



Public Financial Management Risk Assessment Framework (PFMRAF) Manual

A Mandatory Reference for ADS Chapter 220

New Edition Date: 07/28/2014
Responsible Office: M/CFO
File Name: 220mae_072814

Table of Contents

Chapter 1: Public Financial Management Concepts	3
Terminology.....	3
PFM, Governance, and Public Accountability.....	3
Corruption.....	4
PFM Value Chain.....	5
Partner Government PFM Organization.....	6
Sources of Information.....	6
Chapter 2: Stage 1 Rapid Appraisal	8
Introduction.....	8
Partner Government Systems (PGS) Team.....	8
Government-to-Government Risk Management Team (G2GRMT).....	9
Preparation and Planning.....	9
Stage 1 Checklist.....	10
Field Work.....	10
Consultations.....	11
Meeting Notes.....	11
Stage 1 Rapid Appraisal Report.....	11
Mandatory Components – Stage 1 Rapid Appraisal Final Report Package.....	13
G2GRMT Approval.....	13
Report Maintenance and Distribution.....	13
Illustrative Steps – Stage 1 Rapid Appraisal.....	13
Chapter 3: Stage 2 Risk Assessment.....	15
Introduction.....	15
Incentives and Shared Risk.....	15
Risk Appetite.....	15
Risk Categories.....	16
Risk Treatment and Applicability to USAID.....	18
USAID’s Risk Assessment and Measurement.....	18
Risk Treatment.....	21
Risk Treatment Techniques.....	21
Preparation and Planning.....	23
Choosing the Assessment Mechanism.....	23
Joint Assessments.....	24
Statements of Work (SOW).....	26
Testing.....	27
Stage 2 Questionnaire.....	29
Stage 2 Risk Assessment Report.....	29
Mandatory Components – Stage 2 Risk Assessment Final Report Package.....	30
G2GRMT Approval.....	30
Report Maintenance and Distribution.....	30
Confidentiality and Sharing Stage 2 Risk Assessment Reports.....	30
Illustrative Steps – Stage 2 Risk Assessment.....	31

Chapter 4: PFMRAF Integration into Project Design.....	33
Introduction.....	33
Risk Mitigation Plan.....	34
Authorization for Use of Partner Government Systems (AUPGS).....	35
Mandatory Components – AUPGS.....	35
G2GRMT Review.....	35

Appendix 1: Sources of Information

Appendix 2: Stage 1 Rapid Appraisal Checklist

Appendix 3: Stage 2 Risk Assessment Questionnaire

Chapter 1: Public Financial Management Concepts

Terminology

Fiduciary Risk is the danger that funds allocated from the budget: (1) may not be controlled properly, (2) may be used for purposes other than those intended, and/or (3) may produce inefficient or uneconomic programmatic results.

Government to Government (G2G) assistance refers to when USAID disburses funds directly to a partner government entity, including all instances in which USAID finances a partner government entity of a bilateral foreign assistance recipient country to implement a project or project activity, including non-project assistance, using the partner government's own financial management, procurement or other systems.

Partner Government Systems (PGS) includes all government systems involved in the management of government operations regardless of function, including financial, procurement, human resources, performance monitoring, audit, disclosure, adjudication, regulation, enforcement and others. In the context of PFMRAF, public financial management (PFM) systems are a subset of PGS.

Public Financial Management (PFM) is a class of systems and elements thereof involved in the management of public resources. It primarily refers to the processes, procedures and activities associated with spending public resources to include budgeting, treasury, cash management, disbursement, accounting and reporting, audit and control, and may include the financial management features of various government systems such as procurement and human resources, as well as the financial management aspects of transparency, governance and public accountability. In the context of financial management and fiduciary risk identification, "procurement" may be referred to as a separate system from other systems involved in PFM for clarity and precision.

Public Financial Management Risk Assessment Framework (PFMRAF) is USAID's risk management process to identify, mitigate and manage the fiduciary risks encountered when considering G2G assistance. It focuses on fiduciary risks to which USG funds may be exposed to when administered directly by the PFM systems of the individual entities intended to implement G2G funded activities. PFMRAF assessments of individual entities must include all PFM systems that may be used in implementing an individual project.

PFM, Governance, and Public Accountability

The PFMRAF is designed to assess not only the PFM environment of the partner country government, but also governance and public accountability factors, including legal and regulatory matters, as well as political will for non-corrupt, transparent, accountable, and effective governance. Since sound PFM is an indispensable element of governance and public accountability, these issues are examined and where shortcomings are noted, potential mitigation measures identified.

All countries mobilize funds from domestic sources through taxes and fees and apply those funds by purchasing goods and services ranging from civil servant salaries to infrastructure projects. Developing countries often tap resources from donors for necessary services or infrastructure investment that they

cannot pay for on their own. The mechanism for resource mobilization and application is the PFM system. The quality of PFM systems varies widely from country to country, within countries at various levels of government, and within governments from sector to sector and/or ministry to ministry.

Sound PFM systems help foster democracy by enhancing accountability and transparency in decision-making. Transparent use of financial resources empowers the people to exercise their sovereign control over the government and develop sustainable systems of public services. Conversely, weak PFM enables corruption or diversion of resources away from basic human services such as health and education. It also retards economic growth by driving business underground, imposing costs that make products and services noncompetitive, or impairing the ability of the government to establish and maintain macroeconomic stability.

The critical point is that governance and public accountability are inseparable from PFM. The focus on sound PFM is therefore essential to achieve our long-term goals of growing economies in democratically governed countries. Beyond strict PFM, other accountability enhancing projects may be required. These may include public administration and civil service reform, parliamentary strengthening, civil society development, strengthening accountability bodies, and enhancing government transparency and democratic accountability.

Corruption

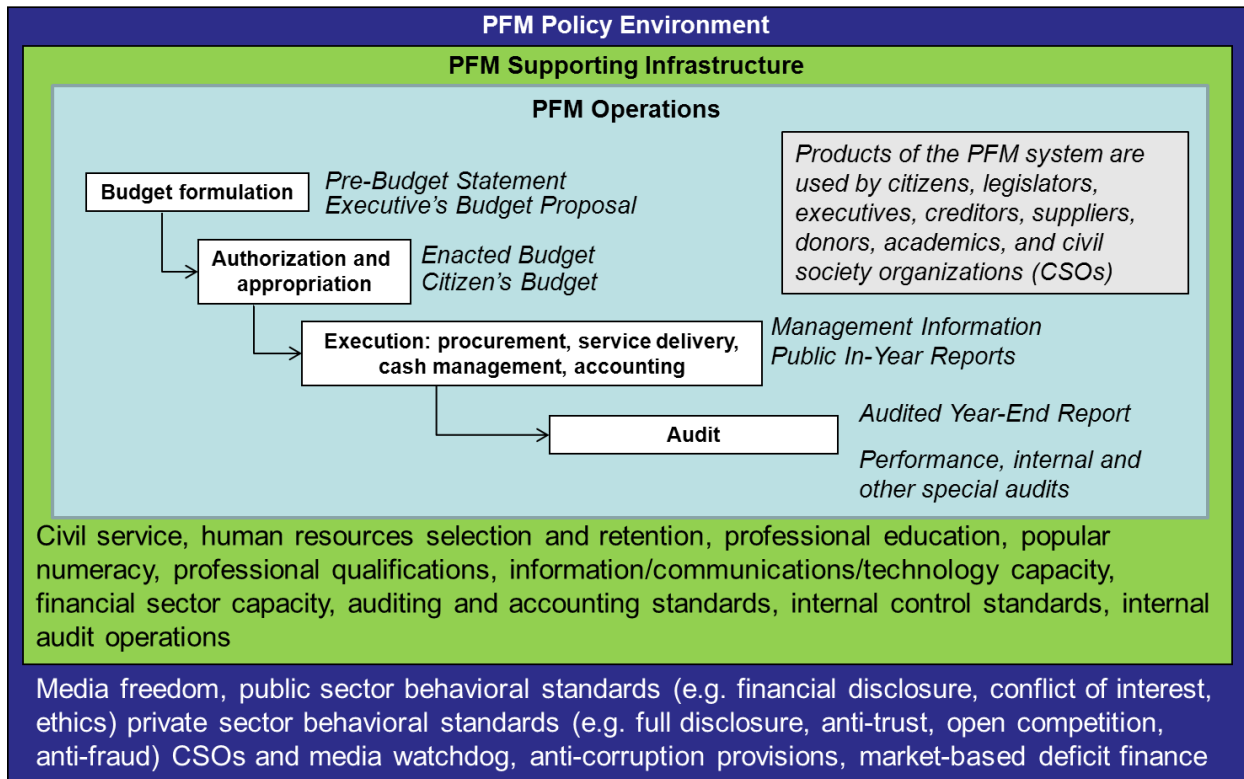
Corruption presents a special problem. Corruption is found in the developing world, just as it is in the United States and every other country. While we do not accept corruption, we understand that it is inevitable. Corruption happens. This is not the issue.

The issue is how the government responds to it. Only if the vulnerability to corruption is acknowledged can appropriate responses, such as recovery of losses, accountability, and enhancement of controls, be possible. Obviously, where evidence of corruption is clear, and the partner government fails to respond with appropriate measures such as the establishment of codes of ethics, implementation of appropriate financial controls, and prosecution of wrong doers, use of partner government systems should not occur. Where, however, the partner government adopts an anti-corruption program, demands accountability, and subjects the control environment to constant scrutiny and improvement, we should offer our goodwill and practical assistance. The opportunity to combat the abuse of public power for private gain, fraud and other forms of corruption should be viewed as an opportunity to improve the lives of people in the developing world as is providing for economic growth or improved health outcomes.

This guidance recognizes the difficulty of analyzing corruption. Detection is actively resisted by the corrupt, so the task of the PFMRAF is not to find specific examples of wrong-doing, but to assess senior management tone at the top, the strength of the control environment, and whether institutions are sufficiently developed and positioned to fight corruption. For example, partner government PFM system managers must be vigilant for signs of fraud and ensure that discrepancies in recordkeeping are resolved fully and transparently immediately upon discovery. Understanding the depth of commitment to honest government is primarily a task of the Stage 1 Rapid Appraisal but can also be identified during the Stage 2 Risk Assessment(s).

PFM Value Chain

A value chain is a useful analytical tool that illustrates the series of activities or inputs and relationship between such to achieve a given output or product. Applying a similar concept to the PFMRAF, the PFM Value Chain displayed below illustrates the PFM process from the viewpoint of the consumers and users of financial management reports, and the relationship with the governance and public accountability policy environment and related supporting infrastructure. These concepts are considered at the macro-level in the Stage 1 Rapid Appraisal (Chapter 2) and a more targeted level at the Stage 2 Risk Assessment (Chapter 3) and provide insight into strategic opportunities for change or let us know that now is not the time for G2G assistance. For example in one country, the Stage 1 Rapid Appraisal recommended not to proceed to a Stage 2 Risk Assessment because although some strength was found in the technical PFM areas, there were significant shortcomings in areas of governance.



Partner Government PFM Organization

There are a variety of ways a government can organize and manage its PFM functions. The notional structure illustrated in the table below can be used as a starting point to compare and assess the actual organization of a specific partner government.

Identifying organizational units and understanding their respective functions can be useful in conducting the PFMRAF. This approach can help answer questions such as: Who is responsible? Are staffs sufficient and capable? Does this organization exhibit appropriate separation of duties? Are the appropriate linkages established and operating smoothly? Where are there vulnerabilities? What areas require capacity development?

Organizational Unit	Functions
Ministry of Finance	
○ Accountant General	- Chart of Accounts - IFMIS - Accounting Standards
○ Controller	- Financial Operations - Internal Control Standards
○ Treasurer	- Cash Management - Bank Relations
○ Budget	- Planning and Formulation - Analysis - Commitment Control
○ Revenue	- Tax Administration, policy
○ Debt Management	- Treasury single account
Supreme Audit Institution	- Audit rules and regulations
National Procurement Body	- Procurement policies, procedures
Anti-Corruption Commission	- Corruption monitoring, disclosure

Sources of Information

The Sources of Information (Appendix 1) lists useful diagnostic reports as well as other documents and websites to assist in completion of the Stage 1 Checklist and Stage 2 Risk Assessment. It includes Public Expenditure and Financial Accountability (PEFA) reports, Country Procurement Assessment Reports (CPAR), Public Expenditure Review (PER), Poverty Reduction Strategy Papers (PRSP), Organization of Economic Cooperation and Development – Development Assistance Committee (OECD-DAC) country procurement system assessments, democracy and governance assessments, and other similar documentation to inform responses and analysis. Also included are several references to project management and risk management related topics.

As a starting point, the PGS Team should review relevant and timely (generally, within the last three years) diagnostic reports of the partner country’s higher-level PFM and procurement systems, as well as

the legal and regulatory governance framework. They should become familiar with the structure of the government including separation of powers, if any, and central or federal organization, and factors such as media freedom, CSO development, and the role political parties. The PGS team should thoroughly review and understand this information prior to consultations with partner government officials and other stakeholders to enable more fruitful discussion.

PEFA

The PEFA deserves special attention, as it is a key source of important baseline information. Much can be drawn from the report and full use of it reduces the assessment burden, thereby contributing to the harmonization goal specified in the Accra Agenda for Action. PEFA, however, is not a risk-based tool, while the PFMRAF is. As the methodology and approach to each assessment tool differs, PEFA cannot substitute for the PFMRAF. According to a former head of the PEFA Secretariat, no donor relies solely upon the PEFA to decide whether to use country systems. All donors, including the World Bank, use additional instruments. PEFAs can become quickly outdated, so the information contained needs to be checked against current reality. Liberia was an example of a fast-reforming country where a PEFA only two years old at the time of the Stage 1 was badly outdated.

Readers of the PEFA should be engaged and critical, asking questions about the information presented therein and confirming whether it matches the reality on the ground. Readers should also be aware of the different scoring mechanisms and evaluate the answers to each indicator accordingly. PEFA ratings are subject to negotiation at two points; first, the country officials and second the PEFA Secretariat in Washington DC.

Chapter 2: Stage 1 Rapid Appraisal

Introduction

The Stage 1 Rapid Appraisal is the initial stage of the PFMRAF. An inherently governmental function, it is led by Mission staff contemplating direct use of partner government systems in the delivery of development aid. As such, the Stage 1 Rapid Appraisal and its components may not be contracted to a third party. The appraisal is designed to be a country level examination of the partner government PFM environment and associated fiduciary and related risks, as well as elements of governance and public accountability. Broadly, the Stage 1 Rapid Appraisal is designed to answer key fundamental questions:

- What is the overall PFM operating environment in the partner country?
- Are public accountability institutions and related support mechanisms sufficiently viable to support G2G?
- Is the level of fiduciary risk manageable enough to justify a more in-depth Stage 2 Risk Assessment(s)?

More specifically, the scope of the appraisal includes:

- Country commitment to development;
- Country commitment to transparency and accountability in the use of public funds;
- Country commitment to effective and efficient use of public resources;
- Existence and quality of policies, legal and institutional framework, and systems supporting transparency, accountability and control, especially in the use of donor funds;
- Background information on PFM in the sectors and institutions of interest, where relevant;
- Opportunities for corruption;
- Governance systems and practices; and
- Political or security factors that exacerbate fiduciary risk.

This chapter provides instructions and best practices for carrying out a Stage 1 Rapid Appraisal. It is important to note that the focus of the Stage 1 Rapid Appraisal and the broader PFMRAF is PFM and fiduciary risk. Though programmatic and other areas of risk may be identified as a part of this process, these observations should be considered ancillary and not substitute programmatic and other analyses required as part of project design.

Partner Government Systems (PGS) Team

The Mission should form the Partner Government Systems (PGS) Team to lead the PFMRAF process, with support from USAID/Washington or regional technical staff where necessary. The PGS Team should be formally designated as outlined in ADS 220. Experience has proven that a “whole-of-Mission” effort is more likely to succeed than one isolated in any office. Where appropriate, including Foreign Service National (FSN) staff involvement will help retain and carry forward the knowledge and experience of the country and process over the long term.

Expertise required on the PGS Team typically will include knowledge of and/or qualifications in:

- Budgeting, treasury and cash management, procurement and contracting, audit and control, and IT systems for financial management and control;
- The technical and institutional aspects of PFM;
- Governance and public accountability;
- Project design and program management
- The sector(s) known to be of interest for use of country systems; and
- USAID policies for use of partner government implementation mechanisms and details of the relevant instruments.

Beyond their technical qualifications, each member of the PGS Team must demonstrate an open mind free of preconceived conclusions. Members must be data-driven and willing to make decisions based on the evidence garnered. They must have the skills and aptitude for empirical research based on interviews with partner country counterparts. On-site interviews must be informed by objective information that was mastered prior to conducting the interview.

Government-to-Government Risk Management Team (G2GRMT)

The G2GRMT is based in USAID/Washington and supports the PFMRAF and related G2G processes. This team provides policy, guidance, training, and assures quality control and consistency for the use of the PFMRAF. Responsibilities include:

- Analyzing PFMRAF conclusions and recommendations;
- Review and clearance of Stage 1 Rapid Appraisal Final Report package;
- Review and clearance of the Stage 2 Risk Assessment Statements of Work (SOW);
- Review and clearance of Stage 2 Final Report package.

Preparation and Planning

Previous experience has consistently confirmed that adequate planning and preparation are keys to a successful Stage 1 Rapid Appraisal. Once formed, the PGS Team should immediately take the necessary steps to coordinate and plan accordingly. The Stage 1 Rapid Appraisal is a project in itself and should be managed as such. Particular items to consider include:

- Identification, willingness, and availability of partner government representatives
- PGS Team roles and responsibilities
- Availability of staff and resources (Mission and G2GRMT)
- Work breakdown structures (i.e. what needs to get done, by whom and when/timing through report drafting to final.)

Do not underestimate the time required for preparations. Depending on the above considerations, it often takes months to plan and execute accordingly.

Stage 1 Checklist

The Stage 1 Checklist is a series of questions that should be completed to help guide the Stage 1 Rapid Appraisal. These questions and responses thereto have been selected as critical to informing the determination of whether USAID should proceed to Stage 2 Risk Assessment(s).

Prior to initiating fieldwork, the PGS team should research various sources of information and complete a draft of the checklist. PGS Teams should divide the responsibility of researching and answering questions as appropriate, rather than assigning an individual person or office. Experience shows that completed checklists in the range of 30-40 pages are sufficient.

A best practice includes sharing the completed draft checklist in advance with members of the PGS Team who will participate in the consultations, including the G2GRMT or other team members traveling from elsewhere. This approach will not only educate the team on the content researched, but also assist and guide the team during consultations/interviews with the partner government and other stakeholders. In cases where the G2GRMT is not participating in the fieldwork, a draft of the checklist should be forwarded for review and feedback prior to initiating fieldwork.

The PGS Team should maintain a list of sources that were referenced and create a bibliography as part of the final Stage 1 Rapid Appraisal Final Report package. Excerpts used in the report and checklist should be cited accordingly.

The checklist will be revised, refined and finalized upon completion of the field work to reflect updated information garnered through consultations/interviews. See Appendix 2 for the Stage 1 Checklist.

Field Work

The Stage 1 Rapid Appraisal culminates in a two-week fieldwork phase whereby the PGS Team a) meets with respective partner government officials, bilateral and multilateral donor representatives, and others (civil society organizations, private sector, professional associations, etc.); b) gathers data and synthesizes information; and c) makes a collective determination on whether and how to proceed with the Stage 2 Risk Assessment(s). Completion of the fieldwork will enable the PGS Team to:

- Understand and evaluate the PFM , governance and public accountability systems in a country/sector/level of government and identify and evaluate strengths and weaknesses;
- Assess the overall level of fiduciary risk, including the risk of corruption and the credibility of existing reform efforts;
- Obtain an overview of the legal and regulatory framework for PFM;
- Develop a basic understanding of the principal PFM business practices, flow of funds, and centralized procurement;
- Determine “tone at the top” and provide additional details needed to support conclusions in the final report.

Consultations

Consultations are interviews and/or meetings held during the fieldwork phase with partner country government officials and other stakeholders. Prior to the fieldwork phase, the Mission should communicate with partner government officials to discuss the objectives of the Stage 1 Rapid Appraisal and broader intentions of G2G.

Stakeholder consultation is critical to establishing data-driven, evidence-based findings. Interviews and/or meetings with key stakeholders and counterparts (government, oversight and monitoring institutions, private sector, civil society, professional associations, and donors) should be used to:

- Develop a deeper understanding of the PFM, governance and public accountability environments
- Fill gaps in information and/or update data;
- Conduct a “reality check” on analysis provided in existing diagnostics;
- Share USAID’s perspective on fiduciary risk issues, underscore the linkages between PFM, governance and public accountability, and discuss options for moving forward;
- Build new and or advance existing relationships based on mutual respect and trust hallmarked by professionalism and full knowledge of each party’s strengths and weaknesses;
- Create a cooperative and congenial atmosphere so as to facilitate successful G2G implementation.

The planning required to schedule consultations/interviews with respective stakeholders should not be underestimated. Previous experience has demonstrated that this will be an iterative effort, subject to change up to and during the fieldwork phase.

Meeting Notes

Meeting Notes are required as they provide a record of consultations/interviews held and key data obtained during the Stage 1 Rapid Appraisal fieldwork. The Notes should be objective, factual, and thorough, containing key information and takeaways from the meetings. The Notes are not a verbatim record but rather a detailed and objective summary of the content discussed. Although working paper files should include a record of meetings held and names of interviewees and attendees, the Notes included in the Stage 1 Final Report package need not include personal names, just titles. The responsibility of note taking should be shared amongst team members as appropriate, and properly managed to ensure timely completion.

Stage 1 Rapid Appraisal Report

The Stage 1 Rapid Appraisal should result in a thorough, yet succinct, narrative report of approximately fifteen pages. The report is an important record of the due diligence undertaken to support commitment of USG resources through partner PFM systems and should be completed in good form. Leadership for final report drafting should come from the Mission. It is critical that the report is completed in a timely manner in order to capture and communicate relevant information. Reports finalized several months after the completion of field work are of diminished value.

The report should begin with a statement of purpose, whether to inform a Country Development Cooperation Strategy (CDCS) or test development objective(s) and implementing mechanism(s) and answer the following fundamental questions:

- What is the overall PFM operating environment in the partner country?
- Are governance and public accountability institutions and related support mechanisms sufficiently viable to support G2G?
- Is the level of fiduciary risk manageable enough to justify a more in-depth Stage 2 Risk Assessment(s)?

A recommendation on whether to proceed to the Stage 2 Risk Assessment(s) should also be included. The recommendation should be made on the basis of all the information available to the team, including any issues raised in consultations or responses to questions in the Stage 1 Checklist. A recommendation to proceed to the next stage indicates that such information contains nothing that would lead a prudent person to conclude that use of partner government systems for the development objectives and implementation mechanisms considered presents an unacceptable level of fiduciary risk.

The report should place emphasis on two factors. First, emphasize factors that pose significant and immediate risk and, therefore warrant further investigation before decisions about using partner government systems. Second, emphasize factors that reflect the government's commitment and ability to mitigate fiduciary risks (e.g. existing reform programs and their performance) and, therefore, provide justification for proceeding to the Stage 2 Risk Assessment; alternatively, evidence not to proceed.

If the decision is made to proceed, the report should address risk factors on which a formal, in-depth Stage 2 Risk Assessment would focus; opportunities for which use of government systems might seem sensible; potential implementing mechanisms; and possible safeguards that would help USAID achieve an acceptable level of risk in taking such opportunities. A description or analysis of possible funds flow arrangements, including impact on USAID's ability to move funds through the partner's treasury, is strongly encouraged. Mapping some business processes, such as issuance through liquidation (through payment) of a purchase order for the acquisition of goods, is another means of gaining insight into the management and control environment.

Context matters. A brief discussion of the economic and political situation will help the reader understand the PFM, governance and public accountability environments. Specific historical factors, such as massive inflationary episodes or disabling public sector corruption, will add important understanding to the incentive structure for reform. The report may also reference the implications that increased use of partner government systems may have on Mission staffing.

Finally, the report should include footnotes and/or addendums as appropriate to list sources, documents, websites, and other material referenced. The report cover page should include a title, the dates of the fieldwork and the date of final report approval. Covers containing photos should clearly identify the source. If not cited within the report, an appendix with the names and roles of the team members should be included.

Mandatory Components – Stage 1 Rapid Appraisal Final Report Package

The Stage 1 Rapid Appraisal Final Report package will include the following:

1. Stage 1 Final Report
2. Meeting Notes
3. Stage 1 Checklist

Additional addendum or appendices containing relevant materials should be included as applicable.

G2GRMT Approval

The Stage 1 Final Report package must be reviewed and receive final clearance from the G2GRMT. PGS Teams are responsible for drafting, reading, reviewing, and editing all work products prior to sending to the G2GRMT. This will facilitate an efficient and effective review process. The Stage 1 Final Report package is sent to G2GRMT for review and final clearance to the following email address:

G2GRMT@usaid.gov

Report Maintenance and Distribution

Missions are ultimately responsible for maintaining all work papers and documentation supporting the Stage 1 Rapid Appraisal Report package. The final report package will also be shared with G2GRMT, which maintains a permanent repository.

Ordinarily, the final report, but not the checklist and notes, may be made available for distribution to the partner government and other stakeholders, as appropriate. However, political, confidential, and related sensitivities will need to be considered by respective Mission management. It may be necessary to redact some information where the contents may be prejudicial to the development interests of the Mission if the final report cannot be shared with respective parties due to political sensitivities or related reasons.

Illustrative Steps – Stage 1 Rapid Appraisal

Execution of the Stage 1 Rapid Appraisal will differ depending on the country context, information available and other factors. However, experience demonstrates that the steps noted below contribute to a successful assessment. The following points are illustrative, but not all-inclusive or restrictive in nature:

1. Mission staff is thoroughly familiar with ADS 220 and PFMRAF Manual.
2. Mission has determined development objectives and completed a CDCS, best case, or has developed notional implementing mechanisms.
3. Mission receives a request from the partner country government for use of its systems. Alternatively, the Mission may conclude that use of partner government country systems supports development objectives and begin discussions with the government on the PFMRAF and G2G.

4. Mission forms a PGS Team to assess use of country PFM systems.
5. The PGS Team works out a timeframe and work-plan in consultation with the G2GRMT, the partner country government, and others in USAID as necessary. The Mission takes into consideration potentially conflicting events that would limit the availability of key government and donor stakeholders (e.g., legislative budget hearings on the next year's budget) in firming up dates for Stage 1 Rapid Appraisal fieldwork.
6. PGS Team drafts answers to the Stage 1 Checklist to the best of its abilities and shares it with the G2GRMT at least two weeks prior to the first day of the commencement of fieldwork. The Mission shares key resource documents that may not be readily available to G2GRMT.
7. PGS Team conducts fieldwork. The first day is typically dedicated to in-briefings with Mission and Embassy staff. Subsequent interviews are conducted with various stakeholders throughout the fieldwork period. Experience shows that between 20 to 35 meetings are necessary to cover all the stakeholders. Time should also be allocated for preliminary analysis of the findings and preparation of exit briefings as appropriate.
8. The PGS Team drafts meeting notes from the first consultation/interview onwards while the content is fresh. Circulation of draft meeting notes are shared with other PGS team members participating in the consultation/interview preferably within the first week for timely review and feedback. No later than Monday or Tuesday of the second week, the PGS Team meets to capture key impressions and begins to formulate recommendations. Formulating and recording results and recommendations early on forces decision-making and exposes information gaps in time to fill them while the entire team is convened. Daily updates provide a basis for out-briefs and the Stage 1 Report outline.
9. At or near the end of the fieldwork, out-briefs may be conducted with the Mission, Embassy, and senior partner government officials as appropriate to summarize the results of the fieldwork phase. This may include a brief write-up or presentation, but is not necessary. Review of preliminary observations and conclusions prior to any formal presentation is good practice.
10. The PGS Team drafts, reads, reviews, and edits all work products. The Stage 1 Final Report package is sent to G2GRMT for review and final clearance.
11. Final report drafting and clearance will vary by mission depending on the size of the team, task distribution, and the Mission's internal clearance process. Six to eight weeks from fieldwork completion is a good turnaround time for finalizing the report.
12. Assuming the recommendation is made to move forward in the Stage 1 Report, the PGS Team, with major input from the Mission Controller and Project Design Team, proceeds with development of the Stage 2 Risk Assessment Statement of Work.

Chapter 3: Stage 2 Risk Assessment

Introduction

The Stage 2 Risk Assessment is the second stage of the PFMRAF and designed to identify, evaluate, and propose measures to mitigate transactional level fiduciary risks of target partner government institution's PFM systems at the country, sector, or sub-national government. This effort may be undertaken by Mission staff, contracted to third-party professional service firms, or a combination of both. The Stage 2 Risk Assessment informs the project design process and forms a basis to incorporate fiduciary risk mitigation measures into the G2G project components. By design, the Stage 2 Risk Assessment is a fiduciary risk tool, not one designed for programmatic or other types of risk; however, some programmatic and other types of risk will likely be identified as part of this process. The Risk Mitigation Plan resulting from the Stage 2 assessment(s) is integrated into the project design process as one of the required analytical analyses which guide decision making on all aspects of the final project design.

Completion of the Stage 2 Risk Assessment requires answers to fundamental questions. What is our risk appetite? Which are the identified relevant risks? How should the identified risks be assessed, scored and appropriately mitigated? The answers to these questions represent major milestones in the development of the PFMRAF and the road to a full-fledged risk management system for projects that include G2G implementing mechanisms. The remaining steps to a mature, Agency-wide risk management process are the adoption of uniform standards that will permit effective and efficient reporting and monitoring. Modern risk managers operate according to a consistent set of risk definitions that are consistently measured, aggregated, communicated, monitored and reported. As additional experience is gained, this will permit development of feedback loops to ensure USAID optimizes its risk mitigation and risk assessment operations.

Incentives and Shared Risk

The PFMRAF, as with any risk assessment tool, is not a certification or seal of approval for a partner government, its ministries, or other affiliated entities. It is an assessment of a partner government's systems and should be approached by the Mission and partner government as a partnership. It is a measurement of the risks presented to achieve a given development objective relative to the government systems to be used. The concept of "certification" transfers the risk from the partner government to the donor and suggests acceptance of these risks by the donor. Such transfer is undesirable from a development perspective. Unless the partner owns the problem, it cannot own the solution. Identification of risk neither eliminates nor mitigates the risk. Concrete actions will be required for mitigation. Risk is always present in PFM systems.

Risk Appetite

Risk appetite is a method to help guide an organization's approach to risk and risk management. It can be defined in a number of ways; basically, it is "the level of risk an organization is prepared to pursue, accept, or take before action is deemed necessary to reduce it". In a literal sense, defining your appetite means defining how "hungry" you are for risk. Defining risk appetite will guide people on the level of risk permitted and provide a basis for developing standard measures for assessing the risk, defining treatment and encourage consistency of approach across an organization.

The amount of risk an organization accepts will vary:

- From organization to organization;
- Across business units and risk types within an organization;
- Upon the nature of the work undertaken, objectives and activities pursued;
- Upon the potential for losses and gains.

As a U.S. Government agency, USAID's risk appetite is necessarily conservative. That stance has implications on USAID's risk appetite, measurement and treatment. A deeply conservative stance removes the possibility of "toleration" of a risk. Instead, all risks are "treated" even if the treatment is non-intrusive and not staff intensive. The best example of non-intrusive and non-staff intensive risk treatment is an *ex post* audit with follow up to recover unallowable costs. The audit can be contracted out, even to a partner government agency if the risk assessment says that agency is competent and independent. Accordingly, USAID's conservative posture will drive the range of treatment, ranging from risk monitoring, to transfer, to termination. It will not include "toleration" or "acceptance." This contrasts with other organizations whose minimum risk posture may be acceptance or toleration of low impact, low probability risk events.

Risk Categories

USAID's conservative risk appetite requires that its risk map be inclusive and thorough. USAID's global reach and scale of operations also drive us toward a broad classification (or categories) of risk. Table 1 (Risk Categories) depicts various types of risks covered and not necessarily covered by the PFMRAF. For example, it demonstrates the differences between fiduciary and programmatic risks. The PFMRAF Stage 2 Risk Assessment is designed to address fiduciary risk.

As previously defined in Chapter 1, fiduciary risk is the danger that funds allocated from the budget may: a) not be controlled properly, b) may be used for purposes other than those intended, or c) may produce inefficient or uneconomic programmatic results. Whether the project actually achieves its objectives is not the province of the PFMRAF. Achieving project objective(s) is a project design issue to be addressed in the context of the CDCS, ADS 201 (Planning), and associated tools such as the Project Design Sustainability Analysis Tool and mandatory assessments focused on gender, environment, and other areas. Moreover, other analytical tools and frameworks are available to assess programmatic and other risks not covered by the PFMRAF. Careful coordination and consideration are required to ensure PFMRAF and other analytical tools appropriately assess the overall risk environment impacting project design.

**Table 1
Risk Categories**

<i>Subject to the PFMRAF</i>	<i>Non-PFMRAF tools</i>
Development Risk Group	
	Political economy <ul style="list-style-type: none"> • Macroeconomic stability • Resilience to shock (natural and man-made)
Public Accountability <ul style="list-style-type: none"> • Political will for sound PFM and reforms • Democratic governance including horizontal and vertical accountability, media freedom, CSO vibrancy, and anti-corruption stance 	Public Accountability <ul style="list-style-type: none"> • Sustainability • Environmental protection • Gender/LGBT equality
Governance <ul style="list-style-type: none"> • Institutional capacity • Program oversight quality • PFM reform and capacity building agenda 	Governance <ul style="list-style-type: none"> • Project selection and design • Implementation modality
Fiduciary and Accountability Risk Group	
Accounting and reporting <ul style="list-style-type: none"> • Financial report accuracy • Program/project accounting Procurement <ul style="list-style-type: none"> • Contract management • Inventory management Financial management operations <ul style="list-style-type: none"> • Budget execution, cash management • Internal and external audit Environment <ul style="list-style-type: none"> • Legal and regulatory framework • Domestic financial sector capacity (CPA) • Domestic professional service capacity (legal) Government acceptance - USAID fiduciary interest	
Operational Risk Group	
Partner government <ul style="list-style-type: none"> • Performance management • Human resources, ethics requirements, financial disclosure, conflict of interest • Partner field operations • Information and communications technology 	
USAID <ul style="list-style-type: none"> • Value for money • Project management • Relationship management 	USAID <ul style="list-style-type: none"> • Meeting the challenges of Agency's decentralized structure and creating effective whole-of-mission teams
Reputational Risk Group	
Partner country <ul style="list-style-type: none"> • Development interest, managing expectations • Shared risk • Community and partner relations 	U.S. domestic <ul style="list-style-type: none"> • Whole-of-government (USG) support • Political support
	International <ul style="list-style-type: none"> • USAID's international standing • Relationships with other in-country donors

Risk Treatment and Applicability to USAID

Once assessed, risks are treated. Risk treatment is the selection and implementation of appropriate control measures, processes, or actions to modify the risk to a manageable level. There are four generally accepted approaches to risk treatment, known as the “Four Ts”:

- **Tolerate:** Generally for low impact risks where the cost of the control would exceed its benefit. The potential loss is accepted and budgeted. This is not available to USAID.
- **Treat:** A treatment may affect the probability of realization of an adverse event, or its impact, or both. Risks which do not present a catastrophic threat can be reduced, optimized, or mitigated through risk treatment alternatives. USAID’s treatment alternatives are presented in Chart 3.
- **Transfer:** Risks are shifted to the partner or a third party. Automobile insurance is a common transfer mechanism in the U.S. Risk may also be transferred through contract. For example, a sovereign guarantee of a U.S.-owned bank deposit in local banks would transfer risk where we are uncertain that the country’s prudential supervision fully protects us. Another example, a Fixed Amount Reimbursement (FAR) may shift USAID’s potential risk to the partner government.
- **Terminate:** Where the risk is unacceptable, the exposure is terminated. Where the use of government systems presents the strong likelihood of a catastrophic loss, USAID would not use government systems but would deliver development assistance through a grant or contract.

Because of the scrutiny, oversight, and legal requirements to which the Agency is subject to, only three of the four Ts are available to USAID. USAID will not “tolerate” risk. Additionally, all identified fiduciary risks that become part of the project design will be “treated, transferred, or terminated.”

There are numerous terminologies used to describe the four Ts, however the general concepts are the same. For example, the Department of Defense calls its approach “Accept, Control, Avoid, and Transfer” (ACAT). For additional references on risk management, refer to Appendix 1 (Sources of Information).

USAID’s Risk Assessment and Measurement

USAID’s approach for evaluating risk(s) identified in the Stage 2 Risk Assessment relates the impact and probability of an adverse event in accordance with sound risk management principles, as defined below and described in Chart 1 (Impact and Probability Determinations). It also permits the quantifying of qualitative data in order to measure, compare, and prioritize risks and scorings.

Impact – The severity of an adverse event associated with a risk or combination of risks is described below. Risks should be scored with an integer or rating.

Probability – The likelihood of occurrence of an adverse event associated with a risk or a combination of risks is defined below. The risk is scored with an integer or rating reflecting the probability of the event.

Chart 1 Impact and Probability Determinations					
Impact	International Practice	Development Objective	Commitment	Compliance	Accountability
Catastrophic	There are obvious and material divergences from good international PFM practice.	Realization of an adverse event associated with this risk factor would permit attainment of less than 40 percent of expected project outcomes. Expected effects include failure of the project, widespread and severe dissatisfaction by stakeholders, major financial losses, and extensive loss of reputation.	Political and management commitment to attainment of a state of compliance with good international practice is the exception or entirely absent.	Non-compliance with the internal control framework is expected to occur widely.	Vertical and horizontal accountability institutions have major gaps, or one or the other is severely under-developed. Opposition to accountability is organized or widespread and therefore expected.
Serious	Significant elements of the PFM system do not reflect good international practice.	Attainment of 40 to 70 percent of the expected outcomes associated with the development objective can reasonably be expected. Expected effects could include a major delay, limited dissatisfaction by stakeholders, and a material financial impact.	Political or management commitment to attaining a state of compliance with good international practice is inconsistent or questionable.	Non-compliance with the internal control framework is likely to occur.	Weaknesses in the horizontal and vertical accountability institutions are evident or one or the other shows significant gaps. Opposition to accountability is evident by some elements within the society.
Marginal	PFM broadly reflects good international practice with some gaps or inefficiency present.	Seventy to 95 percent of the development objective can be reasonably assumed to be attained. Expected effects could include minor delays in attainment, minor dissatisfaction by stakeholders, or a non-material financial impact.	Political or management commitment to closing the gaps and eliminating inefficiencies is present.	Non-compliance with the internal control framework is the exception, rather than the rule.	Weaknesses in the horizontal and vertical accountability institutions may be present or such institutions may be in an early and untested stage of development. Opposition to these institutions not a "given" but may be detected.
Negligible	PFM broadly reflects good international practice.	The development objective, in the 95 to 100 percent range of expected project outcomes, can reasonably be assumed to be attained if conditions do not change.	Strong political and management commitment to democratic values and sound PFM practice is evident.	Routine compliance with internal controls is observed and expected.	Both horizontal and vertical democratic accountability institutions are mature, function routinely, and are not under threat.

Probability	Numerical Range	Adverse Event Definition
Frequent	This number reflects a conclusion that the probability lies between .76 and .99	An adverse event associated with the risk is expected to occur. There near certainty of occurrence because the controls do not exist or are ineffective.
Probable	This number reflects a conclusion that the probability lies between .51 and .75	An adverse event associated with the risk likely will occur because the controls are inadequate or are applied inconsistently.
Occasional	This number reflects a conclusion that the probability lies between .26 and .50	An adverse event associated with the risk might occur because the conditions for it exist, but controls exist and are effective.
Remote	This number reflects the conclusion that there is less than a .25 probability.	An adverse event associated with the risk is rare or would only occur in exceptional circumstances. There is little or no experience of a similar failure.

Identified risk(s) should be evaluated and assessed for impact and probability using the terms above to arrive at a score which will dictate the severity of the risk and appropriate treatment. The existence of a number, in and of itself, can lead to over-confidence in the number. The scoring will always rely on professional judgment and experience. There is no substitute for experience and sound judgment. One implication of the application of discretion, even when based upon decades of experience, is that there will always be at least nuanced differences of judgment among experienced professionals. Teasing out the sources of those differences can be one of the most valuable learning tools available to us, implying that seeking absolute consensus probably is not in our best interest.

Combining the impact and probability ratings leads to a Critical, High, Medium, or Low scores, as illustrated in Chart 2 (USAID PFM Risk Matrix). Classification within the matrix is subjective. It is important to note that Impact is given greater weight than probability because of the public scrutiny to which USAID is subject. An example will illustrate the greater weight to impact: The Marginal Impact/Remote Probability is classified as a “Medium” risk. Contrast that with the Negligible Impact/Occasional Probability risk, which is classified “Low.” Mathematically, these are equivalent. The reason for the difference is USAID’s conservative risk appetite.

Chart 2 USAID PFM Risk Matrix					
Impact	<i>Catastrophic</i>	High	Critical	Critical	Critical
	<i>Serious</i>	High	High	Critical	Critical
	<i>Marginal</i>	Medium	Medium	High	High
	<i>Negligible</i>	Low	Low	Medium	Medium
		<i>Remote</i>	<i>Occasional</i>	<i>Probable</i>	<i>Frequent</i>
		Probability			

Risk Treatment

Assignment of risk to arrive at a score (Critical, High, Medium, or Low) drives the appropriate level of treatment to mitigate the risk. Chart 3 (USAID Risk Mitigation Response) defines each of these scores and relates the appropriate levels of risk mitigation for each.

Chart 3 USAID Risk Mitigation Response			
Score	Mitigation Response	Detail	Sample Mitigations
Critical	Terminate exposure or subject to stringent mitigating measures.	Critical requires stringent mitigating measures only if these have a high probability of success. Otherwise, we will terminate our exposure by delivering the assistance through other means. In rare cases where an effective transfer of risk mechanism exists and is deemed effective, we will consider transfer of the risk, albeit with a risk assessment of the ability of the transferor to deliver on its obligation.	Mitigating measures are likely to include concurrent audit, reimbursement-only mechanisms, incremental funding, affirmative transaction approval, and co-signature requirements on disbursements, physical verification of payroll, and other active and continuous control features.
High	Serious mitigating measures	High requires serious mitigating measures to treat the risk, but we will utilize G2G assistance.	Treatment may include a wide variety of risk mitigation measures that are likely to be constantly in place. These measures may be drawn from the Critical or Medium classifications.
Medium	Mitigating measures	Medium requires mitigating measures but these may be periodic.	Treatments include semi-annual audits or no objection processes for procurement approval. Third party oversight, such as an arrangement with the national procurement oversight body, could be considered.
Low	Monitoring	Low requires monitoring and audit, but treatment of specific risks, such as payroll controls, will not be an <i>ex ante</i> requirement for G2G assistance, as they might be under Medium risk conditions.	Routine controls and oversight are appropriate. A separate risk mitigation plan is not required. In some cases, terms and conditions in the agreement may be sufficient provided that performance of the terms and conditions is monitored.

Risk Treatment Techniques

Missions are encouraged to be creative and innovative in finding new mitigation methods. A treatment may either reduce the probability of the adverse event or reduce its impact, or both. Table 2 (Risk Management Techniques) highlights mechanisms historically used by USAID. The table indicates whether the technique mitigates the probability (P) or impact (I) of an adverse event, or both, although that distinction is not always clear.

**Table 2
Risk Treatment Techniques**

Risk Treatment Technique	P	I
Comprehensive and detailed Development Objective Agreement between USAID and the partner country: <ul style="list-style-type: none"> • Time frame • Results to be achieved • Means of measuring results • Resources • Partner government contribution • Roles and responsibilities of the parties • Risk allocation • Prior actions • Benchmarks • Reporting requirements • Audit • Detailed disbursement arrangements • Dispute resolution • Other 	X	X
Concurrent audit	X	X
Periodic financial audit <ul style="list-style-type: none"> • SAI • USAID contractor 	X	
Performance audits	X	
Procurement and treasury operations transaction (approval of SOWs, payment orders, procurement activities, protests, final contract awards; i.e. all financial, including procurement-related, transactions) <ul style="list-style-type: none"> • Affirmative • “No objection” 	X	X
Financial reviews	X	
Re-appraisal, assessment, and evaluation	X	
Separate bank account <ul style="list-style-type: none"> • Co-signature requirement • Daily statements 	X	X
Special oversight arrangements with national accountability authorities such as the SAI, anti-corruption agency, or procurement authority	X	
Use reimbursement-only mechanisms <ul style="list-style-type: none"> • Transfer construction risk to a third party: a bank to provide construction financing or construction performance bond 		X
Retention of a portion of each invoice until results are demonstrated and proven		X
Tranche payments <ul style="list-style-type: none"> • Disburse against attainment of benchmark(s) • Divide project into period installments 		X
Reporting on and oversight of all activities, outputs, progress, and performance	X	
Require deposit of equivalent funds for amounts expending not in compliance with the terms and conditions of the agreement		X
Coordination with other donors on all accountability and PFM/fiduciary issues	X	
Guarantee from partner government – could cover a bank account, non-compliant expenditures, or fraud		X
“National Assurance Statement” signed by the Minister of Finance, or other official with the appropriate scope of responsibility, stating that financial management arrangements ¹ are sufficiently strong to ensure the legality and appropriateness of transactions (forward-looking) and that payments to final beneficiaries and all procurements were legal and appropriate (backward-looking). ² The SAI may be asked to issue an opinion on this statement.	X	X

¹ “Financial management arrangements” here means the entire chain of PFM activities from authorization to final audit and reporting, including procurement.

² This concept is borrowed from the Kingdom of the Netherlands which provides a similar statement to the EU covering funds received from the EU and expended through the Kingdom’s systems.

Preparation and Planning

As with the Stage 1 Rapid Appraisal, adequate planning and preparation are critical to a successful Stage 2 Risk Assessment. The Sources of Information (Appendix 1) lists useful diagnostic reports as well as other documents and websites to assist in completion of the Stage 1 Checklist. Regardless of the mechanism used to conduct the respective Stage 2 Risk Assessment, the PGS Team should take the necessary steps to coordinate and plan the effort well in advance of the targeted timeframe. Iterations of the Stage 2 Risk Assessment are undertakings within themselves and should be managed as such. Particular items to consider include:

- Confirmation to proceed forward from the Stage 1 Rapid Appraisal
- Where applicable, confirmation that the CDCS has been developed or updated
- A solid understanding of the project envisioned (through a Concept Paper that includes a defined project purpose)
- The resources that will be used to conduct the assessment (Mission, contractor, or both)
- Availability of staff and resources (Mission and G2G RMT)
- The contracting vehicle - local contract, centrally-managed mechanism, etc., if contracting out and any related timing implications
- Geographic and logistical issues, such as assessment of remote or regional offices
- Work breakdown structures (what needs to get done, by whom and when/timing)

Do not underestimate the time required for preparations. Depending on the above and other considerations, it often takes several months to plan and execute accordingly.

Choosing the Assessment Mechanism

As previously noted, who conducts the Stage 2 Risk Assessment is an important decision that needs substantial consideration, and usually is made within an approved Concept Paper. Based on time and resources available, as well as the extent of the effort, the Mission should choose the method that completes the assessment in the most effective and efficient manner. Table 3 (Assessment Mechanism Considerations) outlines important factors to consider.

Table 3 Assessment Mechanism Considerations		
	Advantages	Disadvantages
In House	Lower cost; potentially quicker mobility of resources; provides greater flexibility on timing and scope; promotes and strengthens greater G2G Mission ownership; ability to follow-up with counterparts, builds closer relationships with partner country government; better linkages between Stage 1 and Stage 2; builds in-house skills of USAID staff; emphasizes G2G role requirements.	Competing priorities; availability of resources; time delays; may lack objectivity; scope creep; lack of necessary skillsets among available staff; possible de-emphasis on respective S2 SOWs
Contracted	Dedicates full-time resources to complete the assessment; enables Mission staff to focus on operational responsibilities; leverages experienced professionals to apply their expertise; potentially faster execution	Higher cost; availability of resources; acquisition lead time; unfamiliarity with the PFMRAF process; lack of knowledge and experience dealing with government entities; contractual and timeframe constraints; conflicts of interest with other work in country and with government
Local Contractors	Strengthens partnerships with local audit and professional service firms; lower cost; builds capacity locally; allows for analysis of local assessment and audit capabilities; familiarity with the local environment and culture	May have limited personnel resources and applicable experience; government attitude to contractor may detract from the process; conflict of interest if the contractor also works for the government; may be reluctant to report negatively on the government
International Contractors	Depth of resources and experience; may hold applicable experiences in conducting the Stage 2 Risk Assessments elsewhere; highly specialized staff; wider access to qualified staff and resources	Higher cost; limited knowledge of country and government context; may not have the local language or cultural skills; may lack the local infrastructure or logistics capacity; may lack political sensitivity or exposure; logistical and security limitations; risk of scope creep

Joint Assessments

Missions may consider a joint assessment with other entities (bilateral donor, public international organization (PIO), or other USG agency) as an alternative to the Stage 2 Risk Assessment if the opportunity to collaborate exists. Most often, the timing and scope of donor efforts will dictate whether the opportunity presents itself in any particular country context. In these cases, USAID must still take ownership of the final PFM risk assessment, the scoring of risks, and the risk mitigation measures in the context of USAID's project design.

In cases where recent assessments by donors, international auditing authorities, partner governments, or Supreme Audit Institutions conclude that certain government PFM functions are already of acceptable quality, the Stage 2 Risk Assessment need not reexamine those specific PFM functions covered by the other assessments. However, these other assessments should be compared with the factors to be assessed by the Stage 2 Risk Assessment and a validation analysis should be completed to confirm their reliability and identify outstanding areas or customized factors still requiring assessment by USAID.

With these considerations, Missions should apply the following guidelines for joint assessments when the PFMRAF is otherwise applicable:

A. Where USAID joins another donor to perform a joint risk assessment, Missions must:

- Retain the right to provide input and approve the proposed due diligence methodology and any work plan or SOW for the assessment and the right to approve the final SOW;
- Obtain assurances that professionally-qualified staff will conduct the assessment;
- Retain the right to reject part or all of the result at USAID's sole discretion;
- Obtain assurance that the deliverables will satisfy ADS 220 in all respects, including classification of risk and risk mitigation recommendations;
- Reject any and all scope limitations imposed by the assessed entity;
- Obtain access to all assessment working papers;
- Reserve the right to conduct limited testing to confirm findings;
- Retain the ability to participate in the assessment;
- Receive copies of interim reports;
- Receive drafts of final deliverables.

B. Where another donor joins USAID's Stage 2 Risk Assessment, Missions must, subject to USAID record disclosure and other legal and policy requirements and procedures, be prepared to:

- Provide donor(s) the right to provide input to and to approve the PFMRAF methodology and work plan;
- Not permit scope limitations to be imposed on USAID's conduct of the assessment;
- Permit the assessment SOW to be expanded to meet the risk assessment requirements of the other donor(s), subject to the following:
 - The assessment SOW must meet the standards and policies of ADS 220; and
 - If the assessment SOW proposed expansion imposes additional cost, such cost will be borne by the donor(s) by whom the expansion is required/requested;
- Grant access to USAID's working papers;
- Provide reasonable assurance that professionally-qualified staff will be used;
- Permit reasonable, limited additional testing if the other donor desires to confirm our findings;
- Permit the other donor to accept or reject part or all of the result;
- Permit the other donor to reasonably provide staff to participate on the assessment team.

C. Where USAID relies upon another donor's risk assessment in its entirety, Missions must:

- Independently confirm the risk mitigation plan;
- Confirm the findings with limited testing;
- Obtain access to working papers;
- Verify that no scope limitations were imposed by any party;
- Retain the right to reject part or all of the results at USAID's sole discretion;
- Document in Mission files that the product, plus any additional work that may be required, fully satisfies ADS 220;

- Review staff qualifications of the assessment team.

Statements of Work (SOW)

The PGS Team must draft a SOW which outlines the scope and details of what is to be accomplished in the Stage 2 Risk Assessment, regardless whether in-house or utilizing a contractor. Experience shows that SOWs should be a joint product of the PGS Team in order to ensure maximum input from all project stakeholders and an integrated approach. Key considerations for developing the SOW include:

Inputs

- Results of the Stage 1 Rapid Appraisal, CDCS, and Concept Paper³;
- A funds flow analysis that identifies financial actors related to the proposed partner or selected implementation partner. Understanding how funds flow, from USAID disbursement through payment to the final beneficiary, can guide the scope of the SOW and subsequent assessment;
- If advances will be authorized by USAID, and the partner government will use these funds to finance activities through contractors or grantees, the assessment must determine whether the partner government implementing entity has adequate recourse, oversight, management, and responsibility over such sub-advanced funds;
- Define requirements, expectations, and composition of the assessment team, to include Mission personnel, contracted support, and/or other donor involvement.

Scope

- The scope should be limited to the Stage 2 Risk Assessment and fiduciary risks. If the assessment includes other risk factors, careful and deliberate delineation should be made so as not to blur efforts.
- Avoid overly-broad scopes which may result in assessments of entities that may not be relevant to the respective project envisioned. This can minimize misuse of time and financial resources.
- Missions should not rely upon a contractor to define the scope of the risk assessment. The incentives in such an operation are such that the product may be unreliable. Setting the scope is an inherently governmental function and therefore a USAID management decision.
- Define and describe PFMRAF Risk Assessment methodology; include review and application of the Stage 2 questionnaire as part of the assessment.
- Identification, scoring, and mapping of all fiduciary risks; suggested mitigation strategies, realistic and tangible, for all identified of risks.
- If the scope of a project involves multiple related entities (e.g. pharmacies, hospitals, schools, provinces, etc.) that are likely to share similar risk profiles, the SOW should describe a sampling approach which is representative of the related entities;
- Include appropriate language regarding conflict of interest limitations that may apply to future work with entities assessed.
- While the Stage 2 is NOT an audit, testing must be included as part of the assessment and described in the SOW.

³ ADS 201 permits Missions without an approved CDCS to forgo the concept paper stage, but must otherwise follow the Project Appraisal Document (PAD) guidelines and authorization.

- Sample language that describes the inclusion and need for testing follows:

Sample Testing Language
<i>Testing must be used in the application of the Stage 2 Risk Assessment to confirm the existence and implementation of public financial management processes, activities, controls, and to determine the nature and functionality of such processes for which the Mission will rely upon in using the partner government's systems. Testing should include examination of documents and transactions to confirm the existence of key processes and controls, and walk-throughs to confirm and validate processes are consistent with how they have been described. Testing need not be of a statistical nature, but rather a random sampling based on professional judgment. The assessment team shall be responsible for documenting the type and extent of testing performed, as this will provide evidence of the due diligence conducted to evaluate fiduciary risks during the Stage 2 Risk Assessment.</i>

- Sample language that outlines a conflict of interest clause is described as follows:

Sample Conflict of Interest Language
<i>Contracted firms conducting the Stage 2 – Risk Assessment work of any particular entity will not be eligible to perform any follow-on risk mediation/capacity building with those entities as a result of that assessment.</i>

Outputs

- The SOW should outline all the required elements of the Stage 2 Risk Assessment package including, but not limited to the questionnaire, risk mapping/heat maps, final report, risk mitigation measures, and any other supporting documentation.
- SOWs should be sent to the G2GRMT for quality review, feedback, and clearance at the following email address: **G2GRMT@usaid.gov**

Basic Elements of an SOW

Background	Deliverables	Staffing
Objective/Purpose	Timelines	Key Documents
Scope of Work	Testing Requirements	Conflict of Interest

Testing

Selective testing of PFM systems is an important and required element of the Stage 2 Risk Assessment, providing a basis to more fully understand and confirm the nature and functionality of the government practices, processes, and controls. Testing must be documented to support the level of rigor and due diligence applied by the team and assessment observations and conclusions.

The type and extent of testing is subjective, based on the professional judgment of the team. It need not be of a statistical nature, but rather a random sampling or selection. The type and extent of testing will vary by government entity(s), its existing processes, information available and based on the relevant functional areas reviewed by the assessment team. Testing may take the form of inspection, observation, inquiry or combinations thereof. For example, inspection or review of select documents and transactions to validate processes and controls; or walkthroughs to confirm understanding and determine whether controls are functioning and key processes are being followed.

It is recommended that an initial test plan be considered as early as drafting the Stage 2 statement of work. This will help the assessment team anticipate the functional areas and potential processes and internal controls to be tested and establish responsibility for conducting such. This may include analysis of vulnerabilities identified in the Stage 1 – Rapid Appraisal and other project design considerations. The initial test plan should be viewed as a guide and subject to modification as appropriate based on actual work performed.

Throughout fieldwork, a record should be maintained of testing conducted and results achieved. This can be captured in the relevant sections of the Stage 2 questionnaire or in a separate annex. Any areas of weakness or deficiencies noted as a result of testing may require additional testing or inquiry and will inform judgments as to whether such result rises to the level of a risk, and subsequent risk scoring and mitigation, where applicable.

The type and extent of testing performed needs to be described in the Stage 2 Risk Assessment report. Typically, this is included in the “Methodology/Approach” section of the Stage 2 Report. Table 4 (Illustrative Testing) provides illustrative samples of testing.

Table 4 Illustrative Testing			
Functional Area	Test Objective	Items selected for testing	Results/Observations
Procurement	To determine general compliance with procurement law and operating procedures	- Four procurement award files (2013) - Four procurement award files (2012)	- 2013 files are consistent with procurement procedures, including competitive procurements - 2012 – 3 files follow procedures; 1 file missing results of tender review committee – need to follow-up with management
Treasury/ Receipts (Cash)	Validate cash controls, specifically completion of bank reconciliations and supervisory approval	Two bank accounts from trial balance; For each account, reviewed bank reconciliations for 3 months	- Bank acct A – reconciliations completed; reflect supervisory review and approval - Bank acct B – reconciliations completed but 2 months show no supervisory approval; management indicated review was conducted, but forgot to initial off indicating review and approval.
Fixed Asset/ Inventory Management	Confirm existence of timely updates of asset acquisitions	Fixed Asset Inventory Registry (2013) and supporting files	Inventory registry not updated this FY, although trial balance reflects increase in fixed assets/inventory. Management informed they are short staffed and running behind updating inventory register to reconcile to changes in inventory and tagging assets.

Stage 2 Questionnaire

The Stage 2 Questionnaire is a tool to help risk assessment teams conduct the assessment. The questionnaire consists of a comprehensive list of illustrative questions by functional area, evaluation criteria/questions and sub-criteria that help to evaluate adherence to common PFM best practices, standards and internal controls.

The Stage 2 Questionnaire is a starting point from which to develop the relevant questions that will address the scope of areas to be reviewed in a Stage 2 Risk Assessment. There is no requirement to use the questionnaire in its entirety; rather, focus on those functional areas and questions that are considered relevant for the specific assessment. It is also appropriate to draw upon other relevant professional guidelines or checklists (i.e., AICPA or IIA questionnaires or AICPA checklists) to develop a customized questionnaire. If the questionnaire is customized, the assessment team should document the rationale and specifics of those changes. See Appendix 3 (Stage 2 Risk Assessment Questionnaire).

Adequate completion of a customized questionnaire will become the primary source of evidence for the Stage 2 Risk Assessment. The existing format should be logically cross-walked or referenced to support information included in a Stage 2 Risk Assessment report.

Stage 2 Risk Assessment Report

The Stage 2 Risk Assessment should result in a thorough report detailing the PFMRAF methodology, fiduciary and other applicable risks identified, scoring, and corresponding risk mitigation strategies. All fiduciary risks identified during the assessment must be addressed and included in the report.

The report should begin with an assessment summary including introduction, background, purpose, overview of functional areas examined, and results. It should also include adequate description of the entity(s) assessed, additional country context relevant to the assessment, and an overview of the G2G implementing mechanisms envisioned within the proposed project. There should also be a logical linkage between the risks and information documented in the Stage 2 Questionnaire and the content of the report. Additionally, the methodology, type, and extent of testing must be included in the report.

All risk identified must be evaluated for impact and probability to arrive at a score using the PFMRAF methodology. Additionally, context should be provided to describe the nature and circumstance of the respective risk. Risks mapping must be included in the report and account for all risks identified during the assessment. There is no prescribed method for mapping risks. They may be mapped individually, grouped by risk category, organizational unit, or other means as deemed appropriate.

The Stage 2 Final Report may provide an overall summary statement on the risks identified and possible mitigation strategies for proposed direct G2G assistance. For each risk, a proposed mitigation measure needs to be identified that is both realistic and actionable. This provides a basis to determine how risks may be mitigated in the final risk mitigation and project design. However, due to the generic nature of

mitigation measures included in the report, it is important to note that project specific risk mitigation will not be possible until the associated PAD is finalized.

Finally, the report should include footnotes and/or addendums as appropriate to list sources, documents, websites, and other material referenced. The report cover page should include a title, the dates of the fieldwork and the date of final report approval.

Mandatory Components – Stage 2 Risk Assessment Final Report Package

The Stage 2 Risk Assessment final report package will include the following:

1. Stage 2 Questionnaire
2. Stage 2 Final Report (includes testing, risk mapping, and risk mitigation measures)

Additional addendum or appendices containing relevant materials may also be included. Documents detailing interviews, consultations, results of testing, and other work papers may be maintained by the Mission, but should not be included as part of the final report package.

G2GRMT Approval

The Stage 2 SOW and Stage 2 Final Report package must be reviewed and receive final clearance from the G2GRMT. PGS Teams are responsible for drafting, reading, reviewing, editing, and ensuring compliance for all work products prior to sending to the G2GRMT. This will facilitate an efficient and effective review process. The Stage 2 Final Report package is sent to G2GRMT for review and final clearance to the following email address: **G2GRMT@usaid.gov**

Report Maintenance and Distribution

Missions are ultimately responsible for maintaining all work papers and documentation supporting respective Stage 2 Risk Assessments. The final report package will also be shared with G2GRMT, which maintains a permanent repository.

Confidentiality and Sharing of Stage 2 Risk Assessment Reports

Sharing the Stage 2 Risk Assessment reports with the Partner Government is a Mission management decision; however, take caution. Because of political sensitivities and/or related reasons, some report content may be deemed prejudicial to the development interests of the Mission. It may be necessary to redact and/or summarize information that may be shared or not share information with respective parties.

Similarly the decision to voluntarily share the Stage 2 Risk Assessment reports with external parties is also a Mission Management decision; again, take caution. The reports often contain non-public information, the release of which could undermine relations with the partner government, used to exploit PFM system weakness of the entity, or provide third-parties an unfair competitive advantage in providing

future services. Careful consideration should be given on a need to know, case-by-case basis, and may include redaction or limited access to select data.

Note that documents and records related to the PFMRAF in USAID's possession may be subject to disclosure outside of USAID under the Freedom of Information Act, in response to an official audit or investigation, or in response to a request from the U.S. Congress.

Sharing Stage 2 Risk Assessment reports and related risk assessment experience with other Missions is encouraged and should be coordinated between respective Missions. Due to the confidential and or sensitive nature of report contents, proper steps should be taken to protect information.

Illustrative Steps – Stage 2 Risk Assessment

All Missions, partner countries, and projects are different. Accordingly, no two Risk Assessments will be alike. The steps described below are illustrative and may change based on Mission and country context.

1. Assemble the PGS Team and reconfirm the decision to move forward with a Stage 2 Risk Assessment as part of a specific project design process, in light of any changes in the environment since completion of the Stage 1 Rapid Appraisal. Ensure clarity of purpose and consensus.
2. To appropriately scope the assessment, consider the results of the Stage 1 Rapid Appraisal, development objective(s), the target governmental entity(s), the anticipated funds flow, and possible implementation mechanism(s) outlined in the concept paper.
3. Advise the Regional Bureau Desk Officer and the G2GRMT the decision to proceed to a PFMRAF Stage 2 Risk Assessment. Consult with G2GRMT on plans and consideration for a Stage Risk Assessment.
4. Advise the partner government the intention to conduct the Stage 2 Risk Assessment and discuss timing, logistics, and other related issues. Initial meetings may be held with the target entity(s) to better understand and discuss the control environment and the systems of controls applicable to the various areas to be included in the assessment.
5. Develop a management plan for conducting the risk assessment:
 - a. Determine, define, and refine specific PGS Team roles and responsibilities.
 - b. Decide between in-house or contracted-out execution.
 - c. If contracted-out, determine if and how Mission staff will participate on the assessment team.
 - d. Ensure work plan covers initiation through finalization, review and clearance of the Stage 2 Final Report package.
6. Draft the SOW. Considering the preceding steps and the respective Concept Paper, the PGS team evaluates and refines the SOW scope, including the appropriate areas to be evaluated.

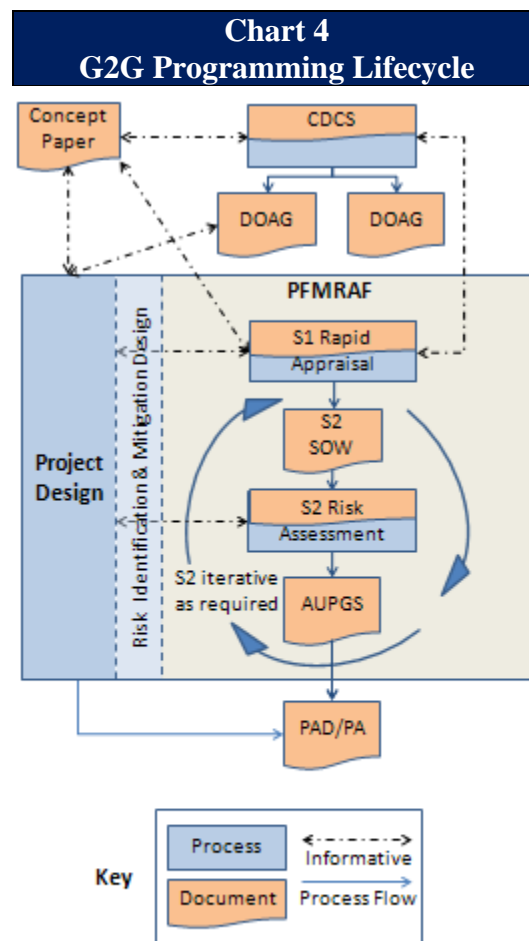
7. Forward SOW for review and clearance to G2GRMT.
8. Conduct the fieldwork in accordance with the SOW and applicable guidance.
 - a. If contracted out, PGS Team manages and monitors contractor progress, timelines, and deliverables. If conducted in house, PGS Team executes the assessment per an internal work plan
 - b. Use the questionnaire to direct the areas of focus for the assessment. Use the Stage 2 Risk Assessment Questionnaire (Appendix 4) as a baseline, but modify as appropriate. Document the logic of any modifications to the questionnaire.
 - c. Gather data, perform testing, and interview officials with the targeted entity(s) in order to preliminarily identify and evaluate risks. Document testing methodology and results and reference meetings and discussions as appropriate.
 - d. Meet with team members to discuss and validate observations, findings, and conclusions; determine if additional meetings are needed to fill in gaps, discrepancies, etc.
9. Discuss findings and preliminary assessments via working group meetings with PGS Team members and Mission management to arrive at consensus on risks, risk score, and mitigation strategies.
10. Based on PGS Team discussion, finalize the questionnaire.
11. PGS Team drafts the report. Ensure the observations, findings, and conclusions included in the questionnaire relate to the report, and visa-versa. Content included in all documents should be consistent with one another. Integrate the results of the Stage 2 Assessment into the broader project design process and PAD.
12. PGS Team reviews the Stage 2 Final Report package prior to submission.
13. Submit package to G2GRMT for quality review and feedback.
14. Based on feedback, finalize Stage 2 Risk Assessment Report package
15. Obtain final clearance from G2GRMT.

Chapter 4: PFMRAF Integration into Project Design

Introduction

The PFMRAF informs the decision to use partner government systems and is a fundamental component of project design that includes G2G direct assistance. The results of the PFMRAF, primarily the fiduciary risks identified in the Stage 2 Risk Assessment, and the corresponding risk mitigation measures, are integrated into the final project design and included in the project appraisal document (PAD).⁴

Chart 4 (G2G Programming Lifecycle) illustrates the integrated relationship between PFMRAF and project design. Both processes are mutually informative and iterative and should guide decision making on all aspects of the final project design.



⁴ See ADS 201 (Planning) for specifics on the project design process.

Risk Mitigation Plan

A risk mitigation plan is required for all projects incorporating G2G direct assistance. It is a component of the Authorization to Use Partner Government Systems (AUPGS), which is required for inclusion in the PAD. The fiduciary risk mitigation plan is informed by the entire PFMRAF process, but primarily by the Stage 2 Risk Assessment. It outlines the project specific fiduciary risks and corresponding mitigation measures to be incorporated in the final project design. Risk mitigation plans must account for all project specific fiduciary risks identified. Non-fiduciary risks and associated risk mitigation plans identified by other means must be also be addressed and included in the PAD. However, the cost-benefit of mitigation should be a consideration in final project design. The more extensive the mitigation plan, the more difficult it may be to work within the confines of the partner government systems.

The risk mitigation plan should be specific, realistic and actionable to the project. It should also specify implementation and oversight responsibilities for the mitigation measures accordingly. Mitigation measures that do not address the specific risk are of little value. For example, if a weak information technology process was identified as a risk in a particular area, recommending implementation of a new information technology (IT) system that will take longer to implement than the life of the project would be unrealistic because of the timing and complexity.

Risk mitigation plans should be commensurate with the level of risk identified for the specific project. In PFMRAF, the risk score (Critical, High, Medium, or Low) drives the appropriate level of treatment to mitigate the risk. For example, when G2G is undertaken in a “Critical” environment, the risk mitigation plan will be extensive and require substantial supervision. Alternatively, a “Low” risk environment may only require routine monitoring and oversight. It is also important to consider and explain any changes in the risk environment since the completion of the Stage 2 Risk Assessment and those included in the final project design.

Mitigation measures may be actions undertaken by the partner government, USAID, other parties, or combinations thereof. While the PGS team should share and negotiate mitigation measures with the partner government implementing entity, the content and sufficiency must represent the independent judgment of the PGS Team and Mission Director.

Every project is a unique endeavor. It will be the rare exception that two projects within one country but in different sectors would encounter the same risk profile and require the same mitigation measures. For example, a risk mitigation plan originally developed for the health sector may not be applicable to an education project in the same country. Therefore, risk mitigation plans should be distinct and relevant to the project. In summary, professional and subjective judgment is required to determine the appropriate level of risk mitigation for the project. Table 5 (Illustrative Risk Mitigation Plan) illustrates a typical risk mitigation plan.

**Table 5
Illustrative Risk Mitigation Plan**

Identified Risk	Potential adverse effect of risk	Recommendation from risk assessment	Impact	Prob.	Risk Rating	Mitigation Measure	Responsible Parties	USAID follow-up, monitoring (e.g. qtrly)
There are no fixed asset records nor are there efforts to reconcile a physical count of fixed assets to fixed asset records.	Lack of proper accounting and verification of fixed assets provides inadequate control over fixed assets. Assets can be easily removed from the district premises without management's knowledge.	Entity prepares a fixed asset registry that contains detailed fixed asset information. Conduct annual inventory of fixed assets and reconcile to the fixed asset registry.	2	2	Med.	1. Prepare fixed asset register with data on all fixed assets; 2. Establish procedures for annual inventory of fixed assets and reconcile to register.	Financial Analyst; Technical Officer	Semi-Annually

Authorization for Use of Partner Government Systems (AUPGS)

The AUPGS can be considered the capstone document which affirms that the due diligence required for G2G (e.g. PFMRAF) has been completed. It includes the Mission's fiduciary risk mitigation plan, informed by applicable project design analyses, inputs or outputs to be financed, selection of final methods of implementation and financing, and final judgments with respect to the level of fiduciary risk and related accountability of USAID financing. The AUPGS forms a part of the PAD which is signed by the Mission Director, approving the project and defining terms and conditions applicable to use of partner PFM systems.

A single AUPGS may cover more than one project implemented by a single partner government entity, or multiple partner government entities implementing the same project, so long as project and entity specific mitigation measures are clearly identified.

Mandatory Components – AUPGS

The AUPGS should include the following components:

1. Summary of key findings of PFMRAF
2. Affirmation of PFMRAF completion
3. Final Risk Mitigation Plan
4. Mission Director/Principal Officer concurrence.

G2GRMT Review

The Risk Mitigation Plan and AUPGS do not require clearance from G2GRMT. However, the G2GRMT is available to review the documents upon request. Please send questions to: **G2GRMT@usaid.gov**

Appendix 1: Sources of Information

Country and Regional

Department of State, Political Affairs

<http://www.state.gov/p/>

CIA World Fact Book

<https://www.cia.gov/library/publications/the-world-factbook/>

IMF Country Reports

<http://www.imf.org/external/country/index.htm>

World Bank Country and Regional Reports

<http://www.worldbank.org/en/country>

Organization for Economic Cooperation and Development (OECD)

<http://www.oecd.org/development/>

Relevant Country Specific Organizations

- Ministry of Finance, Planning, or Budget.
- Central bank.
- Supreme audit institution (SAI).
- National procurement body
- Sector or line ministry

PFM and Procurement

Public Expenditure and Financial Accountability (PEFA)

<http://www.pefa.org/>

Country Procurement Assessment Reports (CPAR)

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20108359~menuPK:84285~pagePK:84269~piPK:60001558~theSitePK:84266,00.html>

IMF Public Financial Management Blog.

<http://blog-pfm.imf.org/>

Governance

World Bank Governance Indicators

<http://info.worldbank.org/governance/wgi/index.asp>

International Organization of Supreme Audit Institutions (INTOSAI)

<http://www.intosai.org/>

International Budget Partnership

<http://internationalbudget.org/>

Transparency International

<http://www.transparency.org/>

Anti-Corruption Resource Centre

<http://www.u4.no/>

Overseas Development Institute

<http://odi.org.uk>

International Crisis Group

<http://www.crisisgroup.org/>

Business Monitor International

<http://www.businessmonitor.com/cgi-bin/request.pl>

World Economic Forum

<http://www.weforum.org/reports>

Regional Development Banks

Inter-American Development Bank

<http://www.iadb.org/en/inter-american-development-bank,2837.html>

African Development Bank Group

<http://www.afdb.org/en/>

Asian Development Bank

<http://www.adb.org/>

European Bank for Reconstruction and Development (EBRD)

<http://www.ebrd.com/pages/homepage.shtml>

Bilateral and Multilateral Organizations

UK Department for International Development (DfID)

<https://www.gov.uk/government/organisations/department-for-international-development>

Department of Foreign Affairs, Trade, and Development Canada (formerly CEDA)

<http://www.international.gc.ca/development-developpement/index.aspx>

Japan Bank for International Cooperation (JBIC)

<http://www.jbic.go.jp/en>

Swedish International Development Cooperation Agency (SIDA)

www.sida.se/English/

Australian Aid

<http://aid.dfat.gov.au/Pages/home.aspx>

European Commission: EuropeAid Development and Cooperation

http://ec.europa.eu/europeaid/index_en.htm

United Nations Economic Commission for Africa

<http://www.uneca.org/>

Project Management

Project Management Institute

<http://www.pmi.org/>

International Project Management Association

<http://ipma.ch/>

Risk Management

Committee of Sponsoring Organizations (COSO) of the Treadway Commission

- Embracing Enterprise Risk Management
http://www.coso.org/documents/EmbracingERM-GettingStartedforWebPostingDec110_000.pdf
- Developing Key Indicators to Strengthen ERM
<http://www.coso.org/documents/COSOKRIPaperFull-FINALforWebPostingDec110.pdf>
- Enterprise Risk Management – Integrated Framework: Executive Summary
http://www.coso.org/documents/COSO_ERM_ExecutiveSummary.pdf

Casualty Actuarial Society: Overview of Enterprise Risk Management

<http://www.casact.org/research/erm/overview.pdf>

The Institute of Risk Management

- Risk Appetite & Tolerance Guidance Paper
<http://www.theirm.org/publications/documents/IRMRiskAppetiteFullweb.pdf>
- A Structured Approach to Enterprise Risk Management and the Requirements of ISO 31000
http://www.theirm.org/documents/SARM_FINAL.pdf
- Risk Management – Why and How: An illustrative introduction to risk management for business executives
<http://www.irmi.com/online/riskmgmt/default.aspx>

CGMA Report: Fraud Risk Management – A guide to good practice

<http://www.cgma.org/Resources/Reports/DownloadableDocuments/fraudriskmanagement.pdf>

CFA: Core Competencies in Public Service Risk Management

http://www.alarm-uk.org/news/2011/core_competencies.aspx

DfID: How to note: Managing Fiduciary Risk when Providing Financial Aid

<http://www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf>

CIDA: Fiduciary Risk Evaluation Tool

<http://web.acdi-cida.gc.ca/fiduciaryrisk>

AusAID

- Risk Management Framework

<http://www.ausaid.gov.au/publications/pdf/ausaid-risk-management-framework.pdf>

- Risk Management Policy

<http://www.ausaid.gov.au/publications/pdf/Risk%20Management%20Policy.pdf>

- Risk Management Guide

http://www.ausaid.gov.au/publications/pdf/Risk_Management_Guide-final_7-3-06.pdf

Appendix 2: Stage 1 Rapid Appraisal Checklist

Country Relationship and General Questions

1. What is the development rationale for use of partner government PFM systems?
2. Is the government supportive of a G2G arrangement with USAID? Are they willing to make documentation available to USAID for review?
3. Describe the constraints and challenges the country has faced in implementing donor assistance through its PFM, including procurement, system.

Budget Formulation and Allocation

4. Describe the timing and roles and responsibilities of the legislative and executive branches in budget formulation. Begin with a multi-year planning framework, if such exists, and continue through the budget formulation, submission, and enactment steps.
5. Is the budget received, reviewed, and approved by parliament in a timely fashion? Does the legislature monitor and opine on budget execution? Is the legislature directly involved in expenditure management as in the U.S. case of “notifications?” Does the legislature meet budget procedural deadlines?
6. What discretion related to allocation of funds does the Ministry of Finance have after receiving an approved budget from the legislature? Are in-year and year-end budget variance reports made public? What steps are taken to address variances, particularly in cases of spending in excess of an appropriation? What, if any, allotment or apportionment process is in place? Does such process result in either arrears or cash rationing? To what extent and how does it affect the private sector, including the banking system?
7. Describe the linkage between the budget and the national poverty reduction strategy or sector development plans.

Procurement

8. Describe the legal and regulatory framework and organizational structure for public procurement at the national level and subnational levels, including:
 - a. Is the national and subnational legal framework described consistent with the international standards, principles, procedures, guidelines, and indicators of good practice, etc., as set out in such instruments as the UNCITRAL Model Law on Public Procurement (2011); the World Bank Guidelines on Procurement (2011) and CPARs; the WTO Agreement on Government Procurement (2012); relevant PEFA criteria; and the OECD-DAC Methodology for Assessing Procurement Systems (MAPS)?
 - b. Does the national legal framework apply to all national and subnational procurements using government funds?

- c. Do national and subnational legal frameworks mandate the use of competitive bidding procedures unless another procedure is properly justified?
 - d. Do national and subnational legal frameworks require adequate notification and advertising of bidding opportunities and public notice of contract awards?
 - e. Are there national preference rules that favor local contractors or vendors?
 - f. Are private sector entities able to access the government procurement market without significant constraints or barriers to entry?
 - g. Do mandatory, uniform implementing regulations, rules and/or guidelines exist at the national and subnational levels?
 - h. Are national and subnational procurement laws and regulations freely accessible to the general public including prospective bidders?
9. Describe the extent to which ministries, departments, and agencies (MDAs) and subnational governments conduct their own procurements in accordance with the overall national legal framework, including:
- a. Do MDAs and subnational governments conduct their own procurements in accordance with their own legal frameworks that differ from or supplement the national legal framework?
 - b. Does a centralized contracting entity procure on behalf of the MDAs and subnational governments in accordance with the overall national legal framework?
 - c. Do MDAs have and utilize standard procurement operating procedures, manuals, bidding documents, contract forms, and templates?
10. Describe the authorities, functions, and roles and responsibilities of key national and subnational procurement regulatory, policy, oversight, and internal and external audit bodies responsible for such functions as:
- a. Legal Norms (development of legislation and regulations in coordination with other public sector institutions);
 - b. Procurement Policy (formulation of policies and issuance of guidelines furthering policy objectives);
 - c. Procurement Practices (identification and promotion of “best practices” in procurement);
 - d. Technical Support (provision of advisory services and technical assistance and resources to procuring entities through research, publications, forms, and other means);
 - e. Professional Development (development of a professional workforce through training programs, standards, and certification/accreditation);
 - f. Monitoring and Oversight (internal and external monitoring and oversight of overall operation of the public procurement system and activities of procuring entities);
 - i. Do procuring agencies have in place and carry out regularly an institutionalized system of effective internal controls?
 - ii. Are internal audits regularly and systematically performed, reviewed, and acted on with a view to correcting deficiencies and making systemic improvements?

- iii. Do external oversight bodies such as a supreme audit institution (or an anticorruption body, etc.) have and carry out a role/mandate/jurisdiction in performing external audits and investigations of procurement functions?
 - g. Data Collection and Dissemination (collection of purchasing data and other quantitative and qualitative information from procuring entities through required reporting; and compilation and dissemination of statistics and periodic reports);
 - i. Is there an effective institutional system that collects, analyzes and disseminates information and statistics that aid monitoring of the performance of the entire system in accomplishing its objectives and aid formulation and implementation of improvement plans?; and
 - h. Outreach Programs (promotion of public understanding of and confidence in the public procurement system; provision of useful information to suppliers; liaison with universities, professional associations, trade associations, and other non-governmental organizations; and establishment and participation in intergovernmental commissions, committees and working groups).
11. Describe the complaints/due process institutions and mechanisms established by national and subnational legal and regulatory frameworks, including:
- a. Does the legal and regulatory framework for public procurement require, and operational practices maintain, adequate documentary records of procurement proceedings consistent with international standards (e.g., Article 25 of the UNCITRAL Model Law on Public Procurement)?
 - b. Which entities are charged with handling disputes related to contract award and formation (i.e., protest), eligibility, and contract execution/management?
 - c. Are procuring entity decisions subject to appeal to the judicial branch?
 - d. Are dispute resolution bodies sufficiently independent and insulated from actual procurements and political interference?
 - e. Are decisions binding on the affected parties?
 - f. Does the legal and regulatory framework require resolution of complaints within a certain timeframe?
 - g. Are there hidden barriers to successful protests such as short periods to excessive documentation requirements that make it impossible for small firms to file an acceptable protest?
12. Describe the sanctions regime analogous to a suspension and debarment system, including:
- a. Does the Government or MDA have policies or procedures in place that set forth a clear code of ethical conduct, including the avoidance of improper business practices and personal conflicts of interest (e.g., signed affidavits or affirmations attesting to “no personal interest” in a procurement that the Government official is working on)?
 - b. How well do agencies comply with the laws and regulations relating to procurement, e.g., use of competitive methods and transparency, including clear bidding documents, reasonable time to prepare bids, and processing complaints?

13. Describe the host country commitment to and regime for professional development and training of procurement staff at national and subnational levels, including:
 - a. Do permanent and sustainable professional development and training programs exist for procurement staff at national and subnational levels?
 - b. Describe any professional qualifications for procurement staff.
 - c. What provisions are made for professional development and training MDA staff in all essential public procurement functions, including planning disciplines such as preparing reliable estimated budgets and drafting appropriate technical specs, relevant evaluation criteria, and clear instructions to bidders?
 - d. What provisions are made for professional development and training of procurement monitoring, oversight and audit staff?
 - e. Does a system exist to track the quality of procurement actions and evaluate the performance of procurement staff?

14. Describe the extent to which public procurement is mainstreamed and integrated as a component of the overall public sector governance system of the recipient country.
 - a. Is procurement planning linked to the budget formulation process?
 - b. Is procurement execution linked to budget law and financial procedures to ensure efficiencies?
 - c. To what extent are there any means to track the quality of procurement planning, execution, and integrity and quality of procurement outcomes (e.g. realization of “value for money” through open and competitive processes untainted by fraud or corruption)?

15. Describe the extent to which in the recent past other donors or development partners or USG agencies have used the host country’s procurement systems at the national or subnational level and supported institutional capacity development and procurement workforce capacity development.
 - a. What has been the recent experience of USAID, if any, in using host country public procurement systems at the national and subnational levels?
 - b. What has been the recent experience of other USG agencies and other donors in using host country public procurement systems at the national and subnational levels?
 - c. What has been the recent experience of the World Bank with National Competitive Bidding (NCB) in the host country as well as with International Competitive Bidding (ICB)?
 - d. What has been the recent experience, if any, of the Millennium Challenge Corporation, with MCC-funded procurements in the host country?
 - e. What institutional and workforce capacity development programs have donors supported in the recent past?

Cash Management and Control

16. Describe the general fund cash management process. Does the partner country use a Treasury Single Account (TSA) system for cash management (e.g. maximize investments or minimizing borrowing requirements)? Describe the TSA arrangements, including accounting, and reporting on cash management. If the partner country does not use a TSA, provide context.
17. Describe the cash management process when receiving funds from an international donor. How would the partner government comply with its cash management requirements if USAID were to transfer funds to it. Would they be able to establish a separate dollar account adequate to meet USAID legislative requirements for funds accountability? Can the accounting system provide sufficient data to satisfy USAID reporting requirements, including interest rebate requirements? Will an account(s) established for receipt and disbursement of USG funds be at the central or a commercial bank? If the latter, what selection arrangements exist?

Accounting and Control

18. Describe the partner government accounting system(s) and level of sophistication. Is there an integrated financial management system in place? To what extent are electronic and manual processes used? What accounting standards are used and applied in the management of public resources?
19. Is the chart of accounts based on object of expenditure, or economic classification? Does the system permit reporting consistent with the IMF's Government Financial Statistics (GFS) Manual?
20. Do the accounting records identify, segregate, accumulate and record all aid project costs by source? What has been the experience of other donors in this regard?

Audit and Internal Controls

21. Describe the supreme audit institution and their role in overseeing the use of public resources. Is this organization financially and operationally independent? How aligned are they with international best practices?
22. Does the internal audit function exist within partner government entities? Describe their roles and responsibilities.
23. Describe the formal policies and procedures in place to ensure a functioning internal control system. Is there a national and/or regional internal control program in place that charges entities to adopt a system of internal controls?
24. Is there an operational code of ethics for professional management of governmental financial resources? Does the ethics code cover competence, confidentiality (i.e. prohibits use of confidential information for gain), and integrity (i.e. banning conflicts of interest) and objectivity

i.e. present information that is technically accurate and decision relevant? Is it enforced and are sanctions applied for violations?

Human Resources

25. Does the government have a merit-based civil service system? Describe the legal basis for that system. What are the training requirements and policies dealing with ethics, codes of conduct, and whistle-blower protections? Describe the roster and time and attendance systems for the public sector.
26. What evidence is there that capacity building programs intended to reach individuals with specific responsibilities at various levels of government actually reach them?
27. Does the civil service law cover disclosure of personnel assets, liabilities, and non-government sources of income as well as non-monetary services or allowances?
Does the law cover conflicts of interest and probable sanctions? If so, is the law enforced?

Public Accountability

28. Has the government started or undergone transparency and accountability reform?
29. Describe the government institutions and organizations that provide accountability such as prosecutor's offices, legislative committees, the supreme audit institution or inspector(s) general. Do these organizations have independent authority to investigate, prosecute, or sanction? Who controls their budget? Are there linkages between these institutions and are they effective?
30. What roles do civil society organizations, private sector entities, or the media play in accountability oversight of public resources?
31. Does the government have an active anti-corruption program? Is the state able to address both high-level and low-level corruption? What evidence is there that the anti-corruption laws are being enforced? If an Anti-Corruption Commission exists, is it fully staffed with capable members, sufficiently funded and able to enforce or report recommendations?

Fiscal Transparency

32. Are there laws providing freedom to access information? Does the government have the will, capacity and staff to respond to information requests? Does this include request for information about financial dealings of the government?
33. Are "user friendly" budgets and other financial documents made available to the public? How accessible are the national budget and supporting documents to the public and civil society organizations? Is the budget prepared with input from different branches and levels of

government? If the Open Budget Initiative (www.internationalbudget.org) covers the country, the results of its most recent survey should be summarized.

34. Do supporting and available documents include information on extra-budgetary funds and contingent liabilities?
35. Can the budget process be followed by the public, civil society and media? Are there junctures where the public and civil society can contribute to the process?

Democracy and Political Considerations

36. Are there any civil disturbances, border or regional conflicts or upcoming political events such as national elections that could affect successful implementation?
37. Are laws applied equally across political and other affiliations such as ethnicity gender, religious, or region?
38. Do actors within or outside the political system have de facto veto power over state decisions? That is, is there evidence that one political party or an elite group(s) has revised or ignored decisions made through government deliberative or administrative procedures? Are officials able to act with impunity?
39. What evidence, if any, is there of bias or favor by the state in allocation of jobs and resources among major groups, particularly where merit is not a factor?
40. Is government decision-making transparent? Do citizens have access to information on the performance of public officials? How free and able are the media to investigate and report on government misconduct? How engaged are citizen groups in oversight of government budgets and performance?

**PUBLIC FINANCIAL MANAGEMENT RISK ASSESSMENT (PFMRAF) STAGE 2 QUESTIONNAIRE
VERSION 2 (3-12-2014)**

INDEX

Overview and Instructions	2
Section 1: Entity Features	4
Section 2: Budget	7
Section 3: Procurement	16
Section 4: Cash Management and Treasury	29
Section 5: Accounting and Reporting.....	36
Section 6: Human Resources and Payroll	45
Section 7: Internal Control.....	52
Section 8: Information Technology.....	58
Section 9: Audit and Compliance	70

OVERVIEW AND INSTRUCTIONS

Overview:

The Stage 2 Risk Assessment is designed to identify the fiduciary risk(s) US government funds may be exposed to when administering a program/project/activity using the partner government public financial management system(s). The Stage 2 Questionnaire is a tool to help risk assessment teams conduct this assessment. The questionnaire consists of a comprehensive list of illustrative questions by functional area, evaluation criteria/questions and sub-criteria that help to evaluate adherence to common PFM best practices, standards and internal controls.

The Stage 2 Questionnaire is a starting point from which to develop the relevant questions that will address the scope of areas to be reviewed in a Stage 2 Risk Assessment. There is no requirement to use the questionnaire in its entirety; rather, focus on those functional areas and questions that are considered relevant for the specific assessment. It is also appropriate to draw upon other relevant professional guidelines or checklists (i.e., AICPA or IIA questionnaires or AICPA checklists) to develop a customized questionnaire.

Completion of a customized Stage 2 questionnaire will become the primary source of evidence for the Stage 2 Risk Assessment. The existing format can be logically cross-walked or referenced to support information in a Stage 2 Risk Assessment report.

Navigation Tools:

To guide risk assessment teams, this document has two navigation tools to help users:

1. **The Navigation Pane** – The pane can be activated by using the “Control” and “F” key. The navigation pane lists the various sections of the document and can be used by users to move around the document.
2. **The Index** – Page 1 of the document contains an index with links to the various pages in the document. To move around the document, users can use the “Control” key and click on the page numbers listed on the index.

Format and Instructions:

There are nine PFM sections covered in the questionnaire as described further below. Within each section the opportunity to evaluate specific criteria/questions and identify related fiduciary risk is provided:

Column I – Criteria/Questions - Identifies the criteria or questions to be evaluated. Although some questions may appear to generate “Yes/No” responses, the intent is for the assessor to understand and describe what was found or observed in response to the question posed and to assess whether such findings might pose a fiduciary risk. Doing so will evidence the rigor applied in conducting the assessment.

Column II – Observations & Assessment – Used to describe the assessor’s observation and assessment relative to criteria/question evaluated. Inputs to this determination include interviews conducted, results of tests conducted, documents reviewed and other observations. Assessments that result in absence of or deviation from the criteria and which pose an issue or risk can also reference appropriate mitigation strategies.

Column III – Reference – Used to identify sources of information that support the basis for Observations and Assessment in Column II. For example, date of meeting(s) held with specific government officials; tests conducted; and names of documents referenced to gather data.

Column IV – Issues/Risk Indicator - Used to indicate whether information in Column II poses an issue or potential risk, by indicating “Yes,” “No,” or “Maybe.”

Column V - Risk Identification – This appears at the end of every section and should be used to determine and list fiduciary risk identified. Utilizing “Yes” and “Maybe” responses indicated in Column IV and revisiting related assessment information from Column II in the preceding section, a determination can be made as to whether these findings, individually or in combination with other findings pose a fiduciary risk. The risk(s) should be identified in this section. Please note that once risks have been identified they will need to be evaluated for “Probability” and “Impact” to arrive at an overall risk rating; and appropriate risk mitigation strategy.

Questionnaire Sections:

1. **Entity Features:** This section helps the assessor obtain a general understanding of the entity, its environment, and organization structure. Overarching relevant laws and regulations, key functions and decision making processes are also covered.
2. **Budget:** This section covers functional budget formulation and planning, including processes for developing a budget to achieve entity and/or program objectives, tracking of expenditures against the budget, and other related areas.
3. **Procurement:** This section covers the acquisition of goods and services life cycle, including procurement specific laws and regulations, bidding process, technical requirements, contracts management and oversight mechanisms.
4. **Cash Management and Treasury:** This section covers functional processes and controls, including cash planning and management to meet existing obligations and programmatic objectives and banking practices.
5. **Accounting and Reporting:** This section covers remaining functional processes related to budget execution, including accounting, payment processing, asset management, and reporting.
6. **Human Resources and Payroll:** This section covers broad functional practices and controls related to human resources and payroll, including strategic resource planning, hiring practices, timekeeping and fraud prevention.
7. **Internal Control:** This section covers the general internal or management control of an entity, including control environment, risk assessment, information and communication, and monitoring activities. Control activities, the wide range of diverse activities, such as policies, approvals, verifications, and reconciliations applied, have been interspersed within each of the functional areas.
8. **Information Technology:** This section is specific to management practices over information systems and applications within the PFM context. It includes general controls, disaster recovery and backup procedures, physical security and application controls.
9. **Audit and Compliance:** This section addresses oversight entities, including related audit reports to gain insights on reported entity weaknesses and challenges. Entity compliance with donor and other administrative requirements are also covered.

Section 1:

Entity Features

Date:

Author(s):

Section 1: Entity Features			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1 Organization and Functions</p> <p>1.1 Organization</p> <p>Obtain and briefly describe understanding of the entity and its environment, including:</p> <ul style="list-style-type: none"> - Nature of the entity, legal corporate status (i.e. line ministry, state-owned corporation or enterprise, etc.) origin, mission - Legal, regulatory, and procedural framework - Entity owners, organizational structure, lines of reporting - Delegation of authority and responsibility - Relationship with oversight entities 			
<p>1.2 Operations and Functions</p> <ul style="list-style-type: none"> ▪ Obtain and briefly describe entity operations, and functions, particularly those related to public financial management (PFM) and government-to-government (G2G) initiatives, including: <ul style="list-style-type: none"> - Key functions, business processes - Internal factors affecting entity operations, such as size of entity, number of locations, centralized or decentralized structure, complexity of operations, qualifications of key personnel, turnover of key personnel - External factors affecting entity operations, such as current political climate, seasonal fluctuations, source(s) of funds, relevant legislation ▪ Obtain a high-level understanding of the entity's use of information systems within the PFM life cycle. 			

V. Risk Identification (Entity Features)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 2: Budget

Date:

Author(s):

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1. BUDGET CREDIBILITY</p> <p>1.1 Budget Formulation and Control</p> <p>Policies and Procedures. Obtain an understanding of the budget process. Determine whether the entity has policies and procedures for budget formulation, planning and control (e.g. manuals, approvals process) and confirm that:</p> <ul style="list-style-type: none"> - There is a process for formulating budgets - Duties and responsibilities are defined and segregated relative to preparation, supervision and approval of budget. <p>Budget is broken down by main categories (i.e. personnel)</p> <p>The process for approvals, changes, deadlines, etc. is defined.</p> <p>The budget planning process includes a participatory process</p> <p>Key functions are assigned and duly staffed</p> <p>Budget staff have sufficient technical capability for the tasks</p> <p>There are procedures in place to train personnel on proper budgeting</p> <p>Information Systems. Determine if information technology is used for budget formulation and planning.</p> <ul style="list-style-type: none"> - How is the system used? And by whom? Is there adequate segregation of duties? <p>Budget Calendar. Determine whether there is a budget calendar. If so:</p> <ul style="list-style-type: none"> - How closely is it followed? - Select the most recent budget for a program and confirm that the entity follows the budget calendar and submits the budget on a timely basis 			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<ul style="list-style-type: none"> ▪ Communication and Control. Determine the extent of communication between the ministry/entity and Ministry of Finance (MOF)/finance department regarding budgetary control: <ul style="list-style-type: none"> Is there a requirement for such? Does the MOF/finance department notify the ministry/entity when expenditures approach or exceed budget? Only when certain limits are reached? Is over/under spending reported to the responsible minister/entity head? ▪ Budgetary Control. Confirm that the government/entity has controls to ensure that they only use funds as intended (i.e. achieve objectives), including: <ul style="list-style-type: none"> – The government/entity has controls to prevent misuse, misappropriation, and fraud – Project specific budgets are restricted from other use 			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.2 Budget vs. Actual Spending. Determine whether the budget typically reconciles favorably with planned expenditures.</p> <p>Are there any problems related to poor planning? For example, “bunching” - rushing to spend any available funds at the end of the year to avoid “losing” (and receiving less funds in the next year.) If so, how are problems addressed, and might this impact a potential G2G program/project/activity?</p> <p>Does the MOF/finance department have a regular process for analyzing the variance between budget and actual spending and mitigating risks associated with variance?</p> <p>If actual vs. budget analyses are prepared, determine whether</p> <ul style="list-style-type: none"> ○ Variances or deviations from the original budget were documented, approved and tracked, consistent with policy or procedure. ○ Are deviations indicative of a problem with the forecasts? ○ Describe general reasons for deviations ○ Do deviations indicate an institutional problem? 			
<p>1.3 Validation of Budget Policies & Procedures</p> <p>Select a budget for a recent year including one to two project budgets and confirm that:</p> <p>Budgets were approved on a timely basis</p> <p>Approvals are consistent with defined requirements for the budget process</p> <p>Project specific budgets are restricted from other use</p> <p>Actual vs. budget analyses are prepared according to policies and procedures</p>			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.4 Extent of Budget Transfers</p> <p>Is there a policy/provision for budget transfers? Select a sample of budget transfers from the entity and confirm that:</p> <ul style="list-style-type: none"> Transfers were documented Transfers were approved and approval was documented according to policy Transfers did not violate any agreement, earmarking, etc. Limits are established on transfers (e.g. 10%) 			
<p>2. Budget Comprehensiveness and Transparency</p> <p>2.1 Budget Coverage</p> <p>Discuss the budget process with the entity, briefly describe, and confirm that it covers all revenues and expenditures and:</p> <ul style="list-style-type: none"> It includes capital and development expenditures, including its cost implications and constructions It includes all institutions and programs If exclusions exist, document the reasons for them and consider their impact. Exceptions are spelled out in the budget notes 			
<p>2.2 Supplementary Budgets</p> <p>Inquire if financial regulations provide for additions to budgets during the year. Describe briefly and confirm that:</p> <ul style="list-style-type: none"> Policies and procedures are defined and followed Approval levels are properly established 			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.3 Off-Budget Spending</p> <p>Confirm whether off-budget spending is allowed. If it is allowed, select a sample and confirm that:</p> <ul style="list-style-type: none"> The entity has appropriate controls to approve it Off-budget spending is monitored and reported 			
<p>2.4 State-Owned Enterprise (SOE) Investments</p> <p>Inquire if the entity has state-owned enterprise (SOE)/parastatal investments in the budget and understand the controls used to account for them and to ensure that they are incorporated into the central government budget.</p>			
<p>2.5 Reserves Requirements</p> <p>Inquire about the requirements to maintain reserves and confirm that:</p> <ul style="list-style-type: none"> The entity reports on its reserves Reserves are monitored 			
<p>2.6 Special Expenditure Categories</p> <p>Inquire if regulations allow for special expenditure category approval(s), outside the normal budgetary approval process. If so, confirm that:</p> <ul style="list-style-type: none"> Financial regulations specify which categories of expenditure should be subject to the submission of a financial implications report A financial implications report on revenue costs is required for proposed capital projects 			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.7 Intergovernmental Fiscal Relations</p> <p>Determine how the entity budget process relates and interfaces with the national budget process, Consider any potential impact to the G2G program/project/activity.</p> <p>Does the national budget process consider policy objectives, priorities and plans of sub-national governments and/or decentralized units of the central government (e.g. social assistance, education, health and agriculture spending)?</p>			
<p>2.8 Budgeting for Donor Funds</p> <p>Confirm that the entity has policies and procedures to account for donor funds (i.e. budgeting and tracking of funds from international donor agencies such as USAID)</p> <p>Describe how funds from donors are incorporated into the general fund or accounted for separately; and any potential impact to a G2G program/project/activity.</p>			
<p>3. POLICY-BASED BUDGETING</p> <p>3.1 Connection Between Funding Levels and Results</p> <p>Review controls by the entity/government to review achievement of the program objectives over the life of the program (e.g. use a medium-term expenditure framework (MTEF), medium-term financial framework (MTFF), etc. Obtain sample selections and confirm the effectiveness of these controls.</p> <p>Confirm that entity utilizes a control to achieve results based on expected results (i.e. performance based budgeting)</p>			

Section 2: Budget			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>3.2 Quality of the Budget Narrative</p> <p>Confirm that the budget document includes a narrative. Make sample selections and confirm it:</p> <ul style="list-style-type: none"> Articulates the government’s policy, priorities and how they will be achieved Addresses policy changes and performance implications Performance information on the effectiveness of programs 			

V. Risk Identification (Budget)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 3: Procurement

Date:

Author:

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1. General Features and Functions</p> <p>1.1 What is the legal, regulatory, and procedural framework for the entity's procurement (and related) function?</p> <ul style="list-style-type: none"> ▪ What procurement laws and regulations apply to the entity? ▪ Is the functional framework clear, comprehensive, consistent, and well-coordinated? ▪ Does it include procurement specific oversight entities? ▪ Explain and provide context. 			
<p>1.2 Describe the typical procurement cycle (from planning to bid advertisement to award to implementation to closeout) phases or functions.</p> <ul style="list-style-type: none"> ▪ Who has to approve different steps along the procurement cycle, (from advertisement to award to acceptance to final payment)? ▪ Explain and provide context. 			
<p>1.3 Are key functions assigned and duly staffed (e.g. planning, bid documentation preparation, bid process management, bid opening and evaluation, contract management and oversight, audit, etc.)?</p> <p>Explain and provide context.</p>			
<p>1.4 Does the agency have a clear system of accountability with clearly defined responsibilities and delegation of authority on who has control of procurement decisions?</p> <p>Is the system effective (i.e. is authority delegated "on paper" and/or applied consistently "in practice")?</p> <p>Explain and provide context.</p>			
<p>1.5 Is the decision making process "formalized" and described in a procurement manual or other guidance/instructions and known to staff?</p> <p>Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2. Internal Manuals and Clarity of the Procurement Process</p> <p>2.1 Does the agency have a well-documented set of implementation regulations and/or a procurement manual applicable to procurement under the project and is it accessible to staff? Explain and provide context.</p>			
<p>2.2 Do the regulations and/or manual provide comprehensive and clear instructions for all steps of the procurement process (i.e. planning, evaluation, award, methods, review thresholds, record keeping, etc.)? Explain and provide context.</p>			
<p>2.3 Does agency staff understand the instructions and are they confident in their actual application of such instructions? Explain and provide context.</p>			
<p>2.4 Are manuals and policy documents well-disseminated to and consulted by staff? Explain and provide context.</p>			
<p>3. Record Keeping & Document Management Systems</p> <p>3.1 Does the agency maintain adequate written records of all procurement documents (both pre-award and post-award)? Explain and provide context.</p>			
<p>3.2 Does a system (manual or electronic) exist to easily locate relevant records? Explain and provide context.</p>			
<p>3.3 Are records protected from loss and unauthorized access? Explain and provide context</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>4. Staffing</p> <p>4.1 Does the agency have key staff with knowledge, experience and a satisfactory track record in procurement in general and on donor-funded projects specifically? Explain and provide context.</p>			
<p>4.2 Does the agency have access to contract management expertise and a track record of quality and timely delivery? Explain and provide context.</p>			
<p>4.3 Does management ensure that staff takes quality training for continuous skill development in procurement and contract management? Explain and provide context.</p>			
<p>4.4 Is staff selected on an open and competitive basis and offered a competitive compensation that allows attracting high-caliber staff? Explain and provide context.</p>			
<p>5. Procurement Planning</p> <p>5.1 Are realistic procurement plans prepared as a matter of course in the agency (based on the objectives of the project, justifiable quantities, realistic market prices, timing of delivery, storage, funding availability, etc.) and approved formally? Explain and provide context.</p>			
<p>5.2 Are contracts packaged such that they will maximize interest by reputable bidders? Explain and provide context.</p>			
<p>5.3 Will contract packages challenge the capabilities of the entity in terms of size, complexity, and timing (e.g., multi-stage bidding, turnkey, concessions, IT, etc.)? Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>5.4 Is there a track record of adhering to and updating and executing procurement plans, taking into account cost, timing, sequencing, methods, cash flow, etc.? Explain and provide context.</p>			
<p>5.5 Has the entity assessed sector risks (related to collusion, supply constraints) and taken them into account in the procurement plan? Explain and provide context.</p>			
<p>5.6 Does the entity routinely conduct market surveys to update their knowledge on prevailing prices and the availability of vendors for goods, works, and services? Explain and provide context.</p>			
<p>5.7 Are conditions for use of various procurement methods clearly established and are there explicit requirements that open competitive bidding is the preferred or default method? Explain and provide context.</p>			
<p>6. Bidding Documents, Prequalification, Shortlisting, and Evaluation Criteria</p>			
<p>6.1 Does the entity have capable staff to prepare bidding documents? Explain and provide context.</p>			
<p>6.2 Is prequalification (if applicable) based on objective pass-fail criteria, clearly listed in the documents, and appropriate for the project? Explain and provide context.</p>			
<p>6.3 Are shortlists balanced and are highly qualified firms who have expressed interest generally included? Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
6.4 Does the entity use SBDs which are standardized for the agency, country, or sector? Explain and provide context.			
6.5 Does the entity produce technical specifications/terms of reference/bid documents of good quality? Explain and provide context.			
6.6 Does the entity use national competitive bidding vs. international competitive bidding? If so, what are the thresholds? Explain and provide context.			
7. Advertisement, Pre-bid/Proposal Conference and Bid/Proposal Submission			
7.1 Are bids/proposals consistently advertised in media of wide circulation and easily accessible to potential bidders? Explain and provide context.			
7.2 Is the content of the advertisements sufficient to enable a potential participant to determine its interest in competing? Explain and provide context.			
7.3 Is sufficient time allowed for bid or proposal preparation appropriate to the complexity of the procurement? Explain and provide context.			
7.4 Are qualifications for bidders fair and appropriate? Explain and provide context.			
7.5 Are timely and non-ambiguous clarifications to bidding/proposal documents provided to all potential bidders? Explain and provide context.			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>7.6 For open competitive bidding, are bids opened in public in the presence of bidders/representatives and immediately following the deadline for bid submission? Explain and provide context.</p>			
<p>7.7 For negotiated procurements, do rules provide for a fair and transparent bid/proposal and evaluation process? Explain and provide context.</p>			
<p>7.8 Is the number of bids received reasonable as compared to the number of pre-qualified bids? Explain and provide context.</p>			
<p>8. Evaluation and Award of Contract</p>			
<p>8.1 Are evaluations conducted professionally and by members with technical expertise in the items/services being procured? Explain and provide context.</p>			
<p>8.2 Are evaluations and qualifications carried out thoroughly and on the basis of the criteria specified in the documents? Explain and provide context.</p>			
<p>8.3 Are there any indicators that the bidding/selection process are manipulated/have been manipulated to favor a certain bidder or are there unusual bid patterns? Explain and provide context.</p>			
<p>8.4 In reviewing the bids, are red flags of corruption identified? Explain and provide context.</p>			
<p>8.5 Is due diligence conducted on the winning bidder to ensure that it is a legitimate, reputable, and technically and financially capable company? Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>8.6 Are additional government approvals required before contracts can be executed? To what degree is the procurement decision-making function insulated/shielded from politics? Explain and provide context.</p>			
<p>8.7 Do evaluation reports contain all essential information necessary for approvals, including adequate justification for decisions taken during evaluation such as rejection of bids? Explain and provide context.</p>			
<p>8.8 Is there a protocol in place to ensure safekeeping of information during the evaluation process? Explain and provide context.</p>			
<p>8.9 Are contracts awarded and made effective in a reasonable amount of time and substantially with the same scope as in the bidding documents? Explain and provide context.</p>			
<p>8.10 Does the entity have a disclosure policy in place (notice of award decisions, right to obtain a debriefing, access to contract award information)? Explain and provide context.</p>			
<p>9. Review of Procurement Decisions and Resolution of Complaints</p>			
<p>9.1 Are there serious/frequent informal or formal complaints by disappointed bidders, civil society organizations, or others on evaluations? Explain and provide context.</p>			
<p>9.2 Does the entity have a formal system known to the bidding community to review and resolve complaints from bidders at different stages of the procurement cycle up to contract award? Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
9.3 Does the system in place allow a complaint to be disposed of administratively prior to or in lieu of judicial review? Explain and provide context.			
9.4 Does the agency keep data on volume of complaints and nature of complaints and report on them? Explain and provide context.			
9.5 Is the system effective and does it ensures timely and fair decision making that protects against retaliation? Explain and provide context.			
10. Contract Management and Administration			
10.1 Does a manual or computerized procurement monitoring system exist? Explain and provide context.			
10.2 Are invoices from vendors generally paid within the contractual terms? Explain and provide context.			
10.3 Do procedures exist to monitor delivery of goods, and services to verify quantity, quality and timeliness, and to control inventories of goods? Explain and provide context.			
10.4 Are contracts generally implemented according to specifications, on time and without excessive changes in scope or price, and are variations justified? Explain and provide context.			
10.5 Are contract amendments generally processed diligently and in a reasonable time? Explain and provide context.			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>10.6 Are completion schedules generally met? If not, what is the major cause of slippage? Explain and provide context.</p>			
<p>10.7 Are final acceptance procedures used and certificates issued in a timely fashion as a part of contract close-out? Explain and provide context.</p>			
<p>10.8 Is there a backlog of unresolved contractual claims (e.g. payments, variations)? Explain and provide context.</p>			
<p>10.9 Is there a track record of implementing an alternative dispute resolution procedure besides the judicial avenue? Explain and provide context.</p>			
<p>11. Procurement Oversight</p>			
<p>11.1 Are the entity's procurement operations subject to regular internal and external audits? Explain and provide context.</p>			
<p>11.2 Are external audits carried out by an independent body (such as an SAI)? Explain and provide context.</p>			
<p>11.3 Is the scope and quality of the procurement audits satisfactory and do they include physical inspections and compliance checks? Explain and provide context.</p>			
<p>11.4 Are audit reports issued in a timely manner and are recommendations related to procurement generally implemented promptly? Explain and provide context.</p>			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
11.5 Does the entity have access to quality legal advice? Explain and provide context.			
11.6 Is there any other form of oversight of procurement exercised by other external independent organization like civil society groups, an anti-corruption agency, etc.? Explain and provide context.			
11.7 Does the entity hold regular meetings with the business community to discuss procurement issues? Explain and provide context.			
12. Integrity			
12.1 Do opportunities exist for government officials to exercise undue influence into the procurement process? Explain and provide context.			
12.2 Is there a published and known code of ethics that describes inappropriate behavior related to procurement? Explain and provide context.			
12.3 Is it easy for individuals (including agency officials) to report allegations of corruption related to procurement? Explain and provide context.			
12.4 Do measures exist at the entity level to curb/control corruption? Explain and provide context.			
12.5 In the past five years, has the agency faced any allegations of corruption relating to procurement? If so, explain the circumstances and how/whether the agency dealt with such allegations. (check w/ other development partners, CSOs, etc.).			

Section 3: Procurement			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>12.6 Do contractors have any legal requirements relating to procurement integrity, including mandatory self-disclosures, establishment of codes of ethics, certifications accompanying bids and invoices, etc.? Explain and provide context.</p>			

V. Risk Identification (Procurement)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 4:

Cash Management and Treasury

Date:

Author(s):

Section 4: Cash Management and Treasury			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1. Cash Management</p> <p>1.1 General</p> <ul style="list-style-type: none"> ▪ Policies and Procedures. Determine whether the entity has written policies, procedures and practices governing cash management. including: <ul style="list-style-type: none"> – Are the policies available and up to date? – Do they include planning, cash collection, deposit, disbursement, forecasting and investment? – Do they include controls over access to cash and checks, reconciliation of bank accounts, use of petty cash funds, segregation of duties? – Is there effective cash flow planning, management and monitoring – Is there an annual cash plan, updated regularly, setting out monthly cash inflows, outflows and borrowing requirements? How accurate has this been? – Does the annual budget implementation plan take into account the timing of payments, and payment obligations arising from the commitments during the year? – Is there a daily calculation and consolidation of cash flow balances? ▪ Cash Management Unit. Is there a cash management unit within the MOF (or finance department) with assigned roles, responsibilities and duties? <ul style="list-style-type: none"> – Do they have sufficient technical capability for the tasks? – Is the staff supported by adequate information and communication technology? 			

Section 4: Cash Management and Treasury			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>Information Systems. Determine if information technology is used for cash management.</p> <ul style="list-style-type: none"> - How is the system used? - And by whom? Is there adequate segregation of duties? 			
<p>1.2 MANAGING CASH SHORTFALLS & USE OF FORECASTS</p> <ul style="list-style-type: none"> ▪ What guidance and controls exist to manage short term fiscal imbalances (e.g., tax anticipation n or bond anticipation notes)? <ul style="list-style-type: none"> - Have cash limits or cash rationing been imposed? ▪ What are practices over use of cash forecasts? <ul style="list-style-type: none"> - Are they used? - Is borrowing planned on the basis of reliable cash forecasts? - How accurate and timely are forecasts of anticipated revenue and expenditures? 			
<p>1.3 Short-term Investments</p> <ul style="list-style-type: none"> ▪ What is the practice over short-term investments? <ul style="list-style-type: none"> - Are timely records kept of each short-term investment transaction including: date, name of seller amount, maturity, account number, duplicate copies, signatures of authorizing officials, investment yields, prices and discount rates? - Are investments reconciled with cash balances and cash accounting records on at least a monthly basis? 			

Section 4: Cash Management and Treasury			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.4 Cash Availability & Response to Cash Flow Problems</p> <ul style="list-style-type: none"> ▪ Is there evidence that cash is made available to cover obligations, including, e.g., discounts for early payments? ▪ Are there sufficient reporting and accountability arrangements in force for proper management response to cash flow problems? <p>1.5 Cash Management Governance</p> <ul style="list-style-type: none"> ▪ What are the oversight mechanisms for cash management? <ul style="list-style-type: none"> – Is there a whole-of-government Cash Management Committee in existence? Who comprises this committee? – How effective is this oversight mechanism in practice? 			

Section 4: Cash Management and Treasury			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2. Treasury and Banking Operations</p> <p>2.1 Centralization of Bank Balances (Treasury Single Account)</p> <p>Discuss with government officials the utilization of a Treasury Single Account (TSA). Obtain supporting documentation related to the TSA and determine that:</p> <ul style="list-style-type: none"> - All bank accounts, including commercial accounts, and central government accounts are controlled by the MOF and/or Treasury - All bank accounts are centralized in one bank - Cash is managed centrally efficiently to cut down on financing costs and bank balances are analyzed for efficiency and effectiveness. <p>▪ If a TSA is not used, describe how cash is managed, the number of bank accounts; consider impact to G2G program/project/activity.</p> <p>2.2 Evaluating Banking Services</p> <p>Confirm that the entity/government has procedures and methods in place for selecting and evaluating banks.</p> <ul style="list-style-type: none"> - Does the entity have a procedure for selecting banks? - Are there regular and effective cash management and investment relations between the government and commercial banks? - Does the cash management unit evaluate the effectiveness of standard banking services, e.g., deposits and direct deposits, and account reconciliations? 			

Section 4: Cash Management and Treasury			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.3 Controls Over Bank Accounts</p> <p>Obtain an understanding of existing controls over bank accounts:</p> <ul style="list-style-type: none"> - Monthly bank reconciliations, including resolution of discrepancies, signed management review, - Check signing for each bank account requires more than one signature based on the value of the payment - Payments exceeding a certain threshold (e.g. \$100K) require additional approvals - There is proper segregation of duties established to deter fraud (e.g. person doing the bank reconciliation does not sign checks, checks above a certain value require two signatures, approver of purchases is not a signer of checks, etc.) - Background checks are current for people in charge of managing the bank account(s) - Bond amounts of people signing for checks is sufficient to cover the value of the account balances in case of fraud - Any fraud specific controls over bank accounts 			
<p>2.4 Bank Reconciliations</p> <p>Obtain a sample of bank accounts reconciliations for various types of accounts for the entity (e.g. one program, one general account, etc.) over a few months and confirm that:</p> <ul style="list-style-type: none"> - Bank reconciliations are prepared on a timely and regular basis - Reconciling items are resolved timely (they are not carried from month to month) - Reconciliations were reviewed and review is documented - Reconciliations were accurate (they reconciled to the general ledger to the bank statement and no errors were noted) - Reconciling items are properly supported 			

V. Risk Identification (Cash Management and Treasury)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 5: Accounting and Reporting

Date:

Author(s):

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1. Accounting Operations</p> <p>1.1 Accounting System</p> <p>Develop an understanding of the accounting and reporting system:</p> <ul style="list-style-type: none"> - Is it an integrated financial management information system? - What modules or applications (general ledger, accounts payable, etc.) are included or operative? - Is there a procedure manual for using the accounting system? - Is there a subsidiary ledger or system? <p>Was the system developed in house or it is packaged software (e.g. Microsoft, other) and determine whether:</p> <ul style="list-style-type: none"> - All government entities utilize the same software system - Any modules that are not integrated (e.g.: asset management) are reconciled to ensure that all data is input timely and correctly - All modules are maintained in the system. <ul style="list-style-type: none"> o If some modules are kept using Excel or manually, make sample selections of reconciliations and confirm that all data is integrated into the financial statements via confirmation of reconciliation procedures. If this is not done, document issues and potential impact to the envisioned G2G program/project/activity. <ul style="list-style-type: none"> ▪ Do systems provide the information to enable source documents to be traced to financial statements and vice versa? ▪ How does the accounting information system generate reports? 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.2 Compliance with Accounting Standards</p> <p>Review the basis of accounting used by the government (e.g. cash, modified accrual, accrual) and determine that it follows the requirements per local regulations and determine that:</p> <ul style="list-style-type: none"> - The local accounting is consistent with Generally Accepted Accounting Principles(GAAP), International Public Sector Accounting Standards (IPSAS), or other international accounting standards; are differences in standards accounted for by the by the government? - The accounting basis is consistent across different governmental entities (e.g. autonomous enterprises, general fund agencies, local governments, special funds and city enterprises); if not, determine why not. - If accounting is not reconciled or consistent to GAAP or IPSAS, determine potential impact to the envisioned G2G project/program/activity. 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.3 Accounting and Reporting Policies and Procedures</p> <p>Determine whether the entity has established appropriate accounting policies and procedures. Obtain the procedures manual and/or policies and procedures and review such to determine that the following are addressed:</p> <ul style="list-style-type: none"> - Processing of accounting data either electronically or manually. If any data is processed manually that it is reconciled to the recipient system to ensure that it is transferred completely and on a timely basis - Reporting procedures and timeframes (e.g. accounting deadlines) are well defined - Policies are complete and address all reporting requirements (e.g. timeframes and deadlines, reports that are required, data that needs to be processed, etc.) - Required qualifications of personnel using the system are well defined - Defined approvals for changes to the chart of accounts - Appropriate segregation of duties between authorizing transactions, processing transactions, recording transactions, custody of assets, and reviewing transactions - A defined process for approving and posting journal entries - National regulations that guide accounting standards, policies and procedures; or rules that require specific accounting for funds, programs, or projects 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.4 Controls over Journal Entries</p> <ul style="list-style-type: none"> ▪ Select a sample of journal entries to confirm: <ul style="list-style-type: none"> – Duties of preparing and posting journal entries are segregated – Journal entries are reviewed for accuracy – Access to the accounting system is segregated – Journal entries are properly supported with documentation 			
<p>1.5 Financial Reporting</p> <p>Determine that accounting data is regularly compiled into financial statements (e.g. balance sheets, activity/ income/ operating statements and cash flow statements). Obtain a sample selection of financial statements and determine:</p> <ul style="list-style-type: none"> – Financial statements are reviewed for accuracy – They are prepared on a timely basis in accordance with a financial reporting calendar or entity policy – The basis of accounting (i.e. cash, accrual, modified accrual, etc.) is clearly indicated – They are audited – They provide enough details for users (e.g. enough breakdown of categories) to make informed decisions – They are comprehensive and understandable – Finance staff can produce and deliver timely financial reports to management and donors. 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.6 Reconciliation of Subsidiary Ledgers:</p> <p>Obtain the general ledger and balances for subsidiary ledgers and reconciliations between the ledgers and determine that:</p> <ul style="list-style-type: none"> - The subsidiary and the general ledgers are reconciled timely - Differences are explained and supported - Differences are resolved on a timely basis - Reconciliation is reviewed and approved and documented in writing 			
<p>1.7 Chart of Accounts</p> <p>Is there a common chart of accounts utilized across the government (ministry, local government, etc.)?</p> <p>Obtain a listing of changes to the chart of accounts. Select a sample of changes to the chart of accounts and determine that:</p> <ul style="list-style-type: none"> - Changes were documented in writing - Changes were approved by a supervisor - Changes are properly justified (e.g. not fraudulent) 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2. PAYMENT PROCEDURES AND CONTROLS</p> <p>2.1 POLICIES AND PROCEDURES</p> <ul style="list-style-type: none"> ▪ Describe policies, procedures, and controls for processing payments/payment vouchers (less payroll): <ul style="list-style-type: none"> – Do written policies and procedures exist? – Are they applied in practice? Are they frequently bypassed? – What approvals are required? – Is there appropriate segregation of duties between reviewing, authorizing, processing, and recording payments? – Is there a procedure for dealing with urgent payments? – Is there a procedure for avoiding duplicate payments? – Is the payment process electronic or manual? ▪ Select a sample of payments <ul style="list-style-type: none"> – How well are policies and procedures followed? – Are internal controls consistently applied? If not, explain 			
<p>3. ASSET MANAGEMENT</p> <p>3.1 Policies and Procedures</p> <p>Obtain policies and procedures regarding safeguarding of assets and determine that:</p> <ul style="list-style-type: none"> – The policies separate access to the assets from other functions – There are adequate preventive controls in place (for example a separate treasury function, double signature systems on the bank accounts, system of earmarked bank accounts for specific actions) – Assets are regularly inventoried (e.g. physical inventory, confirmations) 			

Section 5: Accounting and Reporting			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>3.2 Physical Controls Over Assets</p> <p>Obtain an understanding of physical controls over assets and perform a physical verification of controls and determine that:</p> <ul style="list-style-type: none"> - Assets are tagged (marked appropriately) - There are physical controls (e.g. security guards, alarms, locks, etc.) - Effectiveness of physical controls is evaluated by the entity - There are adequate measures for assets with high susceptibility of loss (e.g. lock box for cash, special checks for laptops, etc.) 			
<p>3.3 Physical Count of Assets</p> <ul style="list-style-type: none"> - Review procedures that check for the existence of assets at least annually such as a physical inventory count. Request the last two asset counts, the registry of assets from the system, support documentation (e.g. count sheets), and determine that: - Asset registry was reconciled to the physical inventory count of assets - Assets per the count sheets agreed to the physical inventory count taken - Inventory count of assets was done timely in accordance with the policy - Inventory counts are done at least annually - Inventory counts of assets are reviewed and approved by a supervisor - Any physical differences are accounted for on a timely basis - Any assets not accounted for are adjusted in the accounting records 			

V. Risk Identification (Accounting and Reporting)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 6:
HUMAN RESOURCES AND PAYROLL

Date:

Author(s):

Section 6: Human Resources and Payroll			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1. HUMAN RESOURCES</p> <p>1.1 Policies and Procedures</p> <p>Obtain copies of the human resource policies and procedures and determine:</p> <ul style="list-style-type: none"> - They are complete in addressing compliance with ethical standards, use of government assets, compliance with anti-corruption laws, procedures for grievance, forms to be used by employees, advances, travel and entertainment, leave and sick time, benefits, evaluations (salary increases) and process for reporting fraud, including whistle blower protection - They apply to all entities under review - They include time and attendance policies 			
<p>1.2 Monitoring Tools</p> <p>Obtain an understanding of the monitoring tools used by the entity to manage the human resources process (e.g.: turnover ratio, resource allocation, efficiency and effectiveness, job satisfaction, etc.) and determine:</p> <ul style="list-style-type: none"> - The entity has an effective process to manage resources - There are sufficient and qualified employees to carry out their work - Time allocated by employees is tracked by project - The names of approved employees are verified annually 			

Section 6: Human Resources and Payroll			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.3 Competitive and Appropriate Hiring Practices</p> <p>Obtain a listing of recently hired employees and contractors since the new government/administration, minister, or entity official was elected.</p> <p>Make a sample selection of newly hired employees and contractors. Then, obtain supporting documentation from the human resources department (e.g. hiring file, resume or curriculum vitae (CV), review committee, etc.) and determine that:</p> <ul style="list-style-type: none"> - Employees/contractors were hired using competitive procedures and job descriptions were used - Personnel/contractors hired had the proper qualifications and experience and were not hired due to favoritism - Approvals for hiring employees/contractors were documented in writing - Ministry officials did not influence the hiring process (e.g. officials had discretion to determine hiring without any competitive process) - Salaries of hired employees/contractors are equitable compared to similar personnel working for the entity - Entity has a salary scale or policy that addresses salaries and salary increases. 			

Section 6: Human Resources and Payroll			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.4 Training Practices</p> <p>Review the entity’s strategy to develop train employees based on their job requirements and across all relevant PFM areas (procurement, budgeting, etc.):</p> <ul style="list-style-type: none"> – Review the type of ongoing training that is provided to address any employee weaknesses – Review all trainings that are provided for all employees during the year – Determine that the entity allocates a certain portion of the budget to train employees – Determine the impact of any lack of training and develop recommendations to mitigate any risk. 			
<p>2 PAYROLL</p> <p>2.1 Policies and Procedures:</p> <p>Obtain an understanding of policies, procedures and controls governing payroll, including:</p> <ul style="list-style-type: none"> – Who is responsible for processing payroll? – Is payroll processed locally or centralized at the national level? – How are employees paid (manually, electronically, etc.)? – Controls over timeliness (records are recorded timely) – Accuracy (payroll records are recorded accurately in the accounting system) – Validity (payroll records and any changes thereto are approved) 			

Section 6: Human Resources and Payroll			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.2 Payroll and Time Records</p> <p>Confirm that the payroll system is linked to the time and attendance system. Sample selections from the payroll for a period and determine that:</p> <ul style="list-style-type: none"> - Records from payroll are reconciled to the time and attendance system every payroll period - Records are reviewed and approved - Payments were made to employees (e.g. employees signed off) - Confirm that the employees receiving payment had a personnel file from human resources and they are real employees (test to check for validity) - Time records have been signed off by employee (this could be a system control such as a fingerprint) 			
<p>2.3 Payroll Fraud Controls</p> <p>Review payroll controls intended to prevent fraud, waste, and abuse and assess their effectiveness. This should include:</p> <ul style="list-style-type: none"> - Access controls and segregation of duties - Review of validity of employees shown on the payroll - Review of personnel records for employee showing rates of pay, sick leave, allowances, references, contracts, etc. - Maintaining the confidentiality of the records - Existence of time and attendance records (e.g. timesheets) 			

Section 6: Human Resources and Payroll			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.4 Calculation of Payroll Payments</p> <p>Obtain the payroll records to test a sample of payment periods. Make sample selections of payments to employees, request supporting documentation and determine that:</p> <ul style="list-style-type: none"> - Payroll was calculated accurately, including applicable deductions and/or taxes - Payroll calculation was reconciled to the time and attendance records and it is accurate - Payroll was recorded accurately and timely in the accounting system - Control totals per the payroll records are accurate (re-calculate to confirm accuracy) - Batch processing was used - Payroll was approved by a person with authority and independent from the payroll preparation - Payroll preparation, approval and payment are segregated functions - Employees are identified before receiving payment - There is confirmation that employees received their pay 			

V. Risk Identification (Human Resources and Payroll)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 7: Internal Control

Date:

Author(s):

Section 7: Internal Control			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1 Management Control</p> <p>1.1 Codes of Conduct and Policies</p> <p>Determine whether there is a code of conduct and/or other policies regarding acceptable business practice, conflicts of interest, or expected standards of ethical and moral behavior:</p> <ul style="list-style-type: none"> - Are the codes comprehensive, addressing conflicts of interest, illegal or other improper payments and anti-competitive guidelines? - Are codes periodically acknowledged by all employees? - Are codes enforceable and supported by regulation? <p>Do employees understand what behavior is acceptable or unacceptable, and know what to do if they encounter improper behavior?</p> <p>Does an independent oversight mechanism exist to hold management accountable for enforcing integrity and ethical behavior?</p> <p>Are there adequate policies and procedures (i.e. sufficiently detailed financial regulations and rules, implementation guidelines, etc.) governing the control of activities to ensure the correct application of internal rules and an effective fulfillment of objectives?</p> <ul style="list-style-type: none"> - Codes are enforceable and supported by regulation - Independent oversight mechanisms exist to hold management accountable for enforcing integrity and ethical behavior. 			

Section 7: Internal Control			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.2 Management Commitment to Integrity and Ethics</p> <p>Does management culture emphasize the importance of integrity and ethical behavior?</p> <p>Is management commitment to integrity and ethics communicated effectively throughout the entity, both in words and deeds (i.e. in staff meetings, in one-on one interfaces, or by example when dealing with day-to-day activities)?</p> <p>Is training related to the code or acceptable business practices provided to all employees on a regular basis?</p> <p>Does management appropriately deal with signs that problems exist, especially when the cost of identifying problems and dealing with the issues could be large?</p> <p>Are everyday dealings with employees, customers, suppliers, and other parties based on honesty and fairness (i.e. overpayment or a supplier's under billing are not ignored, no efforts are made to find a way to reject an employee's legitimate claim for benefits and reports to other parties are complete, accurate, and not misleading)?</p> <p>Do employees feel peer pressure to do the right thing, or cut corners to for personal gain?</p>			
<p>1.3 Policy Enforcement</p> <p>How are ethics and policy adherence enforced, handled and remediated?</p> <ul style="list-style-type: none"> - Does management respond to violations of behavioral standards? - Are disciplinary actions taken as a result of a violation widely communicated internally; and made available to the public? - Do employees believe that if caught violating behavioral standards, they will suffer consequences? - Are deviations from established policy investigated and documented? 			

Section 7: Internal Control			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2. Risk Management</p> <p>Determine whether management has developed a process for assessing risk and potential issues that may hamper achievement of entity goals and objectives, including:</p> <ul style="list-style-type: none"> - A prepared description of its risk management process; and how risks are identified - An assessment process that includes risk identification, impact to projects and objectives of the entity and likelihood of their occurrence - Risk mitigation actions, controls and follow-up mechanisms needed in responses to the risks 			
<p>3. Information and Communication</p> <p>Determine whether the organizational structure allows for appropriate flow of information and communication upstream and downstream and among stakeholders:</p> <ul style="list-style-type: none"> - Are there appropriate channels and means to communicate and process information? - Is there sufficient communication with decentralized locations or satellite offices? - Does the entity maintain a comprehensive and up to date filing system? Does it support an audit trail? Is it accessible to relevant staff? - Is there a document retention policy (for electronic and manual information)? Is the policy followed? 			

Section 7: Internal Control			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>4. Monitoring</p> <p>4.1 General</p> <ul style="list-style-type: none"> ▪ Obtain an understanding of an entity’s management monitoring process relative to operations, controls and audit results: <ul style="list-style-type: none"> – Is there procedure s for employees, management to report internal control weaknesses? – Are these reported internal control weaknesses followed up on and remedial action taken? – Is there an ongoing monitoring/follow-up and tracking system to ensure the timely and effective implementation by management of the internal and external audit, donor and compliance audits findings and recommendations? – Does management respond timely and appropriately to recommendations on internal control from internal and external auditors? – Are there procedures for handling and following up on disputes or the recovery of funds? 			
<p>4.2 Employee Incentives and Retention</p> <ul style="list-style-type: none"> ▪ Develop an understanding of management’s focus in prioritizing, promoting the advancement and retaining of employees that help achieve organization goals (e.g. management provides training budget for staff, ensures adherence to performance reviews, etc.) 			

Risk Identification (Control Environment)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 8:
INFORMATION TECHNOLOGY

Date:

Author(s):

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1 Control Environment</p> <p>1.1 Overall Understanding of Information Systems Utilized</p> <p>Obtain an understanding of the information technology (IT) system (s) used by the entity including whether:</p> <ul style="list-style-type: none"> - The system is manual or automated (e.g. manual accounting and financial reporting by using MS Excel or an accounting system) - The system was developed in house (e.g. UNIX) or it is a package system (e.g. SAP, ORACLE) <p>▪ Plan the IT testing based on the type of accounting system used</p>			
<p>1.2 Policies and procedures</p> <p>Obtain copies of the IT policies and procedure and determine that they address:</p> <ul style="list-style-type: none"> - The definition, purpose and fundamental components of the entity(s) PFM information system(s) - Guidelines for initiating, developing, and completing the implementation of new software and hardware - The formal review and approval process at the end of each significant software phase implementation - Segregation of duties - Process for approving changes to system configurations - Backup procedures - Incident management - Disaster recovery - Written standards exist for documentation of new systems and for changing documentation when systems are revised 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.3 System(s) documentation standards</p> <p>Determine that documentation exists to support PFM information system or application requirements, including:</p> <ul style="list-style-type: none"> - System flowcharts - Record layouts - Program source listing - Operator instructions - Approval and change record - Inventory listing of all IT assets 			
<p>1.4 IT culture</p> <p>Review the procedures that IT management enforces to evaluate IT risk for the government/entity and determine that:</p> <ul style="list-style-type: none"> - There is a process for evaluating and mitigating risk - There is a process for implementing lessons learned - Management objectives address PFM information systems weaknesses and meet entity requirements - Management has a process for monitoring project schedules - The entity/government has a structure methodology for developing PFM information systems projects 			
<p>1.5 IT Monitoring</p> <p>Develop an understanding with IT management of the monitoring controls used by IT and determine that:</p> <ul style="list-style-type: none"> - Financial audit includes IT audits of the accounting system. - There is a function of internal audit that performs IT audits and reviews the various IT components (general controls and application controls) 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>1.6 Audit Coverage and Results</p> <p>Obtain the results of audits (internal and external) completed for the last two years for the main PFM systems (e.g. accounting) of the entity(s) to confirm that audits of the system are performed. Prepare a list of the key issues noted in the reports, request supporting documentation for the resolution of the issues noted and determine that:</p> <ul style="list-style-type: none"> - They have been addressed timely. - There have been subsequent audits to confirm the resolution - Issues do not impact the financial and performance elements of programs and/or management objectives related to G2G program/project/activity under consideration 			
<p>2. Change Management Processes</p> <p>2.1 Policies and procedures</p> <p>Obtain and review policies and procedures related to change management and the development of system updates/changes in testing mode and determine that:</p> <ul style="list-style-type: none"> - They require system flowcharts or other analytical tools when implementing changes - They require that implementations be developed in testing mode prior to being implemented across the entity/government - Results of testing and issues are documented, reviewed and approved 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>2.2 Testing of Changes to system</p> <p>Obtain copies of changes to the system and determine that:</p> <ul style="list-style-type: none"> - The changes were developed in testing mode - Results of testing were documented - Development of the system involved both users as well as computer personnel 			
<p>3. Access Controls</p> <p>3.1 Policies and procedures</p> <p>Obtain and review policies and procedures related to access controls and determine that they:</p> <ul style="list-style-type: none"> - Address segregation of duties based on business needs (access to the system agrees with the duties of the person granted access) - Have different levels of access for users vs. IT personnel 			
<p>3.2 Employee Access Testing</p> <p>Obtain a copy of the listing of the various access levels for the accounting system and users listing. Make sample selections of users for the accounting system and other PFM systems and the level of access granted to the users and determine that :</p> <ul style="list-style-type: none"> - Access granted agrees to the user needs (e.g. accounting personnel do not have access to payroll) - Access is terminated after employees leave the entity. Obtain a listing of employees who recently departed and test to ensure that the access has been deleted. 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>3.3 Password controls</p> <p>Review the policies related to password controls, plan to test the password controls and determine that :</p> <ul style="list-style-type: none"> - There is an effective policy on passwords (i.e. use of a strong password is a necessity in the current world environment (e.g. at least 12 or 14 characters, combinations of letters and numbers, no use of names, etc.) - There are locking controls if a user repeatedly inputs the wrong password. Test these controls on a computer. - Passwords expire and need to be reset after a period of time 			
<p>3.4 IT management of access to various systems</p> <p>Obtain an understanding of access controls to the various modules including: payroll, assets, inventory management, accounting and finance and determine that :</p> <ul style="list-style-type: none"> - There are clear segregation of duties between reviewing, authorizing transactions, processing transactions, recording transactions, and custody of assets - Access is segregated based on functions - Access is managed by appropriate personnel (i.e. personnel segregated from the functions that they protect) - Access is monitored and monitoring is documented 			
<p>3.5 Remote access controls</p> <p>Obtain an understanding of controls over remote access and determine that :</p> <ul style="list-style-type: none"> - Remote access is controlled and monitored by the IT department 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>4. Disaster Recovery and Backup Procedures</p> <p>4.1 Disaster Recovery Plan</p> <p>Obtain a copy of the disaster recovery plan and confirm that it exists and contains key elements of a plan:</p> <ul style="list-style-type: none"> - The types of disasters that would predicate activation of the plan (e.g. earthquakes, floods, war, hurricanes, etc.) - Mitigation controls - Business continuity plans that including at a minimum: identify critical systems and resources, potential threats, preventive controls, delegate responsibilities and validate business plan. - Training on the disaster recovery plan to personnel - It provides for offsite backup and recovery. Offsite backup should address any potential issues raised by a catastrophe. <p>Obtain support for the last test of the disaster recovery plan and confirm that it has been tested and:</p> <ul style="list-style-type: none"> - Results of test were documented - Issues noted in the test have been addressed - Test covered a system restoration and contingency plan 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>4.2 Backup procedures</p> <p>Obtain and review backup procedures for the entity and test them to determine that:</p> <ul style="list-style-type: none"> - Backup procedures are done for all systems - Backup tapes should be stored outside the facility where the mainframe is located to have support in case of a disaster. - There is an inventory of backup files - Full backups of the systems are done - Mirror site is used to backup system or cloud computing is used to store data in case of a disaster - If a remote site is used, confirm that the site is distant enough in case of disaster 			
<p>5. Incident Management</p> <p>5.1 Records and procedures</p> <p>Obtain an understanding of the entity's procedures to document issues and resolve them and determine that:</p> <ul style="list-style-type: none"> - There are sufficient personnel to address issues - There are procedures to document issues and address them - System reports are available to track and document issues - There are procedures to ensure the integrity of data - Operational processing errors are monitored and addressed on a daily basis 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>6. Physical Security</p> <p>6.1 Physical access</p> <p>Review policies and procedures related to physical access security of the main computer servers and systems, visit the facility and determine that:</p> <ul style="list-style-type: none"> - Special room is used for the main hardware/mainframe - Access to the room is restricted by locked doors and security personnel - There is additional security to the area (e.g. video security, alarms) 			
<p>6.2 Fire and hazards security</p> <p>Obtain an understanding of the entity's procedures to protect their mainframe(s) and hardware from fire and other hazards. Review documentation and interview personnel to determine that:</p> <ul style="list-style-type: none"> - The room has a system to regulate the temperature to specification - The computer room floor is raised to prevent water damage - Cooled air flows around the mainframe - There are energy backup sources (e.g. power plant) in case of emergency - There is a fire alarm system that includes appropriate chemicals to put out fire - The door protecting the mainframe is fireproof 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>6.3 External Threat Controls</p> <p>Obtain an understanding of how the entity's ensures that the IT assets are protected from external threats (e.g. hacking) and determine:</p> <ul style="list-style-type: none"> - The entity uses antivirus programs to address external threats - Policies and procedures require that no programs be installed in computers without the approval from the IT department - Policies and procedures on restrictions of installation of computer programs are enforced - The entity produces reports to monitor and address external threats 			

Section 8: Information Technology			
I	II	III	IV
Evaluation Criteria/Questions	Observations & Assessment	Reference	Issue/Risk Indicator (Yes/No/Maybe)
<p>7. Application Controls</p> <p>7.1 Procedures</p> <ul style="list-style-type: none"> ▪ Obtain an understanding of the application controls incorporated directly into computer applications to help ensure validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Determine whether: <ul style="list-style-type: none"> – The entity has developed controls to ensure that data is processed completely and accurately – There are controls to ensure the privacy of data – There are controls to ensure that data is transferred securely among applications – Computer applications utilize the following application controls: <ul style="list-style-type: none"> ○ Completeness checks ○ Validity checks ○ Identification controls ○ Authentication controls ○ Authorization controls ○ Input controls ○ Forensic controls 			

Risk Identification (Information Technology)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

Section 9: Audit and Compliance

Date:

Author(s):

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>1. Audit Institutions</p> <p>1.1 Supreme Audit Institution (SAI)</p> <p>Obtain an understanding of audits conducted by the Supreme Audit Institution (SAI) on the entity, including frequency and audit coverage:</p> <ul style="list-style-type: none"> - How frequently is the entity audited? - What types of audits are conducted (financial, performance, compliance, information technology, procurement)? - Are internal controls reviewed for potential fraud, corruption opportunities? <p>Review SAI audit reports from the previous two years to determine:</p> <ul style="list-style-type: none"> - Any major internal control environment weaknesses - Any major accounting system weaknesses - Any other major weaknesses (instances of fraud, corruption, non-compliance) - Do weaknesses appear systemic, isolated issues? - Any scope limitation issues? 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>1.2 Internal Audit Structure and Organization</p> <ul style="list-style-type: none"> ▪ Obtain an understanding and explain the internal audit (IA) department structure and organization, including the following: <ul style="list-style-type: none"> – Is the IA department independent of the Minister/ Entity Head? – Does IA have its own budget? – What is the size of IA department and does it appear adequately staffed? – What are mandated responsibilities of the IA and does the scope of the IA department include all major departments and programs of the ministry/entity? – Does IA have a charter or law that governs its establishment, lines of reporting, delegation of authority? – Does IA have a policies and procedure manual for conducting audits? What auditing standards are followed? – Are auditors technically competent to perform their duties? 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>1.3 Internal Audit Coverage , Planning & Results</p> <ul style="list-style-type: none"> ▪ Obtain an understanding of periodicity and targeted coverage of audits conducted by IA, including: <ul style="list-style-type: none"> – Types of audits (reviews of internal controls, financial, compliance, performance) are conducted; and frequency – Do they conduct audits of specific subjects (e.g. audits of procurement procedures, IT audits, etc.)? If so, how is this determination made and what is the frequency of this type of audit? – Do they develop and follow an audit plan? And to what extent are audits carried out according to plan? – Do they follow a risk-based audit approach? <p>Review IA reports from the previous two years to determine:</p> <ul style="list-style-type: none"> – Any major internal control environment weaknesses? – Any major accounting system weaknesses? – Any other major weaknesses (instances of fraud, corruption, non-compliance)? – Do weaknesses appear systemic, isolated issues? – Any scope limitation issues? 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>1.4 Audit Reports Quality</p> <p>Obtain and review copies of recent SAI and IA reports to understand:</p> <ul style="list-style-type: none"> - What is the type and quality of the report? - Are audit standards referenced? Purpose and scopes of audits clear and well-defined? - Do audits reference concept of materiality, sampling techniques using a risk based approach? - Is there evidence of audit planning? - The reports serve as an effective tool to measure effectiveness and efficiency of programs - Audits also evaluate internal control weaknesses - Audits also address the risk of fraud, corruption and government abuse 			
<p>1.5 Professional Auditing Standards</p> <p>Obtain and review supporting documentation from the SAI and the internal audit department regarding the ethical and professional standards applicable to auditors and confirm that:</p> <ul style="list-style-type: none"> - Independence, objectivity, impartiality, competence and other standard are well defined in the manuals and/or other documentation - Auditors receive training on the standards and the training is adequate - Auditors receive training to maintain the appropriate competence to complete their work - There is appropriate supervision for the audits - Audit issues are reported formally to a committee or independent body rather than only to the entity being audited directly 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>2 Legal Compliance</p> <p>2.1 Enforcement of Local Laws and Regulations</p> <p>Obtain documentation and develop an understanding of the entity's requirements and policies to comply with the government's laws and regulations (laws of country under review) and:</p> <ul style="list-style-type: none"> - Review and evaluate the mechanism or tools used by the entity to enforce and track compliance - Review how the entity develops an understanding of the application of the laws and regulations - Review and evaluate whether the laws address the risk of fraud, misuse of funds and/or abuse - Review mechanisms used by the government to pursue and punish violators of laws and regulations - Review the track record of government when it comes to enforcement of laws and regulations. - Confirm that penalties for breaking the laws exceed the value of any gain and discourage wrongful doing. 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>2.2 Compliance with Transparency and Anti-Corruption Laws</p> <p>Obtain copies of transparency and anti-corruption laws. Become familiar with the laws and determine that:</p> <ul style="list-style-type: none"> - The government has implemented and enforces such laws - The entity under review has implemented and enforces such laws - The results of any prosecutions are made public - There are complaint mechanisms for the public to file complains in confidentiality - There are mechanisms to protect the identity of those making the complaints - Public employees receive training on the regulations and laws - The agency in charge of the prosecutions is functional and prosecutions are actually being conducted - The government has an active anti-corruption program and it is currently functioning - Codes are comprehensive, addressing conflicts of interest, illegal or other improper payments, anti-competitive guidelines 			
<p>2.3 Enforcement of rules and regulations applicable to USAID mechanisms and international best practices</p> <p>Obtain an understanding of whether the entity has the capability to administer the bi-lateral agreement with USAID's rules and regulations and determine that:</p> <ul style="list-style-type: none"> - Personnel from the entity have an understanding of USAID rules and regulations and their implications to the entity/government - Local laws and regulations support enforcement of USAID rules and regulations against both local entities and/or citizens 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>2.4 USAID Civil/Criminal Remedies Against Individuals/Organizations</p> <p>Develop an understanding of the local court system to determine what rights USAID would have to recover funds or pursue civil/criminal remedies against individuals or organizations and determine that:</p> <ul style="list-style-type: none"> - USAID has an effective access to the local court system - USAID representatives do not lose their immunity while pursuing cases in the local court system - Local government is committed to enforcing judgments against their local organizations/citizens resulting from misuse of funds. 			
<p>3. DONOR COMPLIANCE</p> <p>3.1 Access to Legal System</p> <p>Obtain an understanding of restrictions imposed on USAID/donors to the legal system and determine that:</p> <ul style="list-style-type: none"> - USAID and/or representatives have no restrictions to defend its interests or enforcement of applicable USAID rules/regulations (e.g. some countries do not allow USAID or its representatives access to the courts and as such, enforcement of requirements may not be feasible) 			
<p>3.2 Donor Audits</p> <p>Review audit reports from other donor sponsored activities and determine that:</p> <ul style="list-style-type: none"> - Results of donor audits are available to applicable personnel - Lessons learned are applied across all donor activities - Recommended corrective actions have been implemented 			

Section 9: Audit and Compliance			
I	II	III	IV
Evaluation Questions/Criteria	Observations & Assessment	Reference	Issue/ Risk Indicator (Yes/No/Maybe)
<p>3.3 Compliance with Donor Requirements</p> <p>Obtain documentation on the mechanisms that the government/entity uses to monitor compliance with donor agreements/contracts, including monitoring of outcomes related to other donor programs. Determine that:</p> <ul style="list-style-type: none"> - The entity has established controls to monitor compliance with donor requirements - Repeating issues/weaknesses are addressed timely - Results of audits or other monitoring tools are made available to applicable personnel - Entity provides sufficient information to donors to analyze performance - Entity has the capability to report data per USAID's reporting requirements 			
<p>3.4 Controls over Donor Funds</p> <p>Obtain an understanding and documentation supporting how donor funds are accounted for and determine that:</p> <ul style="list-style-type: none"> - USAID funding will have an adequate detail audit trail to support allowable funds - Interest is earned on funds while not used 			
<p>3.5 Controls over Sub-Grantees</p> <p>Obtain an understanding and documentation supporting how sub-grants are managed and determine that:</p> <ul style="list-style-type: none"> - Donor rules and regulations are enforced for sub-grantees - Sub-grantees are monitored to ensure that they complete work in accordance with specifications in the agreement 			

Risk Identification (Audit and Compliance)

Review information gathered above, utilizing column IV as an indicator and related assessment data in column II, to determine if findings pose an individual risk or a category of risks and identify below.

[Note: Risk identified below will need to be evaluated for probability and impact to arrive at an overall risk rating/classification of low, medium, high or critical. Also, mitigation measures/strategies will need to be determined consistent with the level of risk identified. These should be included in your Stage 2 Risk Assessment report.]

#	Risk Name	Risk Description
1		
2		
3		
4		
5		
6		
7		
8		

220mae_072814