Appendix No. 1

Stage II Risk Assessment Report

FROM THE AMERICAN PEOPLE

USAID AFGHANISTAN OFFICE OF FINANCIAL MANAGEMENT

Public Financial Management Risk Assessment *Framework*

GOVERNMENT OF THE ISLAMIC REPUBLIC OF AFGHANISTAN DA AFGHANISTAN BRESHNA SHERKAT

STAGE II RISK ASSESSMENT REPORT

October 23, 2012

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Background

Founded in 1747, Afghanistan has had a tumultuous existence. Rich with natural resources such as natural gas, petroleum, coal, copper, zinc, and iron, the country has all the necessary elements to jump start its economy. However, the Afghan's economy has been plagued with instability, but is now recovering from decades of conflict. According to Public Expenditure Financial Accountability (PEFA) reports, the economy has improved significantly since the fall of the Taliban regime in 2001 largely because of the infusion of international assistance, the recovery of the agricultural sector, and service sector growth. While the international community remains committed to Afghanistan's development and has pledged significant resources, the Government of the Islamic Republic of Afghanistan (GIRoA) will need to overcome a number of challenges, including low revenue collection, anemic job creation, and high levels of corruption, weak government capacity, and poor public infrastructure. According to a 2008 PEFA report, Afghanistan's public financial management (PFM) system achieved significant improvements between June 2005 and December 2007. However, capacity development in the line ministries needs strengthening. Compared with the progress in the Ministry of Finance (MoF), developments in most line ministries lag behind. For example, cash management and payment scheduling procedures in line ministries have not improved. The internal audit function in line ministries does not meet recognized professional standards. While technical expertise in the line ministries has significantly improved in several areas, long-term fiscal planning remains uncertain.

In 2010, the Obama administration made a public strategic foreign-assistance decision announced at the January 2010 London conference and reaffirmed by Secretary of State Clinton and USAID Administrator Shah at the July 2010 Kabul conference, which committed the U.S. Government to provide at least 50 percent of U.S. Government assistance directly to GIRoA, to be channeled through GIRoA's core budget systems within two years (2012)[1]. In June 2011, USAID/Afghanistan negotiated a scope of work with GIRoA to undertake entity level risk assessments of GIRoA line Ministries. Contracts utilizing the negotiated scope of work were issued to Certified Public Accountant (CPA) firms to undertake the Ministerial engagements. The CPA firm finalized assessment report of Da Afghanistan Breshna Sherkat (DABS) was issued in August 2011. That assessment found significant weaknesses in DABS' systems and operation, so at the request of USAID the CPA firm reassessed DABS' systems and operation and issued a draft report in October 2012.

The United States is committed to improving the quality of its aid in order to maximize development in Afghanistan. U.S. military action in Afghanistan including USAID's support of the U.S.G. Counterinsurgency strategy is expected to come to an end around December 2014. This counterinsurgency commitment remains in force for an approximate three year period until FY 2015. USAID anticipates that FY 2015 will be the beginning of a transformational decade to a normal USAID longer term development strategy. With that transition to a more robust traditional development strategy will likely result in substantive changes in Government to Government (G2G) assistance.

The G2G commitment comes with the responsibility to ensure effective use of funds

[1] London Conference, January 2010 and the Kabul International Conference of Afghanistan, July 2010.

provided by U. S. taxpayers and appropriated by Congress, and the need to address fiduciary risk in the Partner Country PFM system being considered for direct Government to Government assistance. For that reason the Agency developed the Public Financial Management Risk Assessment Framework (PFMRAF) Stage I Rapid Appraisal Assessment, the Democracy, Human Rights and Governance enhanced (DRG) review, and the PFMRAF Stage II Risk Assessment to enable it to meet that objective[2].

The PFMRAF is a multi-stage risk-based methodology whereby USAID seeks to understand the fiduciary risk environment in targeted countries to inform decisions whether to use or to increase the use of partner country public financial management systems in delivering aid assistance. The enhanced DRG review, led by a USAID/W team, is undertaken prior to or in conjunction with the Mission-led Stage I Rapid Appraisal, and seeks to determine whether a G2G investment could empower a government at the expense of its people. Unless the macro-level Stage I Rapid Appraisal and enhanced DRG review determine that there is unacceptable or unmitigated country level fiduciary risk, political constraints, or other *insurmountable* barriers to the use of partner country systems, an in-depth PFMRAF Stage II risk assessment–which is an entity level assessment–may be completed by the Mission. This Stage II assessment will establish the baseline level of ministerial entity level risk corresponding to contemplated funding levels, and identify vulnerabilities of the partner country implementing entity. If the assessment reveals clear evidence of vulnerabilities to corruption and other high levels of control risks, and the partner country government fails to respond or agree to appropriate risk mitigation remedy measures, then the use of partner country systems must not be authorized.

USAID/Afghanistan has never conducted the macro-level enhanced DRG review and the PRMRAF Stage I assessments upon GIRoA as required under currently issued Agency Policy–ADS Chapter 220 issued in draft in August 2011 and substantially updated in March 2012. Given the history of G2G assistance in Afghanistan, this situation is understandable. The macro-level assessments are to guide the decision process about whether G2G assistance should be considered as a bilateral assistance objective. In Afghanistan, that decision was made several years ago at the highest levels of the U.S. Government. The Obama administration's foreign policy decision in January 2010, which was reaffirmed by Secretary Clinton and Administrator Shah at the Kabul conference in July 2010, strongly reiterated the U.S. commitment to direct G2G assistance to GIRoA. This commitment was not made subject to review of macro-level risk in Afghanistan. Essentially, the foreign policy decision to engage in G2G assistance in Afghanistan has replaced the first two steps under the Agency ADS 220 policy–the enhanced DRG review and the PFMRAF Stage I assessment.

Scopes of work for the entity level Ministerial engagements undertaken by GIRoA and USAID may not have complied with every element of the detailed PRMRAF Stage II

[2] In August 2011, the Agency issued a new draft policy - ADS Chapter 220 -pertaining to the use of reliable partner country systems for direct G2G assistance. That policy chapter was substantially updated in late March 2012 and continues to undergo modifications - the latest in July 2012, where risk assessment questionnaire guidelines were modified. This ADS chapter with its latest modifications now requires a three-stage approach in the process leading to a decision of whether USAID should consider use of a partner country's systems to implement direct assistance programs.

guidance as currently revised in July 2012, however the Mission believes it has complied with the spirit and purpose of that guidance. In August 2012, USAID/Afghanistan addressed an unofficial Stage I review by internally summarizing responses to assessment guidelines using collective information gathered from public expenditure and financial accountability (PEFA) reports, assessments undertaken by the CPA firms to date, and other informal information available to Mission staff. Using that informal process and Da Afghanistan Breshna Sherkat (DABS) independent CPA firm assessment reports issued in July 2011 and in October 2012, the Mission is documenting through this framework a Stage II equivalent report based upon the most recently updated ADS Chapter 220 guidance.

Objectives

The overall objective of this re-assessment is to determine whether the U.S. government can rely on Da Afghanistan Breshna Sherkat (DABS) systems operation and internal controls to manage donors' funds, and to determine if the identified weaknesses in the initial assessment had been addressed. Specifically the re-assessment will:

- Determine whether DABS' financial management/accounting system is adequate to properly manage and account for donors' funds.
- Determine whether DABS has adequate internal controls to manage donors' funds.
- Determine whether DABS' procurement systems are sufficient to manage donors' funds.
- Determine whether DABS complies, in all material respects, with applicable laws and regulations.

Executive Summary

The United States committed to improving the quality of its aid in order to maximize development benefits in Afghanistan pledged to channel at least 50 percent of its development assistance through the national budget of the Afghan Government[3]. This commitment comes with the responsibility to ensure effective use of funds provided by U. S. taxpayers and appropriated by Congress, and address fiduciary risk in the Partner Country Public Financial Management (PFM) systems being considered for direct implementation of USAID-funded assistance. For that reason USAID developed the Public Financial Management Risk Assessment Stage II to enable it to meet that objective. The Public Financial Management Risk Assessment Framework (PFMRAF) is a multi-stage risk-based methodology whereby USAID seeks to understand the fiduciary risk environment in targeted countries to inform decisions whether to use or increase the use of partner country public financial management systems in delivering aid assistance. If the assessment reveals clear evidence of vulnerabilities to corruption, and the partner country government fails to respond, the use of partner country systems must not be authorized.

This stage II assessment was performed to determine whether USAID can rely on Da Afghanistan Breshna Sherkat (DABS) systems operation and internal controls to manage donors' funds and to determine if DABS had taken sufficient measures to address weaknesses indentified in the initial assessment. While DABS has taken some measures to address several of the weaknesses identified in the initial assessment, our review found that DABS' systems and internal controls are still not adequate to properly manage and account for donors' funds. The re-assessment noted instances of significant material control weaknesses with the potential of adverse impact on DABS' operations, notably in the area of financial management. Examples of material weaknesses detected in DABS' operations are, lack of reliable financial data, risk of off balance sheet financing, disclaimer of opinion on financial statements, and three years of unresolved financial audit engagements with potential liability implications.

DABS's leadership has taken notable measures to improve governance and provide some structure within the organization. Vacant positions in key functional areas have been filled, policies and procedures were developed, and most of the weaknesses indentified during the initial assessment were addressed. In spite of the notable improvements, DABS' leadership needs to address some major remaining weaknesses. For example, budget to expenditure reconciliation and or comparison needs to be documented, information technology access control policies need to be prioritized, as well as training for new staff.

In the areas of procurement and monitoring and evaluation, DABS has also demonstrated leadership and commitment to progress. Management has developed and implemented a detailed procurement plan which conforms to the Afghan Procurement Law. Management has also established various committees to make sure that procurement activities are in line with the Afghan Procurement Law. However, lack of transparency in the process and serious conflict of interest issues remain unresolved and it is also uncertain if DABS' procurement system is equipped to manage large

[3] London Conference on Afghanistan, January 2010 and the Kabul International Conference on Afghanistan, July 2010.

procurements. Regarding monitoring and evaluation, management has decided to use the newly created Internal Audits Division to assume that responsibility, but concerns remain as to whether the newly created Internal Audit Division has the technical capacity to conduct M&E functions.

In spite of the Director's General aggressive reforms and the corrective measures taken to strengthen DABS, donors must remain vigilant as the operating environment is volatile, and there are still significant operational risks within DABS. However, approaching assistance with precaution and conditions, USAID can reasonably mitigate the identified risks. Appendix 1 details the identified risks and proposes possible mitigating measures to manage those risks.

Assessment Conclusion & Results

USAID cannot rely on the Da Afghanistan Breshna Sherkat (DABS) systems operation and internal controls to manage donors' funds.

- DABS financial management/accounting system is not adequate to properly manage and account for donors' funds. DABS has been struggling to implement strong financial management internal controls, and off-balance sheet financing remains a high risk.
- DABS's internal controls are not fully adequate to manage donors' funds as most of the internal controls weaknesses identified in the initial assessment remain unaddressed.
- Except for conflict of interest in the procurement process, DABS' procurement system is adequate to manage donors' funds. However, it is uncertain if DABS' procurement system is equipped to manage large procurements.
- No instances of non-compliance with applicable laws and regulations were found.

The internal controls environment is not fully adequate to mitigate risk of corruption. However, the considerable measures management has taken to address most of the governance weaknesses identified in the initial assessment demonstrate to a certain degree the will to address concerns that could lead to corrupt acts. Although considerable risks exist nonetheless we believe they can reasonably be mitigated. See appendix 1

Management and governance structure

The control environment is the pillar of the internal controls structure. It is affected by the attitude and actions of the organization's leadership and senior management. Senior management and the leadership set the tone regarding the importance of standards of conduct, management controls and business practices. In few words the control environment provides structure, discipline and a sense of purpose. The original assessment found significant weaknesses in DABS' governing structure and a lack of prioritization of key controls. In fact, some fifteen weaknesses raging from missing policies and procedures to vacancies in key positions such as legal adviser and internal audit director were identified during the original assessment. To prove its commitment to good governance, DABS' leadership has taken considerable measures to address most of the fifteen governance weaknesses that were identified in the initial assessment. For example, it developed a business strategy covering fiscal years (FY)[4] 2010 through 2014. It established a Board of Directors and this Board of Directors is involved to a great extent in strengthening DABS' financial management and corporate structuring. In addition, the leadership has developed and approved several policies and procedures, and has recruited a number of key staffs.

[4] As per the Solar Hijri Calendar its FY1388 through FY1392.The Solar Hijri Calendar is the official calendar in Afghanistan and it begins at the start of spring in the northern hemisphere. The Solar Hijri year begins about 21 March of each Gregorian year and ends about 20 March of the next year.

In spite of the notable improvements, DABS' leadership needs to address some major remaining weaknesses. For instance, budget to expenditure reconciliation and or comparison needs to be documented, information technology access control policies need to be prioritized, as well as training for new staff.

In addition to addressing the remaining major weaknesses, DABS' leadership needs to demonstrate strong commitment to the policies adopted and the actions taken to improve the control environment. Auditors noted that while, the internal audit division is staffed and vacancies in key positions are filled, the leadership has not taken any further active action to ensure sustainability or on-going progress on the measures implemented. According to the auditors, the Board has not yet approved training for key personnel newly hired, and the Board does not regard the internal audit function as important.

Financial Management and Accounting Systems

To achieve success in program implementation a reliable public financial management system and reasonable internal controls activities are vital. The implementation of internal controls activities reduces the likelihood of fraud, waste and abuse. In most cases good internal controls activities help identify weaknesses in a system, and prompt early corrective actions. DABS has had a weak public financial management system and has been struggling to implement strong financial management internal controls. As in the case of the DABS' governance structure, the assessment found significant weaknesses in DABS' financial management and accounting system. Of the ten weaknesses documented in the initial assessment report, DABS has been able to address only three of the ten. In addition to the remaining seven weaknesses that DABS did not fully address, DABS is also struggling to sustain accomplishments made since the last assessment, as the current assessment detected an additional eight financial management weaknesses. Some of the internal controls weaknesses that DABS is still struggling with are, inability to prepare financial statement in accordance with Generally Accepted Accounting Standards, failure to verify the existence of acquired assets, and failure to bill some customers for their electricity consumption. These weaknesses create opportunities for fraud, including off-balance sheet financing. Evidently, DABS does not have sufficient financial management capacity to manage donors' funds, without strong mitigation measures and/or substantial involvement from donors.

Personnel Policies and Procedures:

To achieve organizational success, senior management must demonstrate a commitment to competence in the human resources processes for attracting, developing and retaining the right individual for the job. DABS' inattention and casual attitude to core human resources processes were central observations during the initial assessment. In 2011 the auditors detected twelve areas of weakness in DABS' human resources processes. Less than a year later DABS has taken action and addressed all but four of the twelve weaknesses. As indication to its commitment to strong human resources practices, DABS has recently implemented an automated attendance system which is linked to its payroll system in Kabul. Proper segregation of duties has been introduced with regards to various payroll functions and salary disbursements to mitigate any measures of misappropriation with regards to payroll. These improvements did not take place initially, but came about as a result of the initial assessment. In spite of the Director General's aggressive goal to reform personnel policies and procedures and fill key positions, capacity building within the organization remains a challenge, as Afghanistan lacks qualified and experienced staff. The lack of qualified staff will likely impact project goals, completion and program outcome, ultimately putting donors' investment at risk.

Procurement and Purchasing system
Procurement is a critical organizational function, as huge amounts of money are spent every year procuring goods and services. Procurement fraud wastes limited funds, and compromises safety. The initial assessment noted seven weaknesses in the procurement process. At the time of reassessment auditors found that DABS had resolved five of the seven weaknesses, leaving two unresolved. The unresolved weaknesses relate to lack of transparent mechanisms to pre-qualify vendors for routine procurements, and conflict of interest in the procurement process. According to the auditors, procurement officers responsible for collecting quotations by personally visiting vendors' shops are the same procurement officers approving vendors to do business with DABS. In addition, it is unclear if the legal department is involved in reviewing critical procurement and contract documents prior to execution. Management's actions to resolve most of the weaknesses are evidence of its commitment to strengthen the procurement and the purchasing system within DABS. However, critical weaknesses with the potential opportunity for fraud and wastes exist and it is uncertain if DABS' procurement system is equipped to manage large procurements. Donors must engage DABS in those areas and develop strong mitigations to overcome those risks.

Program Management and Monitoring
Monitoring is a key component of internal controls, as the flow of information is essential for an organization to execute its responsibilities and support the achievement of its objectives. In the initial assessment Monitoring and Evaluation was noted as an area of weakness in DABS' systems and operation. The monitoring and evaluation unit was understaffed and was basically functioning exclusively for the benefit of one donor. There were no links between senior management and M&E staff and senior management were oblivious to the M&E operations. DABS operating philosophy at the time was that each project and/or donor would fund discrete M&E units for the benefit of a project and/or donor. The auditors, recommended against this approach, as it was redundant, costly, and was detrimental to DABS' internal technical capacity. According to the reassessment's observations, DABS is not planning on organizing a central M&E unit; it plans instead to rely upon its newly established Internal Audit Department to conduct monitoring and evaluation. DABS is definitely responsive to the auditors recommendations, however, there remains concerns as to whether the newly created Internal Audit Division has the technical capacity to conduct M&E functions. Because of these concerns it is uncertain if the DABS can support the achievement of its objectives and safeguard donors' funds against waste and fraud.

Laws, Regulations and Other Matters:
According to DABS's by-laws, its financial statements must be audited within four months after the end of the fiscal year (FY), or by July of each year. In addition, Afghanistan income tax law requires entities such as DABS to file their tax returns at the Tax Authority by the end of the third month following the fiscal year. Moreover, entities cannot file their tax returns without completed financial statements, and DABS in addition to having a disclaimer on its FY2010 financial statements it has not prepared audited financial statements for the last two fiscal years, 2011 and 2012. We followed up with the auditor who conducted the assessments to verify if DABS had filed tax

returns for the last three years and if DABS was up to date with its tax liabilities. According to the auditor, DABS has filed tax returns for the last three years and it is losing money therefore, not liable for taxes. Furthermore, in 2009 DABS acquired or merged with two local energy firms Da Afghanistan Breshna Mousasa (DABM) and Power Construction Entity (PCE), and as part of the acquisition or merger DABS assumed the liabilities of those companies. The amount of the liabilities is still unclear, but DABS Chief Financial Officer (CFO) identified at least $7 million of outstanding debt to date and the final figure may not be known until March, 2013 when a task force created by DABS appraises the value of assets and liabilities acquired and makes a final determination. As a government entity there was an expectation that GIRoA would guarantee DABS' financial exposure, but DABS' CFO confirmed that DABS is solely responsible for all its liabilities and GIRoA does not guarantee DABS' liabilities. The uncertainties regarding DABS' long term viability, legal status, and its financial problems have significant risk implications for donors. One, donors may be funding an entity that is not viable in its current structure, and also donated funds for specific projects could be diverted to pay off loans and liabilities acquired as a results of the acquisitions, thus reducing the likelihood of programs meeting goals and objectives. Donors planning on supporting DABS are highly encouraged to verify the resolution of these matters and get express confirmation from DABS that these issues have been resolved and/or does not put donors' fund at risk.

Risk Assessment Measurement

USAID guidance states, once a risk has been identified, the impact and probability of that risk must be determined. The impact measures the severity of an adverse event associated with the risk and is measured as, Negligible, Marginal, Serious, and Catastrophic. Conversely, probability measures the likelihood of the occurrence of the adverse event associated with the risk and is expressed as, Remote, Occasional, Probable, and Frequent. Combining impact and probability factors categorize risks in clusters of Critical, High, Medium and Low categories. Although subjective, it is nonetheless the basis for the Risk Mitigation plan in USAID.

USAID's PFM Risk Matrix

Impact	*Catastrophic*	High	Critical	Critical	Critical
	Serious	High	High	Critical	Critical
	Marginal	Medium	Medium	High	High
	Negligible	Low	Low	Medium	Medium
		Remote	*Occasional*	*Probable*	*Frequent*
		Probability			

Scope and Methodology

The independently contracted auditors conducted an initial assessment under a scope which focused on five main areas. 1) Financial management/accounting system, 2) Accounting and Internal Controls, 3) Procurement 4) Human Resources and 5) Monitoring and Evaluation. Then a re-assessment was conducted to ascertain if DABS has taken measures to address the weaknesses noted in the initial assessment. While the auditors conducted in-depth assessments on the five areas mentioned above, they did not use the Agency's approved Public Financial Management Risk Assessment Framework (PFMRAF) checklist, and did not conform in many ways to the Agency's PFMRAF guidance on risk treatment and risk assessment measurements. However to ensure the Mission comply with the Agency's guidance and performs required due diligence, we reviewed the auditors' reports and we met with the auditors who conducted the assessment to gain a general understanding of the nature of their work. We met and discussed with our internal financial analysts who had an understanding of the ministry's systems. We conducted limited research on other work performed on the DABS. Based on auditors' work, our reviews, meetings and research, we completed the PFMRAF checklist and risk mitigation plan and we summarized our findings and understanding in this report.

Appendix 1

Risk Schedule:

	Risk of	Impact	Probality	Score	Suggested Mitigation Measures
			Management and governance structure		
1.	Not being accountable Management not being committed to sound organizational structure and competence	Serious	Remote	High	1. Approve and circulate the five years strategic plan to key management personnel. 2. Prepare annual budgets using the strategic plan. 3. Compare annual budget to actual results. 4. Prioritize financial management, accounting and internal control issues on agenda items at BOD meetings. 5. Transfer all assistance funding into an escrow bank account.
2.	Waste, fraud and abuse may go undetected Lack of management commitment may create opportunity for fraud to occur	Serious	Ocassional	High	1. Convene regular audit committee meetings and document meeting minutes. 2. Provide training for key personnel including Internal Audit personnel and document those trainings 3. Develop a plan for Internal Audit to perform risk base audit at HQ and hubs 4. Implement basic internal controls in the financial management system. 5. Conduct annual financial and programmatic audits on all USAID projects
3.	Losing vital data and information in the event of system failure or natural disaster	Serious	Ocassional	High	1. Back-up information technology systems regularly on and off site. 2. Complete and approve draft Business Continuity and Disaster Recovery Plans

Financial management and accounting systems					
4.	Stakeholders being misled Making decision based on erroneous financial data Financial data being manipulated to hide illegal actions Diverting donated program funds to pay for penalties Diverting donated program funds to finance unauthorized activities. Engaging in accounting irregularities to hide true financial position.	Serious	Probable	Critical	1. Finalize all outstanding financial statement (2008 to date) 2. Close all open audit recommendations since 2008 3. Introduce General Ledger preparation in the accounting processes. 4. Prepare Trial Balance for all the sub offices. 5. Submit quarterly consolidated financial statements to USAID. 6. Automate the accounting system for HQ and the hubs. 7. Train Financial Management staff on the use of the new accounting software. 8. Prepare financial statement in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). 9. Provide signed statement to USAID that funds provided will not be used to pay fines or liabilities associated with Da Afghanistan Breshna Mousasa (DABM) and Power Construction Entity (PCE) merger. 10. Provide copies of audited financial statements to USAID for the years 2010, 2011, and 2012 11. Develop a chart of accounts that clearly accounts for USAID funds. 12. USAID to conduct: a) Periodic financial review on DABS together with DABS Internal Audit Department. b) Train DABS Internal Audit Department on how to perform a risk base audit.

5.	Diverting government property for personal use Waste fraud and abuse may go undetected Assets not being used for intended purposes	Serious	Ocassional	High	1. Tag all fixed assets with an identification number. 2. Update fixed assets register on regular basis to reflect date of purchase, asset type, location, serial number, tagged number. 3. Conduct periodic inventory of fixed assets, possibly every six months. 4. Define the process for inter departmental transfer of assets. 5. Have an approved fixed assets (capitalization) policy 6. Develop a fixed asset management policy. 7. Provide USAID a list of all fixed or long term depreciable assets funded with USAID funds 8. Conduct periodic inventory of all fixed or long-term depreciable assets purchased with USAID funds and send the inventory confirmation to USAID 9. Conduct regular performance audit to include asset verification.
6.	Meter readers conniving with customers to defraud DABS Lost revenues Under reporting of revenues Collecting and unrecorded revenues for personal and illegal use	Catastrophic	Probable	Critical	1. Implement a computerized billing system in all the hubs. 2. Reconcile voltage consumption to receivable account. 3. Categorize customers according to consumption pattern. 4. Conduct comprehensive and nationwide survey on all electricity users and develop and roster. 5. Develop a billing system based on that roster 6. During financial audit have auditors verify the meter readers data 7. Develop revenue projections and compare projections to actual receipts and analyze

	Fostering an environment conducive to fraudulent acts Engaging in off balance sheet financing for resources diversion				differences. 8. Submit annual audited financial statements to USAID.
7.	Misappropriation of petty cash Erroneous posting of financial data	Serious	Ocassional	High	1. Perform monthly surprise cash count. 2. Stamp all invoices received with "Received stamp" and all payment vouchers with "Paid" stamp. 3. Obtain monthly expenditures from all the hubs, using the 'monthly expenditure standard form'.
Personnel policies and procedures					
8.	Payments to employees for work not done Improper payments to employees.	Serious	Probable	Critical	1. Develop a plan to automat attendance system at the hubs. 2. Document time and attendance for all employees. 3. Link employees pay benefits to the time and attendance register and reconcile regularly. 4. Conduct compliance audit.
9.	Creating unintended conflict of interest conditions Hiring unqualified staff	Serious	Probable	Critical	1. Obtain signed conflict of interest forms from all staff. 2. Conduct annual ethics training for staff. 3. Prepare job descriptions for all key positions.

	Nepotism and cronyism				
10.	Hiring unqualified staff Nepotism and cronyism	Serious	Ocassional	High	1. Perform and document reference checks of all new hires. 2. Develop template for exit interviews, 3. Perform exit interviews and document the reasons why employees leave the organization.
11.	Procurement system not being transparent Conflict of interest Not implementing standards so to facilitate illegal acts Vendor selection scheme to defraud the DABS Acquiring sub-standard goods, to finance kickbacks and bribes	Serious	Probable	Critical	1. Develop a mechanism to pre-qualify vendors for routine purchases 2. Request OAA's involvement in all critical procurements. 3. Obtain signed conflict of interest from personnel who are involved in the procurement processes. 4. Develop a plan to introduce procurement reforms. 5. Involve the legal department in all procurement contracts.
12.	Management not being accountable	Serious	Probable	Critical	1. Establish a separate M&E department from the Internal Audit, or provide M&E training to internal audit staff 2. Send monitoring and evaluation reports to the M&E Directorate at the head office and copies to the provincial offices. 3. Submit copies of M&E reports to USAID.