

Triennial Review of the Independent Commission for Aid Impact (ICAI)

December 2013

Table of Contents

Executive Summary	ii
Introduction and purpose of the Triennial Review	1
Background to the Independent Commission for Aid Impact (ICAI)	2
Stage One	4
<i>Are ICAI's functions still needed and do they contribute to the core business of the UK Government?</i>	4
Recommendations	7
<i>What is the best delivery model for ICAI's functions?</i>	8
Recommendations	11
Continued Delivery by NDPB: Government 'Three Tests'	11
Conclusions	11
Stage Two	12
Governance Arrangements	12
Conclusions	17
Appendix A - Terms of Reference of Review	18
Appendix B – List of stakeholders consulted	22

Executive Summary

The Independent Commission for Aid Impact (ICAI) is an Advisory Non-Departmental Public Body (NDPB) sponsored by the Department for International Development (DFID). It is Government policy that NDPBs should only remain in existence where they can be clearly evidenced as the most appropriate and cost-effective ways of delivering the function in question. They are therefore subject to review every three years in line with Cabinet Office guidelines. The Triennial Review of ICAI was announced by the Secretary of State for International Development on 21 March 2013, and its recommendations were signed off by the Minister for the Cabinet Office on 19 November 2013.

Triennial Reviews have two stages. The objectives of Stage One were to: i) verify ICAI's functions, assess how these functions contribute to the UK Government's core business and consider whether they are still needed; and ii) where it is concluded that a particular function is still needed, examine how best this function might be delivered. The second stage of the Review considered how far ICAI's corporate governance arrangements aligned with Cabinet Office's principles of good governance for Advisory NDPBs. The central component of the review process was a consultation exercise with key stakeholders. The review team also carried out a cost effectiveness appraisal of ICAI, including a comparison of different delivery models.

ICAI's role is to provide independent scrutiny of UK aid spending in order to promote the delivery of value for money for British taxpayers and the maximisation of the impact of aid. Its specific functions are to:

- i) produce a wide range of independent, high quality and accessible reports setting out evidence of the impact and value for money of UK development efforts;
- ii) work with and for Parliament to help hold the UK Government to account for its development programme, and make information on this programme available to the public; and
- iii) produce appropriately targeted recommendations to be implemented and followed up by the UK Government.

The review concluded that the functions performed by ICAI are still required, subject to some refinements to promote clarity and maximise value for money. In particular, the review recommended that ICAI focuses on depth of analysis rather than breadth, whilst retaining the ability to produce shorter reports on topics of particular interest to stakeholders. The recommended revised functions are:

- i) Carry out a small number of in-depth thematic reviews addressing strategic development issues faced by the UK Government's development programmes, combined with additional short reviews (where needed) to address specific issues of interest/concern to key stakeholders;
- ii) Produce high quality and professionally credible reports which are independent of the UK Government and provide evidence and analysis of the impact and value for money of the Governments' development programmes;
- iii) Support Parliament in its role of holding the UK Government to account;

- iv) Make information on the UK Government's development programme available to the public, based on its analyses.

With regards to delivery models, the review concluded that an Advisory NDPB continues to be the most effective way of delivering these services.

The review also looked at the governance arrangements for ICAI in line with guidance on good corporate governance set out by the Cabinet Office, and found that ICAI's arrangements largely comply with this guidance. There were, however, several areas where documentation needs to be updated and amended in order to fully comply, as well as areas where documentation must be published. When the recommendations in this Review are implemented ICAI's governance structures will comply with all but one aspect of the Cabinet Office guidelines - having a non- executive chair. In this instance, the review team was satisfied that non-compliance is appropriate given the disproportionate effort and resource burden in making this change to ICAI's structure.

The review also found that, due to the unique position of ICAI as an independent body that reports directly to Parliament, the role of the International Development Select Committee (IDC) in ICAI's work should be more clearly defined. The review therefore recommended that the IDC should be given a formal role in signing off ICAI's annual work plan and any significant changes to the work plan; and that IDC members should be invited to be represented on the selection panel for future Commissioners.

Introduction

1.1 The Independent Commission for Aid Impact (ICAI) is an Advisory Non-Departmental Public Body (NDPB) sponsored by the Department for International Development (DFID). It is Government policy that NDPBs should only remain in existence where they can be clearly evidenced as the most appropriate and cost-effective ways of delivering the function in question. They are therefore subject to review every three years in line with Cabinet Office (CO) guidelines. The Triennial Review of ICAI was announced by the Secretary of State for International Development on 21 March 2013¹ and its recommendations were signed off by the Minister for the Cabinet Office on 19 November 2013.

1.2 Triennial Reviews have two stages. As set out in the Terms of Reference (TOR) for the review (attached at Appendix A), the objectives of Stage One were to:

- i) verify ICAI's functions, assess how these functions contribute to the UK Government's core business and consider whether they are still needed;
- ii) where it is concluded that a particular function is still needed, examine how best this function might be delivered.

1.3 Within this context, the TOR stated that Stage One should cover the Commissioner-Secretariat-Contractor model, membership and skillset; ICAI's governance and accountability structure, including its relationship with the International Development Committee (IDC); ICAI's methodology and evidence base; the quality, impact and delivery of ICAI's reports; ICAI's role in lesson learning and knowledge sharing; and the process by which ICAI follows up on reports.

1.4 The second stage of the Review considered how far ICAI's corporate governance arrangements aligned with Cabinet Office's principles of good governance for Advisory NDPBs². As set out in the TOR, where ICAI's arrangements were not aligned, an explanation was given as to why an alternative approach had been adopted and how this contributed to good corporate governance.

1.4 In line with normal Cabinet Office procedure, the review was carried out by a small team of DFID staff and was overseen by a senior level Challenge Group, chaired by Nick Dyer, DFID's Policy Director. The other members of the Group were Vivienne Cox, a non-Executive member of the DFID Board; Richard Burden MP, Chair of the IDC sub-Committee on ICAI; Professor Lord Nicholas Stern, Director of the Asia Research Centre at the London School of Economics; Oli Blackaby, Crown Commercial Lead at Cabinet Office; and Jamie Waller, a Policy Adviser at HM Treasury. The Challenge Group met twice in Stage One – firstly to agree the overall approach to the review, and secondly to discuss emerging findings and conclusions – and then again in Stage Two to discuss emerging findings.

¹ See: www.gov.uk/government/news/uk-aid-review-of-independent-commission-for-aid-impact

² As set out in [Cabinet Office guidance](#) on Triennial Reviews. Prior to this Triennial Review ICAI has been operating in line with the governance arrangements set out in its original founding documents. This Triennial Review is an appropriate time to bring both the founding documents and governance structures in line with the Cabinet Office guidance.

1.5 The central component of the review process was a consultation exercise with key stakeholders. The review team consulted 26 DFID staff, 4 representatives of other government Departments, 9 representatives of ICAI, 5 IDC members and 3 advisory staff, and 27 external organisations (17 through written evidence). A full list of those who provided evidence is attached at Appendix B. A public consultation exercise was conducted via the DFID website, generating three of the written evidence responses.

Background to the Independent Commission for Aid Impact (ICAI)

2.1 The Independent Commission for Aid Impact (ICAI) was founded in May 2011, and was established with a four year term (12 May 2011 – 11 May 2015). The Framework Agreement agreed between ICAI and DFID states that ICAI's strategic aim is to provide independent scrutiny of UK aid spending, to promote the delivery of value for money for British taxpayers and the maximisation of the impact of aid. Importantly, the Framework Agreement also notes that ICAI has the mandate to scrutinise any UK aid classified as Official Development Assistance (ODA) – so although DFID is the sponsor Department, ICAI benefits all UK Government Departments responding for spending ODA.

2.2 The strategic aim sets out the overall direction for ICAI's work. However, in order effectively to answer the questions raised in the review, the team felt it was important to set out ICAI's functions in more detail – see Box 1. These functions were drawn from the original Business Case for ICAI, and were agreed with the Challenge Group. The consultation exercise subsequently confirmed that key stakeholders, including ICAI itself, were content that this was an accurate portrayal of ICAI's functions as originally defined.

Box 1: ICAI's key functions

- i) Produce a wide range of independent, high quality/professionally credible and accessible reports (including evaluations, Value for Money (VfM) reviews, investigations) setting out evidence of the impact and value for money of UK development efforts;
- ii) Work with and for Parliament to help hold the UK Government to account for its development programme, and make information on this programme available to the public;
- iii) Produce appropriately targeted recommendations to be implemented/followed up by the UK Government.

2.3 ICAI's work is overseen by a Board of Commissioners, appointed on four-year contracts. The Board includes a Chief Commissioner, Graham Ward CBE and three other Commissioners: Mark Foster, John Githongo and Diana Good. The Commissioners are independent from Government and report directly to Parliament through the IDC. They are supported in their work by a small Secretariat of 4.5 people. The Secretariat also carries out day-to-day management of a contracted-out service provider, which is responsible for undertaking reviews on behalf of ICAI and sending draft reports to the Board for their approval. The current service provider, which has been given a four-year non-exclusive

contract, is KPMG in partnership with Agulhas Applied Knowledge, the Centre for Effective Global Action (CEGA) and SIPU International.

2.4 DFID funds ICAI, and funds are spent and accounted for in line with DFID procedures. Funding has been guaranteed over a four-year period, with ICAI required to obtain DFID's prior written approval before making any significant change in its operations which would affect the overall budget. During the period 12 May 2011 to 11 May 2012, ICAI spent £2.07 million (£1.69 million for the work carried out by the service provider, and £384,000 to cover the costs of the Commissioners and Secretariat³).

³ A further breakdown of expenditure can be found in ICAI's Annual Report to the IDC 2011-12 (June 2012, p.34, <http://icai.independent.gov.uk/publications/corporate-documents/>)

STAGE ONE

Are ICAI's functions still needed and do they contribute to the core business of the UK Government?

3.1 This section assesses how ICAI's functions contribute to the UK Government's core business and whether they are still needed. Specifically, the review looked at whether ICAI's functions contribute to DFID's effectiveness in development, Parliamentary scrutiny and the knowledge of UK development among UK tax payers.

Function 1: Produce a wide range of independent, high quality/professionally credible and accessible reports (including evaluations, Value for Money (VfM) reviews, investigations) setting out evidence of impact and VfM of UK development efforts

Wide range (evaluations, value for money reviews and investigations)

3.2 In practice, although this was the original intent, ICAI doesn't produce a wide range of reports. ICAI produces one product variously defined by stakeholders as audits, process evaluations and impact assessments. The speed and timeliness of reports were valued by stakeholders⁴. However, there was a call from many key stakeholders in Parliament, DFID and elsewhere for ICAI to carry out a smaller number of reviews which look at specific areas of work in more depth (including comparing the different ways that DFID approaches a particular development issue). The review team therefore concluded that the functions should make clear that ICAI should focus on depth rather than breadth, whilst retaining the ability to produce shorter reports on topics of particular interest to stakeholders if required (e.g. to inform a Parliamentary review or address an emerging public concern).

3.3 In terms of the specific types of reports produced, ICAI does not feel its organisational set-up is conducive to carrying out investigations⁵, and there was no demand from stakeholders for this type of work. There was also a view within the development community and DFID that ICAI does not conduct evaluations – and some stakeholders suggested it is not in fact appropriate for ICAI to carry out large scale evaluations itself, not least because of the resource implications. The review team therefore concluded it would be help to clarify ICAI's role by removing investigations and evaluations from its functions⁶.

Independent

3.4 Independence was seen as critical by the majority of stakeholders inside and outside Government. Within DFID, independence was seen as an important stimulus to improving

⁴ Including DFID's previous Secretary of State, Andrew Mitchell, who, in a letter to ICAI's Chief Commissioner said 'I continue to be deeply (original emphasis) impressed by the quality, timeliness and scope of ICAI's reports'.

⁵ For example, into fraud or corruption.

⁶ Such a clarification of ICAI's role would also avoid the current criticism made by many that ICAI's reports fail to live up to best practice in the conduct of evaluations.

performance. Several stakeholders also noted that the independence of ICAI reports meant they were taken more seriously by DFID's partners in-country. It therefore seemed clear there is an on-going need for this aspect of ICAI's functions⁷.

High quality and professionally credible

3.5 The on-going importance of this criterion was underlined by a number of stakeholders. A survey of DFID staff showed that 65% of respondents found ICAI's reports to be of good quality, with only 8% making negative comments. However, the fact that ICAI has not published the details of its methodological approach has led to a lack of confidence in its conclusions among some in the development community. The issue here is not that people feel the methodology used is inappropriate, but that the conclusions drawn from it may be over-stated. The review team therefore concluded it is important for ICAI to be clear about the approach taken to its work, and the limitations of this approach.

Accessible

3.6 The consultation indicated wide-ranging support across all stakeholder groups for this criterion and for the short and accessible nature of ICAI's reports.

Set out evidence of the impact and VfM of UK development efforts

3.7 The general sense from the consultation was that evidence of both impact and value for money were important. There was also a strong call from Parliament, DFID and other stakeholders for ICAI to move from a focus on individual reports to a more strategic approach - starting from identifying key themes or development questions which it wants to investigate, and then using these to drive its work programme (whilst also retaining the ability to carry out ad hoc reports on specific issues of interest/concern to key stakeholders). One way to help deliver this strategic focus, and ensure ICAI's work programme is relevant to DFID and the wider development community, is for DFID to input more proactively into the work plan – building on (and strengthening) roles already set out in the DFID-ICAI Framework Agreement⁸.

3.8 A further issue raised by stakeholders was that they would like to see an increasing focus by ICAI on comparing the different approaches being taken by DFID to tackling difficult issues - and then drawing out the lessons learnt across its reports and sharing these with the broader development community. ICAI is already planning highlighting key lessons from its work in its Annual Reports. However, the review team felt it may be useful for ICAI to deepen further its engagement with the development community – both to take advantage

⁷ Encouragingly in the light of this finding, most stakeholders (including ICAI's Commissioners and Secretariat) felt that ICAI was, and was perceived to be, independent.

⁸ Section 9 of the Framework Agreement (<http://icai.independent.gov.uk/publications/founding-documents/>) sets out ICAI's structure and states that DFID Ministers will "make requests to ICAI's Commissioners on the work plan". ICAI has also previously taken some formal and informal suggestions on its workplan from Ministers, DFID's Management Board and DFID staff.

of current thinking to inform its work programme, and to ensure the lessons learnt from its work are shared as widely as possible.

3.9 As noted above, there was no strong demand expressed in the consultation for ICAI itself to carry out large scale evaluations. However, there was a lot of interest inside and outside DFID in ICAI having a role as part of its work in assessing and improving DFID's use of evidence - including reviewing how DFID programmes take account of emerging evidence on development impact, and scrutinising the quality of the evidence produced by DFID itself (including the quality of its monitoring and evaluation systems). The review team therefore felt it would be helpful to make this an explicit focus of ICAI's reports.

Function 2: Work with and for Parliament to help hold the UK Government to account for its development programme, and make information available to the public

3.10 This function comprises two main elements – working with and for Parliament to help hold the Government to account for its development programme, and making information available to the public.

Working with and for Parliament

3.11 As far as the function of 'working with and for Parliament to help hold the UK Government to account' is concerned, a number of stakeholders noted that the role of ensuring accountability is for Parliament. Nevertheless, several stakeholders emphasised the value of having an independent body supporting and advising Parliament in this role.

3.12 The main client of this function is the IDC, and their assessment of its value was therefore of particular importance. The review team heard that the Committee's relationship with ICAI is developing (with the creation of the ICAI sub-Committee welcomed as a positive step), and the Committee is beginning to place more reliance on ICAI's reports. Nevertheless, both sides said there is scope for the relationship to be closer, with a call for more informal conversations between Committee Members and Commissioners to help build a common understanding.

3.13 One complication is that ICAI was set up both to report to the Committee, and to be independent. As noted above, ICAI's independence is seen by many stakeholders as critical to its success. However, it is independence from the Government rather than Parliament which seems to be the crucial factor – and indeed the DFID-ICAI Framework Agreement explicitly states that ICAI's Commissioners will be 'independent from Government'⁹. The review team therefore felt it would be useful to clarify this point in the description of ICAI's functions.

⁹ See section 2.2.

Making information available to the public

3.14 The main client of this function is the public, but it was difficult for the review team to find a way to get direct feedback from them on the value of reports – a limitation of the review.

3.15 A number of stakeholders consulted in the review noted that, in the context of a growing aid budget, it is important that information on the UK Government's development programme is made public. There does therefore seem to be an on-going need for and value in this function.

Function 3: Produce appropriately targeted recommendations to be implemented/followed up by the UK Government

3.16 In total 69 out of ICAI's 85 recommendations to date have been accepted by DFID, and 12 have been partially accepted. The fact that recommendations are tight and focused was valued by stakeholders. DFID staff also reported that ICAI's recommendations were useful in strengthening the UK Government's hand when raising concerns with partners.

3.17 Some concerns were raised in the review about the fact that making recommendations is currently described as a separate function, rather than an integral part of producing reports. In particular, there was a desire to make sure that the focus was on ICAI's central role of providing evidence and analysis of impact and value for money, rather than on the generation of recommendations. The review team therefore recommends that the making of any recommendations is subsumed within the function of producing reports.

Recommendations

3.18 On the basis of the findings set out above, the review team recommended that ICAI's functions should be retained, but should be amended as set out below:

- i) Carry out a small number of independent in-depth thematic reviews addressing strategic development issues faced by the UK Government's development programmes, combined with additional short reviews (where needed) to address specific issues of interest/concern to key stakeholders.
- ii) Produce high quality and professionally credible reports which are independent of the UK Government and provide evidence and analysis of the impact and value for money of the Governments' development programmes;
- iii) Support Parliament in its role of holding the UK Government to account;
- iv) Make information on the UK Government's development programme available to the public, based on its analyses.

What is the best delivery model for ICAI's functions?

4.1 Having determined that ICAI's functions were still required, albeit with some modification, there were several options considered by the review team in terms of a delivery model. These are set out below.

Return to a pre-ICAI model

4.2 The consultation provided evidence of wide consensus across all stakeholder groups that the functions provided by ICAI were still needed. ICAI would leave a gap of transparency.

Local Government

4.3 No evidence was provided to suggest there would be advantages in delivering ICAI's functions through local government. Concerns were raised by DFID staff, the IDC, HMG, NGOs and ICAI that local government would lack the relevant skills, capacity and expertise to carry out the functions. Furthermore, the development functions that ICAI scrutinises are not delivered locally, and responsibility for delivering ODA expenditure lies with central government. The review team therefore concluded local government would be an inappropriate delivery model.

Voluntary Sector

4.4 No stakeholders (including BOND-UKAN members) suggested this model should be used to deliver ICAI's functions. The strong link which exists between the voluntary sector and beneficiaries was seen as a benefit, but there were concerns raised about finding organisations which would be sufficiently independent. Accountability was also seen as a barrier to providing ICAI's functions through this model, as the voluntary sector report to their Board and supporters rather than Parliament – as a result they would be likely to find it harder gaining traction in DFID. One stakeholder also noted that ICAI's relationship to the IDC is just too important to lose.

Private Sector

4.5 The private sector received interest from some stakeholders, but concern was expressed by others about conflict of interests and practical issues around gaining access to classified documents. Moreover, like the voluntary sector, there were accountability concerns with provision through this model. The private sector was therefore not considered suitable by the review team.

Parliament (Delivery through the IDC)

4.6 The delivery of ICAI's functions through Parliament was not supported by stakeholders. Some suggested that MPs don't have the time or capacity to oversee the key function of production of reports. Another key message from NGOs and some DFID staff was that Parliament producing evidence reports would not align with the IDC's mandate of looking at policy, and would add a political function to ICAI's work which is not within its current mandate. Moreover, any decision to give the functions to the IDC would need to be taken by Parliament as DFID would not be able to allocate funds for this purpose - and there did not seem to be demand from the IDC for this. However, stakeholders did emphasise the importance of the IDC having greater oversight of, and giving more direction to, ICAI's work.

Think Tanks

4.7 There was some suggestion that ICAI's functions could be given to think tanks in order to take advantage of their development expertise. However, the same accountability concerns applied to think tanks as for the voluntary and private sector outlined above. It is worth noting that think tanks can and did bid to be the service providers for ICAI and this may happen again when the contract is re-tendered. However, on their own, think tanks as a model of delivery were not seen as appropriate for ICAI's functions.

Merge with NAO

4.8 The possibility of merging ICAI's functions into the NAO was the option which received most interest from stakeholders, with some inside and outside of DFID questioning the added value of ICAI to NAO's work, and arguing that NAO could perform ICAI's functions if given additional resources. However cost effectiveness analysis conducted for the review indicated that the costs of delivering ICAI's functions through the NAO would be more expensive. There were also concerns from NAO and outside that the scale and volume of work required by ICAI's functions would distort NAO's programme, and a number of stakeholders noted that looking at impact is not part of NAO's role. Finally, there was no clear interest from MPs in pursuing NAO as a delivery model, and this would be essential to move ICAI's functions there. The review therefore concluded that NAO would not be an appropriate delivery model.

Bring In-House

4.9 Stakeholders said that delivering ICAI's functions in-house would not be appropriate as it would compromise their independence. The previous internal model was referenced, even by those involved, as having been at more risk of capture by DFID staff. In-house provision was also seen as losing the added value and credibility which is given by being seen to be independent.

New Executive Agency

4.10 Delivery of ICAI's functions through creating a new Executive Agency could enhance ICAI's independence as the body could recruit its own staff and manage its own administration. However, the majority of those consulted inside and outside ICAI felt comfortable that ICAI had enough independence. Furthermore, cost effectiveness analysis indicated that a new Executive Agency would be a bit more expensive. Moreover, it would require legislative change which would be an unnecessary burden for a slight increase in independence. Cabinet Office guidance highlights that this model is not usually appropriate for less than 100 staff, and ICAI currently has a Secretariat of 4.5 staff. The review team therefore felt a new Executive Agency would not be an appropriate delivery model.

Advisory NDPB

4.11 There were no strong voices coming from the consultation arguing that ICAI should be delivered through an alternative model. A number of stakeholders from think tanks, HMG and DFID said that an Advisory NDPB was an appropriate model to carry out the functions of independent scrutiny and supporting parliament. The advantage of having Commissioners with skills from outside the 'development world' to bring a fresh perspective was noted (although there were also calls for them to have more development expertise – an issue that was addressed further in Stage Two of the review); and the Secretariat highlighted the advantages of having oversight from a number of Commissioners that can challenge each other, as opposed to one senior officer - which would be more likely in other models. Importantly, cost effectiveness analysis also indicated that this delivery model has the lowest costs. The review team therefore concluded that an Advisory NDPB remained the best model for ICAI's functions.

Adjusting the NDPB Model

4.12 One option suggested as part of the Review was to retain the Advisory NDPB model, but have more of ICAI's work delivered by the Secretariat to save costs - for example, having a larger standing capacity within the Secretariat to lead or carry out reviews. Cost effectiveness analysis showed this approach had the potential to be less expensive and reduce direct fees as long as the extra staff were used as a direct substitute for external experts deployed on reviews; and consistent use of a smaller number of staff could help with lesson-learning across reviews. However, this approach would also reduce the range of possible expertise which could be deployed to work on reports – with constraints on public sector recruitment making it harder to recruit people with the right skill set.

4.13 An alternative option was to move the contract management function currently played by the contractors into an expanded Secretariat. This again had the potential to be less expensive, but would be more problematic to establish. It was also unclear whether contract managers sitting outside individual organisations would be as effective in marshalling those organisations resources and sub-contracting within the organisation.

Recommendations

4.14 On the basis of this analysis, the review team recommended that ICAI's functions should continue to be delivered through the Advisory NDPB model.

Continued Delivery by NDPB: Government 'Three Tests'

4.15 To continue as an NDPB ICAI must pass at least one of the Government's 'three tests' for the existence of an NDPB which are:

- is this a technical function (which needs external expertise to deliver)
- is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions); or
- is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?

4.16 ICAI clearly provides a technical function in providing a wide range of independent, high quality/professionally credible and accessible reports with a board of Commissioners who each bring specific technical skills to the body. The importance of ICAI's independence was also emphasised by the majority of stakeholders. ICAI therefore passes the test for continued delivery by an NDPB.

Conclusions

5.1 The headline conclusions of Stage One of the review were that:

- the first two of ICAI's functions contribute to the UK Government's core business and are still needed (subject to some refinements to promote clarity and maximise value for money);
- the third function also has value, but should be subsumed into function 1;
- ICAI's reporting relationship with the IDC should be considered further in Stage Two of the review; and
- an Advisory NDPB remains the most appropriate and cost-effective model to deliver these functions, and the functions pass the Government's 'three tests'.

STAGE TWO

GOVERNANCE ARRANGEMENTS

6.1 The first stage of the ICAI Triennial Review concluded that the Independent Commission for Aid Impact (ICAI) should remain an Advisory Non-Departmental Public Body (NDPB), albeit with some changes to its functions. The second stage of the Review considered how far ICAI's corporate governance arrangements align with Cabinet Office's (CO) principles of good governance for Advisory NDPBs¹⁰, and the review team's findings are set out below. A key objective of Stage Two was to ensure ICAI's governance structures will deliver on the revised functions agreed at Stage One, and to support the Commission in operating in a strategic, independent way.

Accountability

6.2 The Secretary of State (SoS) and DFID are ultimately responsible for overseeing ICAI. Mechanisms are in place to achieve appropriate levels of accountability and scrutiny of ICAI's work, taking into account ICAI's independent status. The SoS and DFID's Executive Management Committee (EMC) – a group comprising the Permanent Secretary and Directors-General - meet ICAI biannually, and the sponsor team in DFID are in daily contact with the Secretariat. Overall ICAI and DFID felt the level of oversight was appropriate.

6.3 The SoS is responsible for appointing both Commissioners and the chair (the Chief Commissioner) in line with the Code of Practice for Ministerial Appointments. Along with the Chief Commissioner and chair of the IDC, the SoS has the power to remove Commissioners based on poor performance. In practice, the terms and conditions of appointment of the Chief Executive (again the Chief Commissioner in the case of ICAI) were approved by the SoS, but the review team felt this role could usefully be formalised in the Framework Agreement.

6.4 The Memorandum of Understanding (MoU) says the SoS will meet with ICAI biannually. This frequency of meetings was important when ICAI was first established. However, having spoken to stakeholders, the Review team felt it would be sufficient in the future for these meetings to take place annually.

6.5 The Chief Commissioner is required to provide the IDC with an annual report which includes expenditure and key findings from evaluations, reviews and investigations. Despite ICAI publishing their 2011-2012 and 2012-13 annual reports on their website there is currently no written requirement for them to make this public; this is needed to comply with the CO principles.

6.6 ICAI complies with the letter and spirit of Data Protection legislation and its systems are in line with the Public Records Acts.

¹⁰ As set out in [Cabinet Office guidance](#) on Triennial Reviews. Prior to this Triennial Review ICAI has been operating in line with the governance arrangements set out in its original founding documents. This Triennial Review is an appropriate time to bring both the founding documents and governance structures in line with the Cabinet Office guidance.

Recommendation 1: The MoU should be amended to say the SoS will meet the Chief Commissioner at least annually.

Recommendation 2: The Framework Agreement between DFID and ICAI should be amended so current practice on publishing the annual report and approval of the terms and conditions of the Chief Commissioner by the SoS are formalised.

Role of the Department

6.7 DFID has arrangements in place to oversee and support the work of ICAI and to ensure appropriate governance arrangements are in place, whilst respecting ICAI's operational independence¹¹. The Departmental Board have delegated oversight and discussion of ICAI to the Executive Management Committee which last discussed ICAI on 24 June 2013.

6.8 The Framework Agreement and MoU which set out the terms of reference, objectives and functions of ICAI have not been updated since May 2011 other than by an exchange of letters relating to an increase in days of input from Commissioners. The review team recommends these documents should be reviewed, and if necessary updated, alongside the annual assessment of ICAI's work. In order to ensure ICAI meets the CO principles of good governance the Framework Agreement needs to make explicit ICAI's revised functions as recommended at Stage One. The Agreement also sets out a role for the IDC in the diagram on ICAI's structure (section 9), but this is not clearly defined in the main text of the document – see section 7 below. The review team recommended all language should be gender neutral.

6.9 The level of support provided by the sponsor team in the Department - is considered by ICAI to be appropriate. However, the role of the sponsor team within the Department on operational issues is not clearly defined in the framework documentation; the sponsor team and ICAI felt this should be clarified further in order to ensure their relationship is as productive and efficient as possible.

6.10 DFID carries out an Annual Review of ICAI as part of its regular project management responsibilities. The Framework Agreement says the Chief Commissioner is responsible for managing the performance of other Commissioners. However, no formal annual evaluations are currently done of Commissioners' performance, although private discussions have taken place; this needs to be addressed in order to comply with CO guidance. The Chief Commissioner has suggested that, in their case, this could be led by a non-executive member of the DFID Board in order to protect ICAI's independence. The review team also recommended that the Chief's evaluation involves substantial input from

¹¹ As noted in the 4 May 2012 Audit report prepared by DFID's Internal Audit Department, it is key that ICAI's independence of scope and budget is maintained, as failure to achieve this could present significant reputational risk to ICAI and DFID. The report notes that no evidence was found of DFID retaining any political, management or technical oversight of ICAI's reviews or reports.

the Chair of the IDC, alongside other stakeholders, and should include an assessment of whether ICAI is operating in line with revised functions agreed at Stage One.

Recommendation 3: ICAI's Framework Agreement and Memorandum of Understanding should be updated following this Review – and then reviewed, and if necessary updated, alongside future annual assessments of ICAI's work. The FA should make clear the functions of ICAI and clarify the role of the sponsor team and the IDC.

Recommendation 4: The role of the DFID sponsor team on operational issues needs to be more clearly defined in the Framework Agreement.

Recommendation 5: The Framework Agreement should require annual evaluations of the performance of individual Commissioners.

Recommendation 6: The annual evaluation of the Chief Commissioner should be led by a non-executive member of the DFID Board, and involve substantial input from the Chair of the IDC, alongside other stakeholders. It should include an assessment of whether ICAI is operating in line with its revised functions.

Roles of the Chair and Board Members

6.11 ICAI was set up to be led by an executive chair (the Chief Commissioner) who is responsible for the day to day operation, management and outputs of ICAI, and for ensuring efficient and effective use of public funds. Whilst Advisory NDPBs are usually led by a non-executive chair the review team was satisfied that the current system of having an executive chair is working well, and is appropriate given the small size of ICAI – and felt that to change the role of the chair at this point in time would involve disproportionate effort and resource.

6.12 A role for the Chief Commissioner in appointing other Commissioners (although not future Chief Commissioners) – i.e. sitting on the appointment panel - should be clearly set out in the Framework Agreement in order to comply with CO principles. Overall the responsibilities of the Chair (Chief Commissioner) and Commissioners set out in the honoraria agreements and the Framework Agreement need to be aligned; they also need to include all the roles set out in the CO guidance.

6.13 Stakeholders consulted in Stage One of this review said that Commissioners provided appropriately independent advice and brought a range of skills to their work. However, a number of stakeholders expressed concern that the Board had insufficient development expertise. The review team therefore recommended that DFID ensures an appropriate balance of development expertise going forward.

6.14 Commissioners went through a comprehensive, DFID led induction on their appointment, as part of an on-going focus on development. The Chief Commissioner's role on induction and training should be formalised for future Commissioner's benefit in the honorarium agreement.

Recommendation 7: The FA should say that the Chief Commissioner will sit on the appointment panel for other Commissioners (although not future Chief Commissioners).

Recommendation 8: The responsibilities set out in the honorarium agreement and FA should be aligned and include those set out in the CO guidance, together with the new number of days. As part of this, the Chief Commissioner's role on induction and training should be formalised in the honorarium agreement.

Recommendation 9: DFID should ensure the ICAI Board has the right balance of development expertise.

Communications

6.15 ICAI is committed to openness, and the MoU highlights the need for ICAI to operate transparently. An extensive public consultation was carried out when ICAI was first established, and Commissioners and the Secretariat engage regularly with stakeholders. As set out in Stage One, on-going engagement with the development community is an important part of this. In order to comply fully with the supporting provisions of this CO principle a few small changes need to be made. Firstly, ICAI's legal position with regards to the Freedom of Information Act needs to be clarified in the Framework Agreement. Secondly, ICAI should publish the agendas for its meetings, and this should also be reflected in the Framework Agreement.

Recommendation 10: The Framework Agreement should be updated to reflect the legal position of ICAI in relation to the Freedom of Information Act 2000.

Recommendation 11: Agendas for board meetings should be published in advance and this provision should be included in the Framework Agreement.

Conduct and Behaviour

6.16 A Code of Conduct exists in the Framework Agreement between DFID and ICAI which includes expected standards of behaviour. This Code should be part of the Commissioners' honoraria agreements to ensure it is included as part of the terms and conditions of employment. Although not part of the official CO guidance, the team recommended that language used is gender neutral. The MoU includes clear guidelines on political activity by Commissioners, which have been implemented by ICAI.

6.17 There is a Register of Interests for Commissioners to manage conflicts of interest and the Commissioners' honoraria agreements set out rules governing expenses, which are the same as DFID's own rules. Both of these must now be made publically available to ensure compliance with CO guidance.

6.18 DFID has not set rules for Commissioners on acceptance of appointments or employment after resignation or retirement. This issue should now be looked at, and a decision made and recorded on whether such limitations should be in place.

Recommendation 12: The Code of Conduct for Commissioners should be included in the Commissioners' honorarium agreements, and should use gender neutral language.

Recommendation 13: The Register of Interests for Commissioners and rules on claiming expenses should be made publicly available.

Recommendation 14: DFID should decide what limitations regarding future appointments or employment should be in place for current Commissioners (if any). Honoraria agreements should then be amended to reflect agreed policy.

Role of Parliament

6.19 ICAI is a unique NDPB in that it was set up to report directly to Parliament through the International Development Committee (IDC) – see section 2.2 of the Framework Agreement. Whilst CO principles of good governance do not formally cover the role of Parliament, the Review Team, as well as senior DFID staff, ICAI Commissioners and the IDC themselves felt that in the case of ICAI the IDC's role is an important part of ICAI's governance arrangements, and therefore should be covered in the Triennial Review. There was also demand for the role of the IDC in ICAI's governance to be more clearly defined in the text of the founding documents (see recommendation 3).

6.20 As noted earlier in this report, a number of stakeholders consulted in Stage One—including the IDC themselves - said they would like the IDC to play a stronger role in setting direction for ICAI. The main mechanism for doing this is the work plan, but under the current arrangements the IDC's role is restricted to making recommendations on potential activities. The review team therefore recommended the IDC is given responsibility for formally signing off the work plan and agreeing any significant amendments in order to help strengthen its oversight of the work plan - as well as further promoting discussion and coordination of areas for scrutiny.

6.21 It is important to note that, if this change is agreed, DFID Ministers would still remain accountable to Parliament for ICAI's performance. DFID would also continue to make requests or suggestions on issues to be included in the work plan, as set out in the Framework Agreement. In order to minimise the cost of this change it would be important to keep the approval process as light and streamlined as possible. The team recommended that – if agreed - this change is reviewed at the time of the next Triennial Review to ensure it is meeting its desired objectives.

6.22 A second area discussed at Stage Two of the review was a potential role for IDC members in recruiting future Commissioners, given the central role they play in all aspects of ICAI's work, including setting future direction. As CO guidance clearly sets out, the SoS is

responsible for appointing Board members. However, the review team thought it would be helpful to invite a member of the IDC to act as the external representative on the selection panel that makes recommendations to Ministers – whilst still allowing other IDC members to participate in a pre-appointment hearing for the Chief Commissioner should they wish to do so (as has been done for the appointment of Chairs of a number of other public bodies).

Recommendation 15: The IDC should be given a formal role in signing off ICAI's annual work plan and any significant changes to the work plan. This change should then be reviewed at the time of the next Triennial Review.

Recommendation 16: IDC members should be invited to be represented on the selection panel for future Commissioners.

Conclusions

7.1 The Stage Two assessment of ICAI's governance structures showed that these largely comply with CO principles of corporate governance. There are several areas where documentation needs to be updated and amended in order to fully comply, as well as areas where documentation must be published. When the recommendations in this Review are implemented ICAI's governance structures will comply with all but one of the supporting provisions of the principles of good corporate governance. In the one instance where ICAI does not comply - having a non- executive chair - the Review Team were satisfied that this is appropriate given the disproportionate effort and resource burden in making changes at this stage.

7.2 The Review also found that, due to the unique position of ICAI as an independent body that reports directly to Parliament, the role of the IDC in ICAI's work should be well defined. The Review made suggestions as to how this may best be achieved through its consultation with both ICAI and the IDC.

Appendix A – Terms of Reference of Review

Background

The Independent Commission for Aid Impact (ICAI) was founded in May 2011 as an Advisory Non Departmental Public Body (NDPB), sponsored by the Department for International Development (DFID). ICAI was established with a four year term (12 May 2011 – 11 May 2015). ICAI's strategic aim is to provide independent scrutiny of UK aid spending, to promote the delivery of value for money for British taxpayers and to maximise the impact of aid.

In accordance with Cabinet Office requirements for triennial reviews of all NDPBs and the DFID-ICAI Memorandum of Understanding¹² (Section 1.3), a robust and rigorous review of ICAI must take place by the end of 2013 to assess the continuing need for an independent scrutiny function and the associated governance arrangements. As per the DFID-ICAI Framework Agreement¹³ (Section 8.2), the review will be overseen by a Challenge Group, with terms of reference and membership agreed by the Cabinet Office.

Objective

In accordance with Cabinet Office guidance¹⁴, this review has two principal aims, represented by two stages:

- (i) to provide a robust challenge of the continuing need for ICAI – both its functions and its form; and
- (ii) if it is agreed that ICAI should continue as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance.

Scope

Stage One

The DFID-ICAI Framework Agreement (Sections 2.3 and 9) (Annex A) describes ICAI's functions, which include undertaking evaluations, reviews and investigations on any UK aid classified as Official Development Assistance; producing up to 20 reports per year; feeding back to Ministers; and reporting to Parliament. Stage One will verify ICAI's functions, assess how the functions contribute to both ICAI and DFID's core business and consider whether the functions are still needed.

Where it is concluded that a particular function is still needed, the review will then examine how this function might best be delivered. DFID must be able to evidence that it has considered all the options set out in the Cabinet Office "Checklist of Delivery Options"¹⁴ when considering alternative means of delivering ICAI's functions.

Within the above context, Stage One will consider: a cost-benefit analysis (or equivalent appraisal technique); the Commissioner-Secretariat-Contractor model, membership and

¹² <http://icai.independent.gov.uk/wp-content/uploads/2011/05/May-MOU-DFID-ICAI- final 1.pdf>

¹³ <http://icai.independent.gov.uk/wp-content/uploads/2011/05/Framework-Agreement11.pdf>

¹⁴ www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

skillset; ICAI's governance and accountability structure (including its relationship with the International Development Select Committee); ICAI's methodology and evidence base; the quality, impact and delivery of ICAI's reports; ICAI's role in lesson learning and knowledge sharing; and the process by which ICAI follows up on reports.

Stage Two

Where the outcome of Stage One of the review is that ICAI will remain, DFID should progress to Stage Two. Working with ICAI's Chief Commissioner and the Head of ICAI's Secretariat, DFID should ensure that ICAI is operating in line with Cabinet Office guidance on corporate governance.

This will involve examining ICAI's controls, processes and safeguards against the Cabinet Office document 'Advisory NDPBs: Corporate Governance Arrangements'¹⁵. Each principle set out in this document should be taken in turn, adopting the "comply or explain" approach: where ICAI's corporate governance arrangements do not comply with Cabinet Office principles, an explanation must be given as to why an alternative approach has been adopted and how this approach contributes to good corporate governance.

Principles

All triennial reviews must be:

- i) **Proportionate**: Not overly bureaucratic and appropriate for the size and nature of the NDPB.
- ii) **Timely**: Stage One should be completed within three months.
- iii) **Challenging**: A wide range of alternative delivery options must be examined and evaluated.
- iv) **Inclusive**: The NDPB and other key stakeholders must be engaged in the review. Parliament should be informed about the commencement and conclusion of the review.
- v) **Transparent**: All reviews should be announced and all reports published.
- vi) **Value for Money**: Reviews should be conducted in a way to maximise Value for Money. The cost of reviews should be kept to the minimum necessary and any additional costs e.g. external consultancy should be published in the final report.

Methodology

The Review Team will be responsible for finalising the methodology for the review. We would expect the review to largely follow the Project Timeline outlined in Annex B. Once the review has been launched, the Review Team should gather relevant data from ICAI and DFID. This should be followed by consultation with key stakeholders and the launch of a public consultation via DFID's website. The results of the stakeholder engagement, alongside a cost-benefit analysis, will be considered by the Review Team and Challenge Group to reach conclusions at Stage One. If the review progresses to Stage Two, the Review

¹⁵ http://www.cabinetoffice.gov.uk/sites/default/files/resources/Advisory_NDPBs_corporate_governance_arrangements_Dec12.pdf

Team will issue ICAI with a “comply and explain” questionnaire, the results of which will be analysed and feed into Stage Two conclusions.

Stakeholder Engagement

A stakeholder mapping exercise will be completed by the Review Team at the earliest stage. A consultation exercise will subsequently be launched through DFID’s website. This will invite interested parties to contribute input and evidence in response to key questions raised in Stage One.

DFID will announce the review by Written Ministerial Statement in both Houses. Parliament will also be informed about the conclusion of the review and copies of the final report be placed in the Libraries of the House. In particular, DFID will alert the International Development Select Committee (IDC) and other key stakeholders and partners about the review.

ICAI must be engaged in the review. ICAI should have the opportunity to comment and input from the planning stage onwards. ICAI must have the opportunity to comment on the emerging conclusions and recommendations of the review.

Departmental Governance Arrangements

DFID must resource the review, write and publish the final report. The Cabinet Office will: i) provide guidance and facilitate lesson learning; ii) agree and publish a forward programme of reviews; iii) be invited to sit on the Challenge Group; and iv) be formally consulted on the outcome of all reviews. This must include consultation at Ministerial level. Where there is a potential spending or fiscal impact from the outcome of a review, the Cabinet Office and the department must also liaise with HM Treasury before any final decisions are taken.

Resourcing Requirements

Review Team

The Review Team is responsible for launching the review, consulting stakeholders, gathering evidence, analysing results, writing the report and disseminating its results. The Review Team must maintain strong relations with the Challenge Group whom they consult throughout the process. Review Team members may change between Stage One and Stage Two to leverage relevant expertise. The Review Team will comprise of DFID officials not drawn from the Sponsor Team (Improving Aid Impact, Finance and Corporate Performance Division).

Members of the Review Team should demonstrate core skills and knowledge in evaluation and corporate governance. A cost-benefit analysis (or equivalent appraisal technique) will be required as part of Stage One – this is suited to an Economist member of the Review Team or to a non-Review Team DFID Economist utilising the Department’s 10% cadre commitment. The nature of ICAI’s work suggests that an Evaluation specialist would also add value to the Review Team. If the review progresses to Stage Two, the team will consult specialist expertise as required, namely DFID HR Specialists and Treasury Solicitors.

The Review Team will consist of two members working full-time for 5 months.

Challenge Group

The DFID-ICAI Framework Agreement stipulates that the review should be led by a Challenge Group. The Cabinet Office's Public Bodies Reform Team has advised that a Challenge Group remains preferable for this review.

The Challenge Group should be independent of both the Sponsor Team and ICAI. The role of the Challenge Group is to rigorously test and challenge the assumptions of the Review Team. The Challenge Group typically meets 2-5 times throughout a review process to provide strategic direction at key stages. Cabinet Office guidance recommends that the Challenge Group includes a non-Executive Member of the Departmental Board and a Cabinet Office representative. Cabinet Office also recommends that Departments incorporate external expertise in the Challenge Group.

The Challenge Group for this review will include a non-Executive Member of DFID's Departmental Board, a DFID Director General/Director and a member of the Cabinet Office. External experts with appropriate seniority and background will be invited to the Group and will have their expenses reimbursed. Given the nature of ICAI, external members with expertise in development and/or evaluation will be strongly considered.

Output

The review should be launched and the outcome announced by Written Ministerial Statement. The results of the review should be presented as a 30-40 page report with an Executive Summary. Copies of the report must be placed in the Libraries of the House by 31st December 2013. DFID should ensure that a copy of any announcement and all relevant publications are made available to the IDC.

Constraints and Dependencies

The review must not be conducted exclusively by civil servants involved in the day-to-day sponsorship of the NDPB (the Sponsor Team). In this case, the Sponsor Team refers to the Improving Aid Impact Team based in DFID's Finance and Corporate Performance Division. The Sponsor Team should, however, be invited to contribute to the review.

Two senior members of the ICAI Secretariat (Head and Programme Manager) return to their home Departments in June and July 2013 respectively. It is therefore advisable that the review launches in the first quarter of 2013 to satisfactorily capture their knowledge and input. However, the commencement of the review is ultimately dependent on the recruitment of suitable Review Teams and Challenge Group members. The review will not be formally launched until these individuals have been appointed.

DFID has guaranteed funding for ICAI over a four-year period (May 2011 – May 2015). ICAI has awarded a four-year non-exclusive contract to its service provider. No funding for a new period should be allocated to ICAI or a new service provider contract awarded by ICAI until the results of this review have been published.

Appendix B - Stakeholder Consultation

The Triennial Review of ICAI consulted 26 DFID staff, 9 representatives of ICAI, 5 IDC members and 3 advisory staff, 4 representatives of other UK Government Departments and 27 external organisations (17 through written evidence).

Stakeholder Group	Organisation/Team
DFID	<ul style="list-style-type: none"> - Management Board (4 people) - Senior officials involved in ICAI reviews (15 people, including 3 written responses) - Evaluation Department (2 people) - Improving Aid Impact team (5 people)
ICAI	<ul style="list-style-type: none"> - Commissioners (4 people) - Secretariat (2 people) - KPMG (2 people) - Agulhas (1 person)
IDC	<ul style="list-style-type: none"> - Committee (5 people) - Clerks (2 people) - Simon Maxwell, Advisor to the IDC
Other Government Departments	<ul style="list-style-type: none"> - No.10 (1 person) - HMT (2 people) - FCO (2 people) - NAO (2 people)
Think Tanks/ Academic Institutions	<ul style="list-style-type: none"> - Institute for Government (1 person - written) - Itad (1 person) - Kings College London (1 person) - Centre for Global Development (2 people) - Institute for Development Studies (1 person) - 3iE (1 person) - UK Evaluation Society (1 person) - Overseas Development Institute (2 people) - WISE Development (2 people – written)
NGOs	<ul style="list-style-type: none"> - Oxfam (written) - Adam Smith International (written) - BOND – UKAN members (CAFOD, World Vision, Oxfam, Save the Children, BOND, ONE, WaterAid, Publish What You Fund, ActionAid UK, Action for Global Health, UNICEF UK, Tearfund, Development Initiatives - written)
Other	<ul style="list-style-type: none"> - World Bank (1 person) - Former chair, Independent Advisory Committee on Aid Impact (1 person) - OECD DAC Evaluation Network (1 person) - European Commission (1 person – written)