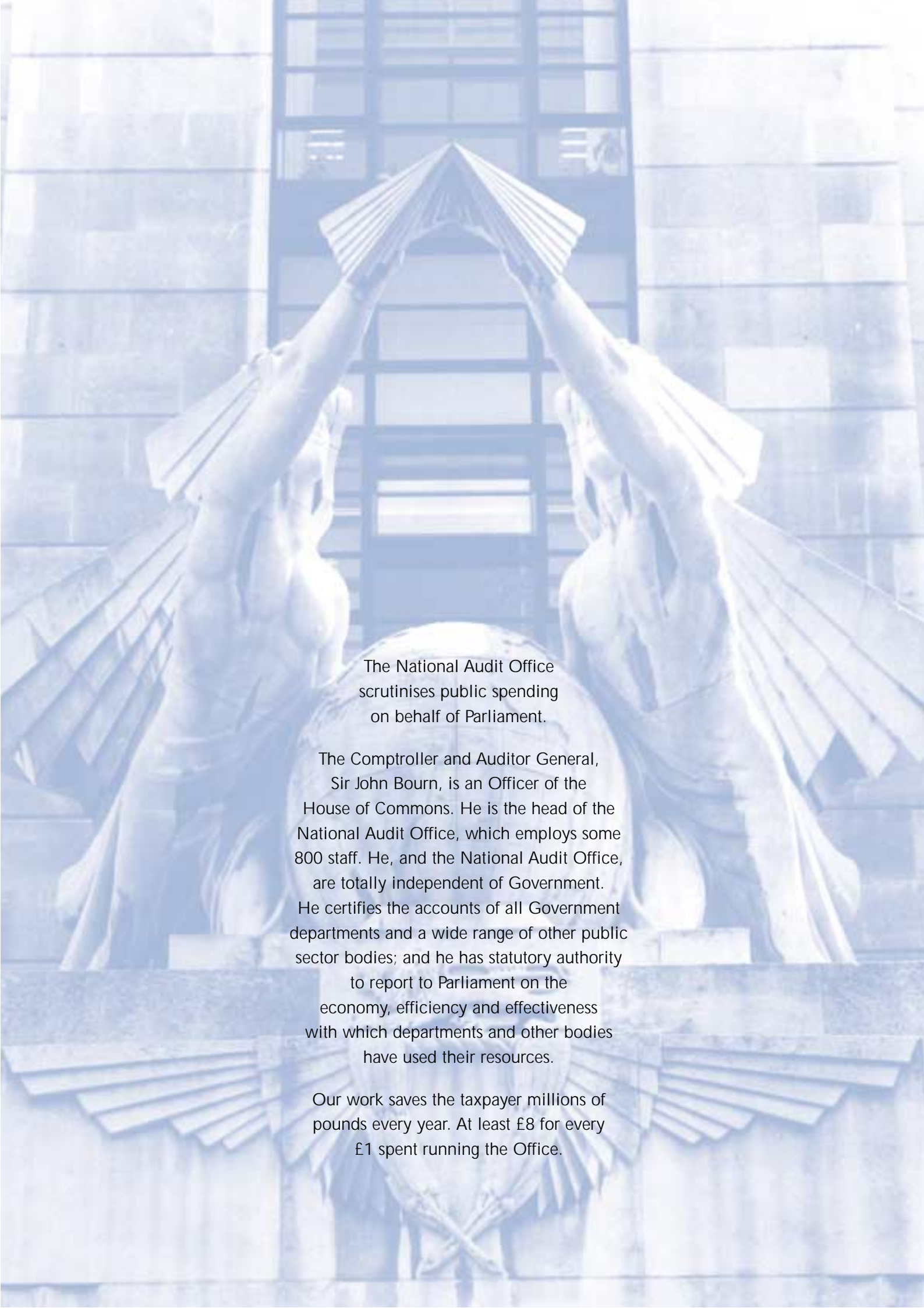


Department for International Development  
**A Review of Safeguards Against the  
Misappropriation and Diversion of Aid**





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Department for International Development

# A Review of Safeguards Against the Misappropriation and Diversion of Aid



The National Audit Office study team consisted of Richard Baynham and Amir Malik under the direction of Frank Grogan.

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# executive summary

- 1 Weak public expenditure management is one of the main reasons why poor countries remain poor. Amongst other things, it allows corruption to flourish and, in turn, corruption is a significant obstacle to the development of effective government systems and, consequently, to the delivery of improved services to the world's poor. It can also undermine the effectiveness of aid programmes and weaken public support for development assistance by creating the perception that all aid is affected. Within this context, the Department for International Development (DFID) is responsible for ensuring that there are proper and effective safeguards in place to protect aid provided by the United Kingdom government from being used for purposes other than those intended. The National Audit Office recognises that there are risks inherent in disbursement of aid and expects DFID to take appropriate steps to mitigate such risks in the management of its aid programmes.
- 2 DFID has a duty to ensure the regularity and propriety of public funds and has sought to meet its responsibilities by taking action at a number of levels. These include:
  - using the bilateral aid programme to improve governance in developing countries and supporting partner government efforts to reduce corruption;
  - implementing internal safeguards to protect aid from the risk of misuse; and
  - contributing to the global debate on corruption and actively seeking to raise awareness amongst the donor community and developing countries.
- 3 The different levels are complementary and each is important in tackling the threats posed by corruption. DFID has placed much emphasis on creating good policy environments and strengthening governance as a means of improving the effectiveness of aid and reducing corruption. The approaches adopted by country teams are tailored to individual country circumstances and have included assistance to strengthen government systems, build stronger institutions and support national anti-corruption strategies. The National Audit Office commends and encourages DFID in this work - such measures are vitally important in strengthening accountability and improving transparency in the management of public finances. Tackling corruption in a sustainable way requires a long-term effort and co-ordinated donor response to strengthen government systems. DFID's work is well-regarded by its Utstein partners who acknowledge the leading and proactive role that DFID plays in tackling corruption issues.

- 4 However, the increasing use of budget support exposes DFID to a different set of fiduciary risks as it has no direct control over the use of funds once they have entered government systems. DFID is explicitly seeking to develop its approach to addressing the risks inherent in the disbursement of budget support and the National Audit Office welcomes the opportunity to contribute to this work. The aim of this review is to assist DFID in developing effective arrangements for discharging its fiduciary responsibilities. To do this we have tried to take full account of the initiatives that DFID has undertaken and, on the basis of a limited review of the Department's plans and processes, we have sought to identify potential areas of improvement that would strengthen further departmental systems. We have not, at this stage, undertaken a detailed review of the application of budget support in a particular country. This is something which we will return to in our future audit work.
- 5 We recognise that DFID cannot, alone, be responsible for the elimination of poverty, or the development of government systems in developing countries. The achievement of the Millennium Development Goals requires a joint international response. DFID is committed to working in partnership with governments who are committed to the international targets and with the international development community to build an effective response in supporting these countries in reducing poverty. The actions of developing countries, are paramount in improving systems and delivering services to achieve the Millennium Development Goals. This review considers what DFID can do to support its partner countries through the broader international system and directly through its bilateral aid programme.
- 6 Our work recognises that the DFID's approach and systems continue to evolve. DFID is continuously striving to refine its approach in the light of its experience in developing countries. Consequently the views which this paper contains are necessarily a snapshot of where matters currently stand and those views may well change as the Department's arrangements mature. Nevertheless, we have sought to identify the key steps that we believe DFID should take in assessing and managing the risks, and highlight examples of good practice from other Utstein partners. We have also produced a checklist of the key questions that DFID might consider in tackling corruption and implementing budget support (Appendix 2). It remains DFID's responsibility to ensure that the safeguards are implemented properly and that staff are aware of good practice.

## Overall

- 7 Harmonisation of donor financial management practices has emerged as a priority for the donor community. It is beneficial for donors, and recipient governments, to promote effective partnerships as co-ordination offers advantages of more efficient working practices and a stronger, more consistent message that corruption will not be tolerated. We encourage DFID to continue its dialogue with other donors and partner governments. But we also found that there is scope for improved collaboration at the country level to share information and knowledge on the extent and nature of corrupt practices and to co-ordinate actions in tackling the risks.



## Part 2: Identifying and assessing the risks

- 8 DFID has recognised the importance of tackling corruption and has undertaken a number of central initiatives, including the establishment of an anti-corruption unit and the development of an anti-corruption strategy. We believe that DFID should now focus its efforts on raising the profile of this work and mainstreaming its central thinking and philosophy into its working practices. At country level, there is a need to assess the threat of corruption and implications for the aid programme more explicitly and systematically than in the past. We would expect the threat posed by corruption and the implications of that threat for the quality of the management of public expenditure to be key factors in country teams' decisions on the focus of the aid programme and the aid mechanisms used. The guidance on the production of the new Country Assistance Plans should help in this respect. We have made a number of recommendations aimed at raising the profile of DFID's strategic response and proposing suggestions for country level risk assessments (see vi to xiii).

## Part 3: Managing the risks in the implementation of aid programmes

- 9 DFID believes, along with much of the donor community, that budget support offers the potential to achieve significant developmental benefits. The ultimate aim is to assist partner governments in their implementation of their poverty reduction strategies. We recognise that DFID needs to retain some flexibility in seeking to achieve this aim in countries where public expenditure management systems are weak. However, no matter how significant the potential development benefits, DFID remains responsible for ensuring that the funds it provides are used for the purposes intended and so are managed properly and effectively.
- 10 In undertaking this review, it was not the National Audit Office's intention to set conditions for the use of budget support. Rather we have sought to contribute to the development of a framework of processes and safeguards that will assist DFID in securing its policy objectives and, at the same time, discharge its responsibilities for the proper stewardship of public funds. Given the work which DFID is currently undertaking to evolve its approach, we summarise below the key areas in which we expect the Department to develop appropriate arrangements:
- **Ex ante risk assessments.** The continued use of budget support must be based on a thorough ex ante assessment of the risks to UK moneys. As a minimum, these assessments should be evidence based and draw on the findings of diagnostic tools including country financial accountability assessments, country procurement assessments and public expenditure reviews. In the appropriate circumstances, DFID should also take account of the views of NGOs and other representatives of civil society about standards of governance. The aim would be to provide further assurance to support the conclusions drawn from the use of diagnostic tools. Where joint donor assessments have been undertaken, or reliance is placed on assessments carried out by other donors, DFID should ensure that the available evidence satisfies its own requirements. For each country, thought should also be given to defining the minimum requirements that its public expenditure management systems are expected to meet.

- **The agreement of action plans with partner governments.** Fiduciary assessments should be used to identify areas of weakness and as the basis for agreement of a plan with the recipient government to take remedial action. Plans should be specific and include a timetable for demonstrable progress. There is scope for donor co-ordination in agreeing the plan and targeting efforts to support and strengthen systems. Where possible, budget support should be disbursed in tranches conditional on progress against the agreed plan.
- **The implementation of appropriate safeguards** to mitigate risks and satisfy the Accounting Officer's responsibilities. This will comprise a combination of targeted technical assistance to strengthen governance and develop government systems, and the use of regular reporting, tracking studies and audits to provide assurance over the use and impact of funds. We would expect DFID, together with other donors, to take the necessary steps to meet its regularity objective but also take into consideration propriety and value for money issues.
- **The development of robust monitoring arrangements.** DFID should develop effective monitoring arrangements to review the recipient country's progress in achieving poverty alleviation indicators and implementing agreed action plans. Further thought must be given to the circumstances under which the continued use of budget support would be suspended or scaled back. Equally it will be important to identify and respond appropriately in circumstances where a country has made progress but the scale of that progress is disappointing and falls short of what had been planned. Generally, we would expect the continued use of budget support to be based on demonstrable progress by partner government towards achieving poverty alleviation targets linked with clear evidence of the strengthening of government systems.

#### Part 4: Reporting and responding to the misuse of funds

- 11 It is essential that DFID has in place appropriate channels to ensure that cases of suspected corruption are reported and that effective follow-up action is taken. DFID should ensure staff are aware of reporting arrangements and make clear action that is expected under different scenarios. This is also an area where there is scope for improvements in information sharing between donors.

# Recommendations

## OVERALL

- i DFID should pay attention to the need to improve staff awareness of corruption issues and the associated safeguards which are needed. In particular, the increasing use of budget support requires DFID to disseminate good practice and lessons learned from its experiences to-date.
- ii As a matter of priority, DFID should ensure that its office instructions and guidance are updated to reflect current good practice on the responsibilities of staff to assess the nature and scale of the risk of corruption and set out the action they need to take to safeguard aid. There is a need to turn DFID's current thinking - as expressed in its policy papers - into operational guidance for country staff.
- iii There is scope for improved co-ordination and knowledge sharing between donors, particularly on the risks of corruption and the results of risk assessments. We would also encourage DFID to explore further the scope for joint working, for example sharing expert personnel, as this would have many benefits including greater efficiency and a reduced burden on developing countries.
- iv DFID should consider whether adequate resources are devoted to tackling corruption and whether it has all the skills that are needed - at the strategic and country levels.
- v Budget support creates the need for different staff skills - including more emphasis on the assessment of government systems, public financial management and procurement. DFID needs to consider whether it has the necessary skills to make full assessments of the risks created by the use of budget support. Recommendation (iii) is also relevant here and country teams should assess what skill gaps can be filled by placing reliance on the work of other donors.
- vii DFID should seek to ensure that the new anti-corruption strategy is given sufficient profile and ensure that key messages are disseminated to country teams. An action plan may prove useful in ensuring the strategy is taken forward.
- viii DFID should consider whether there is a need for training specifically focusing on the identification and treatment of corruption.
- ix Risk assessments should, as far as possible, be explicitly evidence based and cover a broader range of issues, including systematic assessments of the quality of governance and the institutional risks of corruption. Guidance would be helpful in encouraging a more consistent and systematic assessment of the risks of corruption.
- x DFID should consider the use of simple risk management matrices to highlight the key risks to meeting their fiduciary responsibilities and to illustrate what action is being taken by whom. Classification of risk (high / medium / low) by potential impact to the aid programme and likelihood of occurrence would assist in focusing attention on key risk areas.
- xi DFID should ensure that it identifies external sources of information, including NGOs and other bodies, and makes best use of these in identifying and addressing corruption risks.
- xii Country teams should make an explicit link between risk assessments and the country strategy. This should include the risks posed to development assistance and the achievement of country objectives. The proposed focus of the country programme and choice of aid instrument should be based on a sound assessment of risks.
- xiii Major country programmes should consider the need to develop country anti-corruption strategies or, where they exist, align themselves closely with government anti-corruption strategies.

## IDENTIFYING AND ASSESSING THE RISKS

- vi Senior management should re-affirm their commitment to tackling corruption and make clear DFID's organisational philosophy. DFID might also want to make further efforts to raise the profile of the risks of corruption, and how it can be tackled, to ensure that these are considered as an integral part of the design of country aid programmes and individual projects.

## MANAGING THE RISKS

### Budget support

- xiv The National Audit Office believes that DFID should carry out a full assessment of the fiduciary risks before using budget support. The use of a CFAA and a CPAR, or equivalent diagnostic tools, are the minimum requirements that country teams should adopt and, in the absence of such techniques, country teams must be able to demonstrate how risks have been assessed.

- xv We encourage DFID to explore further whether the use of other diagnostic tools would provide a fuller assessment of the risks and supplement the use of the CFAA.
- xvi Capacity building should be a key consideration for DFID when using budget support. Particularly during the early years of budget support, country teams should provide appropriate technical support to strengthen recipient governments in areas of weakness, as identified in risk assessments.
- xvii DFID should ensure budget support submissions are based on full and proper assessments of government procurement systems. In particular, we recommend:
- where appropriate, procurement audits be undertaken in countries being considered for, or receiving, budget support;
  - that country teams agree an action plan with recipient governments to address high risk areas and monitor progress on a periodic basis; and
  - that procurement specialists are involved in the design and implementation of budget support arrangements and the drafting of agreements.
- xviii The results of fiduciary risk assessments should be used to establish a plan of action to address identified weaknesses. The plan should be agreed and adopted by the recipient government. Commitment to undertaking remedial action should be a condition of the provision of budget support and the country team should monitor implementation.
- xix The continued disbursement of budget support should be linked to demonstrable progress against action plans and the implementation of the country's poverty reduction strategy.
- xx On a country by country basis, DFID should assess the minimum requirements for government systems in order to establish the actions necessary to bring systems in line with recognised good practice. The nature of these requirements is likely to vary between countries but should be consistent with international benchmarks. The failure to meet such requirements would not necessarily act as a barrier to the disbursement of budget support provided that recipient governments can demonstrate progress towards their achievement and that, in the meantime, there is sufficient technical assistance to compensate for weaknesses and fill significant skill gaps. In this respect, DFID should be able to articulate the safeguards that are being implemented, either by themselves or other donors.
- xxi DFID should continue to obtain reliable evidence on the use of funds including, where appropriate, developing the capacity of governments and state audit institutions to produce reliable and timely information. A key consideration will be progress against the agreed development indicators and DFID will need to obtain sector reviews to measure progress and achievements against individual indicators.
- xxii DFID should consider the need to determine at what point it should decide to withdraw from budget support, if circumstances in country change. This would assist in clarifying the point at which the risks to public funds can no longer be justified. The procedures for terminating budget support, which should allow for a period of negotiation, should be agreed between donors and with partner countries.

## Project aid

- xxiii We have made a number of observations on the extent to which corruption issues are specifically addressed in DFID's approach to managing project aid. In the light of changing circumstances and a new willingness to openly tackle corruption issues, we encourage DFID to re-appraise whether its guidance reflects current thinking and country teams are sufficiently aware of good practice approaches to designing-out corruption.

## REPORTING AND RESPONDING TO THE MISUSE OF FUNDS

- xxiv DFID should provide staff with detailed guidance on its procedures for reporting and handling suspected cases of corruption.
- xxv In assessing the business case for a telephone hotline, DFID should consult the World Bank about how its hotline is operating and about its approach to cost-benefit analysis. In the interim, there are a number of other measures that DFID can take to strengthen its approach.
- xxvi DFID should ensure it has effective procedures for investigating and dealing with cases of corruption.
- xxvii DFID should continue its dialogue with other donors to share information on corrupt companies and practices.

# Part 1

## Introduction

### Background

- 1.1 Corruption is the abuse of public status or trust for personal gain. There are many different forms of corruption but all undermine development and constitute a serious threat to attempts to eliminate poverty. The poor suffer disproportionately from the effects of corruption, either as a result of their inability to pay the extra costs of bribes or the failure of weak government systems to deliver the necessary public services. The two most common types of corruption involve the diversion of funds by politicians or senior government officials and the exploitation, for example through bribes, of the people they should be serving. Corruption is a global issue but many developing countries provide an environment in which corruption thrives.
- 1.2 Corruption has a damaging impact on the effectiveness of development assistance and weakens donor efforts to reduce poverty. It represents a threat to the objectives of aid programmes and thus the achievement of international targets. The risk of aid being misappropriated also leaves donors vulnerable to criticism that taxpayers' funds are being abused. Demonstrating the proper use of funds is therefore vitally important in maintaining public and political confidence in DFID's aid programme.
- 1.3 Since the late 1990s there has been a growing awareness amongst the donor community of the damaging effects of corruption. It is widely acknowledged that the impetus began with the President of the World Bank's 'cancer of corruption' speech in 1996 which focussed attention on what, until then, had been a taboo subject. Donors have since displayed an increased willingness to tackle explicitly the risk of corruption. In 1997 DFID and three other bilateral donors - the Netherlands, Germany and Norway - formed a joint working group, known as the Utstein Group, to co-ordinate the development of common policies and to share information of common interest. In May 2000 the Utstein Group declared their commitment to fight corruption and established a sub-group to take this work forward.
- 1.4 Tackling the complex issue of corruption requires a long-term and multi-faceted approach. DFID has sought to balance the use of specific interventions to tackle the causes of corruption with the development of internal controls to reduce the risk of funds being misused. The range of approaches used to tackle the effects of corruption include:
  - using the bilateral aid programme to improve good governance in developing countries and supporting partner government efforts to reduce corruption;
  - implementing internal safeguards to protect UK funds from the risk of misuse; and
  - contributing to the global debate on corruption and actively seeking to raise awareness amongst the donor community and developing countries;
- 1.5 Helping to build honest and effective states is increasingly a major focus of DFID's development work. DFID provides a range of assistance to assist in enforcement action against corruption, such as effective anti-corruption agencies, and to develop preventive measures, such as strengthening public sector financial management and supporting civil society to promote transparency and accountability in public life. The level and focus of DFID assistance in each country depends on the particular circumstances of that country.

### Why did we carry out the review?

- 1.6 The reasons for carrying out the review are:
  - In 2001 the International Development Committee produced a report on the impact of corruption which was generally supportive of DFID's approach but made a number of recommendations for improvements. This review offers the opportunity to build upon the Committee's findings and assist DFID in responding to the recommendations. The aim is to consider in more depth the practical steps that DFID should take in seeking to safeguard the use of public funds.

- The increasing use of budget support as a mechanism for disbursing aid creates new risks. Whilst DFID, and other donors, believe that budget support can bring greater developmental benefits, there is a need to assess thoroughly the associated risks and ensure that these are properly managed. DFID is currently developing its approach to addressing the risks and the National Audit Office welcomes the opportunity to contribute to this work.
  - DFID has developed an anti-corruption strategy and is continually re-assessing its policies and approach to ensure that they meet good practice. The recommendations of this review will therefore contribute to this process.
  - DFID has a statutory duty to ensure the regularity and propriety of public funds.
- 1.7 DFID is accountable to Parliament for ensuring that expenditure is properly accounted for, used for the purposes intended and represents value for money. This is a key aspect of the Accounting Officer's responsibilities (see Box 1) and means that DFID must ensure that appropriate controls are developed and applied properly to minimise the risk of aid being misappropriated. These requirements are no different to any other government department but, given the nature of DFID's business, the risks can be greater. To discharge its fiduciary responsibilities, DFID must be able to provide reasonable assurances over the use of funds. The risks involve vary depending on the aid mechanism used. Project aid, for example, allows close control and management of funds, whereas in using budget support DFID has no direct control over the use of funds. But, conversely, budget support enables DFID to address explicitly some of the development risks inherent in the use of project aid. The minimum accountability requirements that the National Audit Office believes should be in place are considered further in Part 3.

## Focus of the review

- 1.8 This review focuses on the internal safeguards that DFID has developed to meet its fiduciary responsibility for the disbursement of bilateral aid. The aim is to assist DFID in its efforts to mitigate the risks of corruption. We have sought to identify the areas which DFID should give greater attention, provide advice on the steps that the National Audit Office recommends DFID take, and highlight examples of good practice from Utstein partners.
- 1.9 In carrying out this review we looked at DFID's approach to:
- identifying and assessing the risks of corruption (Part 2);
  - managing the risks in the implementation of aid programmes (Part 3); and

### BOX 1

#### Accounting Officer responsibilities - key paragraphs relating to public accountability

- Paragraph 5** "the permanent head must ensure..... procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity throughout the department; and that financial considerations are fully taken into account in decisions on policy proposals"
- Paragraph 6** "the essence of an Accounting Officer's role is personal responsibility for the propriety and regularity of public finances for which he or she is answerable.... and for the efficient and effective use of resources"
- Paragraph 7(c)** "An Accounting Officer must ensure that the public funds for which he or she is responsible are properly and well managed"

- reporting and responding to the misuse of funds (Part 4).
- 1.10 We interviewed key staff in DFID to establish the Department's approach to safeguarding the use of funds and visited the Uganda country office to see first-hand how a country team was seeking to respond to the risks. The Uganda office was chosen as they are at the forefront of developing and implementing DFID's controls for the use of budget support. We also benchmarked DFID's approach against the other members of the Utstein Group to compare the approaches adopted and to identify good practice. Each of these countries has a significant aid programme and is making concerted efforts to tackle corruption. Further details of our methodology are provided in Appendix 1.

## Scope

- 1.11 Our review focuses on the safeguards surrounding bilateral aid. Although DFID disburses nearly half of its total budget through multilateral organisations, the nature of their responsibilities and accountability arrangements raise different issues for DFID. Consequently, we felt that the inclusion of multilateral aid would increase greatly the size and complexity of this review.

- 1.12 We recognise that DFID seeks to address the risk of corruption using a combination of different approaches (paragraph 1.4). We recognise the vital importance of efforts to strengthen government systems and in mitigating the risk of corruption. The development of appropriate internal safeguards complements this approach and provides assurance that funds are being used for the purposes intended. The primary focus of this review is on the internal safeguards that DFID is implementing to protect aid from the risk of misuse and we have not sought to carry out a detailed audit of the Department's financial and operational controls. Our review seeks to assist DFID in ensuring that appropriate safeguards are in place.
- 1.13 DFID is also working with and seeking to influence other Whitehall departments in the fight against corruption. However, this review has only focussed on the issues for which DFID has lead responsibility and, as such, does not include topics such as money laundering.





# Part 2

## Identifying and assessing the risks

- 2.1 An assessment of the inherent risk of corruption in each country is the first step in devising a strategy for addressing the risks posed to development assistance. Such assessments are crucial in gaining a full understanding of DFID's fiduciary risks. Whilst responsibility lies primarily with the country team, it is important that the appropriate emphasis is engendered at a strategic level. In this part of the review, we focus on DFID's approach to identifying and assessing the risks posed by the threat of corruption, by considering whether DFID places an appropriate emphasis on corruption at both the strategic and country level.
- 2.4 The work of the Anti-Corruption Unit is promoted on a site on DFID's intranet. However, our discussions indicated that there is scope for raising the profile of the Unit and clarifying its role. Drawing on our observations and the approaches adopted in other countries, we have identified three issues that DFID may want to consider further:

- whether sufficient prominence is given to the Unit to ensure that staff in country teams are fully aware of its role and the services / advice that it can provide;
- whether the Unit has the necessary resources and skills to cover adequately the wide range of issues associated with corruption and meet its terms of reference; and
- the Netherlands and Germany have created the role of integrity officer, devoted to the provision of advice and guidance on issues of ethical concern, and for reporting and discussing suspicions of corruption. Such a role was considered important in providing staff with a confidential reference point and source of advice. DFID may wish to explore further whether there is a need to establish a similar function, either on its own or integrated with the anti-corruption co-ordinator role.

### The strategic recognition of corruption and the associated fiduciary risks is important

- 2.2 Senior management commitment is vital in developing the right organisational philosophy and disseminating this to staff. It is clear that the importance of tackling corruption is recognised at senior levels within DFID, as can be illustrated, for example, by statements which the Secretary of State has made in response to Parliamentary questions and by DFID's active role in supporting good governance programmes in developing countries. In addition, DFID works closely with other government departments to develop a co-ordinated UK response on the threats posed by corruption and there are a number of joint working groups to address specific corruption issues. It was clear from our discussions with the Utstein countries that DFID is regarded as an influential and proactive partner in tackling corruption.
- 2.3 DFID has undertaken a number of central initiatives to guide its approach to tackling corruption. In particular, an Anti-Corruption Unit has been established and supports two full-time posts, including the anti-corruption co-ordinator. The Unit plays an important role in developing and co-ordinating DFID's approach both within Whitehall and internationally, and provides a central reference point to which country teams can turn for advice. However, our discussions indicated that the Unit's resources are stretched and it is unable to dedicate sufficient resources to liaison with the geographical departments to ensure country teams give appropriate emphasis to corruption in their programmes.
- 2.5 DFID's Governance Department also plays a lead role in developing DFID's approach. DFID has produced a Target Strategy Paper "Making government work for poor people" which identifies seven key capabilities that DFID believes are essential to the quality of democratic governance, and which countries need to develop to provide a suitable environment in which poverty reduction can flourish. One of the capabilities is to "develop honest and accountable government that can combat corruption". The paper sets out an overall approach and strategy for country teams in achieving the International Development Targets. DFID also employs governance advisers on its major country programmes whose role includes the provision of guidance and support on governance corruption issues and ensuring country programmes place an appropriate emphasis on such issues.

2.6 These initiatives and the commitment of DFID's senior management provide the basis for further efforts to demonstrate the organisational importance that DFID attaches to tackling corruption. We felt that there was a need for DFID to raise the profile of its anti-corruption work to demonstrate its strategic importance and reinforce the culture within country teams. We noted that DFID has four high level objectives for its anti-corruption work but these are non-specific and not well publicised. We would encourage DFID to raise awareness by developing more specific objectives to demonstrate senior management's commitment that combating corruption is a strategic imperative. We noted, for example, that Norway has sought to achieve this by developing objectives within its good governance action plan (see Box 2) which are integrated into its performance measurement framework.

## BOX 2

### NORAD's objectives for its anti-corruption work

- To intensify Norwegian assistance to good governance and the fight against corruption;
- To increase awareness and knowledge in the aid administration on how to prevent corruption in all Norwegian-funded development co-operation; and
- To establish mechanisms for systematic collection, analysis and dissemination of experiences drawn from efforts to prevent and combat corruption.

An anti-corruption strategy is important in establishing the organisational philosophy and approach

2.7 DFID has published an anti-corruption strategy which sets out its aims, objectives and rationale for tackling corruption. The strategy articulates the detrimental effects of corruption and sets out the broad approach that country teams should follow in protecting development assistance from corruption. The key messages focus on the expected areas - it stresses the need to develop internal safeguards to protect DFID funds from misuse and advocates tackling corruption at a macro level - but the strategy is less useful in providing practical advice that country teams could follow in tackling corruption issues. The measures proposed in the existing strategy are high level and wide in scope and require further thought to be translated into practical actions. The Anti-Corruption Unit concurs with these concerns and is currently drafting a revised strategy.

2.8 The National Audit Office commends DFID for developing a strategy and recommends that DFID now focus on integrating the key messages into its working practices. Efforts should focus on mainstreaming anti-

corruption philosophies and approaches, as set out in the strategy, into operational work and policy dialogue. There are a number of measures that might be used to develop internal capacity and disseminate good practice, including a combination of raising staff awareness, the use of training programmes and development of operational guidelines. In addition, there is scope to use the introduction of the revised anti-corruption strategy to raise the profile of the issue.

2.9 We noted that Norway had produced a 'Good Governance and Anti-Corruption Action Plan' as a means of taking forward its strategy. The action plan sets out the specific activities that NORAD will implement in the fight against corruption and sets targets for their achievement (see Box 3). The plan offers an example of good practice and there are a number of aspects that DFID might consider:

- each objective has a number of key activities and targets;
- responsibility for the achievement of key activities is designated to specific departments within NORAD;
- measurable results are expected - each target has an associated set of performance indicators which are used to measure performance on a regular basis. The plan recognises the difficulties of measuring 'results' in developing countries and seeks to measure outputs against stated activities; and
- NORAD intends to engage researchers to monitor progress, systemise experience and lessons learnt during the implementation phase of the action plan.

## Raising staff awareness is crucial in tackling corruption

2.10 Sensitisation to corruption issues is important if staff are to have an adequate appreciation of the risks posed to their programmes. DFID has sought to raise the awareness of staff in a number of ways. In particular, there is an anti-corruption site on DFID's intranet and governance advisers allocated to country teams are responsible for providing advice on corruption issues (paragraph 2.5). We also noted that country teams were making efforts to raise staff awareness - we observed a workshop in Uganda which was designed to share lessons between a number of country teams from the region.

**BOX 3****Key elements of NORAD's Good Governance and Anti-Corruption Action Plan****Key activities**

Each of NORAD's three key objectives (see Box 2) is broken down into key activities. For example, the objective to increase assistance on good governance is broken down into activities such as increasing dialogue with governments; assistance for improved management of government budget; improved access to information; and strengthening civil society.

**Targets**

Each key activity has performance indicators, timeframes for achievement and assigns responsibility for achievement. NORAD expects to achieve measurable results in a number of areas, including:

- awareness of the risks of corruption amongst staff;
- improved skills in financial management;
- the number of anti-corruption strategies formulated in partner countries; and
- anti-corruption dialogue at least once a year in partner countries.

Performance against the targets is monitored regularly and evaluated after predefined periods. For example, the performance against the activity of 'staff training in combating corruption' is measured twice a year by staff surveys.

2.11 We did not specifically seek to evaluate whether staff were sufficiently aware of corruption or the measures that they should be adopting in the design and implementation of aid programmes. However, we were left with the impression that corruption issues were sometimes regarded as 'an additional issue to be considered' rather than an integral element of country teams' thinking. This is reflected by the lack of prominence given to the anti-corruption strategy and the absence of specific anti-corruption strategies in country teams (see paragraph 2.24). In addition, DFID's website and Departmental Report give a surprising lack of prominence to DFID's anti-corruption initiatives. We felt that a higher profile to DFID's anti-corruption work would help to demonstrate the strength of DFID's commitment and ingrain its strategic importance in staff thinking.

2.12 We noted that NORAD assesses the sensitisation of staff to corruption matters in general by conducting surveys amongst staff members to ascertain their understanding of corruption matters. We recognise that DFID is a much larger body than NORAD and leave it for DFID to consider whether there is any value in undertaking a similar exercise.

Staff training is important in implementing the key messages of the anti-corruption strategy

2.13 DFID currently provides no formal training to guide staff on assessing and responding to corruption issues, although individual country offices may provide their own training. The Utstein partners and the World Bank appear to be more proactive than DFID in seeking to sensitise staff to the risks of corruption - two good practice examples are illustrated in **Box 4**.

**BOX 4****The World Bank's approach to staff training**

One of the key strategies in mainstreaming concern for corruption has been an internal training programme to raise staff awareness. All of the Bank's regions have held orientation sessions for staff to raise awareness of risks of corruption and the Bank's anti-corruption policies. The Bank has also held workshops in certain regions exploring the experience of the Bank with corruption in its procurement functions. Other regions have formulated advisory groups comprising experienced individuals from Transparency International, the private sector and academia to formulate effective strategies on combating corruption.

**NORAD's approach to staff training**

NORAD provides all staff members in embassies with training on corruption matters, via the Ministry of Foreign Affairs' Intranet. The objectives of the course are to raise awareness of the problems connected with corruption in development work and to provide knowledge on ways to prevent and fight corruption. The course is an interactive one and the lecturer is available for contact via email. The course is approximately 20 hours in duration.

2.14 Staff guidance is equally important in sensitising staff and ensuring appropriate procedures become part of normal working practices. DFID is currently updating its code of conduct, to be included in the staff handbook, which provides specific guidance on the procedures staff should follow in a range of situations. We noted the following example of good practice that has been adopted in Germany (**Box 5**).

**BOX 5****Dissemination of policies and procedures to staff in GTZ, Germany**

GTZ is an organisation owned by the German Government and has a development policy mandate. GTZ provides 'orientation and rules' sessions to all new staff members, which provide the guidelines, policies and procedures by which the organisation operates and included in this is guidance on measures to avoid corruption.

A code of conduct is also provided to all employees, including locally contracted personnel, project and other partners and their beneficiaries. The code embodies the principles by which GTZ expects all parties to abide and emphasis is placed on avoidance of corruption and is referenced in all standard contracts and all contractors and sub contractors are expected to abide by it. GTZ is intending to develop training modules using examples and dilemma situations. All managers will discuss contents of the Code of Conduct with their staff.

## A co-ordinated donor response strengthens efforts to tackle corruption

2.15 The benefits of a co-ordinated donor response are clear. In particular, the message that corruption will not tolerated is reinforced and donors avoid any duplication of effort. The evidence we have seen indicates that DFID is proactive in liaising with other donors at the strategic level. The Utstein Group offers an excellent forum for sharing experiences with like-minded donors. The staff we interviewed from the Utstein countries stressed the potential benefits of greater co-ordination and felt that, overall, co-ordination was good although there was room for improvement at the country level (paragraph 2.21). The Utstein countries have also established an Anti-corruption Resource Centre to provide advice on corruption issues. We encourage DFID to continue in its efforts to liaise closely with other donors and also encourage the Utstein Group to consider the scope for extending membership of the anti-corruption sub-group to include other donors.

## There should be a systematic assessment of the threat of corruption for each country programme

2.16 Country teams make an assessment of the extent of corruption inherent in-country as part of the annual planning process. In doing so, staff draw on a range of sources, including their own knowledge and experience of government systems and officials. Specific risk assessments are also undertaken for individual projects and the strength of public expenditure management

systems is assessed before committing to the use of budget support (see Part 3). Whilst such assessments undoubtedly contribute to an understanding of the extent of corruption, we believe there is a need to develop a more consistent approach to country-level assessments of the risks posed by corruption.

2.17 The causes of corruption are complex and need sensitive handling. There are a wide range of factors that can create the climate for corruption and diagnosis of the nature and extent of corruption in-country represents a particular challenge. Assessing the extent of corruption involves more than an examination of public administration and financial management systems, and requires an understanding of the social, economic and political situation in the country. Research has shown that this involves analysis of complex processes and no single model is available to assess such relationships. A more detailed and systematic assessment of the threat of corruption and the risks posed to development assistance would enable DFID to demonstrate that its programmes are based on a thorough analysis of the risks.

2.18 We recommend that DFID disseminate good practice setting out the key issues that should be considered in carrying out risk assessments. There are a number of issues that we believe DFID should bear in mind when considering the need for guidance:

- the threat and implications of corruption should be explicitly considered;
- there should be greater attention on the quality of governance and the potential impact of poor governance on aid programmes - we understand that DFID is working with the World Bank to develop a series of good governance indicators;
- assessments should cover a broad range of issues; and
- thought should be given to the implications and benefits of introducing a quantified assessment of risks, including the use of risk management matrices. We noted that DEG in Germany had developed such an approach (see Box 6).

**BOX 6****An approach used by DEG in Germany**

DEG is part of the German development co-operation and promotes the private sector in developing countries. DEG carries out a systematic assessment of risk in each country and quantifies the risk of a misuse of funds. Issues that are assessed include the transparency of the democratic process, the robustness of the financial management system and the legal system. In carrying out assessments, feedback is sought from non-government organisations. The analysis results in a risk classification (rated 1-4) for each country.

## A wide body of knowledge should be used to assess the threat of corruption

2.19 There are a wide range of sources that country teams can use in assessing the risk of corruption and the threat posed to development assistance. All bilateral donors are undertaking similar assessments and we found there was a consensus amongst the Utstein countries that there is scope for much better knowledge-sharing between donors on the nature and extent of risks and to learn from each others experiences. At present, co-ordination between country teams on risk assessments is considered to be variable.

2.20 Non-government organisations in developing countries can also provide a valuable and informative source of information on the level of corruption. Transparency International told us that DFID was generally supportive of their work but there was only limited dialogue between country teams and Transparency International's local offices. They considered that there was scope for better exploitation of their expertise in assessing the extent of corruption and the associated risks. It is important that country teams draw on the full range of available sources in making their assessments. The better sharing of information would avoid any duplication of effort and lead to better informed decisions. We would encourage DFID to ensure that best possible use is made of available external sources.

## A clear and explicit link should be developed between country risk assessments and country strategies

2.21 We reviewed a sample of country planning documents for seven countries and found that all but one (Rwanda) referred to the problems posed by corruption when assessing the threats to their strategy. Most strategy papers included an assessment of the scale and nature of corruption and commented on the recipient government's willingness to tackle the issue. However, there was some variation in the extent to which the threats posed were linked to DFID's country programme and proposed approach. We did note some good examples (Uganda, Nepal, Albania) but considered there was scope for more consistency in documenting how country teams were seeking to respond to the risks associated with corruption.

2.22 Clearly, country teams have placed much emphasis on improving good governance in developing countries, as illustrated by the large number of interventions to strengthen government systems and support anti-corruption initiatives. Such measures form an integral part of DFID's efforts to counter the threat of corruption. In cases where the key country documents do not make an explicit link between the risks posed by corruption and the country programme, it is not clear whether the actions to tackle corruption just have not been articulated in the document or whether the risks have been given insufficient attention. Country planning documents should make an explicit link between risk assessments and the country strategy and explain how country teams will discharge DFID's fiduciary responsibilities. The rationale behind the focus of the proposed aid programme and choice of aid instrument should be based on a sound assessment of risks.

2.23 DFID has recently developed revised guidance on the preparation of Country Assistance Plans. As part of this process, country teams will be required to analyse the risks to achieving the overall outcomes of the poverty strategy and set out how these will be managed. This will include fiduciary risks and an analysis of the significance and likelihood of the risks occurring. The guidance should help develop greater consistency by setting out clearly the issues that country teams must cover. We have set out below the key issues that should be included in such analysis:

- a diagnosis of the causes and extent of corruption;
- an assessment of the risks to DFID assistance;
- an analysis of how risks will be tackled; and
- a recognition of these risks in the design of the aid programme and the choice of aid instrument.

## Country level anti-corruption strategies should be developed

2.24 DFID's anti-corruption strategy proposed the idea of detailed strategies for major development programmes and we noted that the Uganda office has been active in developing such a strategy. Other country teams have expressed their commitment to partner governments' anti-corruption strategies. We see many benefits in developing such a strategy or, where it exists, supporting a government strategy. In particular, the strategy would provide an opportunity for continuous dialogue with recipient governments on anti-corruption issues. DFID should continue to encourage partner governments to develop anti-corruption strategies, focussing on the extent and nature of corruption and their proposed response.



# Part 3

## Managing the risks in the implementation of the aid programme

- 3.1 In 2001-02 DFID provided £290 million in budget support to 17 countries, which represents some 18 per cent of the bilateral aid programme. Along with much of the wider donor community, DFID believes that budget support has the potential to have wider developmental impact and offers greater opportunities to strengthen government systems. However, the lack of donor control over funds once they are disbursed into the government system means that there are different fiduciary risks associated with budget support compared to other aid disbursement mechanisms. Donors must take appropriate action to mitigate these risks.
- 3.2 A large proportion of DFID's aid programme is still spent on project aid. The risk of a misuse of funds is implicit in all projects and DFID has developed detailed guidance as part of its office instructions. As a result, we did not carry out detailed work to evaluate how these safeguards had been implemented but, drawing on our visits to the Utstein partners, we have made a number of observations on DFID's approach (paragraphs 3.39 - 3.41).
- 3.3 This part of the review covers DFID's approach to assessing and managing the risks involved in the disbursement of aid. We focus first on budget support and then project aid.

### A thorough risk assessment should always be carried out before reliance is placed on government systems

- 3.4 In order to meet the Accounting Officer's responsibilities (see Box 1), DFID must be able to make an informed judgement on the risk that its aid may not be used for the purposes intended. Having identified and assessed the risk, DFID must be able to demonstrate that it has taken appropriate steps to manage the risk. When using budget support, a thorough assessment of the strength of government systems and the extent of corruption is essential in forming such judgements and determining the threats to the use of UK moneys. The fiduciary risk paper clarifies DFID's approach to assessing and managing risks when using budget support and sets out the broad principles that country teams should follow to

discharge DFID's responsibilities. The paper promulgates that ex ante risk assessments be carried out in order to assess whether recipient government systems will make effective use of resources. The National Audit Office welcomes the paper.

- 3.5 To date, country teams have used various approaches in carrying out risk assessments but the fiduciary risk paper now advocates the use of the World Bank's diagnostic tool, the Country Financial Accountability Assessment (CFAA), to assess the strength of financial management systems and the overall accounting environment in recipient countries. The CFAA aims to identify major issues affecting financial management in the country and leads to recommendations to bring current practice into line with international standards. The recommendations then form the basis of dialogue with the recipient government and are used to identify specific actions to strengthen the recipient government's capacity. The donor community's widespread adoption of the CFAA avoids the duplication of effort of donors devising their own methodologies, facilitates a commonality of approach and reduces the burden on developing countries in meeting donor requirements.
- 3.6 The World Bank has a programme to widen the coverage of CFAAs to an increasing number of countries, but we noted that there are at least four countries receiving budget support which have not been subject to a CFAA (Zambia, Sierra Leone, Rwanda and Malawi). The National Audit Office believes that DFID should assess the strengths and weaknesses of partner government systems before reliance is placed on them. The absence of a CFAA raises questions over how DFID can demonstrate it has undertaken appropriate steps to assess the threats to the proper use of UK aid and meet the Accounting Officer's responsibilities. We recommend the use of the CFAA, or an equivalent diagnostic tool, as the minimum requirement that country teams should adopt. Furthermore, where assessments are carried out by other donors, country teams should ensure that results satisfy DFID's own requirements and are sufficient to inform their decision-making process.

3.7 We reviewed DFID's approach to risk assessments in Uganda and Tanzania and noted a number of examples of good practice:

- the Uganda budget support submission identified the key risk areas and assessed the potential impact on the country's achievement of its objectives. The risks were classified as high / medium / low;
- the Tanzania assessment included a review of the reforms achieved, which provided a useful indicator that the aid programme is contributing towards its intended objectives; and
- both countries had developed action plans in partnership with the recipient government, setting out a timetabled plan for remedial actions.

### Assessments should address more than financial management systems and should pay specific attention to high risk areas

3.8 The CFAA is an effective diagnostic tool for assessing the strength of financial management systems and its use is important in contributing to meeting DFID's fiduciary responsibilities. The CFAA involves a detailed analysis of public expenditure management systems against a wide range of criteria which leads to thorough analyses of the weaknesses and identification of detailed actions to achieve improvements. Such assessments are vital before budget support is adopted and reliance is placed on government systems. However, we noted that the CFAA is not intended to cover all of the risk areas created by the use of budget support, in particular:

- it does not explicitly assess the nature or extent of corruption in-country and how this impacts on development assistance;
- it focuses on national government delivery of services and does not cover lower levels of government; and
- it does not assess the political will or commitment of governments to operate systems effectively.

3.9 An informed judgement of the risks to aid provided through budget support requires a thorough assessment of the recipient government's overall poverty commitment, its capacity to achieve objectives and an analysis of the entire public expenditure management system. The need for a wider analysis of risks has been widely recognised; for example, the World Bank believes that the CFAA is enhanced when used in conjunction with other diagnostic tools and is seeking to supplement the CFAA with other diagnostic tools to develop an integrated fiduciary assessment. We also noted the Netherlands Ministry of Foreign Affairs had developed their own assessment tool (see Box 7). We encourage DFID to supplement the use of the CFAA

with other diagnostic tools to provide a wider assessment of the risks. Greater use of country-level assessments of corruption, as advocated in Part 2, should also assist country teams in making an informed judgement on the risks. This also should include, as far as possible, consideration of the views of civil society about standards of governance. The aim of this would be to provide further assurance to support the results of diagnostic tools.

3.10 DFID is also collaborating with other donors, notably the World Bank and the European Union, to participate in the Public Expenditure and Financial Accountability Programme, which was established in December 2001. The aim is to carry out assessments and develop reform action plans to supplement country programmes, with preference given to countries using budget support. The National Audit Office supports the concept of initiative such as this, which should facilitate donor co-ordination. It will be important to encourage the participation of country teams so as to avoid any duplication of effort.

3.11 We have considered below DFID's approach to addressing two high risk areas - government capacity and procurement systems.

### Budget support places greater emphasis on government capacity

3.12 The effective operation of government systems, at all levels, is vital to achieving the proper use of funds. The use of budget support raises two specific issues for donors:

- the changing nature of donor interaction with partner governments. Donor contact will increasingly be with Planning and Finance ministries (or their equivalent) and is likely to focus more on higher level policy dialogue. Our discussions with recipient governments revealed that sectoral departments valued greatly DFID's technical

#### BOX 7

##### Approach used by the Netherlands Ministry of Foreign Affairs

The Netherlands Ministry of Foreign Affairs uses an accountability assessment tool, CONTACT (Country Assessment in Accountability and Transparency) which has been designed to provide consistency in the approach towards accountability assessment. CONTACT includes a specific assessment of corruption and the controls over corruption - and deals with these issues in greater depth than the CFAA.



expertise and input. Donors will need to assess whether technical assistance is required to fill resource and skill gaps in the financial and administrative systems of recipient governments.

- Decentralised government structures place increased emphasis on the capacity of the lower levels of government. There is a greater risk that regional governments will lack appropriate skills and, furthermore, capacity is likely to be weakest in the poorest regions of the country. This creates risks to the achievement of developmental objectives and the proper use of funds.

3.13 A key factor in seeking to ensure the effective use of budget support funds is the provision of appropriate technical support to partner governments. Donors should make assessments of government capacity to identify high risk areas and target technical assistance to sectors or regions in which capacity is weak. The key issues that technical assistance might address are the better planning of government expenditure including better budget formulation and allocation; better financial management; improvements to service delivery and strengthening monitoring and reporting capabilities. Clearly, input will need to be tailored to individual country circumstances and there is scope for co-ordination between donors to take the lead in individual sectors and avoid duplication of effort. We noted that the DFID budget support arrangements that we examined did pay specific attention to the need to strengthen capacity and frequently led to the provision of technical assistance.

### Procurement is inherently vulnerable to corruption

3.14 DFID, in common with other donors, uses the World Bank's Country Procurement Assessment Review as the main method for assessing the strength of government procurement systems. This tool is recognised as the standard for procurement diagnosis but a recent Crown Agents report recommended that improvements were necessary to cover all possible aspects of corruption. DFID is working with the World Bank to develop a new diagnostic tool.

3.15 Our discussions with the Procurement Department indicated that the World Bank does not always provide country teams with details of procurement assessment reviews. In such cases, the lack of an assessment leaves DFID exposed. We would urge DFID to ensure that they gain access to the results of procurement assessments and take account of this in developing their country strategy. In the absence of such an assessment, country teams will need to gain assurance from an alternative source.

3.16 We noted that DFID had used its own procurement specialists to undertake procurement audits in Ghana and Tanzania. We welcome the involvement of the Procurement Department in examining country systems

and believe there is scope to extend this approach to other countries receiving budget support. However, Procurement Department told us that they welcome a greater involvement in risk assessments and the design of budget support agreements. In this respect, DFID could make better use of its own resources and expertise in the assessment and management of procurement risks. In order to better manage its fiduciary responsibilities, we believe that DFID should give consideration to:

- where appropriate, procurement audits being undertaken in countries considered for, or receiving, budget support;
- agreeing a plan of action with recipient governments to address high risk areas and monitoring progress on a periodic basis; and
- involving procurement specialists in the design and implementation of budget support arrangements and the drafting of agreements.

### An informed decision on the level and extent of acceptable fiduciary risk should always be made

3.17 The fiduciary risk paper sets out the conditions under which budget support should be provided. The decision is informed by the results of risk assessments but each case is considered on its own merits and the final decision is based on a judgement balancing the fiduciary risks against potential developmental benefits. DFID takes the view that budget support should only be used when the perceived developmental benefits justify the fiduciary risks. Even where assessments indicate a high degree of risk, budget support may still be used if temporary safeguards can be put in place to address critical weaknesses or the government has a credible programme to improve standards of public financial management and administration. In these circumstances, an adequate public expenditure management system is seen as the outcome of support, not a pre-condition. Only when risks cannot be mitigated sufficiently should DFID not use budget support.

3.18 DFID does not require government systems to meet a common minimum standard and recognises that most developing countries do not meet internationally acceptable standards. We noted that risk assessments are not used to provide a "pass" or "fail" assessment of the government's systems in terms of their adequacy for budget support. DFID believes that there are often strong developmental arguments for using budget support in countries with weak government systems because budget support offers the opportunity to strengthen these systems. As far as we are aware there is as yet no empirical evidence to support this view.

3.19 The fiduciary risk paper proposes a set of standards as benchmarks to assess risks. These aim to define the standards that should be achievable in the medium term and which would provide donors with sufficient assurance to put their money through government systems without additional safeguards. The standards proposed advocate a high level compliance with international standards and represent the ultimate achievable goal. Substantial donor efforts are likely to be required to bring developing country systems to this level. We recognise that DFID needs some flexibility in order to achieve developmental benefits and that failure to meet one, or some, of the standards should not necessarily prevent the use of budget support.

3.20 It is important that DFID balances the aim of achieving developmental benefits with the need to be able to demonstrate that risks to the proper use of funds are being managed. We believe that further thought should be given to defining, on a country by country basis, the minimum requirements that government systems are expected to meet. These could be specific to each country and, whilst they should not necessarily act as a barrier to budget support, DFID might expect the country to demonstrate reasonable progress towards, or achieve, the standards set. At the very least, setting such requirements would determine the size of the gap between the systems in place and those needed, and would enable DFID, and other donors, to consider the most effective way of effecting improvements. Such an approach would provide assurance that budget support is leading to improvements in government systems and, consequently, lead to greater confidence that aid is being used for the purposes intended.

3.21 In the light of this, we would expect DFID to agree a programme for the improvement of government systems in developing countries and monitor progress against this. We noted that Uganda and Tanzania had produced such action plans (see paragraph 3.7). We recognise that DFID alone cannot be responsible for the implementing the range of actions required, and the assessment of government systems and consequent follow-up action will be more effective as part of a wider joint donor approach. DFID should also articulate the additional safeguards that are being implemented, by itself or other donors, to mitigate the risks. In the short-term this should seek to provide greater assurance over the use of funds that are being disbursed but should also involve longer-term measures to address the inherent weakness. In such circumstances, the disbursement of budget support should be linked, in the first instance, to government commitment to the plan, and thereafter, future disbursements should be conditional on demonstrable progress. Appropriate conditionality agreements linked to tranche releases can provide incentives for progress. A good example of this was the recent agreement with Ghana for budget support in 2002 - in which the first tranche of the disbursement

was provided on the basis that the government had committed to an agreed programme of reform and the balance is payable on completion of the action plan.

## DFID must provide appropriate assurances to meet accountability requirements

3.22 Under Government Accounting rules, the Accounting Officer is responsible to Parliament for ensuring the propriety and regularity of public funds; for keeping proper accounts; and for seeking value for money in the use of resources. The use of budget support raises the issue of where DFID's responsibility ends, as it has no control over the use of funds once they have been transferred to a foreign government.

3.23 When undertaking a programme of budget support, DFID's first requirement is to ensure that the funds disbursed have reached the consolidated fund of the recipient government. The National Audit Office expects DFID to implement robust controls over the custody of funds up to and including the point of transfer into the country's budgetary system. The controls that are needed will have to be developed in accordance with the central banking regime and financial systems of individual countries. This would include:

- a clear audit trail to ensure that the transfer of funds can be verified;
- payment directly into a central bank account held on behalf of the Consolidated Fund - to prevent holding by an intermediate bank in order to accrue interest;
- oversight of the bank account into which funds are paid to ensure that the moneys received reconcile with funds leaving DFID custody, and explanation of any differences - the Crown Agents verification studies would provide such assurance;
- notification to the recipient country's Accountant General, or an appropriate independent body such as the State Audit Institution, when funds are transferred and confirmation from them that funds have been received.

3.24 Parliament votes funds to DFID on the basis that they will be used to achieve agreed poverty objectives. Providing assurance in this respect forms part of the Accounting Officer's responsibilities for the regularity and propriety of public funds. Under the Exchequer and Audit Departments Act 1921, the National Audit Office is required to audit whether the money expended has been applied to the purposes intended by Parliament. Failure to do this may lead to a qualification of the C&AG's certificate, and to a Report to Parliament on the accounts. To fulfil its regularity objective, the National Audit Office expects DFID to take reasonable steps to ensure that aid is meeting this requirement, that is, achieving agreed poverty objectives. This review seeks

to assist DFID in establishing the minimum requirements that should be met to provide reasonable assurance over the use of funds. Paragraph 10 of the Summary and Appendix 2 set out our initial views and key issues that we would expect DFID to consider. It may well be that as we develop our experience of auditing budget support and the systems that underpin its use by DFID these issues will have to be modified or indeed expanded to take account of developments that at this stage have not been foreseen.

### Internal safeguards are needed to protect funds against improper use

3.25 The annex to DFID's fiduciary risk paper suggests temporary safeguards and the longer-term response to mitigate the risk. We commend this analysis and believe that it should form the basis of DFID's operational guidance. In providing assurance that funds are being used for the purposes intended, DFID should seek to ensure appropriate use is made of:

- regular tracking studies to provide assurance that funds are reaching priority areas;
- budget monitoring to ensure funds are allocated in accordance with the poverty strategy;
- credible and timely reporting of expenditure and analysis against plans - at national government level and lower levels; and
- reports from external auditors, including the country's supreme audit institution.

3.26 The safeguards needed will be specific to each country and should be informed by a thorough assessment of risk. There are a number of audit and accountability conditions that DFID might set for recipient countries in providing budget support, such as the timely production of audited annual accounts. DFID needs to be careful in striking an appropriate balance. On the one hand, they must be sufficient to satisfy the Accounting Officer's responsibilities but, on the other, they must not be so onerous that the recipient country cannot meet them.

3.27 DFID's memoranda of understanding define the broad framework within which budget support is provided, define the scope of the programme and the roles and responsibilities of each country. But we noted that these memoranda do not include specific anti-corruption clauses. Such a clause would provide a contractual obligation and define the limits of activities for which funds may be used. It would also provide a means for DFID to terminate support. Other Utstein partners included anti-corruption clauses and we believe that DFID should also consider doing so.

### Internal safeguards should be supplemented by efforts to strengthen government systems

3.28 Improving governance has been a major focus of DFID's work for a number of years and country offices have recognised that building effective, democratic institutions is an important condition of sustainable development. There are many examples where country teams have sought to improve standards of accounting and procurement by strengthening institutions, provide training for civil servants and develop the awareness of the role of Parliament. Such interventions serve to reduce the opportunities for corruption and lead to greater transparency and accountability over the use of funds. The National Audit Office supports DFID's efforts and believes that such measures are vital in seeking to ensure the effective use of budget support funds.

3.29 In particular, supreme audit institutions can play a crucial role in monitoring the proper use of budget support funds but the key issue is their capacity to carry out their functions. Where partner countries' systems are sufficiently well-developed, there is scope to place reliance on the records provided by state audit institutions. However, in most cases, this requires further efforts to strengthen capacity - for example, the Ghana National Audit Office has only three qualified accountants.

### Continued emphasis should be placed on monitoring performance

3.30 Monitoring and evaluation play a key role in providing assurance that aid is being used for the purposes intended. Given that the aim of budget support is to assist partner countries in implementing poverty reduction strategies, DFID, and other donors, will need to ensure that effective arrangements are developed to evaluate the outcome of government programmes. But, DFID will need to balance this with the requirement to provide assurances on the use of funds. Thus, monitoring might be undertaken at three levels:

- the provision of information on the use of DFID funds - as set out in paragraph 3.25;
- on-going monitoring of progress against agreed action plans. Progress against targets provides evidence that budget support is contributing to the development of government systems and is an indicator of government commitment; and
- progress against agreed poverty reduction targets. Monitoring will focus on outcomes and achievements against a range of indicators. Progress against these indicators has not yet been tested as budget support is still in its early stages but DFID will increasingly need to consider how they will gain assurance that monitoring of country

performance is robust and independent. In particular, there will be a need for sector reviews to measure progress and achievements.

3.31 DFID country offices monitor developments in-country on a continual basis and budget support agreements include requirements for periodic reviews. On-going monitoring is crucial in identifying the potential misuse of funds or doubts over the continued commitment of partner governments. Monitoring at each of the levels above will assist DFID in forming its judgement. Use should be made, as appropriate, of independent reviews but particular emphasis needs to be given to developing the internal monitoring and reporting capacity of partner governments.

3.32 There is also scope for the harmonisation of donor requirements and the development of joint monitoring arrangements. We recognise that donors must meet their own statutory commitments but encourage DFID to collaborate with other donors to develop a consistent approach and agree a common set of reporting requirements. In this respect, the National Audit Office is exploring the opportunities for developing a more consistent audit approach with the State Audit Institutions of the Utstein partners.

3.33 There is a wide range of scenarios which raise concerns over the use of budget support funds. These might include concerns over the political actions of partner governments or their continued commitment towards strengthening systems and addressing poverty issues; evidence that government funds are not being used in accordance with agreed priorities; evidence of corruption or misuse of funds; or lack of progress against poverty targets. Given the range of scenarios and the need for DFID to retain flexibility in the light of unforeseen events, there is unlikely to be merit in DFID making a definitive statement on the circumstances that will lead to the withdrawal or suspension of budget support. However, we believe that there is merit in DFID making clear, in broad terms, the scenarios that will not be tolerated. It is for DFID, drawing on its experiences to-date in developing countries, to consider in more depth what these scenarios might be. This would help DFID to demonstrate to recipient governments - and UK Parliament - the point at which the risks to public funds can no longer be justified.

3.34 The wide range of possible scenarios means that it is not possible to prescribe the action that DFID should take in response to individual cases. DFID needs to retain the flexibility to consider each case on its own merits. The action taken will vary depending on a large number of factors, such as the severity of the problem and the commitment of the government to address the concerns, and it is for DFID to take these into account in deciding the most appropriate action. Within this, precedents have been set and should set the benchmarks for future action; for example, there are a number of examples in which

budget support has been suspended in partner countries. We recognise that DFID sees budget support as a long-term commitment and, as such, it is reasonable for country teams to enter into negotiation with the partner government before funding is reduced or suspended. A joint donor response is likely to be the most effective, although we recognise that each donor has its own aid conditions and, as such, decisions may vary.

3.35 We recommend that donors and partner governments use the memorandum of understanding to identify the steps that will be taken in circumstances where performance is lagging and to establish the actions needed to improve performance. This might set out a graduated response, starting with a period of negotiation following identification of the problem and leading to more severe action if satisfactory remedial action is not taken. It is also important that DFID's response is on an open and transparent basis, and that there is a re-assessment of the risks and a review of those factors hampering progress.

## The resource implications need to be actively managed

3.36 The use of budget support creates risks different resource requirements; for example, there is a need for a higher level policy dialogue with recipient governments on budget allocation and monitoring. DFID faces a difficult balancing act between responding to the need for new skills to address new risk areas and retaining appropriate sectoral expertise. In particular, the focus on the robustness of public expenditure management systems and government capacity means DFID will need to increase the resources dedicated to such issues. This may involve developing its own in-house capacity through training or employing more governance specialists, establishing collaborative projects with specialists (eg Bank of England), or seeking greater collaboration with other donors to place greater reliance on their work.

## Staff should be made aware of best practice in using budget support

3.37 DFID is developing its approach to budget support. There is now a need to capture good practice and practical experiences, together with DFID's policy thinking, to develop operational guidance for staff on the steps that should be taken to address budget support. DFID should consider how to raise staff awareness on best practice through a combination of training and the provision of guidance. We noted how country teams have organised workshops to share experiences on the practical implications of budget support. Such workshops are extremely valuable to staff in developing their awareness of the practical issues and disseminating DFID policy. There is also scope for a process of peer

review, the involvement of internal audit or separate independent review capacity in the implementation and management of budget support to encourage the application of best practice.

DFID's procedures for the use of project aid are well-established but should be subject to on-going refinement to ensure risks are addressed

3.38 Because the use of project aid is well-established and there is substantial internal guidance for country teams to follow, we did not seek to carry out a detailed review of the adequacy or implementation of this guidance. The approach to risk assessments is well-established in the project design phase and forms an integral part of key planning documents. DFID's Internal audit team focus on the existence and proper implementation of controls as part of their annual audit, which are reported to the Finance and Audit Committee. Each year the National Audit Office financial team also undertake their own assessment of internal financial control. Although frauds on projects have occurred in the past, these have not been significant in the context of the total DFID aid programme. Each case is also reviewed for lessons learnt to avoid repetition in the future.

3.39 On the basis of our visits and discussions with DFID, we are able to make a number of observations and highlight areas of good practice that DFID might want to consider further:

- DFID's office instructions and technical notes provide guidance on the risk assessments that are required as part of project design. We noted that the guidance does make reference to the risk of corruption and the approach needed to assess DFID's fiduciary risks. The fiduciary risk paper, which in many areas is applicable to all forms of aid disbursement, should help fill this gap but the key messages need to be developed into operational guidance for staff.
- Technical Note 14 gives advice on the use of institutional appraisal methods but, on the basis of the small sample of projects that we reviewed, there was little evidence that recommended techniques were being widely used. Institutional capacity is a key issue and DFID might want to consider whether country teams are placing sufficient emphasis on assessing the risks. Our discussions highlighted some doubts over project staff's awareness of the availability or use of analytical tools. We noted that the Utstein partners made systematic assessments of partner capacity (see box 8).

## BOX 8

### Approaches adopted in Utstein countries to assessing the capacity of partner bodies

**Netherlands:** the Ministry of Foreign Affairs has developed a tool, the COCA (Organisational Capacity Assessment Checklist) to assist programme managers in their evaluation of the organisational capacity of managing and/or implementing bodies. Programme managers are required to complete the checklist for all projects exceeding 25,000. The checklist comprises a series of criteria, each broken down into detailed requirements, with an ideal 'score' assigned to each requirement. The criteria include the general management structure, procurement, the legal framework and financial management and accountability issues. Scoring provides a detailed picture of the organisational capacity emerges.

Minimum standard requirements are applied to certain criteria, depending on the type of relationship between the Ministry and the partner body. For example, for financing agreements, minimum standards are expected on the organisational, management and accountability frameworks. The guidance accompanying the COCA tool describes what these minimum standards should be.

**NORAD** requires its embassies to carry out a thorough assessment of the partner institutions' administrative capacity. The assessment focuses on issues similar to the ones addressed by the COCA and the guidance on points of consideration is disseminated in NORAD's legal handbook.

**GTZ's** institutional appraisal assesses the organisational capacity, sector-specific and administrative skills of the partner body. Under the organisational assessment, GTZ examines the capacity of the institute to manage funds that it receives and its internal controls. Under the sector specific and administrative skill reviews, GTZ examines the partners past performance of the institute in the sector and staff competence, training and integrity. GTZ also retains controls over certain high-risk aspects of the projects (eg procurement).

- Discussions with Procurement Department reveal that procurement staff are often not involved in project design. There is a relatively high level of fiduciary risk in procurement and greater use of procurement expertise would ensure that this is properly managed. The Utstein partners place more emphasis on using multidisciplinary teams at the project design stage.

- We noted some good examples of projects in which their design has specifically sought to address corruption risks. In particular, projects have included measures to improve transparency - through dialogue with stakeholders or publicising details of funding in communities. We believe that DFID could be more proactive in disseminating good practice examples of projects that have sought to 'design-out' corruption risks.
  - We also noted that the aid agencies of Germany and Norway required contracts with external parties to include a non-corruption clause, the breach of which would allow the agency to withhold and reclaim funds. Projects also include clauses requiring the recipient country to co-operate with the aid agency and to investigate (and prosecute) any individuals suspected of corruption or any other misuse of project resources.
- 3.40 Many of the issues raised under the section on budget support are pertinent to the use of project aid. In particular, the need for thorough and wide-ranging risk assessments and emphasis on tackling institutional capacity and procurement issues. We believe that DFID should consider the need to review its project aid guidance in the light of on-going developments in their approach to these and other anti-corruption initiatives.

# Part 4

## Reporting and responding to the misuse of funds

- 4.1 A significant deterrent to the misuse of funds is the risk of being caught and punished. Much responsibility falls on partner governments to establish effective anti-corruption bodies and to implement appropriate laws to enable those guilty of corrupt practices to be brought to justice. DFID, and other donors, have assisted developing countries in this respect. But donors also need to develop procedures to ensure suspected cases of corruption are reported and, where necessary, appropriate action taken. This part of the review focuses on DFID's reporting procedures and its sanctions policy for dealing with guilty parties.

### Appropriate channels for reporting corruption should be established

Internal procedures for reporting suspicions should be clear and made known to staff

- 4.2 It is important for donors to have in place adequate and well-known channels by which suspicions of corruption can be reported to appropriate personnel. DFID has not established specific arrangements for reporting suspected cases of corruption and relies on normal staff reporting arrangements. The Netherlands Ministry of Foreign Affairs and GTZ in Germany have established the position of integrity adviser (see paragraph 2.4) to whom staff could report suspicions of corruption and seek advice on issues of ethical concern (see box 9). The World Bank has also established a Committee to oversee investigations of fraud and corruption within the Bank's activities (see Box 10). We believe that there is scope for DFID to make clearer its reporting channels and how cases of suspected fraud/corruption should be handled. DFID might want to consider the need for and benefits of a dedicated position, akin to an integrity adviser, or extending the role of the Anti-corruption unit.

### BOX 9

#### The role of an integrity adviser

GTZ has established an Integrity Advisor to whom country staff are encouraged to approach for clarification on matters of policy relating to corruption, or if concerns or allegations of unethical behaviour need to be raised. Contact with the integrity adviser is treated as confidential. The position is filled by one staff member working on a part time basis.

The Netherlands Ministry of Foreign Affairs has established a 'confidentiality function', whom staff members can approach for advice and guidance if they observe or suspect corrupt activities. The function was set up alongside guidance on whistleblowing procedures and induction courses for new entrants in which corruption issues and dilemma training are discussed.

### BOX 10

#### The World Bank's Oversight Committee

The Committee's role was broadened to supervise investigations of fraud and corruption within the Bank Group or in connection with Bank work. The Committee includes representation from Internal Audit, the Legal Department, the Business Ethics and Integrity Department and is chaired by a managing director. The investigations function includes two investigators and three attorneys, all with considerable experience in investigating fraud.

## The business case for a telephone hotline needs to be developed

- 4.3 The International Development Committee recommended that DFID consider the establishment of a telephone hotline. In the course of our review, we found that none of DFID's Utstein partners had developed a hotline, citing resource implications as the main reason for not doing so. However, the Netherlands and Germany believed that the establishment of the role of integrity adviser acted as the equivalent of an internal staff hotline. The World Bank has established a telephone hotline and estimates that it costs \$10 million per annum to run.
- 4.4 In developing a business case on a telephone hotline, DFID needs to consider carefully its capacity and the resource implications of setting up and running a hotline and balance these against the potential benefits of a hotline including, for example, its deterrent effect. Our report on the Insolvency Service included a review of their telephone hotline and illustrates some of the issues that DFID would need to consider (see Box 11). Clearly, to be effective, any hotline needs to be supplemented by the capacity to investigate any allegations thoroughly, independently and in-confidence. There are also a number of issues specific to the disbursement of aid that would create additional complications in the operation of a hotline. For example, the global nature of DFID's business would cause difficulties in raising awareness of the hotline's existence and deploying the necessary resources in a timely manner.
- 4.5 There are clearly many issues for DFID to consider. We suggest that as part of this process the Department should consult the World Bank and other UK government departments on the cost and practicalities. But an effective system for identifying and reporting

suspicious cases is important in demonstrating that reasonable steps are being taken to ensure proper use of UK moneys. There are a number of other issues that DFID might consider to strengthen their identification and reporting of suspect cases:

- ensuring financial monitoring arrangements are robust - we have not sought to review the adequacy of arrangements for project aid but have made a number of suggestions in Part 3 for budget support;
- closer liaison with other donors and non-government organisations to share information on cases of corruption;
- continuing support to develop effective anti-corruption bodies in developing countries and providing assistance for the implementation of anti-corruption legislation;
- creating an internal staff hotline - either by expanding the anti-corruption unit or creating a role akin to integrity adviser; and
- trialling national hotlines in high risk countries. Such hotlines may be more efficient and effective than a single UK hotline and could be run entirely by country offices.

## DFID should develop its sanctions policy for dealing with cases of corruption

- 4.6 There is a lack of a defined policy on how suspected cases of corruption should be managed and DFID does not have specific guidance on its policies and procedures for dealing with corruption issues. In contrast, we noted that the Netherlands Ministry of Foreign Affairs' office procedures specify the actions needed in cases where corruption is detected (Box 12).

### BOX 11

#### NAO findings on the Insolvency Service's hotline

Our report on the Insolvency Service (HC424, 98-99) highlighted that the hotline had a marked impact in its first year and led to an increase in the reported number of suspected cases, but concluded further efforts were needed to make it easier to use and more widely known. An NAO commissioned survey indicated a very low level of awareness of the existence of the hotline and, for those who did phone, some reservations about the ease of use. A number of suggestions were made to improve the hotline, including better quality and speedier feedback; more positive and quicker action; more direct contact on the hotline (less use of voice mail); and more scope for face to face meetings.

### BOX 12

#### Sanctions policy in the Netherlands Ministry of Foreign Affairs

The Operational Procedures specify in depth the Ministry's policies in circumstances of contracted parties failing to meet obligations. In particular, the procedures specify the actions to take if embezzlement or other forms of corruption are detected. The sanctions policy provides a framework of guidance to programme managers detailing the nature and severity of sanctions to take in a number of different circumstances. In addition to issues relating to embezzlement and other forms of corruption, the guidance discusses the form of sanctioning in the case of non-performance by other parties.



4.7 The World Bank has also developed measures to deal with fraud and corruption in Bank projects. A Sanctions Committee has been established and is responsible for establishing a consistent body of decisions pertaining to the debarment of firms found to have engaged in corrupt activities. The actions taken range from declaring firms ineligible for Bank contracts, permanently debarring firms, to filing lawsuits against contractors. We believe that there is scope for DFID to clarify and formalise the action to be taken, and the sanctions that should be imposed in a number of different scenarios.

#### The development of a blacklisting policy requires further consideration

4.8 Of the Utstein partners, only the Netherlands has a blacklisting policy - Germany and Norway cited legal implications as the reason for not implementing such a policy. The Dutch have not made their blacklist public and it is used to inform country teams in their work. Our discussions indicated that the legal issues mean that the number of blacklisted companies is small, consisting of sole traders and small companies. The World Bank is the only donor to publish on its external web page the names of firms and individuals found to have committed some form of fraud or corruption. The purpose is to provide information on firms ineligible for Bank-financed contracts and to act as a strong deterrent to the business community.

4.9 There is currently no Whitehall agreement on the principle to blacklist companies although there is a general agreement between government departments that a more robust policy towards errant companies is needed. The Cabinet Office is the lead department and DFID is participating in discussions. We encourage DFID to continue its consideration of this issue through discussion with UK government departments and the donor community.

4.10 There are clear and obvious benefits for donors in sharing information on the details of firms found to be involved in corrupt practices. DFID agrees that international co-operation to tackle corrupt contracting requires effective information exchange among contracting authorities and has discussed the possibilities of information sharing with donors. However, there are obstacles, notably the confidentiality of individual donors' processes and the obligation of national government to meet the standard of proof required to defend any disqualification against legal action.

# Appendix 1

## Methodology

- 1 We used a number of approaches to gather the evidence for this review:

**Structured interviews with DFID staff:** We liaised with DFID staff in Development Policy Department, Procurement, Human Resources and Programme Delivery Guidance unit and carried out a series of structured interviews to ascertain in detail DFID's policies and procedures.

**Documentary review:** We reviewed the organisational controls and policies that DFID has instituted in order to combat corruption and safeguard its aid. This included examination of the human resources policies, the anti-corruption strategy, DFID's policy documents, Office Instructions and other relevant documentary evidence.

**Benchmarking against Utstein partners:** We visited the aid agencies of Netherlands, Germany and Norway to benchmark DFID's procedures and approach to identify good practice. This involved structured interviews and a review of relevant papers.

**Case-study of one country team:** In order to demonstrate how policy is implemented, we visited the DFID office in Uganda and undertook the above-mentioned activities. In particular, we sought to establish the approach to implementing and managing budget support. We also visited the Auditor General and the Inspector of Governance of Uganda. Whilst in Uganda, we participated in a 'fiduciary risk workshop' hosted by DFID's Uganda office and engaged in dialogue with DFID representatives from Tanzania and Kenya.

**Discussions with NGOs:** We consulted representatives from Transparency International in the UK and in Uganda and canvassed representatives from the Overseas Development Institute, on issues relating to corruption and development aid.

# Appendix 2

## Key questions for DFID to consider

### A When carrying out country risk assessments

#### 1 Does DFID promote the need to tackle the threats posed by corruption?

- Has senior management affirmed its commitment to tackling corruption?
- Has the anti-corruption strategy been disseminated to country teams to encourage a systematic approach?
- Is there clear guidance on DFID's approach to carrying out risk assessments and has this been communicated to country teams?
- Do staff receive appropriate training on the typical risks that donors face and the approaches to assessing these?
- Is responsibility assigned for carrying out country risk assessments?

#### 2 Have a wide range of factors which influence the risk of corruption been explicitly considered?

- Do assessments include an analysis of the social, economic and political situation in the country?
- Is due consideration given to the quality of governance and the potential impact of poor governance on aid programmes?
- Do assessments make use of a wide range of knowledge sources, including non-government organisations and other donors?
- Do assessments draw on appropriate specialist knowledge, including fiduciary risk and procurement specialists?

#### 3 Have the potential impact of risks and the likelihood of occurrence been assessed?

- Has the country team established the risks to the objectives of country programme?
- Has thought been given to (i) the potential impact on aid effectiveness and (ii) likelihood of the risks materialising?
- Do country planning documents articulate how the risks have been taken into account in developing the country strategy?

#### 4 Have country teams considered how to manage the risks?

- Has an action plan been developed to set out the measures to address high risk areas?
- Is the plan consistent with the partner country's anti-corruption strategy?
- Are the results of risk assessments used to inform the design of the country programme and focus DFID efforts to support the partner government?
- Are the results of assessments shared with other donors and recipient governments?

### B When implementing budget support

#### 1 Have thorough assessments of the strength of government systems and the extent of corruption been carried out?

- Has a CFAA been carried out?
- In the absence of a CFAA, can country teams demonstrate that there has been a full and proper assessment of the country's public expenditure management system? Have equivalent diagnostic tools been used?
- Has the assessment of financial management systems been supplemented with a wider analysis; for example the strength of government commitment to eliminating poverty, the focus of government sector policies etc?
- Do assessments focus on the capacity of partner governments to (i) use resources effectively to implement poverty strategies and (ii) account for the use of funds?
- Is specific attention paid to the strength of government procurement systems? Do country teams have access to CPARs and / or make use of procurement specialists?
- Are assessments carried out before the commitment to provide budget support and are they updated periodically to inform decisions on its continued use?

## 2 Do budget support submissions include a full and frank assessment of the fiduciary risks?

- Do budget support submissions state the potential development benefits and DFID's approach to achieving these?
- Do budget support submissions explicitly identify the risks to the achievements of objectives and DFID's proposed response?
- Is there an evaluation of (i) the likelihood of risks occurring and (ii) the potential impact on objectives? Has the significance of risks been evaluated (high / medium / low)?
- Do country teams set out the minimum requirements that the partner government's systems are expected to meet?
- Is there an assessment of the gap between the strength of existing government systems and international standards?
- Do submissions demonstrate that the decision to use budget support is informed by a sound ex ante assessment of the risks and potential development benefits?

## 3 Have country teams developed action plans to mitigate the risks?

- Has an action plan been agreed with the partner government to take remedial action to improve public expenditure management systems, focusing on the high risk areas identified in the risk assessment?
- Does the action plan set out a timetabled plan for remedial actions? Does the action plan include measurable targets?
- Are risk assessments used to inform decisions on (i) the good governance programme and (ii) the technical assistance that is required to support the provision of budget support?
- Is disbursement of funds linked to (i) progress against action plans and (ii) continued commitment to implementing the poverty reduction strategy?
- Have country teams assessed whether additional resources and skills are required to meet DFID's responsibilities?

## 4 Have safeguards been implemented to provide assurance over the use of funds?

- Are reporting requirements agreed with the partner government?
- Have country teams sought to strengthen, as needed, the monitoring and reporting capacity of partner governments?

- Are there necessary controls to ensure the proper transfer of funds into the partner country's budgetary system?
- Is sufficient evidence available to provide reasonable assurance over the use of funds - including, as necessary (i) in-year budget monitoring, (ii) the availability of audited accounts, (iii) the existence of credible audit reports and (iv) the use of tracking studies?
- Is information available to demonstrate that government expenditure is in accordance with agreed plans and supports the Poverty Reduction Strategy and Medium Term Expenditure Framework?

## 5 Are there adequate monitoring arrangements to evaluate progress towards meeting poverty targets?

- Is there timely and reliable information on the performance of the partner country in implementing (i) action plans to improve the standard of government systems and (ii) poverty reduction strategies?
- Does the partner government have the capacity to evaluate progress against poverty reduction targets?
- Does evaluation focus on the impact of poverty reduction initiatives?
- Is information available on the outputs and outcomes of government spending?
- Is there reliable evidence that demonstrable progress is being achieved?

## 6 Is the continued use of budget support re-assessed in the light of monitoring results?

- Is thought given to the conditions under which budget support would be suspended or withdrawn?
- Are there contingency arrangements to deal with circumstances where performance of the partner country is lagging?
- Do these arrangements allow for a period of negotiation?
- Have these conditions been clearly communicated to the partner government?

## 7 Is there effective co-ordination between donors?

- Is information shared between donors on the weaknesses in government systems?
- Is there co-ordination between donors on the provision of technical assistance - to avoid duplication of effort and ensure that support is targeted to areas of greatest need?
- Is there agreement between donors on a common set of monitoring and reporting requirements to minimise the burden on partner governments?

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