

Business Case

Summary Sheet

Title: Ethiopia Portfolio Assurance Programme (EPAP)

Project Purpose: Maximise the effectiveness and efficiency of DFID Ethiopia's programme portfolio through identifying and helping to address risks in the supply chain.

Programme Value: £1m

Country/ Region: Ethiopia

Project Code: 300436

**Start Date: November
2017**

End Date: March 2020

Overall programme risk rating:

Low

Quest Number:

16579147

Intervention Summary

What support will the UK provide?

1. The UK will provide up to £1 million over 2.5 years, for a Portfolio Assurance Programme. This programme will strengthen DFID Ethiopia's ability to identify, understand, address and manage the major governance, management and financial risks at programme level in what is one of DFID's largest programme portfolios operating in an extremely challenging fiduciary risk environment. This programme will be a successor to the original Ethiopia Portfolio Assurance Programme (EPAP 1). EPAP1 is currently conducting reviews of DFID Ethiopia's highest risk programmes across a range of sectors and types of implementing partners, assessing governance and management processes and developing action plans to help improve those processes and procedures.

What are the main programme activities?

2. Specifically the programme will:

- Commission in-depth reviews of the highest risk elements of our portfolio, ensuring there are robust governance, management and financial controls to mitigate fiduciary risks;
- Conduct targeted cash flow tracking reviews following the complete delivery chain from implementing partner through to downstream beneficiaries/recipients;
- Support staff in interpreting finance and assurance reports and adequate follow up;
- Maintain capability to respond to emerging risk areas, which may include targeted forensic audit in areas of interest to specific programmes. For example: procurement; general legal challenges; accountancy, audit and other related specialist technical skills required to protect DFID investments.

Why is UK support required?

3. The DFID Finance Improvement Plan 2 (FIP2) aims to modernise the way DFID manages its finances. DFID is subject to greater financial scrutiny and challenge given the increased UK Aid budget. As a result, there is a strong requirement for increased financial management capability and tracking of financial spend to ensure that DFID demonstrates value for money throughout its programmes.

4. DFID Ethiopia has a high value portfolio (currently the largest UK bilateral programme in Africa) operating in a high fiduciary risk environment. It is therefore prudent to take additional measures to protect those investments and ensure funds are reaching their intended beneficiaries.

5. While Ethiopia is judged to be less corrupt than many of its African neighbours, fraud and corruption are still present and could potentially affect the delivery of DFID's objectives. Transparency International ranked Ethiopia 108 out of 176 countries in the 'Corruption Perceptions Index' in 2016. There are two main forms of corruption in Ethiopia, across all sectors,¹ with bribery being commonplace². There are also perceived weaknesses in the area of public contracting and procurement based on the Transparency International analysis. Although the issue of corruption is not as serious in Ethiopia when compared to some of its regional peers, the risk remains. The Government of Ethiopia's central finance systems are considered to be robust based on assessments carried out by DFID and partners such as the World Bank. Good programme and financial assurance and careful risk management can minimise the risks of fraud and corruption. DFID Ethiopia has a well developed approach to financial risk assurance and uses a

¹ World Bank 'Diagnosing Corruption in Ethiopia' report, 2012: <http://elibrary.worldbank.org/doi/abs/10.1596/978-0-8213-9531-8>

² 44% of respondents in Ethiopia who had come into contact with one of eight public services reported having paid a bribe according to Transparency International's [Global Corruption Barometer 2013](#).

number of risk assessment and mitigation tools, such as Fiduciary Risk Assessments (for Financial Aid), external audits, and Annual Reviews. This new, independent Ethiopia Portfolio Assurance Programme 2 will seek to provide a further level of assurance, and also build capacity with DFID partners on financial management. EPAP II will build on the work and lessons learnt from its predecessor, EPAP 1.

What are the expected results?

6. The programme demonstrates DFID Ethiopia's commitment to Value for Money and zero tolerance on fraud. It sends a clear signal to all our partners that governance and fiduciary controls must be fit for purpose.

7. At the impact level the programme will improve the efficiency and effectiveness of DFID Ethiopia funds. The outcome of the programme will be improved financial, risk management and governance structures of implementing partners of DFID Ethiopia.

8. To achieve this, DFID Ethiopia will increase the knowledge and understanding of the fiduciary environment through which funds are channelled, incentivise partner organisations to take positive action to address unsatisfactory review findings, and strengthen how DFID programme teams act upon the review findings. The output from each review will be shared with DFID Ethiopia Senior Management via the Financial Accountability and Corruption (FAC) Committee. The programme will also develop tools to contribute to building the capability of DFID Ethiopia staff in effectively managing programme risk. This will include providing the DFID Ethiopia portfolio with a database of risk data, drawn from previous audit and EPAP reports. This data, searchable by sector, location and implementing partner, will enable staff designing and managing programmes to identify likely risk areas and themes in order to better direct risk mitigation strategies from the outset.

How does the project fit with the country programme or department's strategic objectives set out in the Business Plan?

9. The programme will play an important role in underpinning the integrity of the entire DFID Ethiopia portfolio. EPAP 2 will also be expected to influence Government partners' approaches to tackling and managing fiduciary risk and corruption in their own programmes. Improved domestic accountability and tackling of corruption is an important strategic objective for DFID in Ethiopia.

What are the key risks to the success of the programme?

10. The main risk to the success of the programme will be lack of commitment amongst implementing partners to adopt new practices recommended in reviews and subsequent action plans. Close collaboration between DFID SROs, the selected supplier for EPAP 2, and technical assistance partners will be key to ensuring that implementing partners are well prepared for the reviews and are open to changing their approaches in response to review recommendations.

Strategic Case

A. Context and need for a DFID intervention

A challenging fiduciary environment

11. Corruption is present in Ethiopia and could potentially impact the delivery of DFID's objectives in Ethiopia. Systematic and widespread corruption does have an effect all aspects of public life. Transparency International ranked Ethiopia 108 out of 176 countries in the 'Corruption Perceptions Index' in 2016. There are multiple forms of corruption in Ethiopia, across all sectors,³ with bribery being commonplace⁴. There are also perceived weaknesses in the area of public contracting and procurement based on the Transparency International analysis

Effectiveness of current arrangements

12. DFID Ethiopia has traditionally used a range of tools and methods to meet the smart rule requirements on managing fiduciary risk, including:

- Fiduciary Risk Assessments (FRAs), which look at the public finance systems of governments (at an aggregate level) when Financial Aid is being given or considered;
- Due Diligence Assessments (DDAs) which assess the control design and operating effectiveness of non-government/private sector implementing partners;
- External audits of our programmes, which are usually 'statement' and/or 'compliance' audits, confirming funds have been used as intended; and
- Programme reviews, such as Annual Reviews and impact evaluations, which concentrate on results, management arrangements and Value for Money.

13. These tools provide good assurance, and through them DFID Ethiopia is able to mitigate against and pick up and tackle fraud and corruption issues. However, given this size of programme, and multiple actors involved in DFID funded supply chains, it is prudent to add a further level of assurance which can look more deeply at financial risks at each stage of programme implementation.

14. FRAs play an important role in assessing aspects of public financial management (PFM) such as procurement and budgeting for a government as a whole (Federal and Regional). However, those assessments remain aggregate assessments of all government departments and agencies. They do not record variations in performance between agencies – including those with whom we regularly work.

15. Similarly, external audits play an important role in our fiduciary discharge. However, audit statements are not designed to reveal fraud or corruption and compliance audits do not fully assess systems, processes or controls.

16. The National Audit Office (NAO) 'Investigation into DFID's approach to tackling fraud' report of February 2017 recognises DFID's zero tolerance approach to fraud, and acknowledges the comprehensive and strengthened measures we have in place to tackle and eliminate it. A key part of this is more proactive approaches to identify and respond to fraud and corruption.

17. DFID Ethiopia has further developed its active identification of fraud and corruption risks through the implementation of the EPAP 1 programme, a 9 month pilot. EPAP phase one reviewed four programmes categorised as high risk across the portfolio, and this directly linked in with the DFID Anti Corruption Strategy. The next phase of the programme, outlined in this Business Case, covers 2017 to the end of the current spending round period in 2020. It is reasonable to assume that levels of development assistance will remain reasonably stable over this period. Continued high levels of spend and a substantial fiduciary risk environment mean that there remains a strong case for a continuation of the EPAP

³ World Bank 'Diagnosing Corruption in Ethiopia' report, 2012: <http://elibrary.worldbank.org/doi/abs/10.1596/978-0-8213-9531-8>

⁴ 44% of respondents in Ethiopia who had come into contact with one of eight public services reported having paid a bribe according to Transparency International's [Global Corruption Barometer 2013](#).

programme. In addition, there is a strong requirement to build staff capability and understanding in this area, which will be well supported by EPAP.

The proposed response

18. DFID Ethiopia proposes to meet this challenge by running a second phase of the Ethiopia Portfolio Assurance Programme, managed within the Operational Excellence Team. This will commission independent experts to conduct specialist reviews of the highest risk elements of our portfolio.

19. The Programme will act as a facility, rather than a mandatory requirement, conducting reviews only when agreed between the EPAP SRO and the programme teams, with each review tailored specifically to the programme context.

20. The four main components of the Programme are:

- Specialist reviews of governance and financial management of partner organisations;
- Cash flow tracking to map and confirm the flow of funds and the robustness of the data that trigger release of funds;
- Interpretation of finance and assurance reports;
- Flexible, targeted technical advice.

Specialist reviews

21. Specialist reviews will be conducted by independent and international calibre audit experts on the elements of our portfolio considered to be highest risk. In most instances, this will involve focussing on a specific organisation playing a role in the delivery chain of our programmes – for example, a government department /agency, an NGO or a commercial company. In some cases, reviews may be conducted on a business process rather than an agency (which may involve reviewing the work of multiple agencies involved in this process). Most reviews will concentrate on financial standing, partner suitability, control design and operation, use of funds, and results and impact.

22. Each review will be tailored to the specific programme context, responding to risks identified in existing programme analysis and/or the DFID Ethiopia fraud and corruption risk register. The reviewers will also be expected to use their judgement to investigate areas that they perceive to be high risk, based on the information they obtain during the review.

23. At the end of each review, the final report will be reviewed by both the management of the reviewed entity and the DFID Ethiopia programme team and SRO. This will form the basis for discussion on a proposed action plan to address identified risks, which will be agreed between DFID and the entity. This action plan will lead to joint monitoring subsequently, enabling DFID Ethiopia to justify continued funding if the plan is implemented, or consider alternative policy options if it is not.

24. The reports, the action plans and the discussion between DFID, the reviewed entity and the reviewers will be treated as confidential, to enable a frank exchange of views and increase the likelihood of acceptance of the report's findings.

Cash flow tracking

25. One of the major opportunities for corruption is the various points in the financial flows where funds are released on the basis of some form of evidence that payment is due. Such processes often look adequate in terms of a documented process but the opportunity for corruption is potentially available for a different amount of payment to be passed to the next link in the chain, or for the evidence to be falsified. This new approach will identify high risk programmes that are susceptible to such corruption. These reviews will document the financial flow process and confirm the authenticity of the cash value being processed between payee and recipient. These reviews will also corroborate the evidence for supporting payment release by checking the validity of the data or examination of goods or services delivered.

Interpreting finance and assurance reports

26. Programme audits are an important programme management tool at staff disposal. Independent annual audited statements are required from all commercially contracted partners and grant recipients. Understanding and making appropriate use of these reports is vital, including adequate follow up, in ensuring effective financial oversight of programmes.

27. The supplier will be called upon on an ad hoc basis to support programme staff to interpret audit reports received from various sources, quality assure the findings, and recommend/support follow ups planned by the programme teams. As part of building the capability of staff in this area, the supplier may be asked to provide staff with a range of tools including, but not limited to, staff briefing sessions and checklists and guides.

Targeted technical advice

28. The main review component will aim to provide coverage of all of DFID Ethiopia's high risk programmes, and others that programme teams feel deserve similar depth of analysis. But in addition to this, DFID Ethiopia is likely to need occasional ad hoc expertise that cannot be precisely forecast.

29. To provide a consistent approach across the office, the programme supplier will be required to demonstrate access to a broader range of relevant specialists such as legal advice, forensic audit specialists, and accountants.

Sustainability

30. This Business Case is for 2.5 years and follows its predecessor programme, EPAP 1. Continued high levels of DFID investment, coupled with the high fraud and corruption environment mean that additional measures to protect DFID investments remain an important safeguard for the overall country programme.

31. This next phase of EPAP will focus on the highest risk programmes in the DFID Ethiopia portfolio. This will be coupled with a focus on ownership of report findings and action plan follow-up by programme teams and SROs. SROs will be required to provide periodic written updates to the EPAP SRO regarding progress on action plans. Progress reviews will be conducted according to need, as agreed between the programme team and the EPAP SRO, and dependant on performance against the original action plan.

32. EPAP 2 will not conduct due diligence assessments for DFID Ethiopia, although this capacity will be available for exceptional cases. The capability to conduct due diligence in-house will be complemented by the strengthened DFID Ethiopia risk matrix. This will provide the whole DFID Ethiopia portfolio with a database of risk data, drawn from previous audit reports and the EPAP programmes. This data, searchable by sector, location and implementing partner, will enable staff designing and managing programmes to identify likely risk areas and themes in order to better direct risk mitigation strategies from the outset.

Gender Equality Act

33. Addressing gender equality and girls and women's empowerment is a key priority for DFID Ethiopia. Although this programme will not directly contribute to addressing gender inequality, it will indirectly have a positive impact through providing assurance that DFID funds are being properly spent and accounted for, including on programmes with direct or indirect gender components. The Terms of Reference for the EPAP 2 supplier will specify the requirement to gather evidence on key gender indicators when conducting reviews. Reviews will ensure that gender disaggregated data is being collected and appropriate gender technical resources are in place for effective programme delivery where relevant. The detailed action plans drawn up following reviews will allow SROs to fix any gaps identified.

Partnership Principles Assessment

34. The Partnership Principles Assessment for Ethiopia has no implications for the delivery of the EPAP programme. However, the SRO should ensure they are aware of the PPA assessment, in particular with regards to principles three and four, which provide an indicator of Government commitment to strengthened financial management and accountability and domestic accountability. Assessments of commitment to these principles may inform likely responses to reviews conducted by EPAP and therefore

how we might manage our messaging to Government partners when a review is completed and we are agreeing an action plan.

Terrorism and financing

35. Payments under EPAP 2 will only be made to a single auditing firm, expected to be a local partner of a major international audit consultancy firm. As such the risks of funds being diverted for terrorist purposes are considered low. Reviews conducted under EPAP 2 may help to highlight and address systemic weaknesses that will reduce the risk across the DFID Ethiopia portfolio.

B. Impact and Outcome that we expect to achieve

36. The impact of the programme will be improved efficiency and effectiveness of DFID Ethiopia programmes. This will be achieved by reducing the exposure of our funds to critical and high fraud and corruption risks, as evidenced through the individual review findings. Programmes' effectiveness will be improved because safeguarded funds have a higher chance of reaching the intended beneficiaries, while efficiency will be improved by addressing governance and system flaws within the partner organisations and streamlining the flow of funds to beneficiaries.

37. To achieve this, the programme will increase the knowledge and understanding of the financial environment through which DFID funds are channelled. It will enable better funding decisions to be made, either by taking action to reduce the risk inherent in our partners or by stopping such arrangements. This will be achieved by partner organisations taking positive action to address review findings in order to reduce their critical and high risk findings.

Appraisal Case

A. What are the feasible options that address the need set out in the Strategic case?

38. The following options have been analysed:

1. **Do nothing** – DFID Ethiopia ends the current EPAP programme and does not continue with a facility for specialist reviews of high risk areas.
2. **Stand-alone programme** – DFID Ethiopia continues with a stand-alone programme led by the Operational Excellence Team, working in partnership with programme teams.
3. **Embedded** – The option to conduct specialist reviews is embedded in individual programmes and managed by individual programme teams, with no central coordination.

Option 1: Counterfactual

39. DFID Ethiopia ends the current EPAP and moves to a reliance on internal risk management arrangements and does not create a facility for specialist reviews of high risk areas.

40. DFID Ethiopia's approach to fiduciary risk management prior to EPAP 1 had been typical of that found in other country offices. Despite some suggestions for strengthening from Internal Audit reviews, there has been no suggestion that DFID Ethiopia's systems were not fit for purpose. On this basis, there is an argument that DFID Ethiopia does not need to continue with the EPAP approach.

41. However, this argument ignores the fact that the size of DFID Ethiopia's bilateral programme has increased significantly. It is also one of DFID's largest bilateral programmes, with significant amounts of new or innovative programming approaches.

42. At a time of higher than ever DFID spend in Ethiopia, and when all available indicators show a challenging fiduciary risk environment, we judge the option of closing the EPAP programme and having no successor to be inadequate.

Option 2: Stand-alone

43. DFID Ethiopia creates a centrally-managed EPAP successor programme led by the Operational Excellence Team, working in partnership with programme teams.

44. Under this option, DFID Ethiopia will contract an international audit firm (who in turn would sub-contract a national audit firm with field presence) to provide review services. The work of the reviewers will be overseen by an SRO and programme management team based in the Operational Excellence Team, with technical advice from a Governance adviser. The programme team's role would be to:

- Develop and manage the EPAP programme delivery plan (based on a regularly updated assessment of individual programme risk levels)
- Contract, manage and quality assure the work of the supplier, including conducting Annual Reviews of the EPAP programme
- Manage the programme finances
- Work with the supplier and programme teams to agree an annual work plan, based on the DFID Ethiopia fraud and corruption risk register
- Provide technical assistance to programme teams before, during and after each review to enable them to manage, understand and follow up on the review and its findings
- Ensure review findings feed back into the DFID Ethiopia fraud and corruption risk register

45. The advantages of this approach are that it enables the dedicated team to more effectively manage the work of the supplier: by learning continuously and improving how the facility works; by applying consistent quality standards; by managing costs through the application of standardised unit cost analysis; and by generally being a clear, single point of contact for liaison with the reviewers (who themselves would have a clear, single point of contact). It is also more efficient by saving programme teams substantial time in management and administration.

Option 3: Embedded

46. The conduct of specialist reviews is embedded in individual programmes and managed by individual programme teams, with no central coordination.

47. Under this option, responsibility for all fiduciary risk management, including use of specialist reviews, rests with programme teams. Reviews would be funded from programme budgets, with specialists contracted separately and teams using their own programme staff to manage, administer and follow up on reviews.

48. The main advantage of this option is that it would hold out the possibility of greater ownership by programme teams. Since they would need to invest significant time and resources into the review, the sense of responsibility would be far greater and the likelihood of findings being internalised within teams would be higher.

49. The main disadvantage is that without additional central capacity it becomes more administratively burdensome and programme teams may struggle to cope with the additional resources associated with the programme, in terms of both staff time and the skills and consistency of approach. This approach does not easily allow transfer of lessons between programmes in terms of the fiduciary risk environment or fraud mitigation approaches.

The preferred option is Option 2

50. The 'do nothing' option is not preferred because the financial risks in the portfolio are too significant. Corruption and fraud in Ethiopia are endemic and as we aim to be transformative we are engaging in areas vulnerable to financial misappropriation. It would be unrealistic to assume our programmes can manage the risks by relying on the standard DFID processes alone.

51. Option 3 is not preferred as the focus, clarity and potential for cross-learning that centralised management allows outweigh any advantages from greater ownership by programme teams. There are also Value for Money concerns with option 3 – it would result in multiple different contracts with multiple different auditors, increasing transaction costs and making quality consistency more difficult.

52. Ultimately Option 2 is preferred as it allows the optimum use of specialist resources, while still being flexible enough to allow programme teams and the office as a whole to guide when and where those resources are used.

B. Assessing the strength of the evidence base for each feasible option

Option	Evidence rating
1	Medium – this is the model traditionally used by DFID offices, although few have operated such large programmes in such a high risk environment
2	Medium – the first phase of the EPAP programme is ongoing so a full assessment is not yet possible but it has demonstrated the efficiency of the approach to date.
3	Medium – prior to the development of EPAP 1 it was determined that DFID's standard procedures needed strengthening to ensure financial probity in Ethiopia where corruption and fraud are commonplace.

Assumptions

53. Key assumptions are:

- Programmes with a robust and proactive financial management and risk mitigation mechanism in place will not be subjected to further review.
- It is not possible at this stage to model the exact size of the risk, as discussed in the cost-benefit analysis. However we judge that in a conflict-affected state like Ethiopia the risks of mismanagement may be higher than reported incidences suggest.
- The supplier will be able to conduct multiple reviews a year within the programme budget, despite the various sizes and workloads of different entities.

C. For each feasible option, what is the assessment of local capacity? Is the intervention likely to strengthen capacity in a durable manner?

54. Most major international audit consultancy firms have local representation in Ethiopia or local partners. The expectation is that EPAP 2 will be implemented by a local audit firm overseen by a major international auditor. As such, local capacity will be utilised and strengthened.

55. Findings from EPAP reviews will be communicated to DFID Ethiopia's programme implementing partners, including local and international firms, NGOs, and government. Advice and training on strengthening systems will be provided, with the aim of improving practices where necessary.

D. What is the likely impact (positive and negative) on climate change and environment for each feasible option?

56. This initiative will have negligible climate and environment impact as a result of its activities, hence the C marking. However, DFID should ensure that the procurement process for the lead international company secures an organisation that is committed to minimising its carbon and environmental footprint.

57. DFID should ensure that the procurement process calls upon bidders to specify how they will minimise the carbon/environmental footprint of their work under this programme. This might include, for instance, committing to keeping international travel to a minimum, or minimising any local impact as a result of their operations.

Categorise as A, high potential risk / opportunity; B, medium / manageable potential risk / opportunity; C, low / no risk / opportunity; or D, core contribution to a multilateral organisation.

Option	Climate change and environment risks and impacts, Category (A, B, C, D)	Climate change and environment opportunities, Category (A, B, C, D)
1	C	C
2	C	C
3	C	C

E. If any, what are the likely major impacts on social development?

58. There are unlikely to be any major impacts on social development other than the effect of strengthening DFID's existing programmes in this area.

F. For fragile and conflict affected countries, what are the likely major impacts on conflict and fragility, if any?

59. The programme is intended to prevent (or uncover) fraud and corruption. In that respect, the programme may have an impact on conflict and fragility to the extent that fraud and corruption has roots in the social and political dynamics that affect levels of conflict and fragility.

60. For example:

- Reviews may reveal political drivers behind corrupt, fraudulent or just inefficient practices that are intertwined with local power balances;
- The primary beneficiaries of corrupt or fraudulent practices revealed by review findings may play important social or political roles, including in the delivery of DFID programme objectives;
- Review findings may affect relationships between politicians and bureaucrats, for example if bureaucrats are placed under pressure to act inappropriately before, during or after the conduct of the audit; and
- Reviews may well identify questionable practices on behalf of specific individuals that could lead to prosecution, potentially with political and social consequences.

61. While these concerns are real, they do not allow DFID to divert from its zero tolerance policy towards fraud and corruption. But the programme will be sensitive to political issues around corruption and fraud, and where these issues are perceived to be potentially destabilising, their treatment will be elevated to the appropriate level and managed in conjunction with colleagues in the wider embassy.

G. What are the costs and benefits of each feasible option?

62. The total cost of the programme will be up to £1m over 2.5 years.

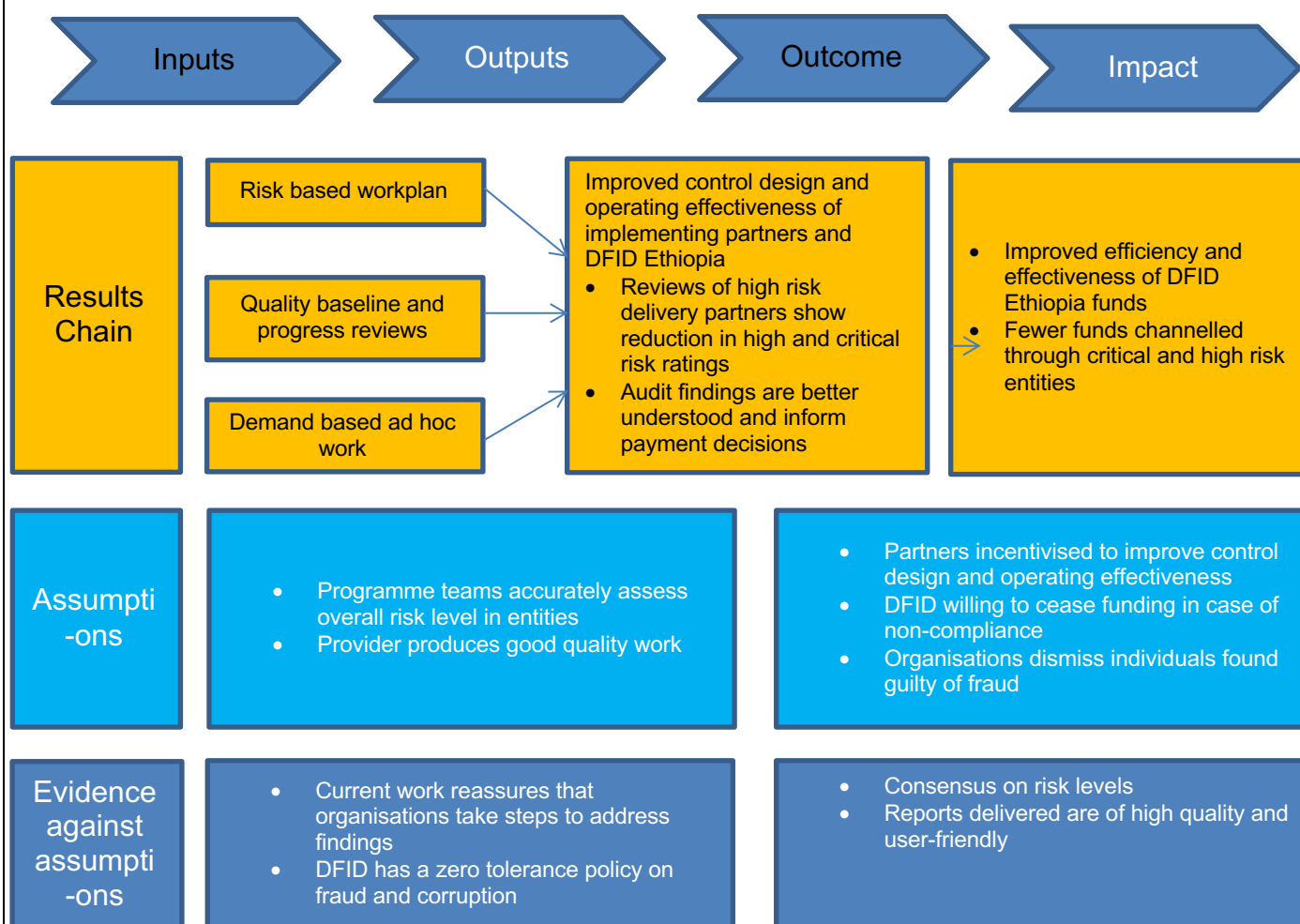
63. Benefits are difficult to monetise. The programme is designed to improve Value for Money as well as eliminate fraud and corruption, but to enable reasonable benefit monetisation it would be simpler to focus only on losses from fraud and corruption (i.e. excluding monetised benefits).

64. Such losses themselves are very difficult to measure – by their nature, losses from fraud and corruption are usually hidden and hard to identify. And the programme is primarily intended to be preventive – to deter fraud and corruption by making it more difficult to commit, rather than catching acts of fraud and corruption in their execution (though this may well occur also).

65. Consequently, the only realistic way to quantify expected benefits is to use an estimated level of *current* loss due to fraud and corruption and then to estimate the reduction in this loss as a result of the programme.

66. A reliable estimate of loss due to fraud in the UK public sector comes from the Centre for Counter Fraud Studies, which in 2010 estimated an average percentage loss rate of 4.57%. The annual cost of EPAP 2 is approximately 0.1% of DFID Ethiopia's current annual budget.

H. Theory of Change for Preferred Option



I. What measures can be used to assess Value for Money for the intervention?

67. **Economy** measures on this project are essentially the professional oversight and quality assurance that is gained from the international firm of auditors managing in-country partners.

68. **Efficiency** is how inputs (money and staff) are converted into outputs (review reports). Gains will be made by having a standalone programme with centralised management because this arrangement:

- Allows a single point of management for a single supplier, delivering economies of scale;
- Enables more focused quality assurance and lesson learning; and
- Results in the application of consistent standards, methodologies and reporting formats across all of the design, field work and audit reports.

69. **Effectiveness** is a measure of how outputs (review reports) are converted into outcomes (positive steps taken to address review recommendations).

70. Overall effectiveness will be measured through the improved programme management of DFID Ethiopia programmes, and reductions in fiduciary risk. Each report will highlight areas of management and financial weaknesses within the systems and controls of implementing partners. These will then be addressed, and performance improved. In addition, relevant DFID programme teams will be supported to understand Ethiopia audit reports in a more professional manner than previously.

71. It is anticipated that an increased interrogation of DFID's expenditure will further enhance DFID Ethiopia's reputation within the donor community, protect UK taxpayers' money, and forge even more effective working relationships at the highest levels of government.

72. The supplier will be clearly briefed on the result-focused nature of this intervention. Emphasis will be placed on delivering results and ensuring Value for Money for the DFID portfolio through strengthened fiduciary control.

J. Summary Value for Money Statement for the preferred option

73. The preferred Option 2 will provide Value for Money if (a) it provides significant added value to the rigorous financial management systems currently in place without increasing transactions costs, and (b) enhances the assurance of DFID reporting to the UK taxpayer. Performance on these two indicators will be monitored by tracking progress on the risks identified in the reviews conducted under EPAP 2.

Commercial Case

74. This will be a direct procurement through a contracted supplier.

A. Clearly state the procurement/commercial requirements for intervention

75. The private sector is uniquely positioned to deliver the aims and objectives effectively, while bringing the necessary independence and adequately addressing any perceived conflict of interest between DFID, implementing partners and the Government.

76. The DFID Ethiopia investment will be up to £1m over 2.5 years. Competitively tendering the service requirements will help maximise the value obtained from the programme investment and will comply with the legislative requirements of the Public Services Directive.

77. As there is an existing supplier on the current EPAP programme, DFID will ensure that all relevant information is made available to all interested parties, affording them all the opportunity to compete on an equal basis and submit comparable, high quality technical bids from which to select on a Value for Money basis.

78. The existing model of an international firm of auditors leading and quality assuring the programme and directing in-country partners is the model we will retain. This should ensure impartial and consistent professional integrity of the reviews and protection of the in-country partners, given the sensitivity of the work.

B. How do we expect the market place to respond to this opportunity?

79. Although there is an incumbent provider on the EPAP 1 programme, we expect strong interest in the contract. A supplier engagement exercise conducted by DFID Ethiopia in Addis Ababa in November 2016 was attended by a healthy number of local and international audit firms. We will continue to engage the market to encourage bids. We expect to utilise international expertise while developing in-country capability and capacity.

80. The TORs will place a substantial weight on demonstration of results delivery in comparable operating environments.

81. The combination of local and international expertise also offers the following benefits:

- Local agents build the capacity and capability to meet international standards.
- Use of the local supply base will reduce costs while enabling frequent travel and more access.

C. How does the intervention design use competition to drive commercial advantage for DFID?

82. The design is a rolling review of the financial and management activities of implementing partners and derives commercial advantage for DFID Ethiopia in the following areas: 1) ensuring DFID's project investment is used for its intended purpose; 2) competitively driving value from the local and international supply base; and 3) building capability/capacity in DFID Ethiopia and its partners.

83. The programme will address various aspects of financial probity, risk management and assurance. Using recognised international audit methodology and experience the appointed supplier will examine the financial and management activities of programme implementation units through which DFID funds flow. The chosen procurement route will give DFID Ethiopia access to a strong network of both local and international supply capability and capacity. This will provide an efficient means of quality assuring a large number of DFID Ethiopia projects.

D. What are the key cost elements that affect overall price? How is value added and how will we measure and improve this?

84. The key underlying cost driver in this intervention is technical assistance. This will include consultancy fee rates, economy class travel and accommodation expenses for the international/local specialists, as required. We will ensure that a balance of technical and commercial evaluation criteria deliver competitive consultancy fee rates and Value for Money.

85. Costs will be a critical and substantial part of the selection process. In particular the ratio of international to local consultancy costs will be a major factor and will be considered against the added value of having an international firm quality assure the final product.

86. Duty of Care will be the sole responsibility of the appointed supplier. DFID Ethiopia will complete a Risk Assessment Matrix for the project which will be circulated to all bidders as part of the tender package. The technical evaluation team will qualitatively assess responses with regard to understanding of the known and foreseeable risks, risk management and security procedures, and experience and resources to manage the demands of the programme.

87. Value for Money is not driven simply by the lowest costs but by the best ratio of effectiveness to cost, and this has to be assessed on a case by case basis. Whenever interventions are not delivering the expected results and we assess that this is due to the limited effectiveness of individual consultants, we will either agree personnel changes or discontinue the intervention. Individual project terms of reference will always contain clear deliverables which will be linked to remuneration and the delivery of key results.

88. DFID Ethiopia is confident that this approach will deliver Value for Money, while also safeguarding outcomes and benefits from the wider project portfolio.

E. How will the contract be structured and how will contract and supplier performance be managed through the life of the intervention?

89. Robust contract management will enable DFID discretion to reduce funding where we consider that the programme is not delivering the anticipated results, whether this is due to poor performance or to external factors. Tracking results and benefits, and embedding them in a process of continuous improvement across the portfolio will also deliver increasing value through the programme.

90. DFID will:

- Hold monthly conference calls with the suppliers to monitor progress of ongoing activities, and circulate to all relevant programme teams an updated activity log from the suppliers;
- Monitor programmatic and financial performance through annual reports;
- Conduct Annual Reviews to assess performance against targets.

91. The appointed supplier will be expected to demonstrate how successful delivery will be achieved, and how continuous quality improvement and cost reduction will be achieved and maintained over the life of the programme. The contract for EPAP 1 was input-based. This new phase of the programme will move to a hybrid contract with some costs paid on an input basis but the majority of payments made against successful delivery of quality reports.

92. The contract will have adequate provision for variation to adapt to changes that occur during the life of the programme. DFID will, at key identified review points, have the right to request changes to the contract. This may include changes to the services, the terms of reference and the contract price to reflect lessons learned, or changes in circumstances, policies or objectives relating to or affecting the programme.

Financial Case

A. Who are the recipients of all proposed payments?

93. The selected supplier will be the recipient of all payments.

B. What are the costs to be incurred directly by DFID? What is the profile of estimated costs?

94. The intention is to maintain a flexible call down pot of money which responds to needs as they are identified. However, the rate of expenditure is expected to be broadly consistent throughout the life of the programme.

95. Costs have been estimated using two sets of information:

- Average costs for each audit review and progress review, derived from an analysis of spending on the pilot programme (EPAP 1);
- Estimated requirements for baseline reviews and progress reviews in future years, derived from an analysis of the DFID Ethiopia pipeline.

96. It is intended that this programme cover all specialist reviews for DFID Ethiopia over the next 2.5 years, ensuring we do not need to conduct multiple tenders or manage multiple suppliers.

97. As the programme will start part way through the 2017-18 financial year, spend is estimated to be lower in this year.

	FY 2017-18 (£)	FY 2018-19 (£)	FY 2019-20 (£)	Total (£)
Reviews and spot checks	175,000	375,000	375,000	925,000
Programme financial assurance review	25,000	25,000	25,000	75,000
Annual Total	200,000	400,000	400,000	£1,000,000

C. What are the costs to be incurred by third party organisations?

98. There will be no costs incurred by third party organisations.

D. Does the project involve financial aid to governments? If so, please define the arrangements in detail

99. The project does not involve financial aid.

E. Is the required funding available through current resource allocation or via a bid from contingency? Will it be funded through capital/programme/admin?

100. Funds will come from the 2017/18 to 2019/20 financial allocation and will be from the programme budget.

F. How will you work to ensure accurate forecasting?

G. 101. The annual work plan will be agreed at the start of the programme and thereafter at the beginning of the financial year to allow the suppliers to provide an annual forecast. This will be reviewed on a monthly basis, with forecasts updated as necessary.**What is the assessment of financial risk and fraud?**

102. With direct contracting of the supplier by DFID, we judge this programme to have low financial and fraud risks. There is no procurement under the contract and payments for services will be mainly tied to delivery of quality reports, thus ensuring that DFID are paying only when confident of the receipt of a product.

103. However, the programme will itself make it more likely that fraud and corruption will be uncovered.

104. Where fraud is identified DFID Ethiopia's response will be in accordance with DFID procedures and our zero tolerance policy as directed by DFID's Counter Fraud Section. This does not mean an automatic suspension of aid. Decisions on suspension will be made on a case by case basis, using a balanced assessment of risk and reward and measures that can be applied to safeguard investments.

H. How will expenditure be monitored, reported and accounted for?

105. Expenditure will be monitored and accounted for on the basis of agreed work plans and budgets within the limits of the contract. Payments will be made on a monthly basis as per normal DFID contract guidelines. Detailed finances will be decided between the programme team and the supplier after the risk-based plan is submitted, and will depend on the number of reviews being carried out.

106. Invoices submitted by the supplier will follow a format agreed in advance by DFID, likely to include the supplier's time and expenses against each entity being reviewed.

I. Are there any accounting considerations arising from the project?

107. There are no accounting considerations arising from the project.

Management Case

A. What are the management arrangements for implementing the intervention?

108. The programme will be implemented by DFID through independent and international calibre audit experts.

Division of roles and responsibilities

109. Since this programme is linked into every DFID Ethiopia programme the division of roles and responsibilities will be as follows:

Supplier's Responsibility

110. The supplier will be responsible for carrying out a review of each programme listed on an agreed Risk-Based Audit Plan. The contracting firm will be hired under the overall terms of reference for the programme but they will liaise with DFID to draft individual terms of reference before reviewing each programme. This will also ensure that programme team expectations and requirements are being met (within the overall objectives of the programme).

Operational Excellence Team

111. The Operational Excellence Team will lead on this programme to ensure objectivity and independence from programme teams. The lead adviser will be a Governance Adviser with public financial management expertise. The SRO, programme management team and lead adviser will be responsible through the Financial Accountability & Corruption (FAC) Committee for:

- Agreeing a prioritised work plan (this will be based on a regularly updated assessment of individual programme risk levels conducted by the EPAP 2 lead adviser and agreed with the DFID Ethiopia Senior Management Team);
- Commissioning reviews;
- Ensuring outputs are delivered on time, as per Terms of Reference;
- Quality assuring the final reports and feeding back results to teams;
- Holding SROs responsible for taking forward remedial actions; and
- Assessing the collective impact of the reviews undertaken and sharing lessons and findings with the wider office.

Individual Team Responsibilities

112. Programme teams will be responsible for tailoring the scope of individual programme reviews to ensure that issues assessed by each review meet the needs of the relevant programme, and that the reviews are informed by the latest developments.

113. The programme team will be responsible for managing the relationship between the local auditors and their programme partners, for example making sure partners understand why the review is taking place, how findings will be shared, facilitating access to the organisation undergoing the review, and being present during other key moments. The final report from each audit will be addressed to the EPAP programme team who will then share it with the appropriate SRO and programme team.

114. The relevant programme SRO will be responsible for following up on the recommendations of the review and ensuring the implementation of any action plan.

Exit Strategy

115. The EPAP 1 programme is providing DFID Ethiopia with invaluable risk assurance on a range of high value, high risk programmes. However, ownership of programme risk by DFID programme management staff is important so EPAP 2 will operate in such a way as to encourage this.

116. The supplier will not automatically conduct follow-up reviews after a baseline review. These will instead be identified on a case by case basis following discussion between the EPAP programme management team and the relevant SRO. These discussions will look at the level of risks identified in the original review and progress against the action plan. This will ensure EPAP resources are focused on the areas of most need and encourage DFID programme management staff to own and manage risks more independently. The programme will not conduct routine due diligence reviews but there will be scope to conduct occasional due diligence reviews in exceptional circumstances.

117. The development of a database populated with data gathered from previous EPAP reviews will also help reduce reliance on EPAP over the longer term. Programme teams will be able to independently interrogate the data to identify likely risk areas in their programmes and address them at any stage without the need for a full scale EPAP review.

B. What are the risks and how these will be managed?

Type of Risk	Factors contributing to the Risk	Mitigating Actions
Political Risk	1. Risk of breakdown in relationships with Ethiopia Government	Close collaboration with the Government on a constant basis across all programmes. Clear communications and introductions at the start and end of reviews by the DFID programme teams. Effective relationships between the contracted supplier and Government partners.
Security Risk	1. Travel restrictions stop reviews from proceeding	The contracted firm should be one which has a local office in Ethiopia to ease their travel around Ethiopia.
Aid impact and effectiveness	1. Business continuity disrupted due to corruption and fraud being unearthed	If fraud is unearthed in any programme DFID Ethiopia will follow standard fraud procedures, including immediately starting the process for recovering money and taking a decision on the future of the programme as per the following three options: <ol style="list-style-type: none"> 1. Stop funding immediately 2. Continue funding but place in sufficient safeguards to mitigate such a fraud activity to take place in the future 3. In the case of a joint programme amend contracts to hold key personnel responsible (e.g. to ensure that they are fully responsible for any future fraud by recovering or paying for fraud losses themselves)
Reputational	<ol style="list-style-type: none"> 1. Reviews identifying high risks are reported by the media 2. Perception of interfering with programmes, partners' systems etc 	<p>All reviews will be treated as confidential documents. The programme will be excluded from publication, thus reducing its visibility in the public arena.</p> <p>To ensure engagement by partners the emphasis will be on fraud prevention and strengthening of control rather than exposing weaknesses.</p> <p>Response to review reports will be determined on a case by case basis and communication lines will be developed as and when required.</p> <p>Programme teams will be fully involved in the work and will accompany the consultants to the initial meeting with the programme partners to ensure the purpose of the audit is explained well.</p>
Quality and added value	1. Poor quality work done by the supplier	Implementation will be by local auditors but under the direction and quality assurance of a reputable international firm.

	2. Duplication of work with other DFID processes	<p>The SRO will have a quality assurance role, ensuring that the supplier is completing quality work in line with their contractual obligations.</p> <p>The reviews will not be mandatory but only used when programme teams believe it would clearly add value. This should help avoid duplication with processes already undertaken.</p>
Conflict of Interest	<p>1. Scope of reviews includes private sector companies perceived as competitors to the audit company hired to implement EPAP</p> <p>2. The audit company hired to implement EPAP are separately contracted to other work for DFID</p>	<p>Robust conflict of interest policy will be drawn up between DFID and the supplier and reviewed regularly.</p> <p>Any challenges on conflict of interest will be reviewed with the DFID Ethiopia Commercial Adviser.</p> <p>The supplier will keep the EPAP SRO informed of all other DFID Ethiopia related work they consider bidding for and must receive SRO sign-off to bid for the work.</p>

What conditions apply (for financial aid only)?

118. There is no financial aid in this programme.

C. How will progress and results be monitored, measured and evaluated?

119. Monitoring will be carried out by the SRO and lead adviser against the log frame indicators and will be analysed against the risk-based work plan on the basis of progress reports from the supplier.

120. At the impact level the risk-based plan provides the indicator baseline. Progress against the expected milestones will be monitored periodically using both the conclusion of each review and assessments made by the programme teams. Value will be judged on whether the suggestions and recommendations made through the review are followed up by programme partners and internally by DFID programme staff.

121. EPAP 1 reviews will also provide baseline data of the condition of a programme's systems prior to recommendations being made. For those entities reviewed by EPAP 1 that subsequently undergo reviews under EPAP 2, it will be possible to assess whether improvements were made.