








Departmental Overview, November 2018

Foreign & Commonwealth Office

Foreign & Commonwealth Office (FCO)

This overview summarises the work of the Foreign & Commonwealth Office including what it does, how much it costs, recent and planned changes and what to look out for across its main business areas and services.

Overview

 About the FCO	 How the FCO is structured	 Where the FCO spends its money
 Major events and developments in 2017 and 2018	 Managing public money	

PART ONE

Diplomacy 20:20



PART TWO

Ensuring an effective exit from the European Union



PART THREE

Managing the fraud risk in the FCO and the British Council




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About the FCO

The FCO is the lead UK government department for international affairs

The FCO promotes the United Kingdom's (UK's) interests overseas, supporting UK citizens and businesses globally.

The FCO group¹ consists of the core department and four bodies. This report focuses on the core department, plus the British Council.

The FCO core department employed 12,537 staff as at end March 2018. This was made up of 4,591 UK-employed staff and 7,946 locally employed staff (63% of the total workforce).



The FCO's global network represents the whole of the UK government overseas. It consists of 274 posts, in 169 countries and territories, including nine multilateral organisations such as the United Nations.

The FCO's change programme, Diplomacy 20:20, which is designed to deliver a more expert and agile organisation, supported by a world-class platform, is two years into a four-year programme.

The FCO leads government work on 11 of the more than 300 European Union (EU) Exit-related areas of work that departments need to complete as a consequence of the UK leaving the EU. These include the Overseas Territories, including Gibraltar, and the provision of consular services.

The FCO has three strategic objectives:



1 Protect our people

Safeguard national security by countering terrorism, extremism, weapons proliferation, and other state and non-state threats in cooperation with allies and partners.

Assist British people, living, travelling and working around the world, when they are most in need.

2 Project our global influence

Protect and promote the values and influence of Global Britain,² strengthening partnerships and the rules-based international system.

Support good governance, democracy, rule of law and human rights; prevent and resolve conflict; and build stability overseas.

3 Promote our prosperity

Promote the UK's prosperity by opening markets, driving economic reform, championing British business, and supporting free trade and sustainable global growth.

¹ The FCO group is made up of the core department; the Wilton Park conference centre; the Marshall Aid Commemoration Commission; the Westminster Foundation for Democracy; and the Great Britain-China Centre. The FCO is also responsible for FCO Services and the British Council, but both lie outside of the FCO's accounting boundary. See [page 4](#) for further details.

² The government describes Global Britain as: "...reinvesting in our relationships, championing the rules-based international order and demonstrating that the UK is open, outward-looking and confident on the world stage."

How the FCO is structured

The FCO group comprises one executive agency and three non-departmental public bodies (NDPBs). These are:

Wilton Park conference centre – an executive agency organising over 50 events annually. Its total income in 2017-18 was £6 million. This included funding from the FCO of £2.05 million, plus an additional £1.043 million for conference specific funding.

Marshall Aid Commemoration Commission – an NDPB. The Commission awards up to 50 postgraduate scholarships a year to students from the USA to study in the UK. Its income in 2017-18 was £0.16 million. In addition, it received £2.25 million from the FCO.

Westminster Foundation for Democracy – an NDPB supporting democratic practices in developing democracies. Its income in 2017-18 was £6.9 million. In addition, it received £3.5 million from the FCO.

Great Britain-China Centre – an NDPB building UK-China relationships. Its income in 2017-18 was £0.61 million. In addition, it received £0.47 million from the FCO.



○ Entities consolidated in the FCO group accounts
○ Entities not consolidated in the FCO group accounts

The FCO is also responsible for two other public sector bodies:

The British Council – an NDPB, a charity established by Royal Charter and a public non-financial corporation.¹ The British Council is the UK's international organisation for cultural relations and educational opportunities. Its income for 2017-18 was £1,172.3 million. It received £171 million from the FCO.

Foreign & Commonwealth Office Services (FCOS) – a trading fund.² FCOS delivers services such as protective security, estates management, IT services and logistics worldwide to the FCO and wider government. Its income for 2017-18 was £160 million. Of this, £112.8 million was from the FCO.

¹ A public non-financial corporation is an organisation whose primary function is to provide goods and services that are mainly non-financial and non-regulatory in nature.

² A trading fund is an organisation set up to handle its own revenue and finances separately from overall government finances – which enables FCOS to act more like a business.

OVERVIEW

Where the FCO spends its money

The FCO group spent £2.687 billion in 2017-18

Of this, £777 million was spent via the Conflict, Stability and Security Fund (CSSF)¹ and £452 million (17% of the total spend) on staff costs.

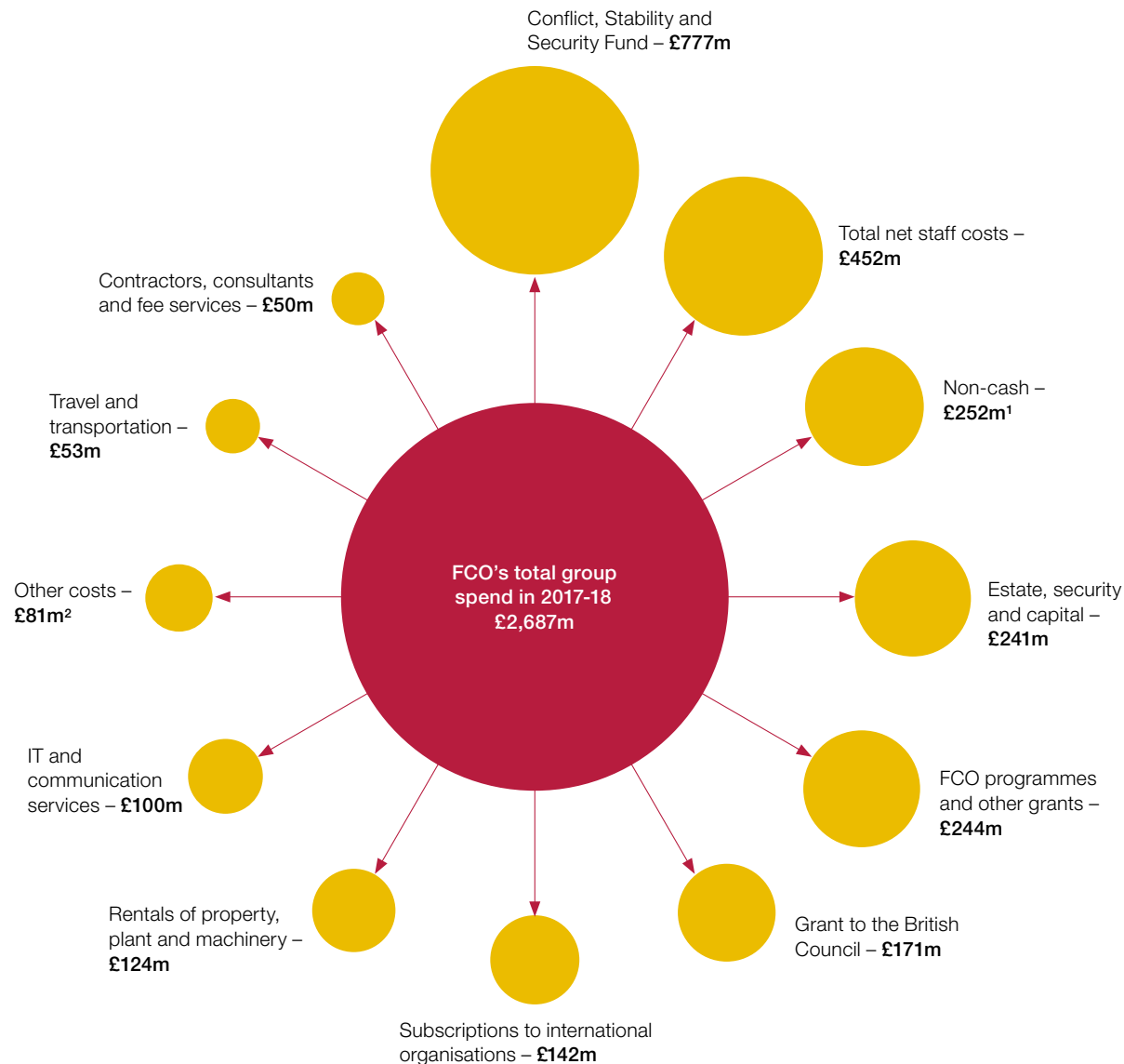
The FCO's other main areas of spend are as follows:

- Estates and security (£241 million).
- Programmes and other grants (totalling £244 million). These include funding the FCO's three NDPBs – the Great Britain-China Centre, the Marshall Aid Commemoration Commission and the Westminster Foundation for Democracy, as well as Wilton Park. It also includes a peacekeeping foreign exchange gain of £43.3 million.
- A grant of £171 million to the British Council.
- Subscriptions to international organisations including the United Nations (£66 million), the Council of Europe (£28 million) and NATO (£20 million).



Things to look out for

The Spending Review in 2019 will set out FCO's budget for the period after 2019-20, as well as for cross government funds including the Conflict, Stability and Security Fund.



Notes

- 1 Non cash includes depreciation, impairments and provisions.
- 2 Other costs include reimbursements of duties to other governments (£40 million), training (£14 million), hospitality (£11 million) and medical (£11 million).

Source: Foreign & Commonwealth Office, *Annual Report and Accounts 2017-18*

1 The FCO reported expenditure of £777 million in their 2017-18 Annual Report and Accounts for the CSSF. However, a figure of £723.9 million is reported in the 2017-18 CSSF Annual Report. The difference is that the FCO Accounts' figure is reported before removing the effect of a foreign exchange gain (£43.3 million); excludes £9.8 million of capital expenditure reported elsewhere, and includes expenditure on programmes funded by donors (£18.8 million). The £43.3 million foreign exchange rate gain is netted against the 'FCO programmes and other grants' expenditure in the diagram to the right and second bullet point, above.

How the British Council receives and spends its money

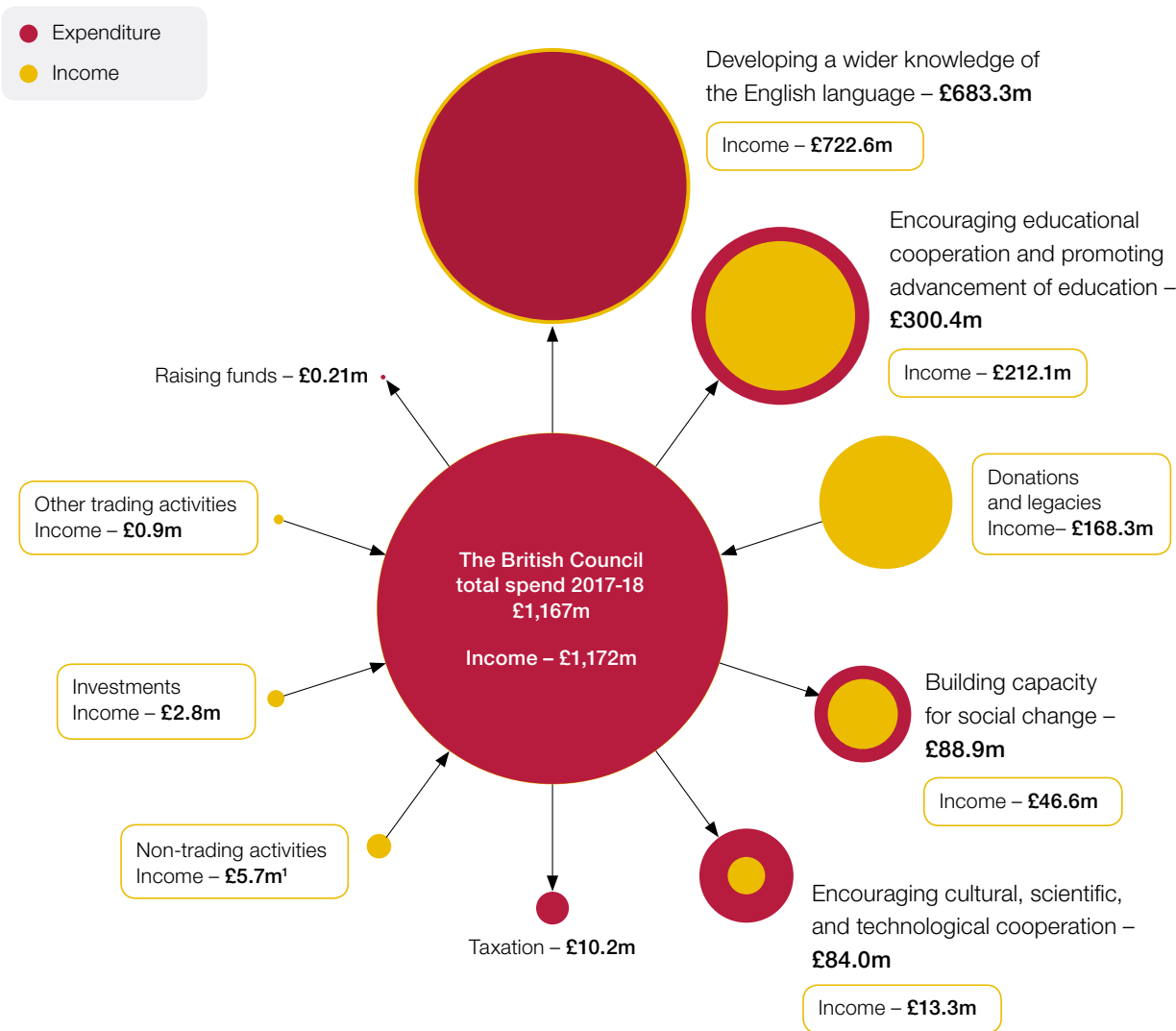
As a charity, the British Council's income and expenditure are reported against its charitable objectives.

Breakdown of the British Council's income in 2017-18

The British Council received £1.172 billion of income in 2017-18. Its main income (62%) related to 'Developing a wider knowledge of the English language' activities. It received £171 million from the FCO – £168 million of which was accounted for in 'Donations and legacies'. The remaining £3 million was included in 'Encouraging educational cooperation and promoting advancement of education' and related to the GREAT programme, which is a government-wide programme designed to encourage people to visit, do business, invest and study in the UK.

Breakdown of the British Council's expenditure in 2017-18

The British Council spent £1.167 billion in 2017-18, giving it a small surplus of £5.6 million for 2017-18. The British Council's main expenditure (59%) is related to 'Developing a wider knowledge of the English language' through its English language courses and examinations.



Notes

- 1 Non-trading activities include foreign exchange gains and profit on the disposal of fixed assets.
- 2 Figures may not add up because of rounding.

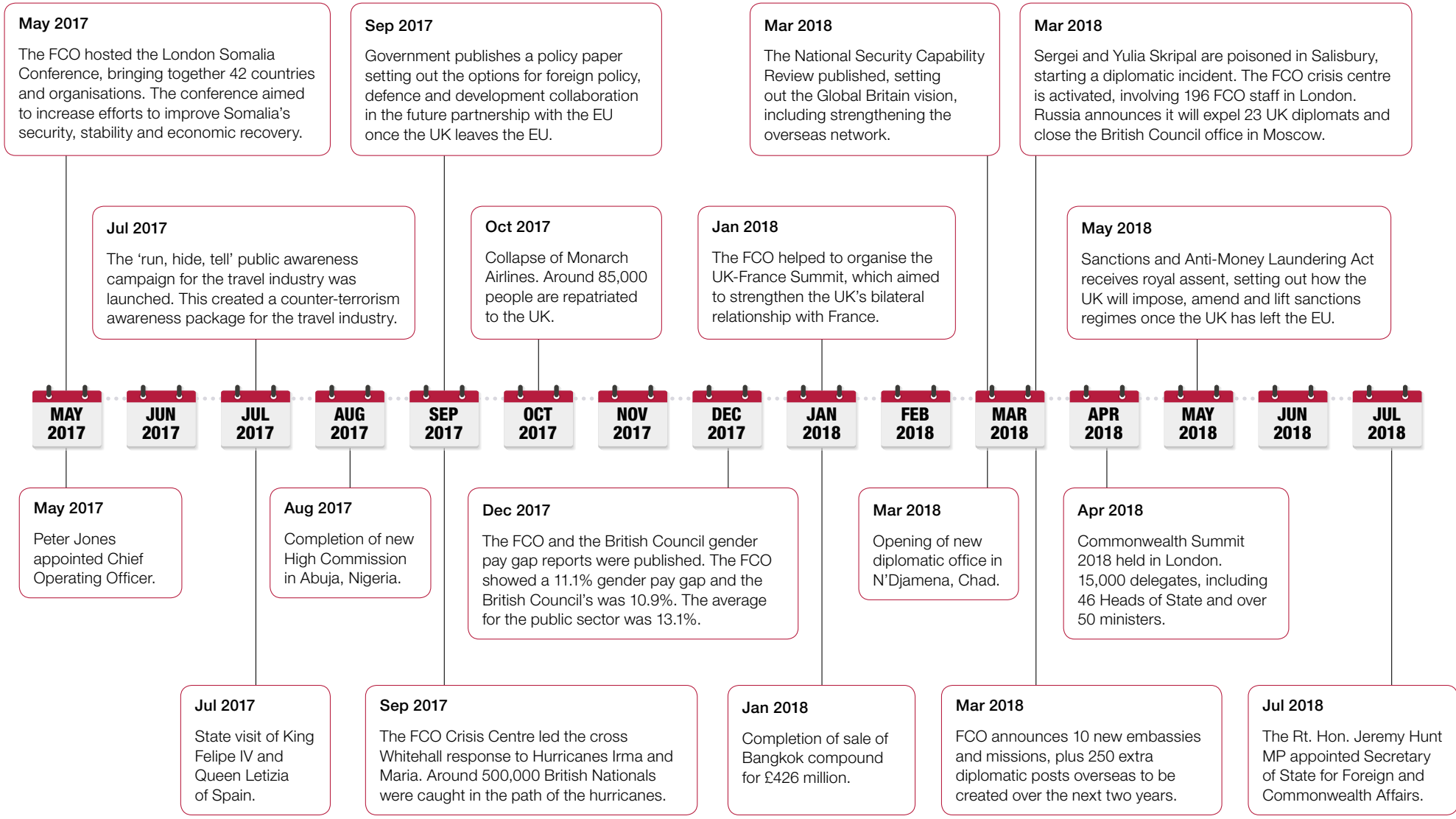
Source: The British Council, *Annual Report and Accounts 2017-18*

Things to look out for

The Spending Review in 2019 will determine the FCO grant to the British Council for the period after 2019-20.

The Tailored Review of the British Council, announced in July 2018, is expected to be published in early 2019.

Major events and developments in 2017 and 2018



Source: Foreign & Commonwealth Office, *Annual Report and Accounts 2017-18*

OVERVIEW

Managing public money – FCO

The FCO uses a number of programme funds and budgets to deliver its policy objectives.



Official Development Assistance (ODA) eligible cross-government programme funds

The FCO spent £993 million in ODA expenditure in 2017 through its core budget, the Conflict, Stability and Security Fund (CSSF) and the Prosperity Fund:

- **FCO core budget:** £560 million, including through its policy programmes, such as ‘Human Rights, Democracy and the Rule of Law’, and scholarships, such as the Chevening programme.
- **CSSF:** £387 million, including dismantling child trafficking rings in West Africa and supporting the Columbian peace process.
- **Prosperity Fund:** The FCO spent the majority of the £46 million Prosperity Fund in 2017,¹ including a Global Business Environment programme to promote a favourable business environment in middle-income countries.



FCO's internal ‘Global Britain Fund’

The FCO has used its internal programme fund – the ‘Global Britain Fund’ for a number of projects. For example, the Blue Belt Programme, which aims to provide long term marine protection in

the Overseas Territories. The programme began in 2016, and is funded over four years with up to £20 million from the CSSF.



FCO expenditure on capital projects

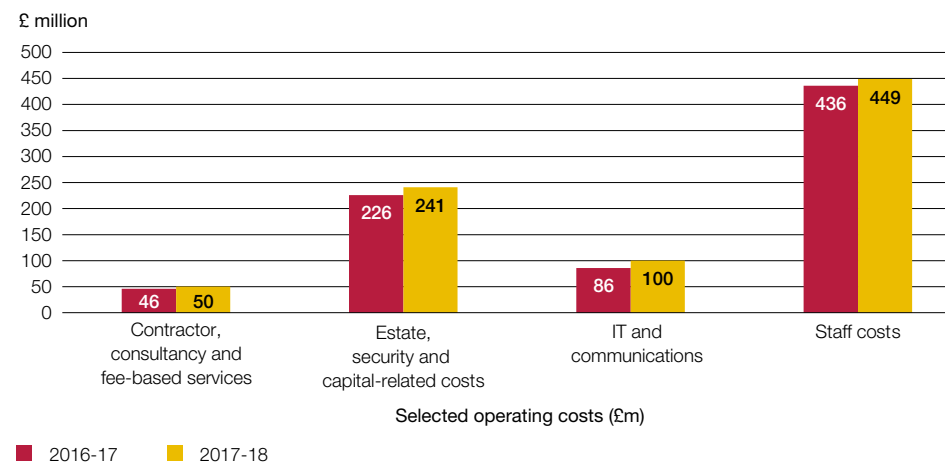
The FCO's planned expenditure on capital projects (eg, infrastructure, land) in 2017-18 was £137.6 million. In 2016-17, the FCO's equivalent expenditure was £59.6 million against an estimate of £62.4 million, an underspend of £2.8 million.

In 2017-18 the FCO received £426 million from the sale of the British embassy in Bangkok, of which £385 million was recognised in the 2017-18 accounts and £41 million deferred to future years. In accounting terms, this created a net capital underspend of -£251.9 million. The proceeds from the sale of the Bangkok compound are being used to fund estate projects and reduce the maintenance backlog.

In 2017-18, the FCO also sold residential property in Warsaw and Canberra for £0.91 million, office property in Marseilles for £0.42 million and residential property in Jakarta for an undisclosed sum.

¹ Individual departmental spend figures for the Prosperity Fund were not published at the time of going to print.

Selected FCO operating costs, 2016-17 and 2017-18



Notes

- 1 Consultancy expenditure rose as a result of work to support Tech Overhaul and corporate capability. In the overseas network there was expenditure on ad-hoc legal matters, requiring local advice. There was also spend on management consultancy to support the Diplomacy 20:20 programme.
- 2 Estates, security and capital-related costs rose because some additional funding was allocated for urgent seismic work.
- 3 The main reason for the increase in IT and communications costs for 2017-18 was that this was the first year of the full roll-out of the Tech Overhaul programme.

Source: Foreign & Commonwealth Office, *Annual Report and Accounts 2017-18*

Things to look out for



The FCO has identified that its lack of management capability and capacity is a risk to it delivering effective programmes.

The FCO uses ODA funding for a number of its programmes. There could be an imbalance between where it can deliver (with ODA-compliant funding) and where it may increasingly want to concentrate its activities. For example, with EU Exit, the focus is on trade with developed countries, expenditure of which does not count as ODA.

Under the HM Government's Global Britain vision, the FCO is considering its role once the UK leaves the EU. HM Treasury has provided £45 million a year in 2018-19 and 2019-20 for expanding the overseas network. This is intended to ensure the UK is able to maximise the opportunities of EU Exit, respond to new global challenges and support the British Council.

OVERVIEW

Managing public money – The British Council

The FCO gave the British Council £33 million of additional, non-ODA funds in 2017-18, over and above the Spending Review settlement in 2016. Overall, the British Council's net income rose by 9% in 2017-18 and its spending increased by 7.5%.

The British Council

The British Council's total income for 2017-18 was £1,172 million, an increase of 9% on 2016-17 income of £1,076.9 million.

Total spend, after tax, was £1,167 million, compared with £1,085.9 million in 2016-17 – an increase of

7.5%

This created net income for 2017-18 of £5.6 million, when including gains on investments. This compared with a net loss of £9 million in 2016-17.

The British Council's Spending Review settlement from August 2016 was amended by the FCO in March 2018. This confirmed the commitment from the government to provide grant funding to the British Council to 31 March 2020.

The amended settlement provided a further £33 million up to March 2020, in addition to its August 2016 Spending Review settlement.

The British Council attributes its growth in income in 2017-18 to a strong performance from its English teaching and examination activities and an increased income from its contract work. The British Council's teaching and examination income grew by 7.7% from £650 million in 2016-17 to £700 million in 2017-18.

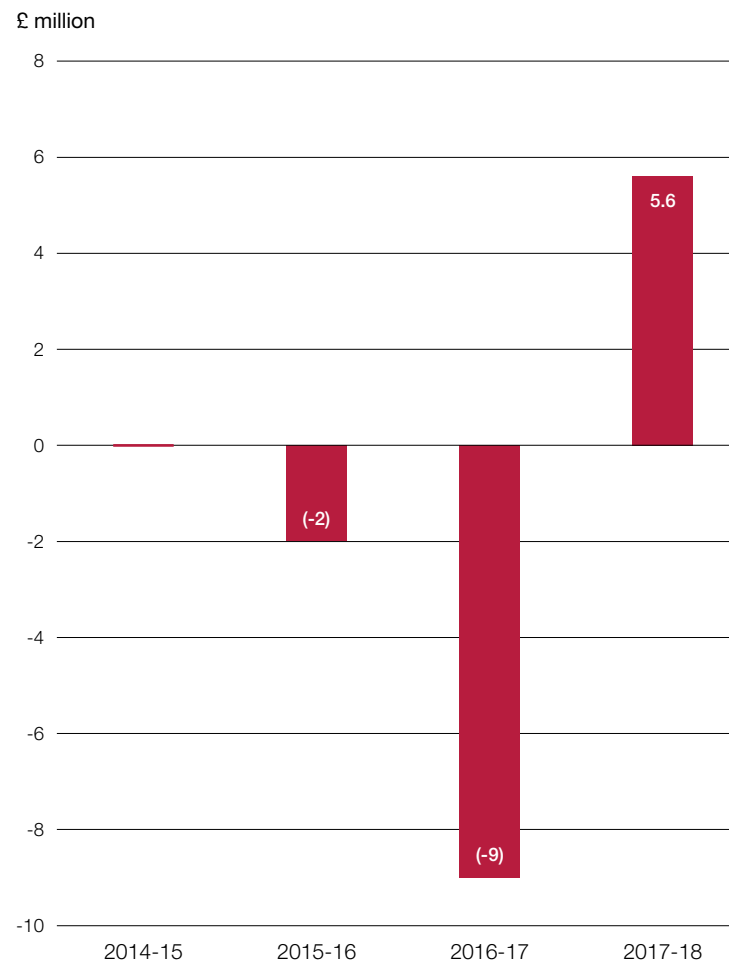
However, the British Council has identified increased competition, risk and slower growth in the teaching and examinations market. In its 2018–20 Corporate Plan it has reduced its target from delivering growth of 8.5% per annum to achieving growth of 3% per annum over the next three years.



Things to look out for

The British Council received £33 million of extra funding from the FCO in 2018, in addition to the 2016 Spending Review settlement. Given that the British Council has revised down its forecast growth target from 8.5% to 3% because of increased pressure in the teaching and examination market, additional resources may be required again in the future.

The British Council net income/net expenditure, 2014-15 to 2017-18



	2014-15	2015-16	2016-17	2017-18
Net income/net expenditure (£m)	0	(-2)	(-9)	5.6
Income (£m)	972	980	1,077	1,172
Expenditure (£m)	972	982	1,086	1,167

Source: The British Council, *Annual Report and Accounts 2017-18*

The FCO aims to provide a world-class diplomatic service.

Diplomacy 20:20 is the FCO's strategic transformation programme to deliver foreign policy in the 21st century. The programme launched in 2016 and is expected to last until 2020. The goal of Diplomacy 20:20 is to enable the FCO to become more efficient, effective and able to meet the demands of the 21st century. It is organised across three pillars:

01



Expertise

Greater expertise at home and overseas, accessing the FCO's deep local knowledge and global reach.

02



Agility

Deploy the right staff and target resources on the areas of work that matter most.

03



Platform

Providing the infrastructure to support the objectives of the expertise and agility pillars.

Expertise

International negotiations

- The UK team in Brussels supported agreement on Phase 1 of the EU Exit negotiations. Support was provided for over 100 negotiators to operate in Brussels during the talks.

Deep country and regional expertise

- The FCO estimates that up to 428 new staff positions will be required to manage the UK's exit from the EU at a cost of £36.3 million. For 2017–2019, 178 positions were funded at a cost of £21.2 million. An additional 250 positions were funded in 2018–19, at a cost of £15.1 million.

Professional expertise

- The FCO has created central hubs to improve the way parliamentary and briefing work, correspondence and Freedom of Information requests are handled.

Language skills

- The FCO awarded three new contracts in February 2018, to start in April 2018, for the delivery of language training and examinations.
- The FCO has more than 550 language 'speaker slots' (an appointment that requires a certain level of language skills) around the world.

- More than 200 staff are trained each year to reach the required language level.
- More than 600 staff take part-time language lessons to maintain their language skills.
- 60% of officers in language speaker roles at overseas posts have passed their language examinations. This is up 20% since 2015. For Heads of Mission, 75% in language speaker roles have met the target-level pass.

Diplomatic Academy

- The Academy launched an International Negotiating Skills Programme in 2017–18. There have been 31 participants.
- During 2017–18, the Academy worked with the Open University and other partners to provide online courses such as international law and human rights. Access via internal FCO systems and personal devices means a wider section of the workforce overseas can undertake these courses.



Things to look out for



Flexible resourcing

How will the FCO manage the resourcing requirements of EU Exit and Global Britain?



Introducing a more flexible language course offer

How will the FCO work with its new suppliers to provide more online language learning opportunities for staff?



Agility

Agile workforce

- The FCO has introduced a 'Global Charter for Local Staff', setting out what locally-engaged staff can expect from the UK government as an employer.
- The FCO reallocated 107 staff to support EU Exit negotiations in London and European posts.
- The FCO launched a pilot 'commuter posting' model in July 2017. It offers staff greater flexibility in how they take up overseas posts.



Platform

Introducing new technology

- Tech Overhaul: £120 million project designed to replace the FCO's IT in order to transform staff working practices. The project is due to be completed in 2018-19.
- Work has begun to replace the existing 'Prism' HR and finance system with a new system, Atlas. This is due to complete in 2019-20. The FCO awarded contracts worth £24 million for this system in September 2018.
- Echo2: A project with the Department for International Development (DFID) and the British Council for voice and video communications across the overseas network, replacing the current Echo system.

Investing in and improving the overseas estate

- A new diplomatic office was opened in Chad in 2017-18.
- The FCO completed work on the UK's new High Commission in Nigeria in 2017-18.
- Other estates projects in 2017-18 included refurbishment of the UK's embassies in Budapest, The Hague and the UK Mission to the United Nations in New York.
- The FCO expects that the sale of its embassy compound in Bangkok for £426 million will allow it to undertake between 30 and 40 estates projects and to reduce a maintenance backlog.



Things to look out for

The uptake of the Global Charter for local staff in overseas posts.

The successful completion of Tech Overhaul and roll-out replacement of Prism are critical elements for the success of the Diplomacy 20:20 transformation programme.

The FCO has announced plans to open 10 new sovereign missions/embassies in the next two years. The new missions include Lesotho, eSwatini, The Bahamas, Antigua and Barbuda, Grenada, St Vincent and the Grenadines, Samoa, Tonga and Vanuatu. This represents part of the government's Global Britain vision, to ensure the UK remains "open and outward facing".

The FCO plans to use the £426 million of proceeds from the sale of the Bangkok compound to fund priority estates work globally. It needs to plan these works effectively and reduce its maintenance backlog to mitigate its infrastructure risks.

¹ The One HMG agenda aims to remove barriers to joint working so that all staff working for the UK government overseas can deliver the UK's objectives more effectively and efficiently.

NAO report findings

In April 2018 the NAO published a report on the FCO's preparedness for EU Exit. We found that the FCO is responsible for delivering 11 EU Exit workstreams: future foreign and external security policy relationship with the EU; consular services in EU and European Free Trade Association (EFTA) countries; Gibraltar (trade and economy; land borders and air borders); EU external spending/budget; the Kimberley Process regulating the rough diamond trade; Overseas Territories (development funding; and trade and economy); Sanctions, and Third Country Agreements.

Things to look out for



Successfully filling staff vacancies

The FCO has a large number of staff to recruit in a relatively short period of time. It needs to ensure that its recruitment process is streamlined to allow the successful on-boarding of staff.



Re-prioritising work

The FCO may need to re-prioritise work to deliver its EU Exit priorities, and it initially took some staff from its global network in order to reinforce the European network. However, it will also need to balance its EU Exit work against successfully achieving its Global Britain agenda.



Communication with UK citizens overseas

In the likely event that demand for consular services increases as a response to EU Exit, the FCO will need to be able to scale up its consular activities in order to successfully communicate with and support UK citizens living overseas.

We identified the following EU Exit challenges faced by the FCO

01 Funding

£90.9m

for EU Exit work to 2019-20



The FCO estimates that it will require £90.9 million for EU Exit work to 2019-20:

- £25 million – existing funds the FCO re-programmed for EU Exit work;
- £36.3 million – additional funds received, 2017-19; and
- £29.6 million – further funding the FCO estimates it will require to March 2020.

In the event of a no-deal scenario, the FCO estimates that it will require a further £65 million funding in 2018-19, with the possibility of additional funds for the Overseas Territories.

02 Staffing

428

new staff funded for EU Exit work



Additional funding bids have largely been to increase staff numbers:

- Up to 428 additional staff posts have been funded by HM Treasury, in three tranches, up to 2019-20.
- Many new staff will need to be security cleared. The government's security vetting system is being reorganised and it is taking longer to process staff. To mitigate this, the FCO has re-assessed some roles at a lower security level.

Because of the time lag in appointing new staff and achieving security clearance, the FCO board agreed to recruit 28 staff before the third funding bid was approved. This funding was provided in March 2018.

03 Prioritisation

107

staff re-prioritised to EU Exit work



107 existing staff were re-prioritised onto EU Exit work:

- 55 to reinforce the FCO's Europe network; and
- 52 to form a central EU Exit team in London.

The FCO has begun to consider what work can be stopped, reduced or not started in order to re-prioritise EU Exit activities. At the time of our report in April 2018, no significant areas of existing work had been reduced or cut.

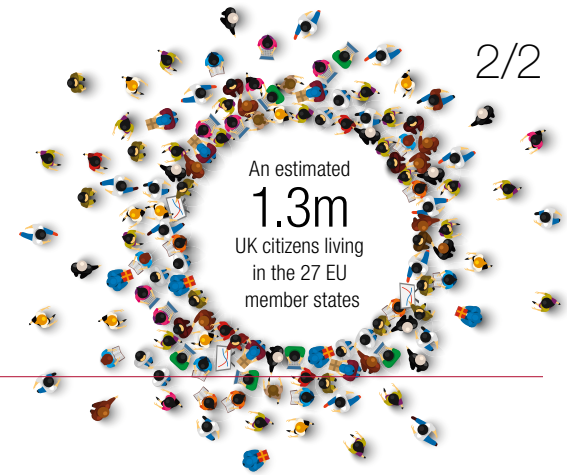
The FCO is concerned that de-prioritising existing work may erode the Global Britain agenda and may carry reputational risk because some of the re-prioritised staff came from embassies worldwide.

Exiting the European Union

There are an estimated 1.3 million UK citizens living in the 27 EU member states, some of whom may require consular assistance when the UK leaves the EU.

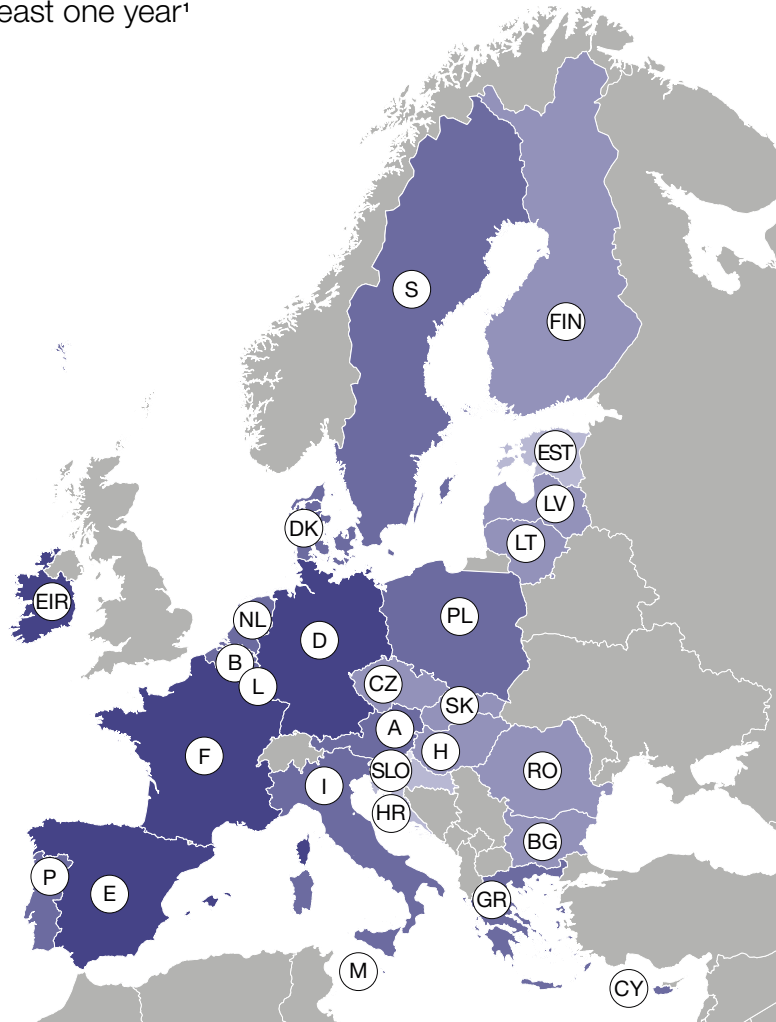
The FCO has conducted a communications campaign aimed at UK citizens living and working in the 27 EU member states and EFTA countries. Between January and March 2018, nearly 10,000 UK nationals participated

in over 40 events across the Europe network. In addition, a digital campaign in December 2017 reached half a million people. The map shows the distribution of UK nationals living across the EU.



Number of UK citizens residing for at least one year¹

- Fewer than 100
- 100–999
- 1,000–9,999
- 10,000–99,999
- More than 100,000
- UK and non-EU 27 countries



A Austria	12,127	I Italy	72,234
B Belgium	28,234	LV Latvia	1,111
BG Bulgaria	8,025	LT Lithuania	3,026
HR Croatia	652	L Luxembourg	6,946
CY Cyprus	39,497	M Malta	12,928
CZ Czech Republic	4,206	NL The Netherlands	53,007
DK Denmark	21,286	PL Poland	36,186
EST Estonia	463	P Portugal	18,709
FIN Finland	7,055	RO Romania	6,870
F France	188,161	SK Slovakia	5,083
D Germany	103,700	SLO Slovenia	12
GR Greece	17,358	E Spain	308,872
H Hungary	9,392	S Sweden	25,558
EIR Ireland	278,040		

Note

¹ Those born in the UK but having resided in the host state for at least a year.

Source: Population numbers come from the *United Nations Department of Economic and Social Affairs Population Division International Migration Report 2017*, published December 2017

NAO report findings

Parliament is concerned that departments are not identifying all fraud that is taking place. Departments have been tasked to undertake more work to actively identify fraud and to professionalise fraud prevention and detection activities.

Both the FCO and the British Council work in fragile states and regions that are perceived as being among the most corrupt.



Things to look out for

What the FCO and the British Council do to address some of the gaps in fraud detection and in data collection. For example, we noted that the FCO and the British Council mainly focus on internal fraud cases. The FCO has reported that it has invested in data analytics software to help it identify potential problems but has not reported any increase in cases so far. The British Council now has fraud data on its website covering 2016-17 and 2017-18.



Tackling fraud

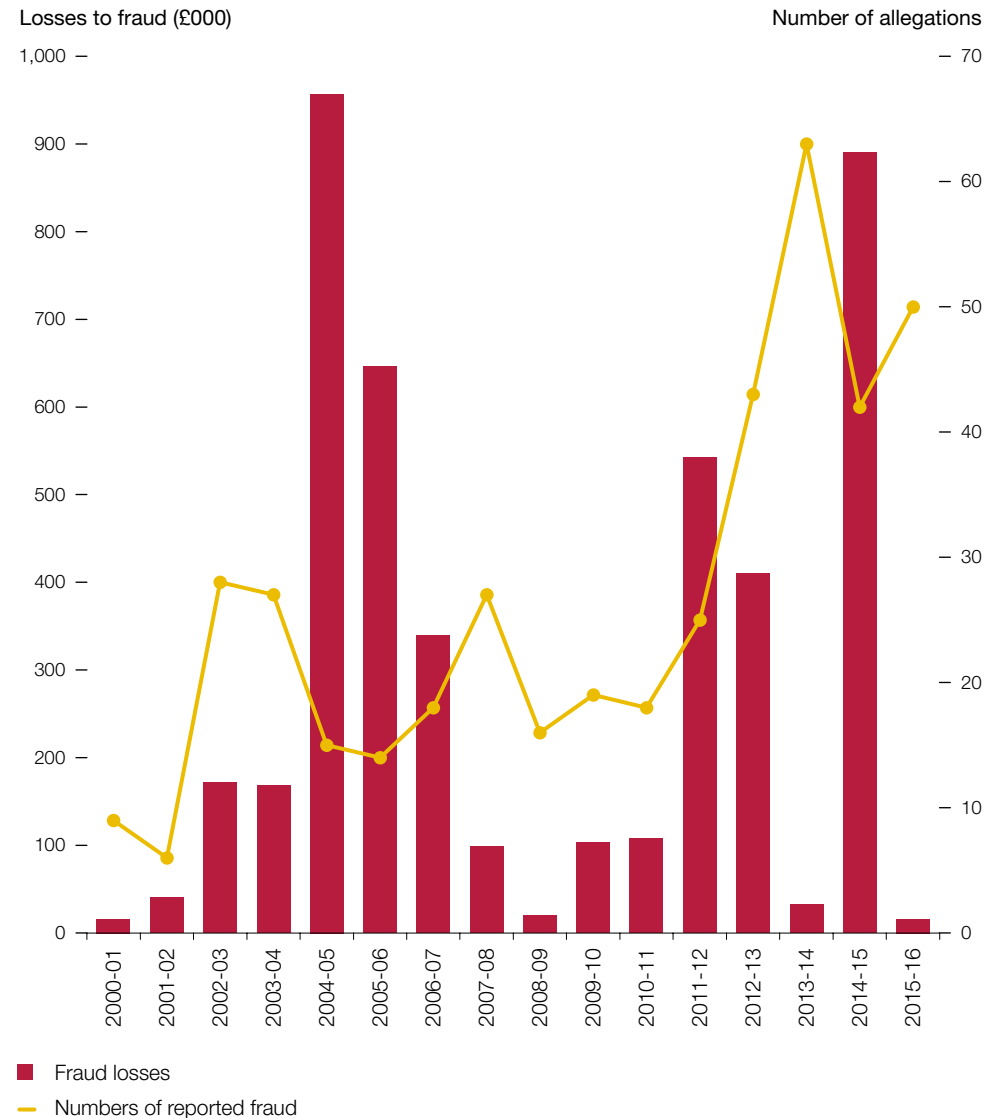


In February 2017, as part of our *investigation into the Department for International Development's (DFID) approach to tackling fraud*, we compared the DFID approach to the approaches taken by the FCO and the British Council.

We found that both the FCO and the British Council had focused on internal business risks. The increase in the FCO's spending on overseas programmes means that it faces increasing fraud risks in this area, particularly in procurement and contract management. The FCO has flagged as a risk its lack of staff skills in contract management, which could present a risk to policy delivery.

The British Council has a dedicated counter-fraud team, which at the time of our report was developing a counter-fraud strategy. At the time of the NAO report the British Council fraud team had only been collecting meaningful data on its fraud caseload for a year.

FCO fraud caseload, 2000-01 to 2015-16



Source: Comptroller and Auditor General, *Department for International Development: Investigation into the Department's approach to tackling fraud*, Session 2016-17, HC 1012, National Audit Office, February 2017

Update on progress since our February 2017 report

Foreign & Commonwealth Office

The FCO increasingly uses credit and procurement cards for low value purchases. It has invested in dedicated analytical software to identify irregular activity and help minimise the risk of fraud.

In 2017-18, the FCO Anti-Fraud and Corruption Unit received 15 reported concerns outside normal line management reporting. This compares with nine in 2016-17, with no money lost.



The FCO also reported two fraud cases to the Foreign Affairs Select Committee (FAC). These two cases were not separately disclosed in the 2017-18 Annual Report and Accounts because they were under £250,000 but were included in the total reported in the Losses Note of the Accounts:

- A loss of £157,078 from 2009 to July 2017 was reported when stipend payments were made to too many official police guards in Kabul. The FCO has stated that it has put better controls in place to prevent any recurrence.

- In Gabarone, there was a fraud resulting in the loss of £52,000. Consular receipts had been stolen rather than deposited. The member of staff responsible was dismissed and reported to the police. A greater use of credit/debit cards is now encouraged by the FCO in order to reduce the risk of recurrence.

The FCO also updated the FAC on two internal audit investigations that have both resulted in cases involving former members of staff going to trial at Southwark Crown Court:

- A former FCO member of staff was charged with theft and fraud, accused of misuse of the FCO's corporate credit card and the Government Procurement Card. The loss was approximately £22,000. The FCO recouped the loss through insurance and the officer's final salary following dismissal.
- A former FCO member of staff was charged with fraud and abuse of position when responsible for the British Indian Ocean Territory Administration's (BIOTA) bank account. The BIOTA has since made changes to its processes to strengthen its control regime.

In addition to the information included in its Annual Report and Accounts, the FCO published a [list of fraud cases investigated in 2017-18](#) on its website.



The British Council

2017-18

144 instances of fraud

£460,000 loss



In 2017-18, the British Council recorded 144 instances of fraud, with losses of £460,000 in its Annual Report and Accounts. This compares with 47 instances reported in 2016-17, with a loss of £98,000, 34% of which was recovered.

In addition to the information in its Annual Report and Accounts, the British Council has published on its website an annual counter-fraud report. In 2016-17, this comprised a summary report plus a list of counter-fraud cases. In 2017-18, only the [list of counter-fraud cases](#) has been published.