

**DFID Management Response to Independent Commission for Aid Impact recommendations on:
PROGRAMME CONTROLS AND ASSURANCE IN AFGHANISTAN**

ICAI Recommendation	Accept/ Partially accept /Reject	Action already taken	Action to be taken	Target date
<p>Recommendation 1: <i>'DFID should make explicit in its funding decisions how it is assessing and taking into account the risk of leakage and balancing that risk against the benefits the programmes are designed to deliver.'</i></p>	<p>Accept.</p>	<p>DFID does not tolerate leakage in its programmes and ICAI found no evidence of leakage in DFID Afghanistan (DFIDA). DFIDA:</p> <ul style="list-style-type: none"> • Assesses the value for money and risks affecting all funding decisions when developing project business cases. • Undertook a mapping exercise to identify high risk programmes and mitigating actions in May 2011. • Reviews programme-wide risks and mitigating actions at its quarterly Programme Board meetings. • Initiated a programme-wide 	<p>1. A DFID Task Team will visit Kabul by end April to develop an Action Plan to further reduce the risk of leakage or fraud. DFIDA is already considering the use of third party verification and continuous audit. Specific responsibilities and resourcing needs will subsequently need to be agreed, including with DFID central departments.</p>	<p>Action Plan agreed and under implementation by June 2012.</p>
			<p>2. DFIDA will develop a new portfolio management tool to monitor and manage risks and results; and add a risk on partner financial systems to its existing risk register.</p>	<p>June 2012</p>
			<p>3. DFIDA will undertake an annual scenario planning exercise to test strategy and enhance portfolio risk management.</p>	<p>September 2012</p>
			<p>4. DFID's Finance Division will develop guidance to assist spending departments in their assessment and management of fraud. This</p>	<p>September 2012</p>

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		<p>Fiduciary Risk Assessment which started in April 2012 that will assess the fiduciary safeguards put in place by partners managing UK funds through government systems.</p> <ul style="list-style-type: none"> • Appointed a Regional Anti-Corruption Adviser who will be in post by July 2012. • Completed a Fiduciary Risk Assessment of the Asian Development Bank's DFIDA-funded programmes in March 2012. • Raised awareness across the office with the visit of a DFID Counter Fraud Officer in April 2012. 	<p>will guide new due diligence assessments of all partner organisations. DFIDA will implement this guidance and take a more comprehensive approach to risk analysis.</p> <p>5. DFIDA will use the findings from its on-going programme-wide Fiduciary Risk Assessment to identify additional actions to further address risk in new project business cases.</p> <p>6. DFIDA will develop an Anti-Corruption Strategy, building on its existing work and central guidance.</p>	<p></p> <p>August 2012</p> <p>September 2012</p>

<p>Recommendation 2: <i>'DFID needs to deploy people with more financial and procurement skills to improve its financial grip and reduce risk. It should focus its financial resources on improving its understanding and reporting of cost throughout the delivery chain.'</i></p>	<p>Accept.</p>	<p>As the ICAI report recognises, DFIDA already had plans in place to address this. DFIDA:</p> <ul style="list-style-type: none"> • Advertised two new posts to improve understanding and management of costs throughout the delivery chain. • Used standard indicators on financial management in all relevant staff objectives and appraisals for FY 11/12. We will continue this in FY12/13 and beyond. • Planned financial management training by end April for all relevant staff. 	<p>7. The new Finance Manager and Commercial Adviser posts will be filled as soon as possible. The Action Plan (recommendation 1, action 1) is likely to have additional staffing implications which DFID will take forward.</p>	<p>September 2012</p>
<p>Recommendation 3: <i>'DFID should strengthen its managing agent agreements by specifying the levels of</i></p>	<p>Accept.</p>	<p>DFID already reviews its partners' systems when developing new business cases.</p> <p>As discussed with ICAI, in some cases (e.g. multilateral</p>	<p>8. The Task Team (recommendation 1, action 1) will assess how managing agent agreements should be further strengthened. Depending on the outcome of the Action Plan, DFID will review managing agent agreements (multilateral, government, NGO</p>	<p>Date to be determined once Action Plan is in place.</p>

<p><i>controls and assurance that it expects to be in place and monitoring whether or not these standards are met.'</i></p>		<p>agencies) amending managing agent agreements to provide more information on partners' controls will require DFID to review and renegotiate existing agreements. In some cases this may require changes to international agreements that would also require the support of other countries.</p>	<p>and private sector) for all delivery partners.</p>	
<p>Recommendation 4: <i>'DFID should ensure that its office in Afghanistan implements outstanding NAO and PAC recommendations regarding fraud and corruption.'</i></p>	<p>Partially Accept.</p>	<p>ICAI highlights three areas where it judges that DFIDA has not fully responded to the NAO and PAC:</p> <ul style="list-style-type: none"> • <u>Quantifying leakage:</u> A robust and credible methodology is necessary before unidentified fraud and loss can be quantified in a meaningful way. DFID has commissioned research to review options and methods to measure fraud in overseas 	<p>On <u>quantifying leakage</u></p> <p>9. DFID's Finance Division will develop guidance to assist spending departments in their assessment of fraud and leakage in each Business Case (see recommendation 1, action 1). The guidance will draw on recent research undertaken on options and methods to measure fraud.</p> <p>On <u>risk management</u> new actions that DFIDA will undertake are set out at recommendation 1 above.</p>	<p>September 2012</p>

		<p>aid.</p> <ul style="list-style-type: none"> • <u>Risk management</u>: See actions already taken under recommendation 1. • <u>Financial management</u>: See actions already take under recommendation 2. 	<p>On <u>financial management</u> new actions that DFIDA will undertake are set out at recommendation 2 above.</p>	
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