

Independent Commission for Aid Impact (ICAI)

DFID's Approach to Anti-Corruption

Inception report

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1. Introduction

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

We have decided to conduct an evaluation of the Department for International Development's (DFID's) approach to protecting UK funds against the risk of corruption. We will assess whether UK funds spent in systematically corrupt contexts serve to consolidate trends with regard to corruption that are detrimental to the values which underlie the UK's work to improve governance generally and fight corruption specifically. This Inception Report sets out the evaluation questions, methodology and a work plan for the delivery of the evaluation. It is, however, intended that the methodology and work plan are flexible enough to allow coverage of new issues and questions emerging over the course of the evaluation.

2. Background

Corruption is a central issue in assessing the effectiveness and value for money of UK development aid. Corruption can undermine the impact of aid programmes and cause their benefits to be unequally distributed. Aid programmes affected by corruption represent poor value for money. They can even be harmful if they help to sustain corrupt political elites.

DFID cannot avoid engaging in corrupt environments. Many of the world's poorest people live in countries where corruption is endemic. Furthermore, the UK is committed to scaling up its assistance to fragile and conflict-affected countries, where country systems for financial accountability are likely to be weak. It is therefore imperative that DFID finds ways to deliver aid in high-risk environments so that its funding still achieves its intended goals and that its assistance includes long-term integrated strategies for reducing corruption.

Following the publication of a 2011 National Audit Office (NAO) report on DFID's financial management,¹ a recent Public Accounts Committee hearing indicated the importance of this topic to the British parliament and government. The Committee expressed its concern that DFID was unable to quantify the level of losses to the UK aid budget from corruption.²

The UK Bribery Act 2010, in force as of 1 July 2011, is a significant modernisation of the UK's anti-corruption statute.³ The Bribery Act is also a key milestone in the UK actions agreed through the G20; DFID itself campaigned for better anti-corruption legislation and enforcement within the G20 member group. The new legislation transforms the UK approach to corruption both in the UK and abroad. The Act requires commercial organisations to adopt a 'zero tolerance' approach to corrupt behaviour, together with investment in training and systems to prevent, detect and respond to corrupt activity. While it is aimed

¹ *Department for International Development: Financial Management Report*, National Audit Office, April 2011, www.nao.org.uk/idoc.ashx?docId=8184a4cd-c1d9-4c5e-9e88-4d7e4cbe32e7&version=-1.

² *DfID Financial Management*, House of Commons Committee of Public Accounts, October 2011, www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/1398.pdf.

³ *UK Bribery Act 2010*, www.legislation.gov.uk/ukpga/2010/23/contents.

mainly at UK businesses operating around the world, it is also of significance to the UK aid programme. DFID will need to take account of this new legislation in the way it manages and monitors its expenditure.

There may at times be trade-offs between protecting aid against corruption risk and maximising its development impact. Some donors choose to provide all their aid in the form of projects, where the funds are managed by international contractors or Non-Governmental Organisations (NGOs) rather than the recipient country's national authorities. DFID's policy, however, acknowledges that the strengthening of country systems and capacities for managing development funds should be a core objective of UK aid. DFID therefore directs a substantial proportion of its assistance through government systems, while at the same time investing in strengthening those systems against the risks of mismanagement and corruption. This approach calls for difficult judgements on the balance between fiduciary risk and development benefit.

DFID has a number of corruption-related policies and guidelines but no holistic or over-arching anti-corruption strategy.⁴ Its *Counter-Fraud and Anti-Corruption Policy*, produced by the Internal Audit Department and Counter-Fraud Unit, outlines the responsibilities of DFID employees, consultants and contractors when encountering corruption within aid projects.⁵ The *Essential Guide to Rules and Tools* – known informally as the *Blue Book*⁶ – sets out detailed rules on financial management, accountability and audit. For each country where financial aid is being provided or considered, DFID carries out a Fiduciary Risk Assessment evaluating the quality of the country's public financial management systems. There is also guidance for staff on more specific corruption issues, such as how to deal with corruption in the health sector.⁷ As well as producing internal guidance, DFID funds a web portal (www.u4.no) which provides ready access to contemporary research and guidance material on corruption-related issues.

The key issue for this review will therefore be to assess the quality and fitness for purpose of this UK-based guidance and advice and how much of this actually impacts on the ground with in-country teams. It is clear that there is significant and necessary autonomy allowed to in-country actions and local prioritisation of resources and the review will need to understand whether the in-country leaders themselves appreciate the changing political environment which is placing more importance on countering corruption.

3. Purpose

To assess whether DFID's strategies and approaches for dealing with corruption (particularly in fragile states) are appropriate and sufficient, having regard to the requirements of maximising development impact and ensuring accountability to the UK taxpayer; and to make constructive recommendations on how improvements could be made.

⁴ The Governance Department produced a paper in 2002 on the possibility of developing a holistic anti-corruption strategy but this appears not to have been pursued.

⁵ *Counter-Fraud and Anti-Corruption Policy*, DFID, www.dfid.gov.uk/aboutDFID/anti-fraud-corruption-policy.pdf.

⁶ *The Essential Guide to Rules and Tools*, DFID, 2011, www.dfid.gov.uk/about-us/our-organisation/blue-book/.

⁷ *How to note: Addressing corruption in the health sector*, DFID, November 2010, www.dfid.gov.uk/Documents/publications1/How-to-Note-corruption-health.pdf.

4. Relationships to other evaluations / studies

The most relevant recent UK audit of DFID is the 2011 NAO report on DFID's financial management.⁸ It notes that DFID's programme budget will grow by £3.3 billion between 2010-11 and 2014-15. Much of this increase will be in fragile states. At the same time, its administration budget will reduce by a third. This will give rise to significant financial and operational challenges, making sound financial management essential. The report notes, however, that DFID has a comparative lack of qualified finance staff.

The NAO notes that the value of fraud and corruption reported in DFID's accounts is low (£459,000 for 2009-10 or 0.01% of expenditure, of which £199,000 has so far been recovered). Where aid is channelled through country systems, however, corruption is likely to be hidden and DFID's purely reactive approach to the control of corruption in its programmes may fail to detect it. In common with other donors, DFID has no reliable systematic approach to quantifying the extent of corruption within the UK aid programme.

'The Department is too reactive and cannot provide Parliament and the taxpayer with a clear picture of the extent, nature and impact of leakage. The risk of leakage will potentially increase as the spending increases for those countries with less developed controls and capability.'

The Public Accounts Committee has also commented on DFID's management of corruption risk. In a recent report on UK support for primary education, it noted that DFID had assessed the risks in the Kenya programme as 'manageable' but that serious fraud had nonetheless arisen.⁹ It recommended a general reappraisal of how DFID assesses and manages fraud risk.

The International Development Committee in a 2010-11 report on DFID's corporate performance stated:

'We are concerned that DFID may not yet be taking the threat of fraud as seriously as it should. Indeed, there seems to be an over-reliance on staff reporting cases of fraud rather than DFID taking action to mitigate such risks before they arise. We recommend that, in response to this Report, DFID provide us with more information on the steps it is taking to ensure that it has a robust, consistent and strategic approach to fraud in all its country programmes and in all sectors in which it works.'¹⁰

⁸ *Department for International Development: Financial Management Report*, National Audit Office, April 2011, www.nao.org.uk/idoc.ashx?docId=8184a4cd-c1d9-4c5e-9e88-4d7e4cbe32e7&version=-1.

⁹ *The Department for International Development's bilateral support to primary education*, House of Commons Committee of Public Accounts, Thirteenth Report of Session 2010-11, HC 594, December 2010, www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/594/594.pdf. See also *Department for International Development: Providing budget support for developing countries*, House of Commons Committee of Public Accounts, Twenty-seventh Report of Session 2007-08, HC 395, June 2008, www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/395/395.pdf.

¹⁰

5. Methodology

In accordance with the Terms of Reference, the evaluation will address three elements of DFID's approach to working in environments with high corruption risk:

- a) Does DFID have a credible approach to combating systemic corruption through its planning and programming choices?
- b) Does DFID make appropriate choices as to aid modalities and safeguards within its programmes, so as to minimise corruption risk and maximise development impact?
- c) Does DFID respond effectively when it encounters incidents of corruption? How does this response affect the overall country programme?

The following evaluation framework sets out the detailed questions that will be examined in order to assess these three elements of DFID's anti-corruption approach. Additional questions may be added if new issues come to light during the course of the evaluation. The evaluation framework also sets out the criteria and the sources of evidence that will be used to form a judgement on each evaluation question.

Section 6 and the Annex provide further detail on how particular evaluation questions will be investigated within each country case study. In addition to an overall assessment of DFID's procedures, a judgement will be made on each of the evaluation questions, using a simple 'traffic light' scoring system. The assessment of each question will be used to make a judgement on the 'traffic light score' for each section. Scoring for each section will then be used to make a judgement that enables us to generate the overall summary assessment traffic light - green, green-amber, amber-red or red. This will provide the basis for grading the three elements of DFID's anti-corruption approach.

a) Evaluation Framework

Evaluation questions	Criteria for Assessment	Sources of evidence
1. Does DFID have a credible approach to combating systemic corruption through its planning and programming choices?	<ul style="list-style-type: none"> • Quality of policies and guidance • Level of priority in resource allocation • Level of priority in policy dialogue and conditionality • Specific programming on anti-corruption • Incorporating anti-corruption objectives into other programming 	<ul style="list-style-type: none"> • DFID policies and guidance • Meetings with senior management, policy department and regional cabinets • Country case studies
<i>a) Does DFID have an adequate set of policies and guidance on anti-corruption programming?</i>	<ul style="list-style-type: none"> • <i>A clear and comprehensive set of policies and guidelines for country offices on anti-corruption programming, reflecting good international practice</i> • <i>Existence of adequate technical and advisory support for country offices</i> 	<ul style="list-style-type: none"> • <i>DFID policies and guidance</i> • <i>Meetings with Policy Department</i> • <i>Country case studies</i>
<i>b) Does anti-corruption programming receive sufficient priority within DFID programming choices?</i>	<ul style="list-style-type: none"> • <i>Level of resourcing dedicated to anti-corruption programming</i> • <i>Level of expertise available on anti-corruption issues</i> • <i>Level of staff time dedicated to corruption-related issues</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>
<i>c) Does DFID acknowledge and mitigate against the risk that UK aid might inadvertently sustain corrupt systems or practices?</i>	<ul style="list-style-type: none"> • <i>Existence of adequate political economy analysis on the extent and nature of corruption in partner countries</i> • <i>An adequate programme of knowledge-building on corruption and the political economy of aid flows</i> • <i>Assessment and mitigation of risks associated with different aid modalities</i> 	<ul style="list-style-type: none"> • <i>Research and guidance produced by Policy Department</i> • <i>Meetings with Policy Department</i> • <i>Country case studies</i>
<i>d) Do DFID policies and procedures conform with the UK's anti-bribery and corruption, money laundering and other similar legislation?</i>	<ul style="list-style-type: none"> • <i>A clear and comprehensive set of policies and procedures at corporate level which address relevant UK legislation</i> • <i>Evidence of training and awareness programmes</i> 	<ul style="list-style-type: none"> • <i>DFID policies and guidance</i> • <i>Meetings with DFID UK corporate management</i> • <i>Country case studies</i>

<p>e) <i>Is DFID playing an effective advocacy role on anti-corruption? Does it receive sufficient priority within DFID's policy dialogue with partner countries?</i></p>	<ul style="list-style-type: none"> • <i>Level of priority given to anti-corruption issues in donor-government dialogue (including budget support Performance Assessment Frameworks)</i> • <i>Evidence of policy shifts by partner countries</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>
<p>f) <i>Is DFID implementing effective anti-corruption programmes?</i></p>	<ul style="list-style-type: none"> • <i>Range of DFID anti-corruption programming, including:</i> <ul style="list-style-type: none"> - <i>support for formal accountability institutions;</i> - <i>strengthening of country systems against corruption risk; and</i> - <i>demand-side/civil society-based interventions?</i> • <i>A division of labour with other donors on anti-corruption programming</i> • <i>Integration of anti-corruption measures within sectoral programmes</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>
<p>g) <i>Is DFID programming making an impact on corruption levels?</i></p>	<ul style="list-style-type: none"> • <i>Overall country indicators, including:</i> <ul style="list-style-type: none"> - <i>Transparency International Corruption Perceptions Index</i> - <i>World Bank Government Matters indicators on control of corruption</i> - <i>International Development Association Resource Allocation Index indicators on control of corruption</i> - <i>Public Expenditure and Financial Accountability (PEFA) assessment framework</i> • <i>Effectiveness and impact of DFID anti-corruption programmes</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>

<p>2. Does DFID make appropriate choices as to aid modalities and safeguards within its programmes, so as to minimise corruption risk and maximise development impact?</p>	<ul style="list-style-type: none"> • Adequate control environment • Effective risk assessment • Appropriate choice of aid modality • Appropriate mitigation measures within programme design • Effective monitoring of corruption risk • Effective response to changes in risk level 	<ul style="list-style-type: none"> • Corporate systems and procedures • Meetings with Financial and Corporate Performance Division, Internal Audit and Counter-Fraud Unit • Country case studies
<p>a) <i>Does DFID have a clear, coherent and sufficient system of corporate controls and procedures to safeguard UK funds?</i></p>	<ul style="list-style-type: none"> • <i>Adequacy of DFID corporate controls and systems, by reference to UK government and corporate standards</i> • <i>Sufficient training and technical skills of staff</i> • <i>Understanding of and compliance with rules by country office staff</i> 	<ul style="list-style-type: none"> • <i>Documented systems and procedures, including policies, guidance, 'Blue Book'</i> • <i>Meetings with Financial and Corporate Performance Division, Internal Audit and Counter-Fraud Unit</i> • <i>Country case studies</i>
<p>b) <i>Does DFID adequately assess the level of corruption risk before committing funds?</i></p>	<ul style="list-style-type: none"> • <i>Quality of guidance on Fiduciary Risk Assessments (FRAs)</i> • <i>Regularity and adequacy of FRAs</i> • <i>Adequacy of assessment of implementing agents' systems and controls</i> 	<ul style="list-style-type: none"> • <i>Guidance on FRAs</i> • <i>Country case studies</i>
<p>c) <i>Does DFID make appropriate choices as to aid modalities, given the assessed level of corruption risk and the requirements of development effectiveness?</i></p>	<ul style="list-style-type: none"> • <i>Guidance on aid modalities and how to balance development effectiveness with fiduciary risk</i> • <i>Proportionality between fiduciary risk level and expected development impact</i> • <i>Appropriate choice of implementing agent</i> 	<ul style="list-style-type: none"> • <i>Policies and guidance material</i> • <i>Country case studies</i>
<p>d) <i>Does DFID take appropriate measures within the design of its programmes to mitigate corruption risk?</i></p>	<ul style="list-style-type: none"> • <i>Adequacy of financial controls</i> • <i>Adequacy of supervisory arrangements over implementing agents</i> • <i>Use of conditionality</i> • <i>Use of monitoring by intended beneficiaries</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>

<p>e) <i>Does DFID effectively monitor the level of corruption risk in its programmes?</i></p>	<ul style="list-style-type: none"> • <i>Adequacy of DFID monitoring of implementing agents</i> • <i>Adequacy of monitoring arrangements agreed with implementing agents</i> • <i>Regularity of FRAs</i> • <i>Involvement of intended beneficiaries in monitoring arrangements</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>
<p>f) <i>Does DFID respond appropriately when levels of corruption risk are assessed as having increased?</i></p>	<ul style="list-style-type: none"> • <i>Adjustment of aid modality or mitigating arrangements in response to corruption incidents or worse-than-expected risk assessments</i> 	<ul style="list-style-type: none"> • <i>Country case studies</i>

<p>3. Does DFID respond effectively when it encounters incidents of corruption? How does this response affect the overall country programme?</p>	<ul style="list-style-type: none"> • Adequacy of anti-fraud policies and procedures • Adequacy of investigation of and response to corruption incidents • DFID support for international action against money laundering 	<ul style="list-style-type: none"> • Corporate policies and procedures • Meetings with Internal Audit and Counter-Fraud Unit • Review of a sample of anti-fraud investigations
<p>a) <i>Does DFID have appropriate procedures for responding to incidents of corruption?</i></p>	<ul style="list-style-type: none"> • <i>Adequacy of procedures, given UK government and corporate standards</i> • <i>Dissemination of procedures and training of staff</i> • <i>Assignment of responsibilities (e.g. Fraud Officers)</i> • <i>Level of understanding of corporate rules and processes by staff</i> 	<ul style="list-style-type: none"> • <i>Anti-fraud policies and procedures</i> • <i>Meetings with Internal Audit and Counter-Fraud Unit</i> • <i>Country case studies</i>
<p>b) <i>Does DFID respond adequately to corruption incidents?</i></p>	<ul style="list-style-type: none"> • <i>Timely measures to prevent further losses</i> • <i>Quality of investigations by Counter-Fraud Unit</i> • <i>Measures to recover financial losses</i> • <i>Pursuit of sanctions against perpetrators</i> • <i>Diagnosis of what went wrong</i> • <i>Adjustment of programmes to prevent recurrence</i> 	<ul style="list-style-type: none"> • <i>Review of a sample of anti-fraud investigations</i> • <i>Country case studies</i>
<p>c) <i>How well does DFID contribute to international/UK government efforts to recover assets lost through corruption?</i></p>	<ul style="list-style-type: none"> • <i>DFID support for UK anti-money laundering actions and related international law enforcement co-operation</i> 	<ul style="list-style-type: none"> • <i>Meetings with Anti-Corruption Unit</i>

The methodology for the evaluation will have three components:

- i) an assessment of DFID's policies and corporate systems on anti-corruption;
- ii) four country case studies of DFID's approach to providing aid in environments with high corruption risk; and
- iii) an assessment of DFID's capacity to respond to corruption incidents.

The first component will include:

- meetings with relevant DFID staff, including the Anti-Corruption Team, Financial and Corporate Performance Division, Internal Audit, Counter-Fraud Unit and other relevant staff identified during the evaluation;
- collection and analysis of DFID policies and guidance on anti-corruption programming; and
- an analysis of DFID's corporate systems and procedures for managing fiduciary risk, including processes for fiduciary risk assessments, business planning procedures, guidance on choice of aid modalities, risk mitigation measures and monitoring arrangements.

The second component will include four country case studies of DFID programmes in high-risk environments. The first is a pilot study of Zambia. This case study was proposed by DFID as an example of a programme that has encountered significant levels of corruption but is seen to have responded effectively. It is also a country in which DFID leads within the donor community on the anti-corruption agenda. The Zambia visit took place on 15-19 August and provided an opportunity to refine the case study framework and methodology.

The remaining three country case studies are Nigeria, Bangladesh and Nepal. They have been selected on the basis of the following criteria:

- they fall into the lowest quartile of Transparency International's Corruption Perceptions Index;
- they have substantial DFID country programmes;
- they cover both Asia and Africa; and
- they include a post-conflict country (Nepal).

Each of these three country studies will involve a brief review of available country literature and DFID country programme documentation, a country visit of between five and ten days, followed by analysis of the material collected and preparation of a case study report. It will include the following steps:

- collecting information on the nature and extent of corruption in the country in question, through international indexes (e.g. the Transparency International Corruption Perceptions Index, World Bank governance indicators and the World Bank IDA Resource Allocation Index); country reports and studies (e.g. DFID governance analysis, drivers of change studies and Transparency International reports); and meetings with DFID staff and informed observers;
- analysing corruption-related programming in the country programme, including:
 - support for formal accountability institutions (e.g. the anti-corruption commission, parliament and parliamentary committees, the auditor-general, the ombudsman, government legal offices, the judiciary and the police);
 - support aimed at strengthening country systems against corruption risk (e.g. public financial management, procurement and civil service reform);
 - support aimed at strengthening government accountability to the public (e.g. support for research and advocacy NGOs and civil society monitoring of the budget); and

- policy dialogue and advocacy on corruption.
- assessment of the adequacy of fiduciary controls in a small sample of DFID projects (to include, where relevant, examples of financial aid to government, multi-donor basket funding, projects implemented by contractors, accountable grants and civil society grant-making mechanisms); and
- consultations with partner country officials, other donors, civil society representatives and other informed observers on the appropriateness of DFID's approaches and programming choices and its likely impact on corruption levels.

A detailed case study framework is set out in the Annex.

The third component will be a review of DFID's response to corruption incidents. Taking a small sample of cases reported to the Counter-Fraud Unit, an analysis will be conducted as to the adequacy of the investigation and the measures taken to recover losses and prevent their recurrence.

The evaluation will principally be conducted over one or two week periods in each of Zambia, Bangladesh, Nepal and Nigeria during August and September 2011, supported by preparatory review work.

6. Roles and Expertise

Details of the core members of the project team are provided below.

Team leader (KPMG UK, Director, Forensic)

He is an experienced former Chief Police Officer, with both a local and national police background. He has led significant national criminal policy issues for the Association of Chief Police Officers (ACPO) and delivered national multi-agency initiatives in organised crime and criminal asset recovery. In achieving this, he worked alongside colleagues from other national law enforcement agencies and with Government. He is one of the few ACPO officers with experience of both national organised crime investigation and local police force operations. He is now a Director at KPMG Forensic, developing its services in support of law enforcement agencies.

He will be responsible for the day-to-day management of the project. His technical expertise will be focused on DFID's stance and procedures with regard to national agencies' law enforcement against fraud and corruption. He will conduct the in-country study in Zambia.

Team member 1 (Aguilhas, Director)

With over 15 years' experience in international development, he has supported a range of donors, international agencies, NGOs and developing countries with policy development, programme design and evaluation. His areas of expertise include aid effectiveness, fragile states and governance. He is an expert in political economy analysis and an experienced writer and editor. A lawyer by training with a Ph.D. from Cambridge University in international law, he recently led a major thematic evaluation for the Australian government of its law and justice assistance.

He will provide overseas development aid programme expertise to the project. He will be responsible for the design and implementation of the project's evaluation framework and will be editor-in-chief of the project team's reports. He will conduct the in-country study in Zambia.

Team member 2 (KPMG UK, Director, Forensic)

He is a Director in KPMG's Investigations and Compliance practice and leads KPMG's Anti-Bribery and Corruption team across Europe, the Middle East and Africa. His work includes assistance to clients across sectors in the development, implementation, assessment and remediation of Anti-Bribery and Corruption

compliance programmes. He also assists clients in the auditing and monitoring of these programmes and the conduct of investigations into allegations of bribery and corruption and other forms of non-compliance. He conducts Anti-Bribery and Corruption mergers and acquisitions due diligence and the auditing of business units, third parties, joint ventures and other business relationships for Anti-Bribery and Corruption compliance. He was a member of the advisory panel to the Ministry of Justice for the drafting of its guidance to the UK Bribery Act 2010.

He will provide expertise in anti-bribery and corruption policy and procedure from law enforcement and agency and corporate compliance perspectives. He has extensive experience of conducting corporate corruption investigations in West Africa and will lead the review team in Nigeria.

Team member 3 (KPMG Tanzania, Director, Development Advisory Services)

He has 15 years' experience in international development, with particular experience in design and programme management of large complex multi-site governance, public sector reform and civil society strengthening initiatives, including responsibility for donor funds through imprest or trust account mechanisms. His expertise and experience include the design, strategic planning and monitoring and evaluation of development assistance initiatives in Africa, including Tanzania, Kenya and Malawi.

He will provide expertise in the delivery of development aid in the African context. He will conduct the in-country studies in Zambia and Nigeria.

Team member 4 (KPMG UK, Senior Manager, Forensic)

He has over 25 years' experience at a senior level in both the Police Service and Government Law Enforcement Agencies. He has a broad portfolio of both criminal and civil investigative experience in the relation to serious and organised crime. He was responsible for the delivery of the national training platform for financial investigation and a Deputy Director of the Assets Recovery Agency (ARA). Later, as a Deputy Director in the Serious and Organised Crime Agency (SOCA), he had oversight of the UK FIU, the SOCA International network and both the Asset Recovery and E-Crime departments. He has led a number of transnational investigations of fraud and money laundering, including an appointment by Her Majesty Inspection of Constabulary (HMIC) for a review of policing corruption in the Sovereign Based Areas of Cyprus. As part of the Economic Crime team within KPMG Forensic, he has worked with clients on a range of fraud investigation and asset recovery assignments.

His technical expertise will be focused on DFID's stance and procedures with regard to national agencies' law enforcement against fraud and corruption. He will conduct the in-country study in Bangladesh.

Team member 5 (KPMG UK, Manager, Forensic)

He has ten years' experience in investigations, business assurance and advisory services. He specialises in anti-bribery and corruption and counter-fraud and has worked on a number of international bribery and corruption and fraud investigations. He advises clients in the development of anti-bribery and corruption programmes, conducts third-party monitoring audits on behalf of clients, performs third-party due-diligence and provides anti-bribery and corruption training to KPMG's clients and employees.

He will assist the team leader in day-to-day management of the project. He will provide expertise in counter-fraud and anti-bribery and corruption compliance procedures and accounting systems and controls. He will conduct the in-country case studies in Zambia and Nepal.

Team member 6 (KPMG UK, Manager, Forensic)

He has previous experience in investigations, business assurance and advisory services. He is an experienced fraud and bribery and corruption investigator, having worked on a number of public and

private sector investigations, nationally and internationally. He advises clients in the development of anti-bribery and corruption programmes, including risk assessments, gap analyses, third-party due-diligence and anti-bribery and corruption training.

He will provide anti-bribery and corruption compliance procedure and accounting systems and controls expertise. He will conduct the in-country case study in Bangladesh.

Team member 7 (KPMG, Forensic)

He has previous experience in investigations, business assurance and advisory services in the public and private sectors. He specialises in Anti-Bribery and Corruption and has worked on a number of international bribery and corruption and fraud investigations. He has worked with a number of clients in the design and enhancement of their Anti-Bribery and Corruption compliance programmes. He conducts third-party due-diligence and frequently presents on the Bribery Act at KPMG's client events.

He will provide anti-bribery and corruption compliance procedure and accounting systems and controls expertise. He will conduct the in-country case study in Nepal.

Other professional staff as required and as authorised. Subject-matter experts will be used to undertake a peer review of analysis and findings

7. Management and Reporting

We will produce a first draft report by 7 October 2011, with time for subsequent revision, review and fact-checking prior to completion and sign-off in mid-November 2011.

8. Expected outputs and time frame

The output of this review will be a single report, in the standard format for ICAI reports.

The following timetable is indicative. It is based on the assumption that the review will need to be completed by 7 November 2011, to meet ICAI's requirements. If there proves to be more flexibility in the timetable, then some of the elements below may be allocated a longer time period. The elements are not strictly sequential, so a degree of overlap is envisaged.

Phase	Timetable
<p><u>Planning</u></p> <ul style="list-style-type: none"> • Finalising methodology • Drafting and revising Inception Report <p><u>Policy and Procedural Framework Evaluation</u></p> <p>Background Research and Pilot Study</p> <ul style="list-style-type: none"> • Preparing literature review • Analysis of DFID policy documents • Consultation with DFID staff and other stakeholders • Consultation with donor partners • In-country Pilot Case Study – Zambia • Summary of Pilot Study and Case Study Fieldwork Programme for First Roundtable with Commissioners <p>Case Studies</p> <ul style="list-style-type: none"> • Preparatory work • Field work • Summary <p>Reporting</p> <ul style="list-style-type: none"> • Analysis and write-up • Analysis of case study findings • Main report first draft • Main report final draft 	<p>By 19 August 2011</p> <p>By 16 September 2011</p> <p>By 6 September 2011</p> <p>By 14 October 2011</p> <p>By 14 October 2011</p> <p>By 7 November 2011</p>

9. Risks and Mitigation

The following sets out the key risks and mitigating actions, for this evaluation.

Risk	Level of risk	Specific Issues	Mitigation
Inability to access key information	Medium	<ul style="list-style-type: none"> •Unable to access DFID documentation •Unable to have access to full financial information for costing 	<ul style="list-style-type: none"> •Ensure clear authorisation given at start-up •Close co-operation with relevant DFID heads of country office •Direct access to documents via Quest, if necessary
Reputational risk to ICAI	Medium/high	<ul style="list-style-type: none"> • Case studies fail to identify significant corruption cases in country programme, which subsequently come to light 	<ul style="list-style-type: none"> •Clarification to all parties that the work does not constitute a complete audit of the DFID country programmes •Teams to consist of experienced law enforcement experts and forensic accountants
No impact data available	Low	<ul style="list-style-type: none"> •Anti-corruption programme too early in lifecycle to identify outputs or outcomes •Impact data weak or incomplete 	<ul style="list-style-type: none"> •Use third-party data sources in country •Assess emerging impact, through meetings with stakeholders
Political	Low	<ul style="list-style-type: none"> •Risk that findings prove politically challenging, particularly in relation to partnerships •Risk that the findings might contradict the views of other donors (e.g. the World Bank) 	<ul style="list-style-type: none"> •Findings to acknowledge existing international published sources and indexes, as well as published perceptions from local sources •If findings likely to be controversial, signal early to Commissioners and suggest response
Intended beneficiary voices not heard	Medium	<ul style="list-style-type: none"> •Inability to identify intended beneficiaries •DFID/in-country government/NGO presentation of intended beneficiary voices e.g. presentation of voices is managed so that real voice is not heard 	<ul style="list-style-type: none"> •Time in field •Seek to gain at least three different routes through partners to access contacts with intended beneficiaries •Triangulation with civil society organisation voices in country
Safety and Security	Low/Medium	<ul style="list-style-type: none"> •Risk of terrorism •Risk to the person 	<ul style="list-style-type: none"> •Choice of country case studies •Operate within FCO guidance. •Use of experienced local guides and drivers

10. How will this ICAI review make a difference?

A thorough examination of DFID's approach to providing assistance in environments with high corruption risk is central to our role in scrutinising the effectiveness and value for money of UK aid. The UK Public Accounts Committee has indicated that it has significant concerns with DFID's current approach. It was raised consistently as a concern by respondents to our public consultation.

Corruption is a pervasive cause of poverty across the developing world. It imposes direct costs on households, distorts government services, deters investment and undermines the value of development programmes.

With its focus on low-income countries and fragile and conflict-affected states, the UK aid programme inevitably works in many countries with high levels of corruption. To ensure effectiveness and value for money, DFID needs to develop approaches to providing assistance in high-risk environments that balance corruption risk against development returns, ensuring that the aid actually reaches its intended beneficiaries. DFID also needs to help its partner countries to fight corruption directly through its programming. This evaluation will enable us to form a view of the adequacy of current DFID approaches and to determine where there is room for improvement.

Annex: Case Study Framework

Evaluation questions	Criteria for Assessment	Sources of evidence
<ul style="list-style-type: none"> Does anti-corruption receive sufficient priority within the country programme? 	<ul style="list-style-type: none"> Level of resourcing dedicated to anti-corruption programming, including (a) support to formal accountability institutions; (b) support for strengthening country systems; and (c) demand-side interventions Level of expertise in the country team on anti-corruption issues Effective support from DFID Policy Department on anti-corruption issues 	<ul style="list-style-type: none"> Meetings with country office staff Expenditure data <p>N.B. While figures on anti-corruption expenditure should be collected where available, the assessment is ultimately a qualitative one.</p>
<ul style="list-style-type: none"> Does the country office analyse and mitigate against the risk that UK aid might inadvertently sustain corrupt systems or practices? 	<ul style="list-style-type: none"> Adequate analysis on the extent and nature of the corruption problem, including political economy analysis A clear and explicit rationale for choice of aid modalities, by reference to assessed level of corruption risk 	<ul style="list-style-type: none"> Political economy analysis Meetings with country office staff Meetings with other informed observers
<ul style="list-style-type: none"> Does the country office play an effective advocacy role on anti-corruption? Is it prioritised within the policy dialogue? 	<ul style="list-style-type: none"> Level of priority given to anti-corruption issues in donor-government dialogue (e.g. budget support Performance Assessment Frameworks, at Consultative Group meetings) Evidence of policy shifts by partner countries 	<ul style="list-style-type: none"> Demarches or letters to government on anti-corruption issues Agreed donor negotiating positions Conditionality Meetings with country office staff Meetings with other informed observers
<ul style="list-style-type: none"> Is there an effective range of anti-corruption activities in the country programme? 	<ul style="list-style-type: none"> Range of anti-corruption programming, including: <ul style="list-style-type: none"> - support for formal accountability institutions; - strengthening of country systems against corruption risk; and - demand-side/civil society-based interventions A division of labour with other donors on anti-corruption programming Integration of anti-corruption measures within sectoral programmes 	<ul style="list-style-type: none"> Meetings with country office staff, especially governance advisers Programme design documents and expenditure data

<ul style="list-style-type: none"> • Is the anti-corruption programming making an impact on corruption levels? 	<ul style="list-style-type: none"> • Movements in country indicators, including: <ul style="list-style-type: none"> - Transparency International Corruption Perceptions Index; - World Bank Government Matters indicators on control of corruption; - International Development Association Resource Allocation Index indicators on control of corruption; and - Public Expenditure and Financial Accountability (PEFA) assessments • Corruption-related reform measures taken by government • Effectiveness and impact of DFID anti-corruption programmes 	<ul style="list-style-type: none"> • Movements in country indicators • Reviews of corruption-related programming <p>N.B. We will make an overall, rather than an indicator by indicator, assessment of whether DFID is making a plausible contribution to improving corruption.</p>
<ul style="list-style-type: none"> • Does the country office have adequate controls and procedures in place to prevent corruption? 	<ul style="list-style-type: none"> • Sufficient financial management capacity in the country team • Level of staff understanding of and compliance with corporate controls and systems 	<ul style="list-style-type: none"> • Meetings with country office staff • Sample of projects examined in detail, including: <ul style="list-style-type: none"> - design documents; - financial and activity reports; - meetings with responsible staff; and - a small number of site visits and meetings with implementing partners
<ul style="list-style-type: none"> • Does the country office adequately assess the level of corruption risk before committing funds? 	<ul style="list-style-type: none"> • For financial aid: regularity and adequacy of FRAs (country and sector level) • For other aid: adequacy of assessment of implementing agents' systems and controls 	<ul style="list-style-type: none"> • FRAs • Sample projects – meetings
<ul style="list-style-type: none"> • Does the country programme have an appropriate balance of aid modalities, given the assessed level of corruption risk and the requirements of development effectiveness? 	<ul style="list-style-type: none"> • Existence of a clear and explicit rationale for choice of modalities, given the need for proportionality between fiduciary risk level and expected development impact • Appropriate choices of implementing agents 	<ul style="list-style-type: none"> • Meetings with country office staff • Meetings with other informed observers

<ul style="list-style-type: none"> Does the country programme take appropriate measures within the design of its programmes to mitigate corruption risk? 	<ul style="list-style-type: none"> Adequacy of financial controls Adequacy of supervisory arrangements over implementing agents Use of conditionality Use of monitoring by intended beneficiaries 	<ul style="list-style-type: none"> Meetings with country office staff Sample projects <p>N.B. Look out for examples of both good and bad practice, especially in monitoring by intended beneficiaries</p>
<ul style="list-style-type: none"> Does the country programme effectively monitor the level of corruption risk in its programmes? 	<ul style="list-style-type: none"> Regular monitoring of its implementing agents, including site visits Regular audits Adequate review by DFID staff of financial statements and audit reports Involvement of intended beneficiaries in monitoring arrangements 	<ul style="list-style-type: none"> Meetings with country office staff Sample projects
<ul style="list-style-type: none"> Does the country programme respond appropriately when levels of corruption risk are assessed as having increased? 	<ul style="list-style-type: none"> Have any events (e.g. corruption incidents, backsliding on policy commitments, worse-than-expected fiduciary assessments) led to a reassessment of the level of corruption risk? If so, were aid modality or programme designs adjusted in response? 	<ul style="list-style-type: none"> Meetings with country office staff
<ul style="list-style-type: none"> Has the country office responded adequately to corruption incidents? 	<ul style="list-style-type: none"> Timely measures to prevent further losses Country office sought and received guidance from Counter-Fraud Unit on how to respond Investigation by Counter-Fraud Unit or through forensic audit Measures taken to recover financial losses Pursuit of sanctions against perpetrators Diagnosis of what went wrong Adjustment of programmes to prevent recurrence 	<ul style="list-style-type: none"> Meetings with country office staff Project documents