

DFID's Finance Improvement Plan

FINANCE FOR ALL

Version 1

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1. Foreword

Ensuring that we maximise the impact the Department makes on poverty reduction is my top priority. Everywhere I go I see the incredible difference we are making to poor people. Girls having the chance to go to school in Pakistan against all the odds, health care for women in Nigeria and support for businesses across Africa and South Asia are all tremendous examples of the work that we are collectively undertaking.

Finance for All is exactly what it says. It applies both to our directly managed programmes and to how we promote better financial improvement in the organisations that we invest in, including multilateral agencies.

To achieve value for money and show that we get 100 pence of value for every pound the taxpayer provides, we need strong financial management practice across the whole of DFID. And just standing still on financial management is not an option - we will need to keep improving to meet the challenges we will face over the coming years.

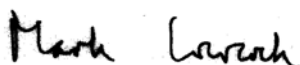
We all need to be clear about why finance matters, what good financial management for DFID looks like and what we need to do to meet that standard. This document gives you that framework and lays out some clear milestones. Each part of the organisation will need to apply the framework in a way that fits their own role.

The plan tackles areas we know need action:

- Increasing finance capability in DFID in finance and non-finance roles.
- Improving basic finance practices: budgeting, forecasting and reporting.
- Meeting the challenge we face in dealing with the risk of fraud and corruption in the difficult environments in which we work.
- And in all things we do, maximising value and striving for excellence.

The Management Board will oversee implementation. The Board will review progress every six months, beginning in March 2012, and will take action if we are off track. The Audit Committee will also keep a close eye on progress and will provide additional external challenge.

This is not just the job of the Finance Department or finance staff. Everyone has a part to play. "Finance for All" starts with me, but includes all of you too, wherever you work and whatever you do.



Mark Lowcock
Permanent Secretary
September 2011

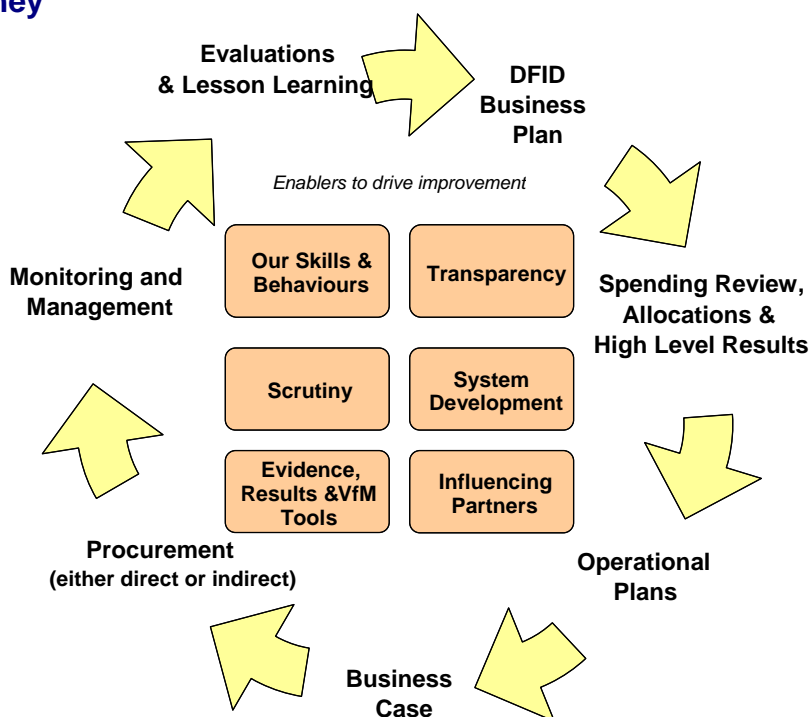
2. Financial Management and our VFM Approach

Value for Money in DFID's programme means:

We maximise the impact of each pound spent to improve poor people's lives.

DFID has made a clear commitment to get value for money from all of the growing UK aid spend, delivering and demonstrating large scale results to change lives for poor people, using evidence to inform programming choices, being fully transparent and responding to external scrutiny and challenge. Internationally, we are using our own practice as an important part of our strategy to influence others and generate improvements in aid effectiveness and impact across the international system. We will be working up in more detail our approach to promoting value for money in the major multilateral organisations we finance.

DFID's Results and Value for Money Framework



The Results and Value for Money framework (above) shows the value for money opportunities that exist at each part of the programme cycle. You can find the value for money core script on inSight. Teams across DFID are working hard to ensure value for money at every step: producing rigorous business cases, working to develop ways of measuring results and value for money in harder to measure sectors, designing fraud-proofing into our programmes and processes, designing impact evaluations, asking partners some challenging value for money questions or bringing a sharper commercial focus to our work. But we will not realise our value for money ambition unless we also strengthen financial management practice across DFID. This is where "Finance for All" comes in.

To deliver value for money, we need, for example:

- A full understanding of our costs
- Confidence in our forecasts so that we can make the best use of our resources
- Strong understanding of key financial risks, including our exposure to fraud and corruption, so that we can put in place focused measures to minimise losses
- Accurate management information to inform our decisions
- Systems and tools that enable us to understand patterns of spend and financial performance

These are just some of the ways in which strong financial management is crucial to realising our value for money ambition for the programme. We also need good practice in the management of our operating costs as well – we need to run the organisation as efficiently and effectively as possible.

We all need to understand what good financial management looks like for DFID and to be able to meet the financial management responsibilities of our roles. The next section uses the National Audit Office's Financial Management Maturity Model to show what good practice looks like and the role it plays in delivering value for money in DFID.

3. Financial Management Vision

The National Audit Office (NAO) defines financial management as being the system by which the resources of an organisation's business are planned, directed, monitored and controlled to enable the organisation's goals to be achieved.

There are five aspects of financial management; these are set out below with the vision of excellent financial management defined in each category. This model is based on the Financial Management Maturity Model devised by the NAO. DFID have broadly so far scored as 'middle of the road' with some areas of the business performing better in some categories than others. We plan to improve.

As part of our financial management strategy we will create a self assessment tool to measure and evaluate our progress against the vision set out below. The next (light touch) review will be prepared for Management Board review in March 2012.

Financial governance and leadership

At the most senior level of the organisation our Management Board ensure they are continually sighted on all financial matters, forging a culture of collective responsibility and challenge. They promote a strong ethical environment across the organisation, and ensure that all DFID's staff, partners and other stakeholders are aware that DFID has a zero tolerance of fraud, abuse and other malpractice. They ensure that there are systems of internal control, governance arrangements and risk management processes in place and that these are applied consistently, and demonstrate their own knowledge of and adherence to those processes.

There is a good representation of financial skills and expertise at Board level, and the Board are responsible for ensuring that DFID staff members, both in finance and in the wider business, are appropriately trained. They encourage a learning organisation where expertise in financial management is a prerequisite for career progression in many roles and training opportunities are available to develop those skills.

Financial Planning

DFID's financial planning process supports the aims and objectives set out in its overarching business plan and more detailed operational plans, ensuring that resources are directed where they are needed most to maximise poverty reduction. Plans will be underpinned by an assessment of the relative cost of different ways (i.e. bilateral or multilateral programmes) of delivering results. Financial Plans reflect timely information that highlight emerging changes allowing remedial action can be taken.

Financial planning includes a review of annual and future year expenditure plans ensuring they are comprehensive, affordable, robust to challenge and able to meet the strategic objectives and result targets for that planning period. Operational managers own the process with the finance team operating as an effective support function; the process engages external stakeholders to ensure that the planning takes account of their perspectives. The Management Board review the financial planning process, identifying areas for improvement stripping out non-value added or bureaucratic stages. The Board review additional plans for capital investment, cash flow management and balance sheet projections.

Finance for decision making

DFID understands its expenditure and cost drivers and those of the agencies we engage with to best quantify our inputs and evaluate our outcomes and results. Managers and staff draw on their understanding of the costs of long-term outcomes and programmes when discussing current and forward plans and actively seek external benchmarks to drive continuous improvement. This includes continuously strengthening DFID's countermeasures against fraud and other abuse.

Our investment appraisal (business case) and project management processes are used to evaluate costs and benefits, informing all policy, operational and investment decisions. Investment decisions are based on a sound financial case predicated on routine costing models and sensitivity analysis that assess the efficacy of projects. We flex programme life cycles to manage the availability of funds, without incurring additional future costs, and progress against plans is monitored, any significant variances necessitating reappraisal, and significant issues anticipated in good time.

Financial monitoring and forecasting

Financial information is timely, accurate and of a quality that supports performance monitoring; information is available in real time and engineered to be useful to management.

Financial information including variances against plan is reported against DFID's published objectives and is available 7 days after the period end including accruals based information and a set of financial statements with forecast outturn for the year ahead.

Managers routinely use the financial systems to provide accurate timely forecasts, seeking out new information to manage their forecasts efficiently, using a system which allows them to do so.

Our programmes and administrative systems are designed and operated to deter, prevent and detect fraud and corruption, and we track and reconcile UK aid flows to ensure that losses are minimised and that funds lost are recovered.

Our financial systems are regularly reviewed to maintain quality and performance; data will be held in only one place in the system and is readily available to managers whenever they need it.

Financial and performance reporting

DFID has a comprehensive suite of tailored reports available for internal use, the level of detail cascades easily and system-enabled drill downs are available. These reports are reviewed regularly taking on board the views of internal and external stakeholders to ensure that they are fit for purpose.

Reports prepared for DFID's Management Board have accompanying narrative that highlights emerging risks and opportunities. DFID's audited financial statements are publicly available 10 weeks from the financial year end.

4. Our Financial Strategy

By 2014, DFID will be an organisation that has leading edge financial management practices that maximise the impact of each pound spent to improve poor people's lives.

We will continually strive for excellence in financial management and seek opportunities to improve through innovation. We will anticipate and respond to the challenge of changing circumstances and anticipate significant events while managing risk.

By March 2012.....

- We will have introduced an improved set of core financial information reports both at Board level and for the wider business, incorporating key performance indicators.
- We will have an established finance cadre, training policies and professional support and guidance for all those in finance roles and in the wider business.
- We will have a stronger control environment in place to reduce DFID's exposure to fraud and other key risks, including more robust lesson-learning and knowledge-sharing mechanisms, ensuring a more consistent approach to risk management across DFID and better quantification of financial loss. We will embed this in the business case and complete fraud risk assessments covering 50% of DFID's activities.
- We will have developed an ARIES strategy that maximises system functionality and drives efficient, streamlined business process that support our e-commerce strategy.

By December 2012.....

- We will design and recommend an efficient, fit for purpose, finance operating model.
- Those staff with accountability and responsibility for managing DFID's money will be clear about what is expected of them as set out in the Budget Policy launched in 2011.
- Those staff with accountability and responsibility for managing DFID's money will have financial management objectives and the necessary finance skills to fulfil their roles, as a minimum all staff will have completed the appropriate level of National School for Government 'Finance Skills for All' training.
- We will have completed fraud risk assessments covering 80% of DFID's activities, and will have leveraged the lessons from these exercises to further strengthen our ability to manage the risk of fraud and other abuse. This will include improving the routine analysis of fraud risks and responses within DFID's programmes and processes.
- We will have more accurate forecasts, making people accountable for the information they provide.

By 2013.....

- DFID will have implemented a new finance operating model.
- DFID will have a finance self assessment tool in place to support the ongoing monitoring and evaluation of financial management.

- We will have a system based solution to strategic, scenario based forecasting.
- We will have developed our results based performance monitoring arrangements to include the use of current unit costs and results based activity to underpin future investment decisions.
- We will have completed fraud risk assessments on a rolling basis across all of DFID's main activities, and will have implemented a continuous monitoring mechanism to keep these assessments up-to-date.

By 2014.....

- DFID's financial professionals will comprise of a mix of externally recruited staff and internal staff who achieve professional qualification through our training programme.
- DFID will have sophisticated long term financial plans available identifying predictable results and resource requirements using risk based decisions to use as a basis for the next spending review.
- DFID will operate in a financial management environment that drives continuous improvement and where risk management and efficient business process are embedded in all day to day operations.
- We will have improved the value (impact) that we get from the resources at our disposal both directly in the countries in which we operate and through our multilateral partners.

5. Key Messages

- Financial Management matters; it's everyone's job, it's a key corporate discipline. The finance department is a catalyst for improvement but cannot do it alone.
- Financial performance, results and an assessment of value for money play a crucial role in monitoring if we are to deliver against our strategic priorities.
- We are accountable to the UK taxpayer for every pound we spend. We face continuing scrutiny and challenge as our programme budget grows and must apply probity and stewardship in our management of public money.
- Our responsibility does not stop when the money goes out the door. We remain responsible for UK aid funding throughout the delivery chain, whether it is being spent by partners or by DFID directly, and we must be able to demonstrate that we have adequate controls in place at all times over all our funding streams.
- Every financial transaction above £500 is available to the general public to view. It is important that the expenditure is appropriate and that we ensure the data is accurate – using a get it right first time approach.
- Good financial management ensures that we take the most effective value for money decision at the right time while applying the necessary financial controls and regulations.
- DFID must have a strong pipeline of programme activity to manage slippage and risk so that we deliver the oda/gni targets that the UK is committed to delivering through the Spending Review period.
- We must be vigilant to the risk of fraud and corruption, and ensure that everyone is aware of how they can help us deter, prevent and detect any abuse of UK aid.
- Robust risk management should be embedded in all financial management processes.
- Those with dedicated financial management roles need to know what is expected of them and have the skills necessary to fulfil their roles. Specific financial management objectives will be included in PMFs.
- We will streamline business processes where possible and improve the functionality of our ARIES system.
- Finance professionals will work in an environment where there is a recognised career structure, continuing professional development and a cadre to share best practice.
- DFID will grow its finance profession through the provision of formal finance training programmes, to provide succession planning and a route to professional qualification for existing staff.

6. What Does it Mean for Me?

Implementing DFID's new Financial Strategy and finance improvement plan won't happen overnight but some changes can happen now and it is important to consider your current role in DFID and how you can contribute now and in the longer term.

Much of that immediate change can be in behaviour and attitude for people with different roles across the organisation. Look at the list below and ask yourself if you are demonstrating the necessary financial management behaviours. The list is not exhaustive but provides a good starting set of prompts.

Management Board

- Do we feel accountable for good standards of financial management across DFID?
- Do we ensure that the organisation has sufficient financial capability to manage our resources effectively?
- Do we scrutinise and challenge all aspects of our in year variances and forecasts and do we hold budget holders to account?
- Do we consistently model good financial management behaviour in everything we do?
- Do we reward and recognise good financial management in others?

Directors

- Do I feel accountable for delivering the results I said I would with the resources that have been delegated to me? If my plans go off track, do I take action to re-balance the programmes across my Region / Division?
- Do I review aggregate key financial information at least every month? If asked at any time, can I articulate in year budget performances, year end forecast, pipeline and top financial risks for my Region/ Division, and do I have adequate assurance that these risks (including the risk of fraud and other abuse) are being managed properly?
- How often do I use ARIES?
- How regularly do I sit down and discuss divisional finances with my Divisional Accountant?
- How regularly am I challenged on my Regional / Divisional financial information, and do I regularly challenge those delegated budget holders in my area?

Heads of Office / Department

- Do I feel accountable for delivering the results I said I would with the resources that have been delegated to me? If my plans go off track, do I take action to re-balance my programme?
- Do I review key financial information at least every month? If asked at any time, can I articulate my in year budget performance, year end forecast, pipeline and top financial risks?
- Do I ensure that my office / department has sufficient financial capability to manage resources well?
- How regularly am I in contact directly with my Divisional Accountant and Departmental Finance Officer?
- How regularly am I challenged on my financial information? Do I challenge those that I have made responsible for finance in my area?

- Do I know where my key fraud risks are and can I demonstrate that they are mitigated effectively?

Advisors / Programme Staff / Spenders

- When compiling a programme, am I realistic about cost, timing, risk and results?
- Do I know what is expected of me in relation to financial management? If not, do I know where to find guidance?
- Do I consider financial risk, including the risk of fraud and abuse, and what should I do to mitigate it?
- Do I feel responsible for the programme budget?
- Do I regularly review the financial information relating to the programme?
- Am I challenging implementing partners to ensure they are managing UK aid effectively and efficiently?
- Do I keep those preparing forecasts up to date on any changes to cost, timing and risk?
- Do I ensure that the data I enter into ARIES is accurate and timely?

Departmental Finance Officer

- Do I have regular meetings with programme staff and spenders to ensure that changes to cost, timing and risk to programmes are reflected in the monthly forecasts?
- Do I feel empowered to challenge the information I receive from spenders?
- Is the financial information I prepare regularly reviewed and agreed by senior staff?
- Do I know where to seek advice on financial matters?

Finance Department & Finance Professionals

- Do I provide clear and concise guidance to the business to deal with operational, daily finance processes?
- Do I understand the business and the challenges that spenders face?
- Do I seek and take on board feedback from the business on how I am performing?
- Do I engage and consult with the business on proposed system/business process changes?
- Am I helping my business partners to manage financial risk effectively, including the risk of fraud and other abuse?

7. Owning our Finance Improvement Plan

The summary Finance Improvement Plan is set out in Annex A. This gives headlines and summary outcomes against which we will assess our progress and be held to account. The plan will evolve as we work through our significant agenda, specifically, metrics to monitor progress will be developed. The summary plan will be kept updated by the Finance Improvement Team. More detailed action planning will be needed to break this down further and to tailor actions to particular areas.

To support the implementation and monitoring of the plan, FCPD have established a new team dedicated to financial improvement. This team, the wider Finance department and Divisional Accountants will be getting out and about to talk with Directors, Heads of Departments and teams to help you work out what the priority actions should be in your part of the DFID world. We are also working closely on areas such as fraud risk with specialist teams across DFID, including Policy Division, Research & Evidence Division, and the Internal Audit Department. As we learn more about implementing this plan, we will want to use inputs from across DFID to adjust it where necessary and to provide clear milestones and actions for different roles. The plan has to work for the whole of DFID.

Working together is critical: we will achieve the most progress possible against this plan by combining action at the centre with action in spending departments. As the plan evolves, you will be able to see clearly how your actions contribute to the successful delivery of 'Finance for All' and the benefits that improving financial management brings to being a more effective organisation. Progress on implementation will be reviewed by the Management Board every six months.

Some of these changes will take time, but we don't have to wait for them to happen before we take action. Every one of us can already challenge ourselves now to change things we can control –changes to attitude and behaviour can start now!

Annex A: Finance Improvement Plan

	Activity	Outcome	Timeline
2012	Review and revisit assumptions and recommendations made in PWC & DFID's Internal report on Finance Operating Model (August 2010). Confirm preferred model using previous evidence or propose alternative option	Preferred finance operating model delivering increased finance skills & awareness, improved forecasting and business process efficiency	30th June 2012
	Implementation of a DFID Foreign Exchange Policy	Budget certainty for payment costs	31 st March 2012
	Finance training for non finance posts established, e learning tools developed	Staff accountable & responsible for finance suitably trained	30 th June 2012
	Finance cadre established for qualified , part qualified & students in finance & non finance posts	Established Finance cadre	31 st March 2012
	Formal finance training programmes in place for AAT & CCAB qualifications	Development of internal finance professionals	30 th June 2012
	Formal Continuous Professional Development plans in place for existing qualified staff	CPD requirements	31 st March 2012
	Development of strategy to manage the risk of financial loss, assessment complete and submitted to Board & Cabinet office	Reduce DFID's exposure to Fraud & Risk	31 st March 2012
	Completion of 80% of rolling corporate fraud risk assessment, and better fraud analysis built into DFID's programmes and processes	Better understanding and mitigation of fraud risk	31 st December 2012
	Development of ARIES strategy	Maximise system functionality and efficient business processes	31 st March 2012
	2011/12 Annual Accounts delivered 2 weeks earlier than 2010/11	Improved External reporting	30 th June 2012
Improved Suite of ARIES financial and non financial reports delivering targeted core information,	Improved management Information for decision making	31 st March 2012	

	Activity	Outcome	Timeline
	Global banking arrangements agreed and implemented	Single banking platform to support the implementation of the finance operating model	30 th Sept
	A revision of DFID Chart of Accounts to provide segmental reporting and improved Management Information	Improved management Information for decision making	30 th June 2012
2013	A self assessment tool developed to help Departments and Country offices measure financial management maturity against NAO Model	An evaluation tool in place to provide on-going and longer term monitoring of local financial management practice	31 st March 2013
	Launch of self assessment model & associated training	An evaluation tool in place to provide on-going and longer term monitoring of local financial management practice	30 th June 2013
	Development of strategic, scenario based forecasting tool	Improved management Information for decision making	30 th June 2013
	Implementation of preferred finance operating model including roles profiles and skills assessment	Live model in place	30 th Sept 2013
	Development of results and resource based performance monitoring	Improved management Information for decision making- explicitly ensuring the organisation can link results & money	30 th Sept 2013
	Completion of final phases of rolling corporate fraud risk assessment, and mechanisms in place to ensure these assessments are kept up-to-date	Better understanding and mitigation of fraud risk	31 st December 2013
	2012/13 Annual Accounts delivered 2 weeks earlier than 2011/12	Improved External reporting	30 th June 2012
2014	1 st Wave of internal staff achieve professional qualification	Succession Planning and pipeline of in house /home grown accountants	30 th Sept 2014
	Future year , results based financial plans available in preparation for the next spending review	Improved management Information for decision making	30 th June 2014