

**DFID Management Response to the Independent Commission for Aid Impact recommendations on:**

**Programme controls and assurance in Afghanistan, March 2012**

ICAI Recommendation	Accept/Partially Accept/Reject	Action specified in Management Response	Target date	September 2012 update
<p><b>Recommendation 1:</b> 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.</p>	<p>Accept</p>	<ol style="list-style-type: none"> <li data-bbox="833 523 1361 863">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.</li> <li data-bbox="833 1123 1361 1289">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.</li> </ol>	<p>Action Plan agreed and under implementation by June 2012.</p> <p>June 2012</p>	<p><b>Complete:</b> A DFID Task Team visited Kabul in April and agreed an Action Plan with specific technical recommendations to further reduce the risk of fraud and corruption. Implementation started in May and will be mostly completed by November. The Task Team did not identify any additional resourcing needs, beyond the new Finance Manager and Commercial Adviser posts (see action 7) that ICAI recommended.</p> <p><b>Complete:</b> A new Portfolio Assessment Tool (PAT) was developed, populated and discussed at the DFIDA Programme Board in June. DFID's programmes are now</p>

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		<p>3. DFIDA will undertake an annual scenario planning exercise to test strategy and enhance portfolio risk management.</p> <p>4. DFID's Finance Division will develop guidance to assist spending departments in their assessment and management of fraud. This 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>September 2012</p> <p>September 2012</p>	<p>monitored on a quarterly basis against the PAT. An additional partner risk category has been added to the office's risk register, which will be reviewed on a quarterly basis.</p> <p><b>Complete</b> DFID held a scenario planning workshop in early September to assess the resilience of DFID's programme in Afghanistan. This exercise will be reviewed annually.</p> <p><b>Complete</b> New guidance on undertaking due diligence has been developed and will now be piloted in three country programmes including Afghanistan. After piloting, the guidance will be finalised and implemented across DFID.</p>

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		<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>August 2012</p> <p>September 2012</p>	<p><b>Complete</b> DFID has reviewed the recommendations from its Fiduciary Risk Assessment and identified additional actions that will further reduce risk in DFID projects in Afghanistan. These will be reviewed annually and also considered when developing new project business cases.</p> <p><b>Complete</b> An anti-corruption strategy has been developed and is expected to be published in November. The Head of Office will oversee its implementation.</p>
<p><b>Recommendation 2:</b> 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</p>	<p>Accept</p>	<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><b>Complete</b> The new Finance Manager has been recruited and is at post. The Commercial Adviser position has proved more challenging to fill from within the civil service. An external recruitment exercise is</p>

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understanding and reporting of cost throughout the delivery chain.				underway and an appointment is expected by the end of September. To ensure progress with this action in the meantime, a team from DFID's Procurement Group visited Kabul in September to carry out a Commercial Capability Review. The new Commercial Adviser will implement the review findings.
<b>Recommendation 3:</b> DFID should strengthen its managing agent agreements by specifying the levels of controls and assurance that it expects to be in place and monitoring whether or not these standards are met.	Accept	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 and private sector) for all delivery partners.	September 2013.	<b>On track</b> The DFID Task Team concluded that DFID's managing agent agreements for NGOs, Government and the private sector were sufficiently robust. However, central agreements with some multilaterals needed to be strengthened. DFID is aiming to complete this work over the next 12 months.
<b>Recommendation 4:</b> DFID should ensure that its office in Afghanistan	Partially Accept	9. On <u>quantifying leakage</u> DFID's Finance Division will develop	September 2012	<b>Complete</b> As noted under recommendation 1, DFID has

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<p>implements outstanding NAO and PAC recommendations regarding fraud and corruption.</p>		<p>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>On <u>financial management</u> new actions that DFIDA will undertake are set out at recommendation 2 above.</p>		<p>development new guidance on due diligence. On methods to measure fraud, recent research has found that trying to produce an aggregate measure of fraud loss would be costly, would take some years, and would ultimately only produce a partial picture. Given these findings DFID will focus efforts on ensuring good fraud risk assessment, mitigation and safeguards for all of the Department's expenditure and keep its approach to fraud loss measurement under review.</p>