

Achieving Impact and Value for Money in Conflict-affected Environments: DFID's Approach to Managing Fiduciary Risk

Approach Paper



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk. Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Readers are encouraged to reproduce material from ICA Reports, as long as they are not being sold commercially, under the terms of the Open Government Licence. ICAI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ICAI website.

Any enquiries regarding this publication should be sent to us at enquiries@icai.independent.gov.uk.

 [@ICAI_UK](https://twitter.com/ICAI_UK) www.icai.independent.gov.uk

Table of Contents

- 1. Purpose and rationale for review 4
- 2. Type of review..... 4
- 3. Scope 4
- 4. Background 5
- 5. Theory of change..... 6
- 6. Existing evidence 6
- 7. Evaluation criteria and questions 7
- 8. Core ICAI issues 8
- 9. Overview of methodology 8
- 10. Limitations to the methodology 13
- 11. Evaluation framework 14
- 12. Sampling strategy 16
- 13. Ethical considerations 18
- 14. Research tools..... 18
- 15. Quality assurance and peer review 18
- 16. Risk management 19
- 17. Timeline and deliverables 20

1. Purpose and rationale for review

The UK government has committed to spending 50% of DFID's budget in fragile states and regions,¹ many of which are conflict-affected. These environments pose significant challenges to the effective delivery and oversight of aid, yet they are often ones in which needs are greatest. This ICAI review looking at fiduciary risk management in conflict affected environments is one of a proposed series of ICAI reviews looking at different aspects of the way in which DFID achieves impact and value for money in conflict-affected environments.

Where insecurity limits access to the locations where aid is being delivered, DFID has fewer options in how it delivers and monitors UK aid. The risk of fraud, corruption or misuse of funds is therefore likely to be heightened. Furthermore, the potential risk of aid being diverted could cause harm by fuelling conflict, entrenching inequality and otherwise undermining UK objectives.

This review will assess DFID's approach to fiduciary risk management in conflict-affected environments where DFID has restricted access. It will explore how DFID assesses and manages fiduciary risk at the corporate, country and project level and how it balances fiduciary risks against the potential opportunities and benefits of delivering assistance in challenging environments. It will explore what it means for DFID to have 'a high risk appetite when it comes to taking risks to achieve [its] key targets' while also bearing in mind the extreme challenges of working in hostile environments. The review will also look at how these challenges fit with DFID's assertion that it has 'zero tolerance to fraud and corruption'.² These issues will be examined within the context of the evolution of DFID's overall approach to risk management in recent years, to assess the extent to which lessons have been learned and applied.

2. Type of review

This will be a **performance review**. It will focus on a core DFID business process and explore whether its systems, capacities and practices are robust enough to deliver effective assistance with good value for money. As a performance review, it provides assurance to Parliament and the public about the effectiveness of DFID's fiduciary risk management and how this contributes to DFID achieving impact and value for money in conflict environments. The review will also contribute to the continuing development of DFID's approach to fiduciary risk management.

3. Scope

For the purposes of this review, we will use the description of fiduciary risk in DFID's *Smart Rules*:

*'...the risk of fraud, corruption or misuse of taxpayers' money; and the risk of negative unintended consequences that undermine our higher-level objectives – particularly in fragile and conflict-affected states. DFID has a zero tolerance of fraud and corruption.'*³

We will examine DFID's management of fiduciary risk in conflict-affected states in the context of its overall risk-management approach. We will focus on environments where DFID's physical access to implementation sites is severely constrained, limiting its delivery options and increasing its reliance on third parties to monitor its programmes. In such contexts, DFID faces heightened fiduciary risk that can undermine its objectives and compromise its 'do no harm' principle. In addition to fraud and theft, such

¹ Department for International Development's settlement at the Spending Review 2015, DFID, 25 November 2015, [link](#).

² *Smart Rules: Better Programme Delivery*, pp. 16-17, DFID, 1 November 2015, [link](#).

³ *Smart Rules: Better Programme Delivery*, p. 17, DFID, 1 November 2015, [link](#).

risks include looting and aid diversion, protection rackets and informal taxation, all of which can contribute to the political-economy dynamics that fuel conflict.⁴

The review will cover both humanitarian and development assistance. It will assess the full cycle of fiduciary risk management, from the assessment of environmental risks and partner capacities to decisions on which types of risk to tolerate. It will also consider how those risks are managed and monitored through programme design and delivery. This will include examining how DFID approaches managing risk within complex delivery chains and where there are multiple actors operating in similar spaces. While the focus will be on fiduciary risk, the review will also consider relationships between different types of risk, including that of not achieving DFID's humanitarian or development objectives.

The review will examine how DFID considers fiduciary risk in its selection of delivery channels and how well it co-ordinates with governments, civil society organisations (CSOs), multilaterals and the private sector (where relevant) in its management of fiduciary risks. We will look at the extent to which DFID manages, monitors or otherwise ensures fiduciary risk management within different types of delivery channel. While we may review some aspects of risk management performed by third parties, including delivery partners, our focus is on DFID's own systems, processes and practices. We will not review the fiduciary risk management systems of multilaterals or governments, but will seek to understand DFID's awareness of and interaction with multilaterals and governments in relation to fiduciary risk management.

4. Background

Over the past decade, an increasing share of UK aid has been spent in fragile and conflict-affected states. In November 2015, the UK government announced that 50% of DFID's budget would be spent in fragile states and regions in every year of the current Parliament.⁵ Such contexts present a range of risks to effective aid delivery, including limited partner capacity, insecurity, political and reputational risks, and the risk of doing harm. At the same time, DFID accepts that it needs to take risks in order to achieve its development and humanitarian objectives. The management of fiduciary risk in conflict-affected contexts is therefore a key factor in the effectiveness and value for money of UK aid.

Risk management necessarily entails trade-offs among competing risks. These include missed opportunities and failure to help people with emergency needs, or to achieve longer-term stabilisation and development outcomes. Where fiduciary risk is high, donors may be reluctant to accept other risks, such as high delivery risk. The desire to reduce risk, however, may mean that riskier programmes that have a greater potential for transformative impact are avoided.⁶ Our review will explore this tension between minimising fiduciary risk and maximising results.⁷ This entails examining how DFID balances different types of risk across its country portfolios.

Identifying and assessing risks is key to being able to put measures in place to avoid or reduce those risks and determine whether any residual risk is acceptable and proportionate to the potential benefits. Monitoring and management of this residual risk is an important element of planning but can be particularly challenging in hostile environments. Security protocols often limit the ability of donor staff to travel into the field, making it difficult to monitor the performance of implementing partners. In many conflict-affected regions, donors use third parties and remote management arrangements to monitor fiduciary risk, or else seek to transfer risk to others by funding through multilateral agencies with their own risk-management systems.⁸ In July 2014, DFID implemented a new operating framework for programme management called *Smart Rules: Better Programme Delivery*.⁹ This addresses fiduciary risk management as

⁴ *Humanitarian Economics*, Gilles Carbonnier, 2015.

⁵ *Development spending will meet UK's promises to world's poor while serving national interest*, DFID, [link](#).

⁶ *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States*, OECD, 2014, p. 37, [link](#).

⁷ *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States*, OECD, 2014, p. 37, [link](#).

⁸ *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States*, OECD, 2014, p. 66, [link](#).

⁹ *DFID Smart Rules: Better Programme Delivery*, DFID, 1 November 2015, [link](#).

part of a broader approach to risk management. The *Smart Rules* are intended to transform the way DFID programmes are managed, with increased focus on programming that can adjust to and influence the local context. DFID has also worked to strengthen many of its key risk-management tools in recent years, including implementing a standardised approach to due diligence across the organisation.¹⁰ DFID's Better Delivery team is in the process of developing a comprehensive Risk Management and Assurance Framework.

5. Theory of change

There is no explicit theory of change for DFID's fiduciary risk management as this is an internal process. The *Smart Rules*, however, set out DFID's objectives and approach to overall risk management. They identify three types of risk: delivery, fiduciary and reputational. Fiduciary risk is described as: 'the risk of fraud, corruption or misuse of taxpayers' money; and the risk of negative unintended consequences that undermine our higher-level objectives – particularly in fragile and conflict-affected states. DFID has a zero tolerance of fraud and corruption.'¹¹

The *Smart Rules* state that 'effectively managing risks enables DFID to increase the impact of its work through maximising opportunities while minimising any potential adverse effects'.¹² DFID aims to develop 'a risk aware culture [that] enables staff to be innovative in their thinking and not constrained by the potential for things to go wrong'. It states that 'DFID has a high risk appetite when it comes to taking risks to achieve [its] key targets' and that 'when considering risk it is also important to consider the potential opportunities and benefits that can be achieved'. It requires that 'risks should be well documented, communicated and escalated where appropriate [and] mitigating actions must be aligned with risks and monitored and reported regularly.'¹³ DFID's *Smart Rules* also refer to the risk management model in the HM Treasury Orange Book.¹⁴ The principles set out in the *Smart Rules* provide us with a standard against which to measure DFID's performance.

In combination with the *Smart Rules*, DFID has a range of tools in place (or in various states of development) that support its risk management framework. Such tools include Due Diligence Assessments (primarily of CSOs), Central Assurance Assessments (of multilaterals) and Fiduciary Risk Assessments (for bilateral funding to governments).

6. Existing Evidence

As the review is exploring DFID's approach to fiduciary risk management in conflict affected states, we will rely on key evidence that is internal to DFID. We will explore internal documentation showing the current status and evolution of DFID's risk management. Along with the *Smart Rules* and associated risk management tools, reviews by DFID's Internal Audit Department of risk management and recent work by the Better Delivery team will be important sources of evidence. We will also review relevant evidence from the National Audit Office (NAO), which recently published a report on the value for money of DFID's response to crises,¹⁵ the International Development Committee and other UK government departments.

We will also consider a body of work by the Organisation for Economic Co-operation and Development (OECD) International Network on Conflict and Fragility. This focuses on the challenges of working in fragile and conflict-affected states, and includes a 2014 DFID-funded study of approaches to risk management.¹⁶ This study was commissioned to fill a gap in evidence as to how donors manage risk in practice in

¹⁰ *Due Diligence Guide*, DFID, accessed 3 December 2015, [link](#).

¹¹ *Smart Rules: Better Programme Delivery*, page 17, DFID, 1 November 2015, [link](#).

¹² *Smart Rules: Better Programme Delivery*, page 16, DFID, 1 November 2015, [link](#).

¹³ *Smart Rules: Better Programme Delivery*, pp. 16-17, DFID, 1 November 2015, [link](#).

¹⁴ *Smart Rules: Better Programme Delivery*, page 17, DFID, 1 November 2015, [link](#).

¹⁵ *Responding to Crises*, NAO, 21 January 2016, [link](#).

¹⁶ *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States*, OECD, 2014, [link](#).

challenging countries. It includes case studies from the Democratic Republic of Congo (DRC), South Sudan, Somalia and Nepal. OECD's policy guidance, *Supporting Statebuilding in Situations of Conflict and Fragility*, also provides useful insights into the risks associated with different aid modalities.¹⁷ The 2008 Chartered Institute of Public Finance and Accountancy's Mokoro Stocktake of donor approaches to risk when using country systems provides evidence on the key differences and similarities between donors regarding fiduciary risk management.¹⁸ A Center for International Cooperation White Paper provides evidence as to how the UN manages risk in fragile states and how donors oversee the effectiveness of the UN's risk management arrangements.¹⁹

The Overseas Development Institute (ODI) Localising Aid project produced a range of studies looking at how donors can provide aid to local actors. It questions the perceived higher fiduciary risks associated with localising aid, drawing on evidence from a range of case studies. ODI's Budget Strengthening Initiative, funded by donors including DFID, has also produced a range of research on aid modalities in fragile and/or conflict-affected states, including on the effectiveness of pooled funds. There is further published research available from other sources, such as the U4 Anti-Corruption resource centre.²⁰

In respect of humanitarian programming, there are published reports and evaluations on the challenges of managing the risks inherent in humanitarian operations. They include those from the Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP)²¹ and the ODI's Humanitarian Policy Group.²² These will help to contextualise risks faced by DFID in the humanitarian context.

In addition, there is a body of literature on remote management and third party monitoring, including a 2015 DFID-commissioned evaluation of Somalia and North-East Kenya.²³ DFID also commissioned a review of the literature on delivering aid in insecure environments, which includes an assessment of the literature on remote management. This review found that there was a need for more research on a range of areas, such as detailed technical guidance on good practice in remote management and more analysis of donor approaches to remote management. A 2015 literature review on remote management, 'No longer a last resort', identified a gap in the literature on how donors themselves oversee remote management. It also noted an emphasis in existing research on remote management in humanitarian programming, rather than the broader spectrum of, for example, economic and social development programmes.²⁴

7. Evaluation criteria and questions

The review is built primarily around the OECD Development Assistance Committee (DAC) Evaluation criteria of effectiveness and efficiency. It will consider the following questions:

1. **Effectiveness** – How effectively does DFID identify and assess fiduciary risk in conflict-affected environments at country portfolio, individual project delivery and partner levels?
2. **Efficiency** – How efficiently does DFID mitigate risk in its programme designs and choice of delivery channels?

¹⁷ *Supporting Statebuilding in Situations of Conflict and Fragility, Policy Guidance*, OECD DAC, 2011, [link](#).

¹⁸ Jeremy Cant, Rebecca Carter, Stephen Lister, *Stocktake on Donor Approaches to Managing Risk when Using Country Systems*, CIPFA and Mokoro, May 2008, [link](#).

¹⁹ Jacquand, M. and Ranii, S., *UN Development System Risk Management in Fragile States*, New York University, Center on International Cooperation, May 2014, [link](#).

²⁰ See U4 [website](#).

²¹ See Alnap [website](#).

²² Victoria Metcalfe, Ellen Martin and Sara Pantuliano, HPG, *Risk in humanitarian action: towards a common approach?*, ODI, January 2011, [link](#).

²³ *Cross Cutting Evaluation of DFID's Approach to Remote Management in Somalia and North-East Kenya*, Integrity and Axiom, January 2015, [link](#).

²⁴ *No Longer a Last Resort: A Review of the Remote Programming Landscape*, Integrity, 2015, [link](#).

3. **Effectiveness** – How effectively does DFID monitor residual risk through the programme life-cycle?
4. **Effectiveness** – To what extent does DFID make clear and defensible choices as to what types and levels of fiduciary risk to tolerate in its programming?
5. **Effectiveness: learning** – How effectively is DFID capturing and applying learning in the development of its systems and processes for fiduciary risk management in conflict-affected environments?

8. Core ICAI issues

By exploring the conflict context, the review aims to contribute to ICAI's 'crises, resilience and stability' theme, as well as to aspects of the 'transparency, accountability and empowerment' theme, of which fiduciary risk management is an important element. It also provides us with an opportunity to explore a number of ICAI's core issues, namely approaches to 'programme delivery', 'cross-government working' and 'working with and through others'.²⁵ For example, we will look at how fiduciary risk management affects delivery decisions and DFID's approaches to fiduciary risk management with different delivery mechanisms and partners. We will also explore how it engages with other government departments and actors to understand and manage fiduciary risks.

9. Overview of methodology

Our methodology has three main components:

- A review of DFID's risk management systems, processes and tools at the corporate level ('systems review').
- A high-level review of how fiduciary risk management is incorporated into country strategies across a broad sample of conflict-affected countries and regions ('country strategy reviews').
- Five detailed case studies of fiduciary risk management at the country level, looking at the effectiveness and effects of DFID's management of fiduciary risk in practice ('country case studies').

The five countries selected for detailed country case studies are DRC, Somalia, South Sudan, Syria and Yemen. Field visits are planned for DRC and Somalia, while the remaining cases will be conducted from the UK.²⁶ The high-level strategy review will include these countries and also a wider sample of conflict-affected countries including Afghanistan, Libya, Nigeria and Sudan. Country selection is explained in Section 12.

Combining these three levels gives us an analytical approach that has both breadth (covering DFID's overall fiduciary risk management systems and approach) and depth (assessing how fiduciary risk management affects programming and portfolio management in five countries).

1. The systems review will explore the design of DFID's controls, processes, tools and resources for managing fiduciary risk. We will explore DFID's objectives for fiduciary risk management and how well its systems and processes deliver on those objectives (Questions 1-4). Examining how DFID's

²⁵ See ICAI [website](#).

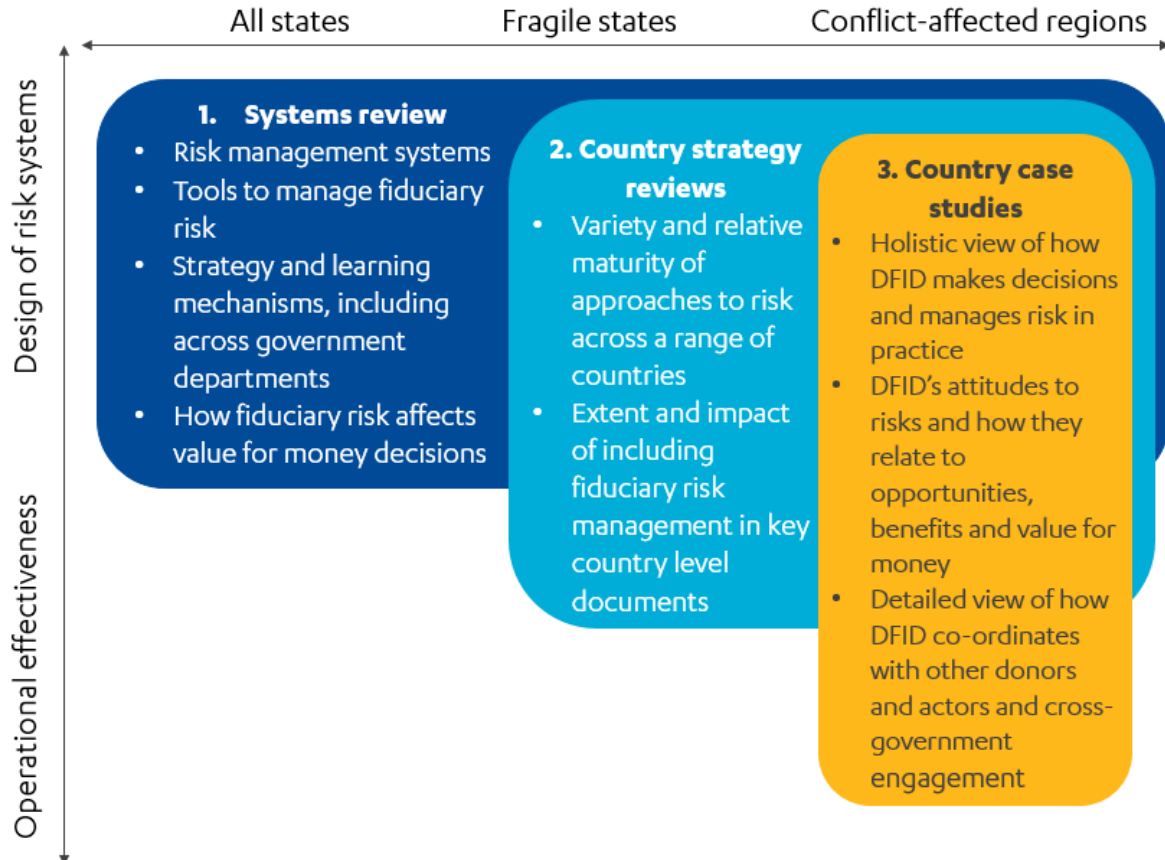
²⁶ Note that DFID's interventions in Syria and Yemen are primarily managed from the UK.

risk management framework and tools have evolved in response to past conflicts will enable us to assess how DFID captures and applies learning (Question 5).

2. The country strategy reviews will involve a light, desk-based assessment of the treatment of risk in country strategies in ten selected fragile states. They will look at strategy documents, country-level risk assessments and risk registers, supported by discussion with key managers in each country team on their overall approach to risk management. This will enable us to assess the way different DFID country teams understand fiduciary risk in the specific country context, how clearly they can articulate an overall approach to risk management, and their awareness of the tools and resources available to them (primarily Questions 1 and 4).
3. The five country case studies entail a more detailed assessment of risk management practices in a variety of conflict-affected contexts (DRC, Somalia, South Sudan, Syria and Yemen). They will explore the interaction between contextual analysis, portfolio planning, choice of delivery partners (e.g. multilaterals, governments, CSOs, etc.), programme design and monitoring arrangements. An assessment can then be made as to whether they add up to a coherent and sufficient approach to fiduciary risk management in each country context. Country case studies also enable us to examine a sample of programmes and implementing partners in more detail and to triangulate DFID's internal evidence with feedback from country counterparts and implementers.

These three levels of analysis will enable robust triangulation of findings: strengths and weaknesses of DFID's systems can be examined at the country strategy level and in practice in five country contexts. Although high-level, the country strategy reviews enable us to consider the applicability of our findings across a wider range of countries and contexts. We will also be able to gain a broader view of the consistency of DFID's incorporation of fiduciary risk into its strategy and where lessons may be learnt.

Figure 1: Interaction between primary methodological components



1. Systems review: this is an assessment of DFID systems and capacities on fiduciary risk management at the organisational level. It will involve:
 - Undertaking a detailed review of strategies and guidance currently in place in relation to fiduciary risk management.
 - Tracing the evolution of the key policies and fiduciary risk management tools, to understand the context for existing systems and processes.
 - Assessing how well the policies and rules reflect past learning (including whether lessons from Afghanistan and subsequent interventions in conflict-affected states have been articulated and used to guide systems development).
 - Assessing DFID's fiduciary risk management systems against DFID's stated objectives and good practice in the sector, as identified through a literature review.
 - Assessing structures and responsibilities across DFID, including different approaches used for different funding mechanisms (e.g., pre-screening of humanitarian delivery partners and assessments of multilaterals).
 - Reviewing how DFID incorporates and contributes to good practice in other government departments and bilateral donors.
 - Reviewing training and support available to decision-makers and how staff capacities in fiduciary risk management are developed and deployed.
 - Reviewing whistle-blowing and investigation processes and how specific cases of fraud, corruption and misuse of funds have been managed and learning captured.

The methods we will use to undertake the systems review will include:

- **Review of DFID's core systems**, comprising a review of DFID's policies, strategies and guidance on fiduciary risk management. We will also assess how DFID's approach to risk management has evolved over time. This will include a review of earlier policy and guidance documents, as well as evidence of how DFID has applied learning about risk, such as through policy updates or evaluations.
- **Analysis of DFID management information**, including data on risk ratings, due diligence assessments and reporting of fraud and corruption, to identify relevant trends.
- **Key informant interviews**, including with DFID staff with responsibility for risk management systems and capacities, in order to assess DFID's approach to risk at corporate level. We will interview managers from DFID's Conflict, Humanitarian and Security Department (CHASE) to understand the risks specific to humanitarian programmes and how DFID manages these. We will also interview and consider holding a focus group discussion with a cross-section of DFID programme management staff at different levels, to understand how they implement DFID's risk management policies in practice, and how they are supported to do so.
- **Stakeholder consultation**, including semi-structured interviews with: two other bilateral donors in order to compare their approach to risk management; implementing partners, including CSOs and others; research institutes and other experts in risk management in conflict-affected states. This will help us to evaluate areas where there is relative consensus on how to approach aspects of fiduciary risk management and areas where approaches are

divergent, and to consider where DFID is in relation to others. We will consider holding focus group discussions with CSOs and with contractors in order to ensure a cross-section of views on DFID's approach to risk management.

A literature review will support this component, covering, in particular (i) literature on fiduciary risk management, (ii) published guidance on fiduciary risk management by other donors and (iii) evaluations of fiduciary risk management practices across the donor community. The literature will look broadly at risk management to identify good practices, while collecting details about working in security-constrained environments. It will collect evidence from the literature relating to challenges and how they can be overcome, including in the following areas:

- Risk identification, assessment and control
- Risk appetite and tolerance
- Use of contractors for third party monitoring
- Impact of fiduciary risk management on programming and decision-making

2. **Country strategy reviews:** these assess the treatment of fiduciary risk management in DFID country strategies.

We will select ten conflict-affected countries in which DFID operates and undertake desk-based reviews of how fiduciary risk management is incorporated into country strategies. This will include how it affects programming decisions and delivery partner choices (e.g. multilateral or bilateral). See Section 12 for details on country selection. These countries are Afghanistan, Libya, Nigeria, Pakistan and Sudan plus DRC, Somalia, South Sudan, Syria and Yemen. This will enable us to identify commonalities and variations in approach and identify potential weaknesses and areas of good practice and learning. It covers a wider sample of countries than is possible in the country case studies. For each review, we will examine DFID's high-level approach to fiduciary risk management through:

- Review of country-level risk management documents, including risk assessments and other diagnostic work, operational plans and country risk registers.
- Semi-structured interviews with 2-3 country-office staff responsible for managing the country risk profile, balancing delivery partners and maintaining risk registers.

3. **Country case studies:** fiduciary risk management in particular country contexts

From within our ten countries selected for strategy review, we have selected five for detailed case studies: DRC, Somalia, South Sudan, Syria and Yemen. The country case studies will enable us to explore in detail how DFID makes decisions in particular country contexts and how it engages with other actors. The selection of five countries with differing contexts will enable us to understand the variety of approaches across conflict-affected environments. For example: between more recent conflicts compared to protracted conflicts; across different levels of physical access; and comparing country-based and London-based management processes.

We will assess DFID's fiduciary risk management at the country portfolio level, enabling us to link contextual analysis, overall risk-management strategies, choice of delivery channels, relationships with key delivery partners, programme design and remote monitoring practices. This will include how fiduciary risk management is incorporated into and affects decisions about delivery partners and mechanisms including multilateral and bilateral funding. This will deepen the analysis gained from the country strategy reviews by enabling us to examine DFID's understanding and decision-making against a known set of risks, and to judge whether risk is systematically and coherently managed across all these different dimensions.

Two of the case studies will involve country visits (for DRC and Somalia), to enable us to collect insights and perspectives from a wide range of actors in the field. The DRC visit will be conducted in country while the Somalia visit will involve meetings in Nairobi, Kenya (from where DFID and many other agencies' Somalia operations are managed) as well as in Mogadishu, Somalia. The remaining three will be conducted remotely but as far as possible to a similar level of detail. DFID's Syria and Yemen interventions are primarily managed from the UK, where our review will be based. DFID's South Sudan operation is based in country but we prioritised visits to DRC and Somalia where DFID's access is more restricted than South Sudan. See Section 12 for more details on country selection. In all cases we will seek to speak with a wide range of actors and informants to enable us to get a broad picture and to triangulate with information from DFID.

Our country case studies will include:

- A detailed review and discussion of country-level risk assessment and risk management strategy, with a focus on DFID's understanding of and attitude towards key fiduciary risks and how they are balanced against other considerations (e.g. urgent humanitarian need or potential for transformational change).
- An assessment of cross-government cooperation and country-level strategy, with particular regard to risk appetite, assessment and management, and coordination with other donors/actors, and how programme-level risks are balanced against UK government priorities and strategies.
- Analysis of delivery partners and channels used across the country portfolio, including selection and management.
- Analysis of the adequacy of options appraisals in business case risk assessments, to determine the extent to which fiduciary risk is a factor in programme design and choice of delivery partner.
- An examination of a sample of delivery partners and, within that, of individual programmes (see Section 12 for more on sample selection), to assess the quality of due diligence, decisions on risk tolerance, and whether risk management is properly built into programme design and delivery arrangements. It will also assess whether monitoring is adequate, and whether and how the primary delivery partner supervises local sub-grantees and contractors down the delivery chain. This sample should include cases of organisations that have undergone pre-assessment at the central level (as opposed to grant-specific due diligence), to determine whether global capacity corresponds with in-country capacities. We aim to assess 4-6 programmes per country through the sample of delivery partners.
- For the two country visits we will aim to visit implementing partners and monitoring agencies in the field, subject to security restrictions, to observe fiduciary risk management and monitoring practices and discuss practical realities.
- Interviews with a wide range of actors and informants to gain a broad variety of perspectives and insights and to triangulate evidence with that obtained from DFID. Actors and informants will be drawn from other donors, DFID implementing partners and non-DFID funded civil society organisations. These will include transparency and advocacy organisations, UK and other countries' diplomatic staff, media, active and previous development consultants and private sector companies and consultants. The two field visits will also give us an opportunity to speak with a further range of informants from local civil society and national and local government officials.

The methods used will include:

- A brief literature review on fiduciary risk in the particular country context, using published assessments by other donors and CSOs.
- Documentary and data analysis, including gathering information from DFID's country programme and project management documents, and activity and financial reports submitted by implementers.

- Semi-structured interviews with key stakeholders and informants, including DFID country office staff, in-country staff from other UK government departments, implementing partners, officials from counterpart institutions, other development partners and third parties such as local researchers and service providers.
- Review of implementing partners' practices for the two country site visits.

For the two site visits to DRC and Somalia/Kenya, respectively, we will develop a detailed country site visit plan three weeks in advance of each of the visits.

10. Limitations to the methodology

Our approach involves a systematic assessment of mostly qualitative data and information, triangulating across a number of data sources. As such, there are certain limitations.

First, it is important to note that our methodology has been designed to allow us to assess the effectiveness of DFID's fiduciary risk management approach and not to detect fraud and corruption. It is not within the scope of this review to audit DFID's programmes or to identify where there has been misappropriation or diversion of funds. Our review will not therefore attempt to reach a judgement on the volume of UK aid reaching the intended beneficiaries. Similarly, our review of DFID's systems, processes and tools is intended to help us to understand and test how effectively DFID is managing fiduciary risk; it is not a systems audit. The focus of the review is on how DFID's risk management arrangements contribute to assuring value for money in conflict-affected states.

Second, while effective fiduciary risk management should contribute to the prevention of corruption, fraud or diversion of funds, there will be elements of fiduciary risk that necessarily remain beyond DFID's control. There is no explicit theory of change identifying factors that are within or outside DFID's remit and authority. Our methodology therefore cannot generate a comprehensive picture of the risks facing UK aid in such environments.

Third, the fact that country and programme cases are purposively selected introduces the risk of researcher bias. We can mitigate this by selecting cases against clear and replicable criteria. Our interpretation of findings, however, must take into account that the sample is targeted and not representative.

Fourth, although five country case studies represent a sample which will allow us to substantiate our findings, the number will not necessarily allow us to generalise across DFID's work in conflict-affected states. The high-level systems review will help us to consider the general applicability of some findings. However, when communicating our findings in the final report, we will need to include careful analysis of the extent to which those findings can be applied generally.

Fifth, there is an inherent risk in assessing issues in conflict-affected and fragile states involving the limited movement of research personnel and consequent lack of access to some primary data. This can result in meetings and site visits being cancelled at short notice or the inability to arrange them at all. It may also lead to a reliance on interviews with programme personnel and limited exposure to the implementing partners themselves. Regarding the countries that will be visited for this review, every effort will be made to carry out relevant interviews, subject to the security situation that presents itself on the ground. As already stated, for those countries that are not visited but that are nonetheless case studies, evidence will be triangulated as much as possible, bearing in mind the necessary restrictions in place that mean that programmes are obligated to work at arm's length from the country concerned.

11. Evaluation Framework

Review criteria, question/sub-question	Evidence required	Applicable component and activities	Analytical approach
<p>1. How effectively does DFID identify and assess fiduciary risk in conflict-affected environments at country portfolio, individual project delivery and partner levels? (EFFECTIVENESS)</p>	<p>1.1 DFID's policies, guidance and processes to identify and assess risks are sufficient and implementation throughout the programme lifecycle is evidenced</p> <p>1.2 Due diligence assessments and programme risk assessments clearly document identification and assessment of risks</p> <p>1.3 CHASE risk assessments in humanitarian emergency programming show management of fiduciary risks</p> <p>1.4 Country Office risk assessments in protracted emergencies include fiduciary risk and are referred to in documentation</p> <p>1.5 Key individuals demonstrate awareness of key risks and understanding of risk appetite</p> <p>1.6 Evidence of cross-government co-ordination and engagement with other donors/actors on fiduciary risk management</p>	<p>Systems review</p> <ul style="list-style-type: none"> ▪ Assess quality of risk assessment guidance and policy documents ▪ Determine key differences for different funding mechanisms <p>Country strategy reviews</p> <ul style="list-style-type: none"> ▪ Evaluate quality of country-level risk assessments and strategies, including use of evidence, monitoring, etc. against guidance <p>Country case studies</p> <ul style="list-style-type: none"> ▪ Assess adequacy of fiduciary risk management processes in practice ▪ Identify potential evidence of systemic weaknesses or inconsistencies ▪ Compare DFID's perspectives with those of other actors and informants ▪ Evaluate quality of risk assessments for specific partners and programmes against guidance 	<p>Fiduciary risk management will be assessed in the context of the design of overall risk management and management of specific fiduciary risk characteristics for conflict-affected states in practice. A combination of documentary review, interviews and literature review will help to give a view of the design of the overall risk management system and key tools. Country-level strategy reviews and case studies give a view of how effectively these mechanisms are implemented to identify and assess risk in practice</p>
<p>2. How efficiently does DFID mitigate risk in its programme designs and choice of delivery channels? (EFFICIENCY)</p>	<p>2.1 Business cases and options appraisals for selected programmes show appreciation of risks and appropriate mitigating controls are in place</p> <p>2.2 Documented decision-making and allocation of risk management roles is clear and appropriate</p> <p>2.3 Portfolio details document fiduciary risk considerations in selecting delivery channels/ partners and approaches to spreading risk</p> <p>2.4 DFID's assessments of different types of delivery mechanisms show appropriate consideration of fiduciary risk management</p> <p>2.5 Evidence that DFID allocates appropriate resources and collaborates with other UK government departments, donors and actors where relevant to mitigate risk</p>	<p>Systems review</p> <ul style="list-style-type: none"> ▪ Assess quality of guidance and training materials for mitigating risks <p>Country strategy reviews</p> <ul style="list-style-type: none"> ▪ Assess country-level strategy and risk assessments against guidance <p>Country case studies</p> <ul style="list-style-type: none"> ▪ Review adequacy of measures implemented to respond to risks and compare to problem areas ▪ Assess balance of risk across portfolio compared to country strategy and risk tolerance, and extent to which choice of delivery channels is affected ▪ Triangulate DFID approaches with practices and perceptions of other actors and informants ▪ Observe mitigating practices by implementing partners in the field during site visits 	<p>Assess consistency/degree to which key fiduciary risks are mitigated and incorporate themes underpinning mitigation of risk to consider how risk mitigation is understood. Also assess how effectively residual risk is managed in practice and the effectiveness of guidance, tools and resources available to support this</p>
<p>3. How effectively does DFID monitor residual risk through the programme life-cycle?</p>	<p>3.1 The types of monitoring in place are context-relevant and fit for purpose</p> <p>3.2 Documentation shows that choices about what to monitor is based on evidence</p> <p>3.3 DFID has access to and uses information of third party monitoring management processes</p>	<p>Systems review</p> <ul style="list-style-type: none"> ▪ Assess quality of monitoring guidance and policy documents <p>Country strategy reviews</p> <ul style="list-style-type: none"> ▪ Assessment of response to risks identified 	<p>Review: choices of monitoring and the existence and quality of monitoring systems in practice; safeguards, triggers and warning flags (indicators) for corruption and other fiduciary risks; utility of</p>

(EFFECTIVENESS)	throughout programme lifecycle 3.4 Key staff understand the extent to which risks are transferred to, or managed and monitored by, third parties	Country case studies <ul style="list-style-type: none"> ▪ Assess the actions taken to mitigate risks ▪ Interviews with third party monitors, DFID staff and other key actors 	monitoring results used; and comparison of relative advantages of each approach.
4. To what extent does DFID make clear and defensible choices as to what types and levels of fiduciary risk to tolerate in its programming? (EFFECTIVENESS)	4.1 Country-level cross-HMG strategies inform DFID's plans and evidence that DFID actively works with other UK departments to manage fiduciary risk 4.2 Business cases and options appraisals for selected programmes clearly document how risk choices are met 4.3 Clear understanding by staff of DFID's approach to tolerating fiduciary risks, including what zero-tolerance to fraud and corruption means in the context of a high risk appetite 4.4 Examples of projects/programmes that have been modified due to fiduciary risk issues	Systems review <ul style="list-style-type: none"> ▪ Assess quality of guidance on acceptable risks and decision-making processes Country strategy reviews <ul style="list-style-type: none"> ▪ Assess how residual risks are balanced with humanitarian/development needs Country case studies <ul style="list-style-type: none"> ▪ Assess options appraisals in business case risk assessments to determine extent to which fiduciary risk is a factor in decision-making ▪ Assess alignment of DFID interviewees' views with guidance 	Interviews with key staff and reviews of documented decision-making will help to determine the extent to which DFID makes clear and defensible choices in practice. This can be compared to the guidance and across countries to assess the consistency of approaches and documentation. We can also consider the potential for learning across countries, e.g. to strengthen systems or training.
5. Learning- How effectively is DFID capturing and applying learning in the development of its systems and processes for fiduciary risk management in conflict-affected environments? (EFFECTIVENESS)	5.1 DFID's historic policies, guidance and processes capture learning from within and outside of DFID 5.2 Evidence that lessons are learned and shared among country offices regarding fiduciary risk 5.3 Evidence of knowledge and learning mechanisms that account for culture and high staff turn-over common in conflict zones	Systems review <ul style="list-style-type: none"> ▪ Map the evolution of systems and policies ▪ Determine which areas of intervention have had greatest impact on the development of systems and policies Country strategy reviews and case studies <ul style="list-style-type: none"> ▪ Determine how key individuals in the field learn in relation to fiduciary risk 	Assessment of learning mechanisms at the institutional level compared to understanding and learning practices at the implementation level will enable assessment of how effectively DFID applies learning in this area.

12. Sampling strategy

Country selection

The population of countries from which we are sampling are those where DFID provides aid and there are significant access constraints to where the assistance is being delivered, for reasons of safety and security. DFID has made an assessment of which countries are considered fragile states. Their assessment is based on four dimensions of fragility:

1. **Capacity failures:** where the state lacks the capacity to ensure that citizens have access to public services and can benefit from economic growth.
2. **Authority failures:** where the state fails to project its power over all its territory and/or fails to protect its citizens from violence.
3. **Legitimacy failures:** where the state fails to gain adequate acceptance of government authority among elites and citizens.
4. **The presence of stresses:** destabilizing stress factors that exert pressure on the state.

To assess these factors DFID uses data from the World Bank's Worldwide Governance Indicators, Institute for Economics and Peace, Political Terror Scale, UN High Commission for Refugees and the Inform Index. Using the latest data (from 2013), DFID identified 54 fragile states, each of which is categorised as displaying high, medium or low levels of fragility. The 17 countries rated by DFID as highly fragile are: Somalia, Syria, North Korea, Sudan, Afghanistan, South Sudan, Central African Republic, DRC, Iraq, Pakistan, Yemen, Eritrea, Libya, Myanmar, Chad, Iran and Burundi.

For the purposes of this review, our primary focus is on countries with substantial levels of expenditure, where there is a high fiduciary risk and where DFID has limited access due to insecurity. We therefore also considered the following parameters:

- DFID's budget for 2015/16 which indicates the level of need and the country's significance to DFID.
- Fund for Peace's 2015 fragility score, security apparatus score (used as an indication of insecurity) and the change in score since 2010.²⁷
- Transparency International's 2014 Corruption Perception Index score and the change in score since 2010 (used as an indication of fiduciary risk).²⁸

Using this information, we identified a range of countries that meet our objectives. Libya was included as although it has relatively low levels of funding it was considered relevant from a country strategy review perspective in comparison to countries with larger budgets. This left us with ten countries: Afghanistan, DRC, Libya, Nigeria, Pakistan, Somalia, South Sudan, Sudan, Syria and Yemen. Each will be included in our high-level strategy review.

From this list, we made a purposive selection of five countries for the case studies. We considered those areas with a larger DFID budget and aimed to get balanced coverage of different types of operating environment and different DFID structures. This included considering longer-term and more recent

²⁷ Fragile States Index 2015, Fund for Peace, [link](#).

²⁸ Corruption Perceptions Index 2014, Transparency International, [link](#).

conflicts, the extent to which DFID is able to access intervention areas and the extent to which DFID has a local presence. This resulted in ICAI selecting the following for site visits:

- **Somalia** – a protracted conflict environment, managed primarily from Nairobi with severely limited access to the field but the potential to travel to Mogadishu to meet local implementing and monitoring agencies and officials.²⁹
- **DRC** – another longer-term conflict environment with severe access restrictions but the potential for us to access programmes in conflict-affected areas with UN support.

The following were selected for similarly detailed country case studies but conducted from London:

- **Syria** – a more recent conflict and highly challenging environment where access in country by ICAI is not feasible and where DFID’s operations are primarily managed from London.
- **Yemen** – also suffering recent deterioration where country access would be highly challenging and where DFID’s operations are primarily managed from London.
- **South Sudan** – situated in a region suffering long-term insecurity, South Sudan became an independent country in 2011 but with new internal conflict breaking out in 2013. DFID has relatively free access to many implementation areas – although this varies significantly by geographic area and over time – enabling us to compare with approaches and experiences in more restricted countries.

Programme selection

For each of the five country case studies we will select a sample of 4-6 programmes depending on scale and complexity. This selection will be made once we have received detailed information on each country portfolio from DFID. Our review is focused on countries, regions and programmes which best illustrate the fiduciary risk management challenges of interest in this review, namely those with:

1. Limited delivery options
2. Restricted access to monitor risks and controls
3. Heightened potential for fraud, corruption or misuse of funds to exacerbate the instability and undermine higher-level objectives.

We propose to undertake a targeted, or purposive, approach to programme selection, to focus on areas of high fiduciary risk and inaccessibility for monitoring purposes. For our two country site visits, we will also consider the practicalities of visiting certain locations. It is difficult to identify a representative sample due to the variable nature of the risks and the rapidly-changing country contexts. To help us select a sample that is focussed on these areas while maintaining a broad view of different interventions, programmes will be purposively selected from the following categories (which may overlap):

1. Programmes of high strategic importance
2. Programmes rated high risk by DFID
3. Humanitarian programmes

²⁹ DFID also has programmes in Somaliland and can travel to Hargeisa. Given that DFID has access to these areas, ICAI does not plan to visit Hargeisa as part of our Somalia site visit. We will be reviewing DFID’s approaches and challenges to fiduciary risk across the DFID Somalia portfolio, including Somaliland.

4. Problem cases (selected from programmes where fraud or corruption have been identified, or the programme was terminated early on grounds of fiduciary risk)
5. Lower risk and/or smaller scale programmes.

We will also aim to achieve coverage of different types of delivery partner (multilateral, CSO, private or public sector) and monitoring agency. In our programme selection we will ensure coverage of a range of sectors and target larger programmes in geographical regions or with interventions in areas that are known to be difficult to access and which may have high fiduciary risk. We will also consider programme case studies (to the extent possible with available information) which may have high potential for learning due to being innovative or unusual, operating in particularly challenging environments or facing significant fiduciary risks. A smaller sample of lower-risk and smaller-scale programmes will be included to enable us to identify variations in approach.

Our analytical framework and the review questions suggest that understanding, monitoring and mitigation of fiduciary risk is managed and guided at project, country and central levels. We expect to find examples and other types of evidence for the effectiveness and efficiency of fiduciary risk management in DFID funded projects and programmes.

13. Ethical considerations

ICAI reviews are undertaken with integrity and transparency. We are guided by ethical guidelines and codes of conduct of professional bodies such as OECD DAC.³⁰ When engaging with stakeholders, we respect the principles of confidentiality and informed consent. When consulting participants or key stakeholders, we ensure that the research does not cause harm. In particular, in the context of conflict-affected regions, our site visits will aim to balance our ability to access the people and evidence needed for our review with the additional security burden to DFID and risks to our team and interlocutors.

14. Research tools

Relevant research tools will be developed in the early stages of the review, including:

- A mapping of stakeholders in DFID for interview and consultation
- Interview guides for key stakeholders, indicating relevant areas to explore
- Country case study frameworks covering contextual analysis, list of key stakeholders, sampling of delivery partners and programmes, and detailed plans for field research (to be completed three weeks in advance of the country visit).

15. Quality assurance and peer review

This review will be carried out under the guidance of ICAI lead Commissioner, Alison Evans. The review manager in ICAI is Pam Vallance.

The review will be peer reviewed externally at three points: methodology, emerging findings and draft report. The peer reviewer will be Gilles Carbonnier of the Graduate Institute of International and Development Studies, Geneva. The Service Provider will provide copies of the methodology and draft report to the peer reviewer. The peer reviewer will then prepare a short report (2-3 pages) summarising the robustness and technical quality of the Approach Paper/draft review. The peer reviewer will be invited to

³⁰ OECD DAC, Quality Standards for Development Evaluation, 2010, [link](#).

attend the emerging findings presentation and offer comments on the emerging findings and analysis. He will also be available to the team and to ICAI for periodic consultations over the life of the review.

16. Risk Management

Risk	Mitigation and management actions
Security risks to the team	<p>The level of risk depends upon the countries selected. Prior to any review, the Programme Director of the Security Provider will carry out a risk assessment and provide advice and guidance to the team on where to travel and by what means. As this review focuses on conflict-affected states and regions, travel to high-risk countries is anticipated. In this case, a formal duty of care process will be triggered in accordance with the ICAI Handbook. This will include arrangements to monitor for changes in risk level, additional communication protocols and procedures for evacuation. Prior to traveling to conflict-affected areas a detailed security plan will be developed by the Security Provider which will include communications protocols and contingency planning. All staff involved in site visits will also undergo appropriate hostile environment training prior to travelling. Where Commissioners or Secretariat staff are involved in the visit, duty of care responsibilities for the visit would be shared between the Service Provider and DFID.</p> <p>In the event that risks are considered too great to undertake planned travel, or site visits have to be cut short for security reasons, security of the review team will always take priority. This may result in limitations to our scope. Where possible contingencies or alternatives will be undertaken to achieve the level of evidence needed for the review.</p>
Risk of security concerns or humanitarian crises limiting scope	<p>Every effort will be made to carry out relevant interviews, subject to the security situation that presents itself on the ground. In the event that risks are considered too great to undertake planned travel, or site visits have to be cut short for security reasons, security of the review team will always take priority. This may result in limitations to our scope.</p> <p>Similarly, due to the volatile contexts of the environments that we intend to visit, there is a high risk that some of the meetings arranged may be cancelled at short notice or will be prevented from being arranged at all. The availability of key informants to speak with us in relation to our case studies may also be limited in the event of escalating insecurity or humanitarian crisis that needs to be prioritised.</p> <p>Where possible, contingencies or alternatives will be undertaken to achieve the level of evidence needed for the review. For all of our country case studies evidence will be triangulated as much as possible to compensate for potential restrictions or changes in plans.</p>
Risks arising if fraud is encountered	<p>ICAI has an obligation to refer any fraud and corruption it encounters during the course of its work to the appropriate authority. If the review team encounters evidence of impropriety, it will bring it to the attention of the Review Manager and Lead Commissioner, who will advise on the appropriate course of conduct. We will treat any concerns raised to ICAI during this review according to ICAI’s Whistleblowing Policy.³¹</p>
Risks to ICAI if fraud is subsequently discovered in programmes within our sample	<p>As described in section 10, our methodology has been designed to assess DFID’s approach to fiduciary risk management, and not to detect fraud and corruption or audit risk management systems. Communications relating to this review will make this clear to avoid potential for confusion. Identifying whether fraud has occurred in DFID’s programmes is beyond the scope of this review. If fraud is subsequently discovered in programmes we have included in our sample or otherwise comes to our attention, we will bring it to the attention of the Review Manager and Lead Commissioner, who will advise on the appropriate course of conduct.</p>

³¹ Whistleblowing Policy, ICAI, January 2016, [link](#).

17. Timeline and deliverables

Phase	Timing and deliverables
Inception	Approach Paper: February 2016
Data collection and field work Country visit 1 Country visit 2	14-18 March 2016 28 March-8 April 2016 Evidence Pack: April 2016 Emerging Findings presentation: May 2016
Reporting	Final report: July 2016



This document can be downloaded from www.icaei.independent.gov.uk/
For information about this report or general enquiries about ICAI and its work, please contact:

Independent Commission for Aid Impact
Dover House
66 Whitehall
London SW1A 2AU
020 7270 6736

enquiries@icaei.independent.gov.uk

www.icaei.independent.gov.uk/

 @ICAI_UK