

Terms of Reference

DFID Ethiopia Portfolio Assurance Programme (EPAP) Phase II

1. Background & Introduction

Ethiopia is one of the poorest countries in the world, but is committed to reducing poverty and delivering improved human development through its second Growth and Transformation Plan. Ethiopia has achieved its MDGs goals on infant mortality, primary school enrolment, gender parity and HIV, TB and malaria. This is a crucial time in Ethiopia's development to ensure that the gains are sustained and that progress benefits the whole country and all parts of society.

DFID Ethiopia is the largest DFID programme in Africa and third largest DFID programme globally. Strengthening our financial accountability and ensuring that UK expenditure delivers value for money in all its programmes is key for DFID Ethiopia given the significant level of expenditure.

DFID Ethiopia (DFIDE) spends over GBP300 million annually on development programmes through a variety of modalities which include partner governments, private sector contractors, multilateral agencies and NGOs.

Ethiopia's central government financial management systems are reasonably robust and DFID Ethiopia provides significant financial aid to the government on this basis. Nevertheless, corruption potentially affects the delivery of DFID's objectives in Ethiopia and systematic corruption continues to affect 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,¹ including petty corruption in access to public services or to bypass the law², and grand corruption through flaws in public contracting and procurement. The EPAP II programme will provide DFID Ethiopia with an extra level of assurance that its funds are being used for the purposes intended.

DFID Ethiopia has traditionally used a range of tools and methods to manage 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;

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 novem ed having paid a bribe according to Transparency International's [Global Corruption Barometer 2013](#).

- 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.

These tools are vital, but may still leave gaps in DFID Ethiopia’s risk management approach given the fiduciary environment.

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.

DFID Ethiopia has further developed its active identification of fraud and corruption risks through the implementation of the EPAP 1 programme, a 6 month pilot that ran to the end of July 2017. The next phase of the programme, outlined in this Business Case, covers 2017 to the end of the current spending round period in 2021. It is reasonable to assume that levels of development assistance will remain broadly 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 programme.

2. Objective

DFID Ethiopia wishes to contract a Service Provider for its Portfolio Assurance ‘Programme phase II, a successor to the original Ethiopia Portfolio Assurance Programme (EPAP I). This programme will continue to 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.

This TOR is for a call down contract under the Global Evaluation Framework Arrangement (GEFA) with a budget envelope up to £1m. Under this call down contract DFID Ethiopia is seeking a service provider who;

- (i) Can demonstrate results delivery in comparable operating environments
- (ii) Has access to a broader range of relevant specialists including legal and forensic audit specialists and accountants.

3. Recipient

- a) The primary recipients of the services will be DFID Ethiopia Programme Teams.
- b) The secondary recipients of the services will be partner organisations operating in the delivery chains of DFID Ethiopia’s programmes. These partner organisations could be government agencies, non-governmental organisations or private sector suppliers.

4. Outcomes

1. 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.
2. The outcome of the programme will be improved financial, risk management and governance practices of implementing partners of DFID Ethiopia.
3. DFID Ethiopia will increase its 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.

5. Scope

1. Specialist reviews of governance and financial management of partner organisations;
2. Cash flow tracking to map and confirm the flow of funds and the robustness of the data that trigger release of funds;
3. Interpretation of finance and assurance reports;
4. Flexible, targeted technical advice. This will include providing advice and guidance on strengthening systems, with the aim of improving practices of DFID Partners where necessary.
5. The programme will develop tools to contribute to building the capability of DFID Ethiopia staff in effectively managing programme risk.
 - a. This will include providing the DFID Ethiopia portfolio with a database of risk searchable by sector, location and implementing partner, drawn from previous audit and EPAP reports
 - b. This data will assist staff designing and managing programmes to identify likely risk areas and themes in order to better direct risk mitigation strategies from the outset.
6. EPAP 2 will also be expected to influence Government partners' approaches to tackling and managing fiduciary risk and corruption in their own programmes.
7. Up to 10 assessments are required under each of the high risk programmes

6. Performance Requirements

The four main components of the Programme are:

Component 1: Specialist reviews of governance and financial management of partner organisations;

1. 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:

- i. financial standing;
- ii. partner suitability;
- iii. control, design and operation;
- iv. use of funding;
- v. risk management; and
- vi. Results and impact.

2. 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.
3. 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.
4. The Service Provider will be responsible for designing a template Scope of Work and then for developing each Scope in consultation with (and to the satisfaction of) DFID Programme Teams and (where necessary) the entities under review.
5. The Scope of Work will be discussed with the entity during inception meetings, with participation from DFID Ethiopia.
6. The methodology to be followed for each review will be determined primarily by the Scope of Work, but should meet international standards and should obtain sufficient evidence for the Service Provider to be able to make clear and definitive statements regarding control and management effectiveness. The Service Provider will be responsible for designing appropriate methodologies for these specialist reviews.
7. The template for each review will be developed by the Service Provider, but should include:
 - a. A description of the auditor's understanding of the programme and management context;

- b. A description of the Scope of Work and the methodology followed, including relevant detail on sample sizes and tests used;
 - c. A series of findings, each with a risk rating;
 - d. An overall assessment of risk for the audited entity / process;
 - e. Any appropriate caveats to the findings; and
 - f. Proposed actions to address any process weaknesses identified.
8. DFID Ethiopia will quality assure first drafts of each review and will grant final approval once any issues with the reports have been addressed. Once approved, DFID will discuss the findings with the management of the entity reviewed with the aim of (a) agreeing the findings and (b) agreeing an action plan to address the findings. The Service Provider may be required to participate in these discussions.
9. The reports, the actions 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.

Component II - Cash flow tracking to map and confirm the flow of funds and the robustness of the data that trigger release of funds;

- 1. This new approach is expected to identify high risk programmes that are susceptible to such corruption.
- 2. These reviews will document the financial flow process and confirm the authenticity of the cash value being processed between payee and recipient.
- 3. 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.
- 4. The Service Provider will be responsible for designing a template Scope of Work and then for developing each Scope in consultation with (and to the satisfaction of) DFID Programme Teams and (where necessary) the entities under review.
- 5. The Scope of Work will be discussed with the entity during inception meetings, with participation from DFID Ethiopia. The methodology to be followed for each review will be determined primarily by the Scope of Work, but should meet international standards and should obtain sufficient evidence for the Service Provider to be able to make clear and definitive statements regarding control and management effectiveness. The Service Provider will be responsible for designing appropriate methodologies for these cash flow reviews.

Component III: Interpretation of finance and assurance reports

1. 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.
2. 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.
3. 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.
4. Drawn from previous audit and EPAP reports, the supplier is required to develop a database of risk across the DFID Ethiopia portfolio that searchable by sector, location and implementing partner.

Component IV: Flexible, targeted technical advice

1. Under this component the main review 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.
2. To provide a consistent approach across the office, the supplier will be required to demonstrate access to a broader range of relevant specialists such as legal advice, forensic audit specialists, and accountants. An understanding of the local regulatory environment and applicable corporate laws would be an asset.

7. Reporting

1. The service provider reports directly to DFID Ethiopia's Head of Finance and Deputy Head of the Operational Excellence team.
2. All major reports produced under the contract should be quality-assured and issued by the Service Provider's international or regional head-quarters to demonstrate independence and credibility.
3. The Service Provider should be able to maintain, either itself or through a sub-contract arrangement, the capability and credibility to conduct relevant fieldwork throughout Ethiopia, including at the district level. The Service Provider will also need to demonstrate results delivery in comparable operating environments.
4. As expressed in the General Terms and Conditions of DFID contracts, DFID/OGD will have unlimited access to the material produced by the supplier.

8. Aid Transparency

- DFID requires suppliers receiving and managing funds to release open data on how this money is spent, in a common, standard, re-usable format and to

require this level of information from immediate sub-contractors, sub-agencies and partners.

- Accordingly, but not limited to, the contractor is required to submit copies of its supply chain (sub-contractor) invoices and evidence of payment when invoicing DFID for its actual Procurement of Local Services Costs and applicable Management Fee.
- It is a contractual requirement for all suppliers to comply with this, and to ensure they have the appropriate tools to enable routine financial reporting, publishing of accurate data and providing evidence of this to DFID. Further IATI information is available from: <http://www.aidtransparency.net>

9. Timeframe

- The contract will be for up to three years with a possibility to scale-up/down the requirement and a potential maximum, £236k costed extension of the end date by up to one year.
- There will be a contract break point at the end of each year. DFID Ethiopia will carry out a rigorous assessment of the supplier's performance, work plan and requirement in line with budget.
- Progression beyond each break point will be subject to the outcome of the reviews, satisfactory performance of the Supplier and agreement to any revised work plans or budgets.
- In the event that DFID Ethiopia determines not to proceed with the contract as a result of the review, the contract will be terminated in accordance with DFID Standard Terms and Conditions.
- DFID Ethiopia expects commencement of the work no later than November 2018.

10. End of contract activities

Three months before the end date of the contract the supplier is expected to prepare draft exit plan for DFID Ethiopia approval which consists of the following.

- A report that summarises any finished work, unfinished or work in progress related to this contract
- Return all confidential material or information to DFID Ethiopia before the end of the contract
- Allows for a period of up to 60 days after the contract end date (termination date) for the exit process to be properly implemented

11. DFID co-ordination

- a) DFID Ethiopia's Operational Excellence team is responsible for managing the DFID Ethiopia Portfolio Assurance Program (EPAP II). The Head of Finance and Deputy Head of the Operational Excellence team will be the key program contact.

- b) While the Service Provider will primarily report to this team, it will also need to work closely with individual programme teams when delivering reviews on their respective programmes. Experience from the previous programme suggests that intensive and multiple lines of communication are needed between the Service Provider, DFID Ethiopia and partner organisations, especially when negotiating the scope and access of reviews.
- c) The Service Provider should spell out in its proposal what measures it would take to ensure it is capable of handling this high degree of communication and coordination.
- d) DFID will annex the Business Case, or at least those parts not considered commercially sensitive.

12. Government Tax

Tenderers are responsible for establishing the status of this Requirement for the purpose of any government tax in the UK or Overseas. Any applicable taxes must be shown in Pro Forma 3 (ITT Volume 4). Tenderers must supply both a statement confirming they have investigated the tax position and advising no tax is applicable OR must provide a figure at proforma 3 of the tax due under any contract.

13. Conflict of Interest

DFID takes conflicts of interest very seriously, and this is particularly the case with the Ethiopia Portfolio Assurance Programme (EPAP) which requires an independent and objective assessment of programme implementation partners. The Service Provider will need to understand this and have in place measures to ensure that any threats to the Service Providers independence or objective are identified and managed. These measures may include:

- Identification of a threat to independence through considering the nature of the programme implementation partner;
- The threat to independence is then assessed and discussed between the parties;
- Where safeguards need to be put in place these will be discussed in advance;
- Secure storage of data and client files, restrictions on discussing client business (even internally) and (where applicable) secure zones in offices; and
- The Service Provider maintains a Conflicts of Interest log which documents the potential conflict; the safeguards put in place and the decision whether to proceed with the review.
- The service provider need to give rational as to what levels of disclosure/access is expected from the assessed entities and demonstrate how risk will be managed, given that these are not standard audits.
- DFID will take the ultimate decision on whether the Service Provider proceeds with a review or not, and this decision is informed by the factors listed above.

11. Carbon Footprint

DFID wishes to work with suppliers who are committed to integrating climate change opportunities and mitigating risks into the content of services and products provided to DFID and also into the practices of the suppliers themselves. Bidders should demonstrate how they will seek to maximise the climate and environmental opportunities, and minimise the risks, as well as minimising their and their sub-contractors carbon footprint in the course of fulfilling any DFID call-down contract from this framework agreement.

12. Duty of Care

- The Supplier is responsible for the safety and well-being of their Personnel and Third Parties affected by their activities under this contract, including appropriate security arrangements. They will also be responsible for the provision of suitable security arrangements for their domestic and business property.
- DFID will share available information with the Supplier on security status and developments in-country where appropriate. DFID will provide a copy of the DFID visitor notes (and a further copy each time these are updated), which the Supplier may use to brief their personnel on arrival. A named person from the contracted organisation should be responsible for being in contact with DFID to ensure information updates are obtained. There should be a process of regular updates so that information can be passed on (if necessary). This named individual should be responsible for monitoring the situation in conjunction with DFID.
- Travel advice is also available on the FCO website and the supplier must ensure it (and its personnel) are aware of this. The supplier is responsible for ensuring appropriate safety and security briefings for all of its personnel working under this contract.
- The supplier is responsible for ensuring that appropriate arrangements, processes and procedures are in place for its personnel, taking into account the environment they will be working in and the level of risk involved in delivery of the contract (such as working in dangerous, fragile and hostile environments etc.). The supplier must ensure its personnel receive the required level of appropriate training prior to deployment.
- Suppliers must develop tenders on the basis of being fully responsible for Duty of Care in line with the details provided above and the initial risk assessment matrix prepared by DFID (see Annex 1 to this Terms of Reference). They must confirm in the tender that:
 - They fully accept responsibility for security and Duty of Care.
 - They understand the potential risks and have the knowledge and experience to develop an effective risk plan.
 - They have the capability to manage their Duty of Care responsibilities throughout the life of the contract.

- They will give responsibility to a named person in their organisation to liaise with DFID and work with DFID to monitor the security context for the evaluation.
- If you are unwilling or unable to accept responsibility for security and Duty of Care as detailed above, your Tender will be viewed as non-compliant and excluded from further evaluation.
- Acceptance of responsibility must be supported with evidence of capability (no more than 2 A4 pages) and DFID reserves the right to clarify any aspect of this evidence. In providing evidence tenderers should consider and answer yes or no (with supporting evidence) to the following questions:
 - I. Have you completed an initial assessment of potential risks that demonstrates your knowledge and understanding, and are you satisfied that you understand the risk management implications (not solely relying on information provided by DFID)?
 - II. Have you prepared an outline plan that you consider appropriate to manage these risks at this stage (or will you do so if you are awarded the contract) and are you confident/comfortable that you can implement this effectively?
 - III. Have you ensured or will you ensure that your staff are appropriately trained (including specialist training where required) before they are deployed and will you ensure that on-going training is provided where necessary?
 - IV. Have you an appropriate mechanism in place to monitor risk on a live / on-going basis (or will you put one in place if you are awarded the contract)?
 - V. Have you ensured or will you ensure that your staff are provided with and have access to suitable equipment and will you ensure that this is reviewed and provided on an on-going basis?
 - VI. Have you appropriate systems in place to manage an emergency / incident if one arises?

13. Environmental and Social (E&S) safeguards

DFID works to embed environmental and social safeguards predominantly to ensure that our development and humanitarian interventions do no harm. They are also a key part of ensuring that our outcomes are sustainable, that they provide good value for money and that protect the positive results and transformative impacts for poverty reduction and development that we aim to deliver.

DFID needs to understand the scope of safeguard risks that might need to be considered in a given project, to ensure that risks are identified properly analysed and mitigation measures in place, with clear oversight responsibility for example to safeguard those directly or indirectly involved as beneficiaries or community members of DFID interventions.

Further considerations of particular importance to managing the risk of doing unintended harm to people and/or the environment include (but are not limited to)): social and poverty impact, gender equality, resource scarcity and environmental vulnerability, climate change, institutional environment, the political economy, conflict and fragility.

DFID Suppliers are expected to demonstrate;

- **Top-level commitment:** evidence of top-level organisational commitment to implement E&S safeguards, enhance E&S outcomes, and seek continual improvement. This should ideally take the form of a written statement signed by senior management, shared publically.
- **Appropriate systems and processes:** robust policies and systems in place for identifying E&S risks, implementing E&S safeguards, and monitoring performance relevant to this programme or investment, including regular field supervision and spot-checks.
This should include, where relevant, clear policy and strategy and robust processes and documents such as Environmental and Social Impact Assessments (ESIAs), [child] safeguarding policies, Environmental and Social Management Plans (ESMPs), Stakeholder Engagement Plans (SEPs), Resettlement Action Plans (RAPs), Occupational Health and Safety Management Plan (OHSMPs) documentation.
- **Adequate resources:** evidence on adequate financial, professional, and institutional resources in place to implement E&S safeguards, coordinate down-stream partner implementation of E&S safeguards, and seek continual improvement throughout the entire lifecycle of this programme or investment? This should include adequate staff with specialist training and experience (including high-risk issues such as HIV/AIDs, gender based violence, and child protection), and dedicated budgets.
- **Strong track record:** suitability to deliver DFID's contract requirements, including assessment of an organisation's past performances, financial stability and organisational principles and track record of implementing E&S safeguards on similar programming.

Annex 1: Duty of Care Risk Assessment Matrix

Risk Assessment – Ethiopia Summary Risk Assessment Matrix

Project title: **Ethiopia Portfolio Assurance Programme Phase II**

Date of assessment: **September 2017**

Theme	DFID Risk score	DFID Risk score
	Ethiopia Excluding: Somali Region, the woredas (districts) of Tsegede, Mirab Armacho and Tach Armacho in North Gonder; three woredas of the Agnuak zone of the Gambela region that border on South Sudan (Dima, Goge and Etang), the Gambela wildlife reserve, the four woredas of the Nuer zone (Akobo, Wantawo, Jikawo and Lare), and the Jore woreda of the Agnuak zone – all of the Gambela region; and areas within 10km of all external borders.	Somali Region, the woredas (districts) of Tsegede, Mirab Armacho and Tach Armacho in North Gonder; three woredas of the Agnuak zone of the Gambela region that border on South Sudan (Dima, Goge and Etang), the Gambela wildlife reserve, the four woredas of the Nuer zone (Akobo, Wantawo, Jikawo and Lare), and the Jore woreda of the Agnuak zone – all of the Gambela region; and areas within 10km of all external borders.
OVERALL RATING³	2	3
FCO travel advice	2	4 (3 for parts of Gambela and north-west Amhara bordering Tigray)
Host nation travel	2	3

³ The Overall Risk rating is calculated using the MODE function which determines the most frequently occurring value.

advice		
Transportation	3	4
Security	3	4
Civil unrest	2	3
Violence/crime	2	3
Terrorism	3	4
War	1	3
Hurricane	1	1
Earthquake	3	3
Flood	2	2
Medical Services	3	4
Nature of Project/ Intervention	3	3

<https://www.gov.uk/foreign-travel-advice/ethiopia>

1 Very Low risk	2 Low risk	3 Med risk	4 High risk	5 Very High risk
Low		Medium	High Risk	