

Independent Commission for Aid Impact (ICAI)

Investigation into DFID’s programme controls and assurance in Afghanistan

Inception report

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1. Introduction

- 1.1. 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.
- 1.2. With the public interest in the UK's engagement in Afghanistan - it was the top priority country of respondents to our public consultation - we wish to begin a process of investigating how UK aid is delivered in Afghanistan by looking at the assurance provided by the systems used to manage delivery.
- 1.3. This inception report sets out a brief description of the review, which is intended to assess the effectiveness of the steps taken by the Department for International Development (DFID) to help ensure that aid monies to Afghanistan reach their intended beneficiaries and are used for their intended purpose.
- 1.4. In addition to outlining the purpose and nature of the study, this document describes the scope, limitations and detailed methodology to be undertaken to produce a draft report by 12 January 2012. Meeting this deadline is subject to completing our Afghanistan-based fieldwork by 5 December 2011. This inception report also sets out a range of risks to completing this work and the possible mitigating actions to manage proactively the risks and to respond should they materialise.
- 1.5. Afghanistan is a priority for us and the results from this review are likely to inform the scale and scope of our future reviews of the Afghanistan programme and also to link to our assessment of DFID's approach to anti-corruption.¹

2. Background

2.1. This section sets out:

- a brief synopsis of the issues affecting Afghanistan, noting that these issues and the influence of corruption are limiting factors to the effectiveness of international aid;
- the current and future scale of DFID's share of UK aid to Afghanistan; and
- the status of existing controls and assessment.

Issues affecting Afghanistan

2.2. Afghanistan is a fragile state with a complex mix of well-documented political, social, economic, organisational and security factors and conditions including:

- weak, opaque and bureaucratic government structures with limited technical capacity and co-ordination;
- political parties divided by ethnic background, conflict-related allegiances and religious affiliations;
- under-developed finance system and opportunity for tax revenues;

¹ *The Department for International Development's Approach to Anti-Corruption*, Independent Commission for Aid Impact, November 2011, <http://icai.independent.gov.uk/wp-content/uploads/2010/11/DFIDs-Approach-to-Anti-Corruption.pdf>.

- poor infrastructure and standards for education, health, transport, water, food and banking;
 - long-standing military conflicts involving a range of armed opposition groups, insurgents and external influences;
 - high levels of poverty among both urban and rural populations;
 - low levels of female participation across society;
 - a deep-rooted, significant and complex poppy economy, on which many people's incomes depend; and
 - increasing informal market trade in goods.
- 2.3. Many commentators, researchers, governments and charities have commented on the impact of lawlessness or corruption (in their various forms) across all aspects of Afghan society and life. A study completed at the end of 2009² by Integrity Watch Afghanistan described corruption in Afghanistan as rampant, its impact far-reaching, endemic and entrenched. Among its headlines was the statistic that one in seven Afghans experienced direct bribery in 2009 and that each bribe was, on average worth US\$156, representing 31% of per person income. The report summarises the damaging effects of corruption as undermining 'international efforts at building a responsive state, reducing poverty, fostering development, overcoming conflict, ensuring governance and gaining the trust of the people'.
- 2.4. The impact of corruption is, therefore, not limited to the state but also undermines the effectiveness, capacity and legitimacy of the international community's contribution. In this environment, it is, therefore, important to understand the extent of any leakage from aid programmes and which factors and delivery routes minimise any potential loss.

The current and future scale of DFID's share of UK aid to Afghanistan

- 2.5. DFID's expenditure on fragile states is set to rise from £1.8 billion in 2010 to £3.8 billion in 2014-15.³ The UK is one of 36 nations⁴ involved in a strategy to engage, stabilise and develop Afghanistan since 2001. UK Government efforts are co-ordinated by the Cabinet Office which aims to deliver this strategy through the 'three Ds' of defence, diplomacy and development. The UK uses and is influenced by these considerations in many of its aid programmes to Afghanistan. This adds a further layer of complexity to assessing a clear line of financial sight from planned aid through a number of channels to intended outcomes.
- 2.6. Over the last decade, the UK has been a significant donor to Afghanistan. As a result of the commitment to increase Official Development Assistance (ODA), DFID's planned total annual expenditure to Afghanistan on bilateral support is £178 million for 2011-12 and the same amount for each of the next three years. In Afghanistan, DFID spends its money in four areas:
- governance and security;
 - education;
 - wealth creation; and
 - humanitarian assistance.

Status of existing controls and assessment

- 2.7. DFID's Operational Plan for Afghanistan for 2011-15⁵ states that 'we have a robust system of checks and balances in place to ensure UK aid money helps only those it is intended to'. An independent evaluation of the Afghanistan country programme in 2009, commissioned by

² *Afghan perceptions and experiences of corruption - A national survey 2010*, Integrity Watch Afghanistan, 2010, page 19, www.iwaweb.org/Reports/PDF/IWA%20corruption%20survey%202010.pdf.

³ *Department for International Development Annual Report & Resource Accounts 2009-10 - Third Report of Session 2010-11*, p3, DFID, January 2011, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605.pdf>.

⁴ *Country Programme Evaluation Afghanistan*, DFID, May 2009, <http://www.oecd.org/dataoecd/5/28/47107291.pdf>.

⁵ *DFID Afghanistan Operational Plan 2011-15*, DFID, 2011, www.dfid.gov.uk/Documents/publications/1/op/afghanistan-2011.pdf.

DFID,⁶ identified, however, that reliable data and evidence about the use and outcome of aid monies in Afghanistan have often been scarce.

- 2.8. Given the strategic political importance of the UK's involvement in Afghanistan, the increasing levels of development support in a continuing period of austerity and the scheduled military withdrawal, the effectiveness of its aid programme will continue to attract high levels of scrutiny from the public and press alike.

3. Purpose

- 3.1. To establish how effective DFID's arrangements are for ensuring that aid monies are used for their intended purpose in Afghanistan.

4. Relationships to other studies

- 4.1. DFID's work in Afghanistan has been subject to considerable and regular scrutiny, not least from the UK Parliament through the International Development Committee (IDC) and other Select Committees. As a result, this review has relationships to:

- specific research and government findings into aid delivery in Afghanistan;
- reports into fragile states and many of the background issues outlined in Section 2 above; and
- studies into the financial and management control exercised by DFID in discharging its responsibilities.

Our review will draw on the relevant issues from across these reviews, as set out in the remainder of this section and we will follow-up the IDC recommendations.

- 4.2. IDC received written evidence from DFID regarding the question of how the latter plans to mitigate fraud risks as it increases its use of partners to deliver projects in fragile states.⁷ This evidence included the following statements:

- 'DFID applies its rigorous anti-fraud practices in every country, whether fragile or more stable. Aid instruments are chosen based on context and appropriateness in the individual country and aid may be delivered through the state, with the state or outside the state even in fragile contexts';
- 'DFID is working actively to combat fraud and corruption both internally and with our partners. We take a robust approach to addressing allegations involving our funds, including through disciplinary sanctions, criminal prosecutions and the suspension of aid where appropriate';
- 'DFID applies a range of controls and procedures to minimise the risk of fraud and corruption. We carry out Fiduciary Risk Assessments, conducted against international benchmarks and subject to independent scrutiny'; and
- 'DFID also undertakes wider risk assessments of its country programmes and of individual projects. Project management systems have a wide range of controls to prevent risks materialising including payment authorisation and procurement requirements, project monitoring, performance reviews and independent evaluations.'

- 4.3. In 2008, the National Audit Office (NAO) published its report *DFID Operating in Insecure Environments*⁸ (which included Afghanistan). It came to some specific conclusions and made recommendations for DFID, including:

⁶ Country Programme Evaluation Afghanistan, DFID, Evaluation Report EV696, May 2009, www.dfid.gov.uk/Documents/publications1/evaluation/afghan_eval.pdf.

⁷ Written evidence submitted by DFID for 2009-2010 Resource Accounts, evidence submitted on 11 October 2010, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605we02.htm>.

- 'There is limited research and experience on delivering effective aid in insecure environments, so the information on which DFID is able to base its decisions is weak';
- 'DFID staff do not have enough practical guidance on working in insecure environments';
- 'Successful projects have good design features that should be applied more consistently';
- 'Monitoring in insecure environments is difficult, but DFID needs to identify and respond to problems as early as possible'; and
- 'DFID needs better management information on its costs to inform its decisions and achieve value for money.'

4.4. DFID's 2009 Afghanistan Country Programme Evaluation⁹ highlighted the challenges of delivery and control, which is notable given the context of the majority of DFID's funds being put through the Afghanistan Reconstruction Trust Fund (ARTF):

'DFID's practice of putting its aid funds through common systems adds to the usual problems of attribution in development aid. Evidence of the results of specific inputs in a multi-funded project is therefore often related more to aid effectiveness than to wider developmental impacts. Moreover, in all programmes, security constraints prevent staff monitoring either outputs or impact in any consistent manner.'

4.5. DFID's policy on evaluation commits it to rely on the evaluation systems of partner multilateral organisations for assessment of the effectiveness and efficiency of multilateral aid.¹⁰ The Defence Committee's report - *Operations in Afghanistan*¹¹ - noted recommendations from the British and Irish Agencies Afghanistan Group that Provisional Reconstruction Teams needed to put in place 'proper systems ... to ensure contractors are vetted and contracts awarded on the basis of merit and a fair and competitive bidding process' and that 'the British Government should assist the Government of Afghanistan to develop a set of standards to assess the qualification and suitability of contractors and to ensure that contract management and procurement policies are effectively implemented'.

4.6. NAO has recently investigated DFID's financial management controls in general terms¹² and its revised approach to allocating resources. This investigation noted improvements to the core financial management at DFID but also identified a number of relevant recommendations and comments:

- 'The Department will need good quality periodic information on what results have been delivered, and what results are due to be delivered split by the maturity of projects and their likelihood of progressing to the required timetable';
- 'The Department needs to improve the timeliness and quality of data provided by its partners';
- 'More focus on improving value for money is needed, through strengthening the links between inputs and outputs, extending unit cost data and establishing minimum thresholds which if not achieved would trigger the requirement for re-approval of projects';
- '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 Department should do more to establish the impact on its business, by corraling the knowledge it already

⁸ *DFID Operating in Insecure Environments*, National Audit Office, October 2008, HC 1048, Session 2007-08, www.nao.org.uk/idoc.ashx?docId=d79346cc-51fd-4d2e-8e74-2fe9c01c7783&version=-1.

⁹ *Country Programme Evaluation Afghanistan*, DFID, Evaluation Report EV696, May 2009, www.dfid.gov.uk/Documents/publications1/evaluation/afghan_eval.pdf.

¹⁰ *Synthesis Study of DFID's Strategic Evaluations 2005-2010*, ICAI, January 2011, <http://icai.independent.gov.uk/wp-content/uploads/2011/05/Synthesis-Study-of-DFIDs-Strategic-Evaluations-2005-20101.pdf>.

¹¹ *Operations in Afghanistan, Fourth Report of Session 2010-12*, House of Commons Defence Committee, 26 October 2010, www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/554/554vw.pdf.

¹² *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.

has and through research. Efforts to spread lessons learned in the identification and investigation of fraud should be extended’;

- ‘..it should assess the further enhancements required to support improved financial and wider performance management, including more extensive unit costing’; and
- ‘Risk management should be fully aligned with other management activities, with appropriate risk registers maintained by business units and country offices. Procedures should be implemented to escalate risks appropriately.’

5. Methodology

5.1. This section sets out to define the scope of the review and the key questions we will address to meet the terms of reference. We also set out our detailed stages of work and how these meet the scope of the review.

5.2. In summary, our assessment is designed to help to identify:

- the risk of leakage of funds and whether there is any pattern to the proportion of aid money likely to be at risk;
- the measures DFID puts in place, the overall effectiveness of programme assurance and controls and how they might be strengthened; and
- whether the programme controls now in place will be effective in the future.

5.3. In considering each of these issues, we will also establish a clear map of the aid programme to Afghanistan (what might usually be referred to as the delivery chain).

Evaluation framework

5.4. The evaluation framework for this review is set out in the table below. This has as its basis the standard ICAI guiding criteria and evaluation framework, which are focussed on four areas: objectives, delivery, impact and learning. The evaluation questions are based on those set out in the terms of reference (ToR) agreed by the ICAI Commissioners and we have added a number of other pertinent questions we want to investigate in this review. The questions which are highlighted in bold are those derived from the ToR on which we will focus in particular. This review will focus particularly on objectives and governance elements of the standard framework.

Relevant ICAI Evaluation Framework Questions	Review Questions	Criteria for Assessment	Sources of Evidence
Objectives: what is the programme trying to achieve?			
Does the programme have clear, relevant and realistic objectives that focus on the desired impact? (1.1)	<p>What is DFID's approach to allocating aid and determining expectations to intended beneficiaries in Afghanistan?</p> <p>a) <i>How clear are DFID's arrangements?</i></p> <p>b) <i>How does DFID work with its government partners to select its programme of activities in Afghanistan? e.g. FCO, MOD and members of the National Security Council.</i></p> <p>c) <i>How are alternative options considered and compared to achieve the desired outcomes in Afghanistan?</i></p> <p>d) <i>What challenge occurs in the decision-making process with respect to proposed aid plans and the impact on their intended purpose?</i></p> <p>e) <i>What discussions happen at this stage and with whom, to determine the likely or acceptable level of leakage?</i></p> <p>f) <i>To what extent are any background factors considered when planning aid allocations, e.g. robustness of evidence?</i></p> <p>g) <i>What are the typical outcome and output measures in financial and non-financial terms identified at the planning stage?</i></p> <p>h) <i>How relevant, credible and accurate are the output and outcome measures identified at the planning stage by DFID?</i></p>	<ul style="list-style-type: none"> • Clear documented approach • Regular and effective working with partner organisations to discuss programme selection • A range of programme choices to deliver intended benefits • Decision-making process and evaluation criteria • Challenges, queries and responses to the options • High-quality debate and discussion • Identification or estimate of leakage • Background factors in proposals, discussions or risk assessments • Financial and non-financial indicators • Assumptions used in estimating outcomes • Similarity between outline programme plans and their updates • Robust indicator measurement 	<ul style="list-style-type: none"> • Interviews with DFID • DFID documentation • DFID meeting notes / agendas • Interviews with government partners • DFID reporting and planning documentation • Analysis of documentation

<p>Is there a clear and convincing plan, with evidence and assumptions, to show how the programme will work? (1.2)</p>	<p>Is there a clear and convincing plan, with evidence and assumptions, to show how the programme will work? (1.2) What are the strategic imperatives that inform continuation of this programme?</p>	<ul style="list-style-type: none"> • Rationale for controls in place supported by Afghan context 	<ul style="list-style-type: none"> • Interviews with DFID
<p>Does the programme complement the efforts of government and other aid providers and avoid duplication? (1.3)</p>	<p>How have the governance systems at all levels and controls put in place by DFID been informed by the experience of other countries providing large amounts of aid to Afghanistan e.g. US, Japan, UAE? <i>a) How does DFID take account of other donor countries' experience?</i></p>	<ul style="list-style-type: none"> • Comparative assessment with other donors 	<ul style="list-style-type: none"> • Interviews with DFID • Interviews with other donors • Review of DFID arrangements and documentation
<p>Are the programme's objectives appropriate to the political, economic, social and environmental context? (1.4)</p>	<p>To take account of the environment, how should DFID's controls vary from what might be expected? What comparisons are made between different projects (a) in-country and (b) in other fragile states?</p>	<ul style="list-style-type: none"> • Rationale for controls in place supported by Afghan context • Comparative assessment 	<ul style="list-style-type: none"> • Interviews with DFID • Review of DFID arrangements
<p>Delivery: is the delivery chain designed and managed so as to be fit for purpose?</p>			
<p>Is the choice of funding and delivery options appropriate? (2.1)</p>	<p>How is the spending allocation affected by the fiduciary controls applicable to a particular means of aid delivery? <i>a) What are the financial and non-financial arrangements at DFID to implementing aid programmes in Afghanistan?</i> <i>b) How do the tender procedures support the collection of robust evidence for the aid programme?</i> <i>c) What mechanisms does DFID use to secure agreement on any phasing of allocated funds and their conditions?</i></p>	<ul style="list-style-type: none"> • Clear process maps and understanding of the Afghan aid allocation process • Report updates on status of fiduciary control and their application or change to DFID arrangements • Positive feedback from DFID on the tender process's suitability and effectiveness in using available competition • High-quality supporting documentation to the tender process tailored to Afghanistan needs • Robust agreements that phase allocation • Range of measures in place 	<ul style="list-style-type: none"> • Interviews with DFID • Procurement documentation • Completed tender documentation • Interviews with partner organisations • Review of agreements

Does programme design and roll-out take into account the needs of the intended beneficiaries? (2.2)	See 1.1	<ul style="list-style-type: none"> • See 1.1 	<ul style="list-style-type: none"> • See 1.1
Is there good governance at all levels, with sound financial management and adequate steps being taken to avoid corruption? (2.3)	<p>What involvement does DFID's Counter-Fraud Unit have in establishing the programme assurance and controls?</p> <p>How are reports of leakage handled and investigated in the governance process?</p>	<ul style="list-style-type: none"> • Publicised and clear mechanisms for whistle blowing in place • Early reporting to Counter-Fraud Unit and timely investigation • Positive feedback from Counter-Fraud on the speed of notification 	<ul style="list-style-type: none"> • Interviews with DFID • Review of documentation • Interviews with DFID Counter-Fraud Unit
Are resources being leveraged so as to work best with others and maximise impact? (2.4)	<p>How integrated are the programmes with wider activities, in particular security programmes and local government stability?</p> <p>a) <i>What are the links to other areas of activities?</i></p> <p>b) <i>How inter-linked or dependent are the activities?</i></p> <p>How effectively is the Fiduciary Risk Assessment (FRA) for Afghanistan used in the planning (or allocation) stage?</p> <p>a) <i>How widespread are the assessment findings understood and reviewed? What is the effect on how aid is channelled?</i></p> <p>b) <i>What are the key actions arising from the FRA? How have the FRAs influenced DFID's decisions?</i></p>	<ul style="list-style-type: none"> • Clear reference to other programmes of work / agencies • Joint planning or shared documents or timetables for delivery • Inter-department meetings to discuss activities • Knowledge from the assessment is extensive • Findings used and referenced in planning assessments • DFID has responded to assessment 	<ul style="list-style-type: none"> • Interviews with DFID • Review of documentation • DFID meeting notes / agenda • Interviews with government partners, e.g. FCO and MOD • Interviews with DFID UK • Interviews with DFID Afghanistan

<p>Do managers ensure the efficiency and effectiveness of the delivery chain? (2.5)</p>	<p>How does DFID hold organisations in the delivery chain to account? a) <i>How does DFID exercise control across all its aid to Afghanistan?</i></p>	<ul style="list-style-type: none"> • Clear arrangements established in the delivery chain • Effective intervention in response to performance deviation • Routine performance meetings to discuss progress 	<ul style="list-style-type: none"> • Interviews with DFID UK • Interviews with DFID Afghanistan • Interviews with DFID Internal Audit • Review of progress reports and other documentation
<p>Is there a clear view of costs throughout the delivery chain? (2.6)</p>	<p>To what extent are the financial controls and accountabilities specified by DFID actually applied in country? a) <i>What financial controls and accountabilities does DFID expect to operate in Afghanistan?</i> b) <i>To what extent does DFID review the effectiveness of those arrangements?</i> c) <i>Does DFID have evidence that their expected levels of accountability and control exist in practice?</i> Through its evaluation process, does DFID develop a clear assessment of each project delivery chain's checks and balances?</p>	<ul style="list-style-type: none"> • Stated DFID controls and accountabilities • Completed reviews for each project • Detailed assessment for each key stage • Reference to the project risk log where appropriate • Positive evaluation reviews of local controls in place • Completed post-project evaluation techniques and their rationale for use • Benefits realisation and its reporting • Recommendation tracking system • Good progress measured by, for example, few outstanding actions, actions completed to first agreed time 	<ul style="list-style-type: none"> • Interviews with DFID • Interviews with DFID Internal Audit • Completed reviews • Risk logs • Relevant documentation • Review of project evaluations • Benefits realisation reporting • Recommendation progress reports • Review of system

Are risks to the achievement of the objectives identified and managed effectively? (2.7)	<p>In establishing safeguards to mitigate risk, how does DFID know what mechanisms work best and why?</p> <p>a) <i>How does DFID use its risk management system to resolve control issues arising from its aid to Afghanistan?</i></p> <p>b) <i>For those programmes that are reported as deviating from expected outcomes, what is the decision-making process before taking mitigating actions?</i></p> <p>c) <i>What techniques are used to address control issues both locally in Afghanistan and at DFID in the UK?</i></p>	<ul style="list-style-type: none"> • Effective intervention by DFID achieving corrective output measures • Consideration of factors leading to deviation as part of the decision-making process • Different techniques depending on circumstance or issue 	<ul style="list-style-type: none"> • Interviews with DFID UK • Interviews with DFID Afghanistan • Interviews with DFID Internal Audit • Interviews with partner organisations • Analysis of progress reports • Review of meeting minutes • Interviews with DFID Afghanistan • Interviews with third parties
Is the programme delivering against its agreed objectives? (2.8)	<p>Is the programme delivering against its agreed objectives? (2.8)</p> <p>Also, based on 2.7</p>	<ul style="list-style-type: none"> • See 2.7 	<ul style="list-style-type: none"> • See 2.7
Are appropriate amendments to objectives made to take account of changing circumstances? (2.9)	<p>Are appropriate amendments to objectives made to take account of changing circumstances? (2.9)</p> <p>How are 'intelligence' and information received about the misappropriation of aid monies in Afghanistan used in considering how best to vary future (or planning) funds?</p>	<ul style="list-style-type: none"> • Documented procedures followed • Communications to the planning system • Behaviour change 	<ul style="list-style-type: none"> • Review of investigations • Interviews with DFID and the Counter-Fraud Unit
Impact: what is the impact on intended beneficiaries?			
Is the programme delivering clear, significant and timely benefits for the intended beneficiaries? (3.1)	No direct assessment of this question is being undertaken. See scope limitations at paragraph 5.8	<ul style="list-style-type: none"> • n/a 	<ul style="list-style-type: none"> • n/a
Is the programme working holistically alongside other programmes? (3.2)	See 2.4	<ul style="list-style-type: none"> • See 2.4 	<ul style="list-style-type: none"> • See 2.4
Is there a long-term and sustainable impact from the programme? (3.3)	Is there a long-term and sustainable impact from the programme? (3.3)	<ul style="list-style-type: none"> • Long-term strategy for replacing aid 	<ul style="list-style-type: none"> • Interviews with DFID and relevant third parties • Supporting documentation

Is there an appropriate exit strategy involving effective transfer of ownership of the programme? (3.4)	Is there an appropriate exit strategy involving effective transfer of ownership of the programme? (3.4)	<ul style="list-style-type: none"> Exit strategy or equivalent 	<ul style="list-style-type: none"> Interviews with DFID and relevant third parties Supporting documentation
Is there transparency and accountability to intended beneficiaries, donors and UK taxpayers? (3.5)	Is there transparency and accountability to intended beneficiaries, donors and UK taxpayers? (3.5)	<ul style="list-style-type: none"> Reporting to DFID London, beneficiaries and donors 	<ul style="list-style-type: none"> Interviews with DFID and relevant third parties Supporting documentation
Learning: what works and what needs improvement?			
Are there appropriate arrangements for monitoring inputs, processes, outputs, results and impact? (4.1)	How effectively has DFID implemented recommendations on financial and non-financial controls from past evaluations?	<ul style="list-style-type: none"> Frequent and routine reporting and distribution to key partners Comprehensive data on key indicators of success or milestones Sharing of key lessons with partners Positive feedback and actions by local partners working with DFID 	<ul style="list-style-type: none"> Interviews with DFID Review of local reports Interviews with local partners Supporting documentation
Is there evidence of innovation and use of global best practice? (4.2)	Is there evidence of innovation and use of global best practice? (4.2)	<ul style="list-style-type: none"> Evidence of innovation either in terms of approach or delivery relative to the way in which DFID or other organisations operate 	<ul style="list-style-type: none"> Interviews with DFID Supporting documentation
Is there anything currently not being done in respect of the programme that should be undertaken? (4.3)	Is there anything currently not being done in respect of the programme that should be undertaken? (4.3)	<ul style="list-style-type: none"> Evidence of reported activities not currently undertaken 	<ul style="list-style-type: none"> Interviews with DFID Supporting documentation

<p>Have lessons about the objectives, design and delivery of the programme been learned and shared effectively? (4.4)</p>	<p>What evaluations and audits have been performed in the past five years and what have their key recommendations been?</p>	<ul style="list-style-type: none"> • Completed post-project evaluation techniques and their rationale for use 	<ul style="list-style-type: none"> • Interviews with DFID • Interviews with DFID Internal Audit • Review of project evaluations
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5.5. Using this evaluation framework, we will make an overall assessment against each step.

5.6. There are certain limitations in the scope of this review:

- this is an investigation which will focus on DFID's programme controls and systems. So, whilst it will examine systems which ultimately will help to develop efficiency, effectiveness and impact, it will not in itself assess the efficiency and effectiveness of the Afghanistan programme of aid;
- equally, we will not comment on the effectiveness of aid on the conflict in Afghanistan;
- the study will focus only on funds administered by DFID. Other UK government funds such as those of FCO, the Conflict Pool and the Strategic Programme Fund fall outside the scope of this review. We will include in our work, however, transfers made out of the bilateral programme through multilateral channels, insofar as we are able to access information about these;
- we will only be able to estimate the level of leakage for any individual programme or in aggregated form. Any estimate is likely to have a wide margin of error where the data are either scarce, subjective and / or prove to be non-verifiable;
- we will not be able to witness on-the-ground delivery of aid or hold discussions with intended beneficiaries due to the security issues in Afghanistan; and
- KPMG has an office in Kabul. We will seek to use their resources and expertise as part of this review. Part of their work currently involves reviewing aid programmes for clients with a donor or delivery role. Where KPMG Kabul has relationships with DFID or its partners through this work, we will design mitigation actions to avoid any conflicts. Work we are aware of which might fall into this category includes:
 - audit of Harakat (an independent, not-for-profit, Afghan-managed organisation that aims to improve Afghanistan's business environment) which is funded by DFID;
 - provision of payroll outsourcing services to the Comprehensive Agriculture & Rural Development - Facility (CARD-F) which is funded by DFID;
 - vehicle expenses audit on the ELECT programme for UNDP; and
 - local fund agent for the management of the Global Fund.

5.7. Our work in Afghanistan will build on our UK understanding of DFID's systems and processes for leakage control and involve tests of detail on a sample of programmes. This work is split into three key stages. Within each of these stages, we will undertake a range of tasks.

Stage 1: Fieldwork

This will involve work to:

- 1) document and review DFID's current system for planning, allocating, monitoring, controlling and evaluating its Afghanistan aid programme and budgets;
- 2) obtain clarity on the delivery chain for the current programme portfolio of aid to Afghanistan that DFID supports;
- 3) identify and assess the key controls in operation and the intended benefits measures;
- 4) identify a sample of projects / programmes and plan our fieldwork testing;
- 5) review (a) academic, government and practitioner literature on aid to Afghanistan; and (b) recent audit and reviews undertaken; and
- 6) interview key stakeholders in DFID's London and East Kilbride offices and other partner organisations based in the UK and carry out further document review.

Stage 2: Fieldwork

This will involve work to:

- 7) document and review the local Afghan system for aid control and assurance;
- 8) identify and document the sample projects' project management arrangements and status;
- 9) assess the level of management controls compared to controls which are reasonable for the context;
- 10) test in detail the adequacy and effectiveness of the controls in place; and
- 11) verify and quantify facts and issues throughout the period of fieldwork.

Stage 3: Analysis

This will involve work to:

- 12) compare project management techniques to best practice;
- 13) compare and contrast local Afghan findings to DFID's performance management system;
- 14) select and prepare case studies; and
- 15) produce and review of draft report for discussion.

5.8. The remainder of this section sets each of these tasks in more detail.

Stage 1: Fieldwork

- 1) Document and review DFID's current system for planning, allocating, monitoring, controlling and evaluating its Afghanistan aid programme and budgets.
- 5.9. We will discuss with DFID officers in detail the process of aid allocation to Afghanistan and the systems used to support the tracking of aid and its intended benefits. We will also discuss with FCO and MOD their perspective and insight into the approach DFID takes to ensure that the benefits from the aid are appropriately accounted for.
- 5.10. This work will establish the key contacts, issues and developments in order for us to facilitate an effective and efficient review and understand how future changes are likely to influence results over time. This action will also begin to populate our map of aid to Afghanistan.
- 2) Obtain clarity on the delivery chain for the current programme portfolio of aid to Afghanistan that DFID supports.
- 5.11. We will use our discussions with DFID and their information to develop a detailed understanding of the current portfolio of projects in Afghanistan; the UK contribution, the organisations involved, the projects' purpose, current status, expected benefits and any assurance work to date on their progress and their findings.
- 5.12. We will also use our wider discussions with stakeholders to build up our understanding of the expected controls and benefits evidence. This work will begin to shape our methodology and understanding of the local factors that may contribute to leakage in aid delivery.
- 5.13. Also, from this work at 1) and 2), we will produce a clear map of the current delivery chain of aid from DFID through its bilateral and multilateral routes to Afghanistan. This map will aid high-level understanding and help to identify the factors that will determine an appropriate sample for our further fieldwork.
- 3) Identify and assess the key controls in operation and the intended benefits measures.
- 5.14. We will identify the key controls in place at each stage and level of the delivery chain that DFID uses to demonstrate benefit realisation in Afghanistan. We will discuss our findings with DFID officers in order to verify the existence, expectation and operation of those controls.
- 5.15. This work will provide us with a detailed understanding of DFID's control environment within its programme management and the key controls used to measure aid leakage and use. We will use this understanding to help plan our procedures and support our evidence expectations.
- 5.16. We will devise and carry out tests across the key controls and establish an independent assessment of their operating effectiveness within the scope of the UK operation. For example, we will review project updates and returns to DFID for timeliness and completion.
- 4) Identify a sample of projects / programmes and plan our fieldwork testing.
- 5.17. We will also devise a suite of tests for our Afghan fieldwork. In planning our detailed fieldwork, we will consider the availability and persuasiveness of evidence.

- 5.18. We will select a sample of projects for detailed testing once we have determined an appropriate population of completed and in progress projects that cover both bilateral and multilateral aid routes to Afghanistan. We will discuss and agree this sample with DFID in order to verify our findings and agree fieldwork testing in Afghanistan.
- 5.19. We anticipate selecting up to ten programmes. This sample will not be statistically representative of DFID's aid to Afghanistan; the purpose of choosing this sample is to provide insight from across a range of different factors:
- **Scale:** does the financial size of aid influence the robustness of DFID's controls?
 - **Purpose:** to what extent do the intended beneficiary and intended benefit help achieve robust control?
 - **Delivery mechanism:** how does the choice of aid modality/distribution chain influence the control and impact of DFID's aid to Afghanistan?
 - **Maturity:** how does the scale of DFID's control alter depending on the life-cycle or age of the project underway?
 - **Location:** to what extent does DFID's control change between programmes of work that operate in urban versus rural locations? For example, between Kabul and villages in Helmand province.
- 5) Review (a) academic, government and practitioner literature on aid to Afghanistan; and (b) recent audit and reviews undertaken.
- 5.20. Using the technical assistance and expertise available, we will supplement our work with DFID officers with a thorough review of relevant literature, for example the research project for the British and Irish Agencies Afghanistan Group (BAAG) being undertaken to collate and analyse UK aid to Afghanistan – in terms of amount, allocation and effectiveness. This will seek to identify:
- the significant issues identified when testing aid delivery;
 - key contentions or areas of debate; and
 - any focus or direction in testing aid delivery.
- 5.21. We will also draw on KPMG's audit and assurance experience from working in Afghanistan, for example in projects for the United States Agency for International Development (USAID).
- 6) Interview key stakeholders in DFID, for example in East Kilbride and other partner organisations based in the UK and carry out further document review.
- 5.22. We will build on our document review with a series of in-depth interviews with key stakeholders in the UK and abroad, to gain their perspectives on and insight into the delivery of aid to Afghanistan and factors affecting leakage and its minimisation.
- 5.23. We will seek to arrange interviews with representatives of the following organisations:
- DFID officers in the UK responsible for the co-ordination and management of Afghan projects;
 - DFID counter-fraud officers responsible for the prevention, detection and investigation of fraud;
 - up to eight leading international Non-Governmental Organisations (NGOs), organisations that represent them and charities that operate in Afghanistan, such as Care International, Global Witness, Crisis Action, Concern Worldwide and International Medical Corps UK. These discussions will be chosen for both working with DFID and for working independently in Afghanistan; and
 - we will consult with the researchers working for BAAG.

- 5.24. We will undertake these interviews in a semi-structured format, allowing us to focus on specific areas of interest while remaining open to active discussion of the issues involved. We will perform these interviews face-to-face where possible, or by video-conferencing or telephone.
- 5.25. We will also draw extensively on the experience and expertise of our partners at Agulhas. They will be able to provide detailed insight into the current experiences of aid to Afghanistan and the approaches of donor agencies to minimise aid leakage.
- 5.26. We fully expect further documents to be requested as a result of this task that we will review and incorporate into our assessment.

Stage 2: Fieldwork

- 7) Document and review the local Afghan system for aid control and assurance.
- 5.27. In Afghanistan, we will document the local system used to control aid programmes and provide assurance to the UK. At the system-wide level, we will compare and contrast this to the expected approach from the UK and update our understanding from Stage 1.
- 5.28. We will independently determine and verify the local control objectives and their methods and techniques for evidence collection. This will help to develop a framework upon which we can build an indicator for the measurement of aid leakage.
- 5.29. We expect to meet and discuss these issues with the DFID officers in Afghanistan responsible for overseeing local control and management of its aid programme.
- 8) Identify and document the sample projects' project management arrangements and status.
- 5.30. We will gather evidence from our discussions in Afghanistan on the detailed arrangements in place to performance manage local aid projects. We will understand in detail the status of the projects selected for detailed review.
- 5.31. During this work we will seek to verify any cost estimates made at the planning stage, their expenditure to date and forecast completion for costs and date, together with the key assumptions.
- 5.32. We will also seek to verify audit evidence to support the intended benefits and stages of implementation.
- 5.33. We expect to discuss these issues with the DFID officers in Afghanistan and with local agencies delivering the aid programmes, for example the Afghanistan Reconstruction Trust Fund.
- 9) Assess the level of management controls compared to controls which are reasonable for the context.
- 5.34. From Stage 1, task 4 we will have a series of planned procedures for our fieldwork methodology. This task is the first part of this series of planned activities (finishing at task 11).
- 5.35. Through our discussions with officers, we will identify and assess the local high-level controls in place to ensure that the benefits are delivered in line with expectations. We will compare these actual controls to the expected planned controls envisaged during the planning and allocation stages.
- 10) Test in detail the adequacy and effectiveness of the controls in place.
- 5.36. Once we have identified the key controls in place, we will devise and carry out a series of tests that will seek to assess the assurance levels available.

5.37. Through our testing, we will gather different types of evidence (for example, inquiry, physical examination, documentation and re-examination of previous findings) in order to assess the robustness of the controls in place and DFID evidence of benefits and project completion.

11) Verify and quantify facts and issues throughout the period of fieldwork.

5.38. We will collect all our test findings and evidence into a comprehensive file of supporting documents that we will use to underpin our conclusions and recommendations. We will ensure that we discuss our findings with local DFID officers so that we have identified the appropriate avenues of investigation and review. This should minimise any further work required and the risk of omitting sources of assurance.

5.39. We will complete a thorough quality assurance review of our findings prior to concluding on our work.

Stage 3: Analysis

12) Compare project management techniques to best practice.

5.40. We will compare the approaches used in aid delivery in Afghanistan to our cumulative knowledge gained through review and research and understanding of best practice corporate techniques when dealing with corrupt environments.

5.41. From this review and evidence, we will highlight the areas where DFID can strengthen its approach and discuss our findings with DFID.

13) Compare and contrast local Afghan findings to DFID's expectations.

5.42. We will collect and structure our findings from our Afghanistan fieldwork so that we can compare (and share) our findings to DFID's expectations. Where we identify gaps in assurance and / or weak mitigation, we will assess alternatives and discuss with DFID officers.

14) Select and prepare case studies.

5.43. We will identify the example stories, from our research, fieldwork and review that exemplify the key issues and findings arising from our work. We will use these to highlight the key challenges in formulating a performance framework for aid delivery and the actions used to mitigate risk and support benefits tracking.

15) Produce and review of draft report for discussion.

5.44. The output from this review will be a written report setting out our findings, conclusions and recommendations. As part of this, we will prepare a number of case studies, as discussed above, to illustrate findings and provide example evidence of our general findings and conclusions.

Sources of information

5.45. We set out in this section the information that we will require to support our work. We will need to discuss issues with a range of organisations and individuals involved in Afghanistan aid and review a number of key management documents.

Organisations and sources	Purpose
DFID officers	To understand existing programme assurances and controls. To discuss and explore current arrangements and experiences.
DFID Audit Committee members	To discuss past and present reviews and current levels of assurance.
DFID's Internal Audit Department (IAD)	To discuss DFID's system of internal control and risk management, reporting lines and information flows surrounding the Afghanistan programme and recent IAD work in Afghanistan, for example the systems audit being performed in Autumn 2011.
DFID's Counter-Fraud Unit (CFU)	To discuss with the Head of CFU the systems in place to minimise fraud and corruption with regard to aid to Afghanistan and specifically the measures in place to: <ul style="list-style-type: none"> • create an anti-fraud culture; • deter fraud; • prevent fraud; • detect fraud; • investigate fraud; • apply sanctions; and • seek redress. We will seek to establish the number of cases of proven misuse, their financial loss, recovered amounts and stopped payments with regard to Afghanistan aid allocations. We will also seek to understand the effectiveness of the relationship between CFU and DFID and more widely with the organisations engaged with DFID in aid into Afghanistan.
Key contacts with other partner UK government departments	To discuss working arrangements and agreements.
NGOs, including the representative British and Irish Agencies Afghanistan Group Multilateral organisations Afghanistan Government departments, for example the Ministry of Finance	To discuss DFID's arrangements in practice and experience of securing projects' planned benefits.
Chartered Institute of Public Finance and Accountancy (CIPFA)	To discuss international development benchmarking and improving public financial management.
Suppliers of aid in Afghanistan	To discuss experience of delivering projects in Afghanistan, securing assets and deliverables.

5.46. To assist us in our review and to facilitate the co-ordination between the ICAI team and DFID staff, we have provided below details of documentation we would like to review, if available. This list, which is not exhaustive, is as follows:

- access to the performance management system (ARIES) and contract management system (Alito);
- a copy of the latest DFID Risk Register;
- the latest Divisional Performance Frameworks pertinent to Afghanistan;
- DFID Afghanistan Operational Plan 2011 to 2015
- the Afghanistan Country Business Plan for 2010-11;
- the latest Afghanistan Fiduciary Risk Assessment;
- the Essential Guide to Rules and Tools (The Blue Book);

- any relevant internal audit reports including their follow-up findings relating to the areas of non-compliance with mandatory procedures on project management;
- project management updates for Afghanistan projects;
- project Completion Reports; and
- the findings from the reviews of the Afghanistan Reconstruction Trust Fund.

6. Roles and responsibilities

6.1. We have assembled a team with local and international fragile state knowledge and experience combined with a rigorous understanding of assurance processes.

6.2. KPMG LLP will be responsible for the oversight and day-to-day management of this project. This will encompass the performance of its own staff and specialist contracted consultants.

6.3. The table below outlines the proposed team members, their roles and responsibilities:

Team member and Experience	Roles and responsibilities
<p>Team leader</p> <p>He is a very experienced director who has worked across the public sector on strategy development, cost reduction and service transformation. He has carried out many high-profile and politically sensitive assignments, including a Home Office study on industry's compliance with its Code of Practice, the relocation of government departments and the outsourcing of the Metropolitan Police's vehicle fleet.</p>	<p>As team leader, he will direct and co-ordinate the review. He will also play a full part in the delivery of the review both in the UK and Afghanistan. He will liaise with ICAI's lead commissioner for this review.</p>
<p>Team member 1 – Principal Consultant</p> <p>He is an experienced public sector senior manager who has worked with a variety of public sector bodies at national and local levels. He worked closely with the National Audit Office on reviews into Data Quality and currently leads internal and external audit teams for a range of health sector bodies. As a result, he is familiar with how organisations design, operate and review controls and to achieve robust financial stewardship and project management.</p>	<p>He will carry out a significant proportion of the fieldwork in the UK and in Afghanistan. He will be the day-to-day contact for ICAI and for DFID.</p>
<p>Team member 2 – Principal Consultant</p> <p>A specialist in private sector development with over 30 years general management and consultancy experience in the UK private sector; with DFID advisory experience; and with international consultancy and project management experience in Afghanistan, Southern and East Africa, Asia and the Caribbean.</p>	<p>He will use his international development and Afghanistan experience in supporting the delivery of this review. He is one of the team of three which will carry out the fieldwork in Afghanistan.</p>
<p>Team member 3 – Principal Consultant</p> <p>He has over 25 years' experience in the police service, Government and law enforcement agencies. He has significant criminal and civil investigative experience. He was Director Operations with the Assets Recovery Agency and Deputy Director Intervention at SOCA. He has worked with EU countries on anti-money laundering programmes. He was part of the anti-corruption project for ICAI.</p>	<p>He will bring his knowledge and experience of the management of fraud, financial crime and asset recovery.</p>

Team member and Experience	Roles and responsibilities
<p>Team member 4 – Principal Consultant (Agulhas)</p> <p>He has over 15 years’ experience of policy analysis and has worked on the implementation of the Paris Declaration, aid effectiveness and fragile states. As a director in Agulhas, he is an authority in international law and human rights and has written widely on post-conflict reconstruction, state-building and the restitution of property. He has more recently specialised in aid effectiveness and governance processes, including policy development, programme design and evaluation.</p>	<p>He will advise the core team drawing on Agulhas’ experience. He will attend key meetings with ICAI Secretariat and the Commission.</p>
<p>Team member 5 – Consultant</p> <p>She has carried out a variety of research projects with the Foreign and Commonwealth Office, economic analysis with a think-tank and supporting an organisation to submit bids for World Bank projects.</p>	<p>She will focus on the fieldwork in the UK and will have responsibility for research and compiling the evidence base</p>

6.4. We will also involve other professional staff as required, subject to ICAI agreement.

7. Management and reporting

7.1. We will present initial findings for review by the ICAI Secretariat and Commissioners at a meeting on 14 December 2011. Allowing for subsequent preparation of the report, revision and review, we will complete and prepare the report for ICAI sign-off in the week commencing 27 February 2012.

8. Expected outputs and timeframe

8.1. The output from this study will be a written report setting out our findings and recommendations arising from our review to assess the effectiveness of the steps taken by DFID to help ensure that aid monies to Afghanistan reach their intended beneficiaries and are used for their intended purpose.

9. Risks and mitigation

Security in Afghanistan

9.1. The welfare and safety of staff and contractors working in Afghanistan is paramount and will not be compromised. We understand that DFID will arrange and provide for KPMG personnel the equivalent protection available to its own staff.

Key risks and mitigating actions

9.2. The following sets out the key risks and mitigating actions for this review.

Risk	Level of risk	Specific issues	Mitigation
1. Safety and security	High	<p>216 aid workers were killed in Afghanistan between October 1997 and December 2010.¹³ Security cannot be guaranteed to either review staff, staff we wish to interview or their locations and assets</p> <ul style="list-style-type: none"> • risk of terrorism; • risk to the person; and • risk to equipment. 	<ul style="list-style-type: none"> • use of local workforce who will have a lower profile; • pre Afghan fieldwork training on working in hostile environments to all review staff; • alternative interview arrangements and data collection techniques through the use of technology where feasible and appropriate; • use of security measures (transport, escort); • full risk assessment prior to planned fieldwork and implementation of any security measures identified as part of preparation; • use of DFID security arrangements; • greater use of local review staff already in place; • compliance with FCO guidance; and • sign-off by KPMG Board.
2. Timely access to officers of external organisations in Afghanistan	High	<ul style="list-style-type: none"> • delayed access to information and insight; • inappropriate information or data to support testing; and • for example, access to Ministry of Finance officers can typically take four weeks to secure. 	<ul style="list-style-type: none"> • early planning and communication; • use of local knowledge and contacts; and • proactive senior involvement.
3) Inability to access key Afghan information	High	<ul style="list-style-type: none"> • unable to access robust evidence to support oral assertions and assessments from sample testing both in the UK and abroad. 	<ul style="list-style-type: none"> • clear articulation of evidence required and swift follow up; • identification of alternative information sources; • identification and triangulation of supporting evidence where possible; and • in drawing conclusions, we will highlight areas lacking robust data and the limitations in any indirect evidence provided in its place.

¹³ Aid Worker Security Database, www.aidworkersecurity.org.

Risk	Level of risk	Specific issues	Mitigation
4) Timely access to officers of external organisations in the UK	Medium	<ul style="list-style-type: none"> • unable to access information and insights from senior officers in a timely fashion. 	<ul style="list-style-type: none"> • senior input into preliminary inquiries to communicate review importance and gain engagement; and • early planning and communication of target interviews.
5) Inability to access key UK information	Low	<ul style="list-style-type: none"> • unable to access from new management information system in DFID; • risk to identifying a representative sample; and • risk to identifying and accessing high-quality information. 	<ul style="list-style-type: none"> • early discussion with DFID officers on information requirements and system understanding; and • identification of alternative information sources.

10. How this review will make a difference

10.1. This independent review will provide:

- a clear map of understanding, showing aid to Afghanistan in terms of delivery mechanisms, finances, partners and projects;
- a collection of financial and non-financial measures being used to demonstrate benefit realisation;
- an assessment of those indicators to inform and support future allocation decisions;
- an assessment of the governance at all levels, risk and performance systems in place to support effective aid delivery;
- and
- demonstrable measures that DFID can use and report to the UK government and public in order to maintain and develop trust in the effectiveness of aid delivery.