally appointed to take ownership of the register of operational risks.	Satisfactory. All operational risk owners report to DGCA, who already considers himself as the ‘de facto’ owner of operational risks.	1.11. The Board should consider appointing DGCA to be the overall owner of operational risks with responsibility for co-ordinating the identification and reporting of operational risks and deciding which risks should be entered into the Operational Risks Register. (P3)
The Top Risks Register		
FPPD produced the TRR based on the recommendations of DGCA and (for strategic risks) updates received from policy DGs. It was then presented to the Board in final as a risk paper. In future, the TRR will be produced based on the recommendations of the ARC and, subject to the outcome of this audit, the PUS.	Weak. The purpose of the TRR is unclear. Some OROs see it as providing management information to the Board whilst others, e.g. Director HR, see it as a tool to request action by the Board. It is also not clear what action, if any, is expected of the Board when the TRR is presented to it in final. We have made an appropriate recommendation to improve the effectiveness and the efficiency of the TRR.	**1.12. The Board should consider clarifying the purpose of the Top Risks Register. In doing so, the Board may wish to consider requesting that the TRR is submitted to it in draft for approval of the mitigating actions listed and acceptance that these actions are sufficient to treat the risks identified (i.e. setting the risk appetite). Any queries or concerns on the operational side could be fed back to the ARC to follow up. (P1)**

AUDIT: TOP RISKS REGISTER

SUB-SYSTEM 2: STRATEGIC RISKS – IDENTIFICATION AND REPORTING

Key Risks:	Strength of Risk Management
Significant risks not identified	Satisfactory
Wrong risks reported	Weak
Incoherent basis for reporting	Weak

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Central Guidance and Training for Strategic Risk Owners (SROs)		
FCONet contains a Risk Management Homepage. This has a link to general guidance on tools and techniques of risk management, but there is no formal guidance specifically for SROs.	Satisfactory. For the purpose of the audit, we consulted two senior SROs at DG level. Of the two, one was aware of the guidance but had not referred to it and the other was unaware of it. The existing guidance available is not sufficient to enable SROs to perform their roles fully. FPPD have also recognised the need to overhaul the guidance pages on FCONet.	2.1. FPPD should review and update the existing risk management guidance and consider adding specific content for Strategic Risk Owners. (P2)
Aside from that mentioned above, there is no formal guidance for those involved in risk management within FPPD.	Weak. We acknowledge there have been changes to the structure of FPPD but staff should have clear handover notes and a documented overview of the strategic risk management processes and individual responsibilities. This is particularly important with a high turnover of staff.	See 1.2 re the need for clear guidance for FPPD staff.

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Risk management sessions are included in existing courses (e.g. HoMs Course and Management Course) but there is no specific course on strategic risk management generally available for staff. Current FPPD staff involved in risk management are planning to attend a specialist training course at the Institute of Risk Management.	Satisfactory. Sessions provide basic overview but Risk Management Assessment Framework (RMAF) paper published in July 2006 noted the need for "more systematic and focused risk training programme for senior managers and for delegated grades to further improve risk handling capability throughout the office." Neither of the SROs consulted had received any specific risk management training.	See 1.3 re need for FPPD to develop training.
Identification of Strategic Risks		
Strategic risks and risk management form the basis of much of the FCO's work and are identified through discussions at existing policy meetings, dialogues between Posts and Home Departments and through reviews of DG Business Plans and performance against strategic priorities.	Satisfactory. Although the procedures for identifying strategic risks are not as well established or as systematic as they are for operational risks, there are sufficient fora at various levels throughout the FCO to provide for the identification of new risks and the updating of existing risks. Any potential problems are likely to be related to the reporting of such risks (see below) which could lead to risks not being identified and discussed at the appropriate level. The lack of specific guidance could contribute to the likelihood of the key risks materialising with confusion arising over the type of risk to be reported and the reasons for doing so (e.g. what the impact on the FCO will be and what influence the FCO has).	See 2.1 above regarding improved guidance and recommendation 2.3 below regarding the creation of a Strategic Risk Register.

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Recording of Strategic Risks (up to DG level)		
All Board Members are required to produce business plans (BPs), which should record risks and risk management. However, to date neither DG Political nor DG D&I have submitted a finalised BP to FPPD.	Satisfactory. BPs are a suitable form in which to record risks at Director and/or DG level. With reviews of BPs planned for once a quarter, these can then be used to update a Strategic Risk Register (SRR) and/or the Top Risk Register (TRR). To strengthen this process, however, it is important that all DGs have BPs. (NB. FPPD's latest reminder to DGs was issued on 24 July 2006).	2.2. FPPD should ensure all Directorates General have approved Business Plans in place, if necessary by escalating follow up. (P2)
Recording of Strategic Risks (above DG level)		
Unlike operational risks, there is no longer a formal risk register for strategic risks. Strategic risks are only recorded in BPs, as noted above, or as one of the top five strategic risks on the TRR.	Weak. The lack of a SRR means a lack of transparency and the lack of a clear audit trail. Although all Board Members are required to produce a BP and include risks and risk management, to date not all have done so.	2.3. The Board should consider the introduction and maintenance of a Strategic Risk Register to provide accountability and structure and to facilitate wider dissemination of this information. (P2) (See 2.5 below regarding ownership and associated responsibilities).
Updating of Strategic Risks Register (SRR)		
There is no SRR. Strategic risks are updated when BPs are reviewed and updated or, if one of the top five, when the TRR is updated.	Weak. See comments above.	See recommendation 2.3 above.

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Review of Strategic Risks		
With the exception of the work carried out at the request of the Board by DG Political and DG D&I, it appears that strategic risks have not been formally reviewed or mitigating actions challenged for many months.	Weak. There needs to be a suitable forum in which strategic risks are reviewed and challenged at agreed intervals. In May 2006 the Board agreed that strategic risks should be discussed at the Tuesday Morning Meeting (TMM). Although there is still some support for this, the TMM cannot guarantee all those needed will attend and has not managed to review strategic risks recently, despite being on the agendas. As a result, the top strategic risks have been submitted to the Board in a finalised version of the TRR without having been challenged or agreed centrally.	2.4. The Board should re-consider how best to ensure that strategic risks are reviewed and challenged prior to submission to the Board. (Recommendation 2.5 below includes a suggestion on how to take this forward). (P2)

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
Overall Ownership of Strategic Risks		
No one has been appointed to lead on strategic risks or take ownership of the register of strategic risks.	Weak. The lack of responsibility for and ownership of strategic risks is a weakness and may go some way to explaining the current lack of purpose for recording strategic risks and the lack of consistency.	2.5. The Board should consider appointing one person to be the overall owner of strategic risks with responsibility for co-ordinating the identification and reporting of strategic risks and elevating key risks to the Top Risk Register (see below). Following suggestions made by those consulted, the Board may wish to consider appointing the PUS as 'owner', directly supported in this by the Head of the Policy Team. (P2)
Elevation of Key Strategic Risks to Top Risks Register		
The criteria for elevating strategic risks to the TRR are unclear.	Weak. In March, the Board tasked FPPD with DG Political and DG D&I to review and revise the strategic half of the TRR to focus more clearly on impact to the FCO. The criteria they used to reduce the previous lengthy list of strategic risks were operational impact to the FCO and impact to its reputation. For transparency and consistency these criteria should be set out clearly.	**2.6. Similar to recommendation 1.9, the Board should consider setting out the criteria to be used to elevate strategic risks to the Top Risks Register. (P1)**

Outline of Process	Findings and Evaluation	Recommendations (Priority 1, 2 and 3)
The Top Risks Register (TRR)		
FPPD produced the TRR based on updates received from policy DGs and (for operational risks) the recommendations of DGCA. It was then presented to the Board in final as a risk paper. In future, the TRR will be produced based on the recommendations of the ARC and, subject to the outcome of this audit, the PUS	Weak. The purpose of the TRR is unclear. Some see it as providing management information to the Board whilst others, e.g. Director HR, see it as a tool to request action by the Board. It is also not clear what action, if any, is expected of the Board when the TRR is presented to it in final.	**2.7. See recommendation 1.12 regarding clarification of the purpose of the Top Risks Register. Any queries or concerns on the strategic risks could be fed back to the agreed forum for reviewing the Strategic Risk Register. (P1)**

SUB-SYSTEM 3: OPERATIONAL RISKS – VERIFICATION OF MITIGATING ACTIONS

Key Risks:	Strength of Risk Management
Inadequate/ineffective risk treatment	Satisfactory
False or vague assurances	Satisfactory

Background

i) A total of four operational risks were selected for review from those listed on the Operational Risks Register (ORR) dated May 2006 and the Top Risks Register (TRR) dated July 2006. The purpose was not so much to verify the mitigating actions as to further understand the processes that feed into the TRR.

Sample Identification

ii) The risks selected and the reasons for doing so were as follows: -

- A5 on the ORR (A3 on the TRR) 'Physical Threat' – selected as it has a net risk rating of High/Medium and appears on both registers.

- A7 on the ORR – 'Retirement Age' - selected as it has a net risk rating of High/Medium yet does not feature on the TRR.

- A13 on the ORR – 'Consular Funding' – selected as it is a new risk; has a different risk rating on the ORR summary to that recorded by Consular Directorate on the ORR detail, and does not make it to the TRR despite being rated High/Medium.

- A6 on the TRR – 'Business Continuity' – selected as it appears on the TRR but not on the ORR.

Summary of Process

iii) Operational Risk Owners (OROs) identify risks through various processes (e.g. Business Plan review, Risk in the Network exercise, etc). They then assess the likelihood of the risk maturing and the impact it would have on achieving their objectives, treat the risk, monitor developments and report details to FPPD/DGCA when asked to do so for inclusion in the ORR/TRR.

iv) In general, there has been no formal process by which risks and their mitigating actions have been verified and evaluated (unless covered in a particular audit). There have also been no guarantees that any reviews carried out within a

Directorate (e.g. as part of a review of their Business Plan) have been carried out at an appropriate level. We note in sub-system 1 that feedback on updates to the ORR/TRR can come from officers below Director level and have made an appropriate recommendation at 1.7.

v) The lack of any formal review and evaluation process beyond Directorate level has been a weakness and could lead to inadequate/ineffective risk treatment. The planned quarterly reviews of the ORR by the ARC and the recommendation at sub-system 1.12 that the TRR be submitted in draft to the Board will address this weakness.

vi) DGCA can and does challenge assurances given where considered necessary but cannot rely primarily on information and updates from Directorates since as noted above these are not always signed off at Director level. Our recommendation at sub-system 1.7 addresses this weakness.

vii) FPPD do not check/challenge assurances before updating the ORR and TRR. This has been a weakness since assurances have not always been certified at Director level before entries are made in the ORR or subject to challenge by the ARC and/or the Board before being entered in the TRR. However, the recommendation at 1.7 referred to above and the planned quarterly reviews of the ORR by the ARC will address this weakness.

viii) As noted in sub-system 1, the ARC and the Board have yet to agree how the ARC will review risks and against what criteria. Verification at this level therefore needs to be clarified and we have made an appropriate recommendation at 1.9.

ix) Where mitigating actions are wide-ranging and carried out across different Directorates, there ought to be one person formally tasked with the responsibility for the operational risks, including verifying the mitigating actions. As noted in sub-system 1, no one has been formally tasked with this role. However, since all operational risk owners already report to DGCA and he considers himself as the ‘de facto’ owner of operational risks, we have recommended at 1.11. that the Board considers appointing DGCA to be the overall owner of operational risks

Specific Comments on Selected Operational Risks

x) A5 on the ORR and A3 on the TRR. The difference in numbers highlights the potential for confusion between entries on ORR and TRR and the need for consistency. **Recommendation 3.1**: FPPD should ensure that there is clarity and consistency in the numbering and naming of operational risks entered on the Operational Risks Register and on the Top Risks Register (a need identified at the ARC meeting on 19 June 2006). This should apply equally to strategic risks if a Strategic Risks Register is introduced. (P2)

xi) A7 on the ORR. That this does not appear in the TRR without any clear reason highlights the need for the Board to set clear criteria against which the ARC can decide which operational risks to elevate to the TRR. We have made an appropriate recommendation at 1.9 in sub-system 1.

xii) A13 on the ORR. The difference in ratings between the detailed entry and the entry in the summary is presumed to be a typing error. That this risk does not appear in the TRR again highlights the need for clear criteria as noted above. And the fact that the reported reduction in the net risk rating is based on planned treatment rather than on actual treatment highlights the need for improved guidance. We have made an appropriate recommendation at 1.1 in sub-system 1.

xiii) A6 on the TRR. DGCA explained that business continuity had been put on the TRR at his request because he thought it had been missed off and there were no plans to update the ORR before the TRR was presented to the Board. Business continuity will appear on the next ORR and the scheduling of quarterly reviews of the ORR and the TRR should ensure omissions of this kind do not occur in future.

FORM C2.12

IMPLEMENTATION PLAN FOR THE TRR AUDIT REPORT Ref: XUA/450/1/54/06

RES. REF NO.	PRIORITISED RECOMMENDATIONS	CONTENTS OF MANAGEMENT/DETAILS OF FURTHER WORK	PERSON RESPONSIBLE FOR IMPLEMENTATION	DATE FOR IMPLEMENTATION
	Priority 1 - To be implemented within 1 month **Priority 2 - To be implemented within 2 months** **Priority 3 - To be implemented within 3 months**			
	SUB-SYSTEM 1: OPERATIONAL RISKS – IDENTIFICATION AND REPORTING			
	PRIORITY 1			
1.9 ORR	The Board should consider setting out how it expects the Audit & Risk Committee (ARC) to review operational risks and against what criteria. This will enable the ARC to perform its role effectively and be able to decide which	**Completed: Board agreed proposals of our paper "Formalisation of the FCO Risk Management Framework" on 23 February. This included draft process and criteria based on ARC discussion of 25 Sept.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department/Head, Internal Audit Department	**Completed**

	risks to elevate to the Top Risks Register.			
1.12 TRR	The Board should consider clarifying the purpose of the Top Risks Register. In doing so, the Board may wish to consider requesting that the TRR is submitted to it in draft for approval of the mitigating actions listed and acceptance that these actions are sufficient to treat the risks identified (i.e. setting the risk appetite). Any queries or concerns on the operational side could be fed back to the ARC to follow up.	**Completed: These points were agreed as part of our Board paper on 23 Feb. The TRR is submitted in "draft" prior to the Board discussion, and in "final" once the Board decision for each risk has been recorded and agreed. As agreed with Alistair Johnston, the paper did not explicitly cover risk appetite, but did include criteria for escalating risks to the TRR.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
	PRIORITY 2			
1.1 Guidance/ Training	FPPD should review and update the existing risk management guidance and consider adding specific content for Operational Risk Owners.	**Update: FPPD in process of revising and expanding intranet guidance pages on risk, with a view to covering the process/format/purpose etc. of the TRR and supporting registers, and recommended tools and techniques for managing risk.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.2 Handover	FPPD should ensure that staff in FPPD involved with risk management have clear	Agreed and completed: Risk Desk Officer to write handover notes for successor, due to arrive 23 Nov.	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**

	handover notes and a documented overview of the risk management processes (operational and strategic) and individual responsibilities. We accept this may take longer than the 2 months allowed.	Updated FCONet risk guidance will provide main documented overview of risk management processes.		
1.4 RitN	DGCA should consider introducing a formal escalation policy to ensure the Risks in the Network process produces returns from all Regional Directorates.	Completed: Agreed with DGCA that FPPD will notify DGCA of outstanding/late returns for immediate follow-up from 2007 onwards.	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.5 RitN	In connection with 1.1 above, FPPD should review and update the existing guidance for Regional Directors reviewing Risk in the Network returns from Post.	Agreed: Comprehensive guidance on Risk in the Network to be drafted as part of the revision of risk intranet guidance. **Completed: Revised Risk in the Network guidance was sent to regional directors on 24 January. This will be posted on FCOnet before the end of March.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.7 ORR	FPPD should ensure that quarterly reviews and updates of the Operational Risks Register are signed off at Director level.	Agreed: Process for updates and the requirement for these to be authorised at Director level will be clarified in each email to commission updates. FPPD to reject any updates which are not	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**

		signed off by Directors. ORR processes to be detailed in revised FCONet guidance.		
1.8 RitN	DGCA should consider implementing a more formal process of consultation to ensure that Operational Risk Owners are aware of any proposed changes to the Operational Risks Register arising from the Risk in the Network exercise that affect their area of responsibility.	Completed: Revised handling of ORR quarterly update envisages initial edit by DGCA (as ORR owner) to incorporate issues of concern (including any arising from Risk in the Network returns). Draft ORR then circulated to Risk Owners for comment/review, before final sign-off by DGCA and submission to ARC.	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.10 ORR	The ARC should consider reviewing its Terms of Reference to ensure they remain compatible with its additional role of reviewing the Operational Risks Register and elevating key risks to the Top Risks Register.	Agreed/Partially completed: ARC discussed this on 25 September and agreed revised approach compatible with ToR. This will be formalised along with recommendation 1.9. **Completed: See recommendation 1.9**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department/Head, Internal Audit Department	**Completed**

	PRIORITY 3			
1.3 Guidance/ Training	FPPD should consult further with stakeholders to develop more focused operational and strategic risk management training (as proposed by FPPD in the RMAF Paper).	**Agreed: Consultation undertaken with stakeholders, including on recent visits to Berlin and Beijing, to re-focus existing risk management training. Revised MO and SAO training courses have already been delivered. We are also looking into introducing additional course/workshops and at some risk management training for the Board.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.6 Business Plans	FPPD should encourage operational Directorates to consider making their Business Plans more accessible, e.g. by placing them on FCONet.	Agreed: FPPD will encourage DGs/DGCA Directorates to make current business plans available on FCONet.	Team Leader, Business Systems Team, Financial Planning and Performance Department	**Completed**
1.11 ORR	The Board should consider appointing DGCA to be the overall owner of operational risks with responsibility for co-ordinating the identification and reporting of operational risks and deciding which risks should be entered into the Operational Risks Register.	**Completed: Board approved on 23 Feb.**	Financial Performance and Planning Department's Risk Desk Officer/Team Leader, Business Systems Team, Financial Planning and Performance Department	**Completed**
	SUB-SYSTEM 2: STRATEGIC RISKS – IDENTIFICATION AND			

	REPORTING			
	PRIORITY 1			
2.6 SRR	Similar to recommendation 1.9, the Board should consider setting out the criteria to be used to elevate strategic risks to the Top Risks Register.	**Completed: Board agreed criteria on 23 Feb.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
2.7 SRR	See recommendation 1.12 regarding clarification of the purpose of the Top Risks Register. Any queries or concerns on the strategic risks could be fed back to the agreed forum for reviewing the Strategic Risk Register.	**Completed: Board agreed mission statement for TRR on 23 Feb.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**

	PRIORITY 2			
2.1 Guidance/ Training	FPPD should review and update the existing risk management guidance and consider adding specific content for Strategic Risk Owners.	**Update: Guidance has been drafted and risk assessment guidance was circulated to Strategic Risk owners on 5 March. Full guidance to be posted on FCOnet by end March**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed**
2.2 Business Plans	FPPD should ensure all Directorates General have approved Business Plans in place, if necessary by escalating follow up.	Completed: All DGs/DGCA Directorates now have 2006/07 business plans	Team Leader, Business Systems Team, Financial Planning and Performance Department	**Completed**
2.3 SRR	The Board should consider the introduction and maintenance of a Strategic Risk Register to provide accountability and structure and to facilitate wider dissemination of this information.	**Completed: Board agreed to introduction of SRR on 23 Feb. We commissioned returns for the first SRR on 5 March**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department/Board Secretary/Deputy Head, Policy Planners Department	**Completed**
2.4 SRR	The Board should re-consider how best to ensure that strategic risks are reviewed and challenged prior to submission to the Board. (Recommendation 2.5 below includes a suggestion on how to take this forward).	See 2.5 below.	See 2.5 below	See 2.5 below

2.5 SRR	The Board should consider appointing one person to be the overall owner of strategic risks with responsibility for co-ordinating the identification and reporting of strategic risks and elevating key risks to the Top Risk Register (see below). Following suggestions made by those consulted, the Board may wish to consider appointing the PUS as 'owner', directly supported in this by the Head of the Policy Team.	**Completed: Board agreed that PUS should be owner of strategic risks on 23 Feb.**	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department/Board Secretary/Deputy Head, Policy Planners Department	**Completed**
	PRIORITY 3			
	None			
	SUB-SYSTEM 3: OPERATIONAL RISKS – VERIFICATION OF MITIGATING ACTIONS			
	PRIORITY 1			
	None			
	PRIORITY 2			

3.1 ORR	FPPD should ensure that there is clarity and consistency in the numbering and naming of operational risks entered on the Operational Risks Register and on the Top Risks Register (a need identified at the ARC meeting on 19 June 2006). This should apply equally to strategic risks if a Strategic Risks Register is introduced.	Completed: September ORR and TRR had consistent numbering and naming of risks.	Risk Desk Officer, Business Systems Team, Financial Planning and Performance Department	**Completed, September 06**
	PRIORITY 3			
	None			

THIS IMPLEMENTATION PLAN HAS BEEN SEEN AND APPROVED BY THE HEAD OF POST ON 3 November 2006

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Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5720215 01/08 388903

Printed on Paper containing 75% recycled fibre content minimum.

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

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ISBN 978-0-10-173022-8
9 780101 730228