



DFID Management Response

30 August 2016

DFID Management Response to the Independent Commission for Aid Impact recommendations on: DFID's approach to managing fiduciary risk in conflict-affected environments August 2016

DFID welcomes this report and recognises the challenges ICAI has identified. The report's recommendations largely reflect work already underway to strengthen further DFID's risk management approach.

Recommendation 1: DFID should accelerate the timetable for implementing its central guidance on risk appetite and work quickly to articulate its risk-return approach to decision-making in conflict-affected states.

Accept:

- DFID's revised risk management framework was finalised in January 2016 and is bedding down well, but we recognise more needs to be done to help staff understand the framework and terms such as 'high risk appetite' and 'zero tolerance'. The ICAI report recommends that we aim to fully embed the new system more quickly than in two years' time: given the progress made in the past six months and plans for the next 12 months we believe this is possible.
- Risk and development return is an innovative approach which recognises that higher potential development returns often entail increased risk. The approach has been piloted extensively in 2016 and proposals articulating the process in more detail will be presented to DFID's Investment Committee in the Autumn.
- Teams use their professional judgement to articulate and manage their risk appetite at the various levels of programming and portfolios and throughout the life of programmes including when their objectives change. This is done in close coordination with external partners and beneficiaries. There are clear reporting mechanisms upwards to enable effective corporate level oversight of overall risk.

Recommendation 2: DFID should clarify rules and expectations around risk transfer to fiduciaries in conflict-affected states, and the residual fiduciary risk responsibilities of senior responsible owners and senior management.

Accept:

- Understanding risks along the full length of the delivery chain is a key aspect of DFID's risk management framework. In June we strengthened our due diligence framework which includes a stronger emphasis on understanding of down-stream partners and the potential risks in delivering aid. These changes will give a

stronger line of sight of the flow of funds and improve the capacity of staff, implementing partners to identify and manage risks.

- Reputational risk is one of the six risk categories in the risk management framework and one that DFID takes seriously. Reputational risk is the one risk that we cannot transfer to our partners and we will make that clear in new guidance on delivery chain risk management which will be completed by the Autumn.
- The improvements we are making to the risk management framework are designed to increase staff's confidence to make the correct decisions about risk management, ensuring we are risk aware as an organisation, not risk averse. They will also help staff have a better understanding of the potential costs and consequences of transferring risks to partners.
- Learning and development opportunities such as our risk and control masterclass and senior responsible owner induction events include sessions on delivery chain risk mapping and risk transfer designed to help staff more confidently identify, classify, rate, escalate and monitor risks.

Recommendation 3: DFID should urgently explore ways to improve the transparency and monitoring of fiduciary risk in bilateral programmes implemented by multilateral partners in conflict-affected states.

Accept:

- DFID has a network of Senior Responsible Owners (SROs) covering the institutional relationship with each multilateral organisation we work with. We use this network in combination with SROs in-country to identify instances where multilaterals' information on fiduciary risk is insufficient.
- We are strengthening our approach to understanding multilateral delivery chains through mapping the risks and flow of funds to beneficiaries. We have good working relationships with multilaterals at HQ and country levels and expectations about oversight of programmes are agreed at HQ level.
- We work with multilaterals to strengthen their approach to monitoring fiduciary risk, including regularly reminding them of their obligations to disclose credible instances of fraud and corruption promptly.

Recommendation 4: DFID should implement measures to match appropriate fiduciary risk management skills and expertise to its highest risk programmes in conflict-affected countries.

Accept:

- DFID is taking measures to strengthen fiduciary risk management skills of all its staff.
- DFID is also looking at ways to ensure its best and most experienced Senior Responsible Owners and programme management staff are assigned to priority programmes, many of which are likely to be high risk and in fragile states.
- We are also looking at how to ensure SROs for the highest risk priority programmes can draw on – both internally and externally - the fiduciary risk management skills required for their programmes