

## Fiduciary Risk Assessment (FRA) - Foreign, Commonwealth and Development Office



### Objective and features

#### 1. Objective

FRA aims to support the FCDO (formerly DFID) staff in identifying and managing fiduciary risks with a view to promoting aid effectiveness.

#### 2. Institutional coverage

National and subnational governments.

#### 3. Technical coverage

FRA includes the following technical aspects:

- Fiscal framework and performance
- Public procurement
- Accounting and reporting
- Audit and accountability mechanisms and performance
- Institutional strengthening, transparency, and anti-corruption.

#### 4. Application method

Custodian.

### Methodology



#### 5. Methodology

FRA should consider the context and circumstances that are unique to each country. There is no formulaic right answer (or one-size-fits-all solution) that can be applied to each case. The guidance note provides instructions on how to approach each report section, including factors to take into consideration and how to carry out the necessary analyses and assessments that form a part of FRA. The extent of material and scope of each section will depend on the context of the individual country. All FRA areas are covered, except where a country has recently emerged from conflict and the government has less capacity to participate in diagnostic studies. While some components of the FRA focus on understanding the political economy context of the country and identifying safeguards (a qualitative approach), other components involve assessing PFM systems, prevalence of corruption, and availability of reform using a benchmarking/scoring system presented below. Detailed and step-by-step guidance on how to carry out and score these assessments can be found in the guidance note.

#### 6. Benchmarking system

Overall assessment of fiduciary risk (risk level, details): Analysis of the public finances and performance of PFM systems provides information on low risk, moderate risk, or substantial risk factors - following the descriptions outlined in the guidance note.

Assessment of the risk of corruption: Overall assessment of corruption risk is done using the benchmarks - low, moderate, substantial, and high (before safeguards) - following the descriptions outlined in the guidance note.

Assessment of PFM, accountability, and anti-corruption reforms: Overall assessment of partner government commitment to improving PFM, strengthening domestic financial accountability, and fighting corruption is done to determine whether the reforms are credible, partially credible, or not credible - following the descriptions outlined in the guidance note.

#### 7. Linkage to PEFA framework

PEFA assessments form an input to the FRAs. All the seven pillars of a PEFA assessment (budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit) are referred to at the time of conducting an FRA. The how-to guidance note also suggests that assessment against the PEFA indicators solely for the purposes of the FRA should not be undertaken.

#### 8. Complementarity with PEFA framework

PEFA and FRAs examine PFM systems with different objectives. FRA uses PEFA assessments and other information to inform judgments on the level of fiduciary and corruption risk in a country. Annex 9 of the how-to guidance note outlines a list of sources and common forms of analysis from national government and international organizations that can complement PEFA assessments and feed into FRAs.

### Development and use



#### 9. Development and coordination

FCDO first developed the tool in 2008 centrally and in collaboration with country offices. The guidance note was revised and updated in 2011 to bring it in line with FCDO Strengthened Approach to Budget support. The guidance note was expanded to incorporate external audit and legislative scrutiny into the FRA. FCDO last updated the FRA after 2018.

FRA was developed internally by FCDO and is used for internal fiduciary risk assessment purposes. The Independent Commission for Aid Impact (ICAI), as part of its *evaluation*, identified the need for FCDO to improve transparency and monitoring of fiduciary risks in bilateral programs implemented by multilateral partners. FCDO outlined how they are working with multilateral organizations to coordinate and strengthen the approach to monitoring fiduciary risks and have Senior Responsible Owners covering institutional relationships with each multilateral organization with which they work.

#### 10. Assessment management

The application of the methodology includes the following elements: secondary research and information from FCDO, request for detailed documents and up-to-date information, questionnaires for feedback, face-to-face interviews, validation of data to arrive at a judgment on performance, or presentations and exit interviews. FCDO country offices are custodians and may contract consultants to help with analytical components of individual FRAs. FCDO country offices and consultants work closely with governments over the course of the assessment.

All FRAs are subject to central scrutiny and review as detailed in Annex 3 of the guidance note. The review process is led by FCDO, Finance and Corporate Performance Division (FCPD) and is supported by a panel of independent PFM experts. The review helps provide assurance to accounting officers and ministers and ensure consistency across FRAs being carried out in different countries.

#### 11. Uses by the government and members of the PFM community

FRAs are used by the FCDO staff when *assessing the fiduciary risks* associated with providing financial aid to governments. FRAs are built into all programs designed and implemented by FCDO. FRA feeds into FCDO decision-making process and is critical for accountability purposes.

#### 12. Sequencing with other tools

FCDO strongly recommends and prefers to use PEFA assessments to inform FRAs. To the extent possible, FRAs should draw information from recent PEFA assessments. In the absence of a PEFA assessment, the FRA should follow FCDO's Eight Good Practice Principles and 15 benchmarks to carry out the assessment. Further information on the GPP and benchmarks can be found in Annex 14 of the guidance note.

#### 13. PFM capacity building

No PFM capacity development function is envisaged for the tool.

#### 14. Tracking of changes and frequency of assessments

Based on the current guidance note, country offices are required to conduct an FRA once every three years. After an FRA has been completed, any changes and developments that take place in a country receiving FCDO aid are systematically monitored. For this purpose, it is mandatory for FCDO to complete an Annual Statement of Progress (ASP), which is essential for tracking a country's commitment to improving PFM and fighting corruption. It also helps to identify any new fiduciary risks that may have emerged. If significant risks emerge, FCPD will be informed and a full FRA will be needed.

#### 15. Resource requirements

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### Transparency



#### 16. Access to methodology

Methodology in the form of how-to guidance note is [available](#). The most recent guidance note was published in 2011.

#### 17. Access to assessment results

FCDO maintains an internal repository. Results from FRAs are not publicly available. They are shared with partner country governments and other interested development partners.