

## Blue Book

### C – Accountability and audit

#### *C1: Making payments (procure to pay)*

##### Background

The 'Procure to Pay' cycle consist of 4 stages:

- Ordering
- Receipting
- Matching
- Effecting Payments

**Ordering** - There are multiple valid types of activities which require payments to be made by DFID. Whether Accountable Grants (AGs), Memorandum of Understanding (MOUs), staff expenses or invoices for goods and services. The first step of the 'procure to pay' process is to identify the need to procure. Once the need has been identified, the transaction is initiated by raising a requisition on ARIES. On approval of the requisition request, ARIES automatically creates a purchase order using the information included in the requisition.

**Receipting** - The type of goods and services which require payment and the mechanism through which the transaction was initiated will dictate the activities undertaken during the receipting phase of the 'procure to pay' cycle. The basic steps of receipting are:

- Receipt the goods or service and prepare an appropriate 'Goods Received Note' (GRN); or
- Receive, review and approve relevant documents in relation to disbursement
- Update receipting on ARIES.

**Matching** - The matching phase is the equivalent to payment authorisation. The authorisation to make a payment for goods and services received is an automated process. The authorisation to make a payment is encapsulated in the approval of a purchase order. On registration of the invoice (or similar documentation), ARIES automatically seeks to match the details of the invoice with the approved purchase order and GRN. If all the details match then the invoice is automatically cleared for payment. This is called 'Three way Matching'. The basic steps of matching are:

- Receipt of documentation (invoice, expense claim, MOU, request for payment etc.)
- Scanning documentation
- Registering documentation (this step could be considered consistent with inputting data)
- Resolving mis-matches between purchase order, GRN and invoice

**Effecting the Payment** - Is the process of releasing the funds from DFID. All UK payments are processed through Financial Operations in Abercrombie House (AH). Overseas payments are effected by localised Accounting Departments. Details of the 'Make a Payment' process are included in the Processes and Tools section - ARIES manual.

## **Compliance Tasks**

1. Heads of Department/Heads of Overseas Offices are responsible for deciding and recording who has authority to carry out ordering, receipting and matching.

**Task assigned to: Head of Department, Head of Overseas Office**

2. Heads of Department/Overseas Office must ensure that the appropriate delegated authority levels are set in ARIES using the facility within DFID Connect.

**Task assigned to: All Staff, Departmental Finance Officer (DFO), Director, Head of Department, Head of Overseas Office, Project Staff**

3. Financial Accounting must (also) be consulted if you are considering any commitments that result in DFID being exposed to exchange rate risks. DFID contributions must be made in sterling unless there are exceptional reasons to do otherwise. All requests for payments to be made in foreign currency must be referred to Financial Accounting.

**Task assigned to: All Staff, Departmental Finance Officer (DFO), Head of Department, Head of Overseas Office, Project Staff**

4. Invoices must be paid promptly, i.e. within 5 days of receipt in DFID, unless they are disputed.

**Task assigned to: All Staff**

## **Risks of non-compliance**

- Irregular payments, possible fraud
- Interest charges by suppliers on late payments
- Failure to meet payment performance requirements.

## ***C2: Advance payments***

### **Background**

**Advance Payments - i.e. payment made before goods or services are required.**

As a UK government department DFID has a legal responsibility to time their expenditure and payments to provide good value for money to the taxpayer and HM Treasury. This is covered in Managing Public Money, which sets out rules and requirements when handling public finances. As a general rule DFID should not make advance payments and should be looking to make payments in arrears, wherever possible. This helps DFID provide assurance that monies have been paid to the intended recipient and used for the purpose intended. This is a vital part of our broader responsibility to ensure our spending represents Value for Money and contributes to the delivery of our Millennium Development Goals. It is recognised that in certain circumstances advance funding may be requested. Our ability to provide advance funding depends on the recipient and also the type of funding provided. This is set out in Managing Public Money.

DFID is not in the business of advancing or lending money, this is the job of the banking sector; but the cost of borrowing can be factored into proposals and may be met by DFID. Managing Public Money tells us not to pay in advance of need - the need for an advance should be proved and not presumed.

Given the nature of our business, DFID has accepted that, in a limited range of circumstances, there may be a case for considering an advance payment. This includes advances to civil society, advances through imprest accounts, small advances through contracts usually limited to mobilization costs and staff advances for travel and subsistence. An advance payment might also be considered where the purpose is developmental. Before agreeing to any advance full justification, on a case-by-case basis, must be provided.

### **Compliance Tasks**

- Staff must not, under any circumstances, make the offer of an advance.

**Task assigned to: All Staff, Head of Department, Head of Overseas Office, Local Contract Officer, Project Staff**

- The recipient must set out in writing the purpose(s) for which the advance will be used, when submitting the request.

**Task assigned to: All Staff, Project Staff**

- An advance payment must not include any element for fee expenses.

**Task assigned to: All Staff, Head of Department, Head of Overseas Office, Local Contract Officer, Project Staff**

- An advance payment must not be paid until there is the need to use the funds.

**Task assigned to: All Staff, Head of Department, Local Contract Officer, Project Staff**

- An advance to contractors must be recovered over as short a period as is practicable.

**Task assigned to: All Staff, Head of Department, Head of Overseas Office, Local Contract Officer, Project Staff**

- Advances paid from a (Debtor) Account must be monitored regularly.

**Task assigned to: Departmental Finance Officer (DFO), Project Staff**

- Subsequent advances must not be paid until the previous but one advance payment has been accounted for.

**Task assigned to: Head of Department**

## **Risks of non-compliance**

- Payments in advance of need tie up DFID and Exchequer funds for which HM Treasury faces a financing charge to provide this funding to DFID
- Excessive amounts held in suspense accounts do not constitute value for money to DFID or HM Treasury
- Financial and Control has the right to refuse to make any payment if it is not satisfied that the procedures have been complied with
- Advances may not be properly accounted for.

## ***C3: Imprest accounts***

### **Background**

Imprest Accounts are a means of delegating expenditure to an account holder using a cash flow provided by DFID. Imprest Accounts typically operate in DFID Overseas Offices or smaller Project Offices. In our main Overseas Offices the Head of Office accepts full responsibility for the safeguarding of

these funds but delegates day to day responsibility for running the imprest account to others. Most smaller offices will use the Foreign and Commonwealth Office (FCO) Post Account. For individual projects a named project manager will be the imprest account holder.

## **Compliance Tasks**

1. The justification for an imprest account must be clearly established at the outset (in preference to other means of financing) by consulting Financial Management Group (FMG) via the Imprest Questionnaire.

### **Task assigned to: Project Staff**

2. An imprest account holder must be a DFID appointee (either UK based or SAIC) approved by the relevant Head of Department/Head of Overseas Office. The experience in financial management (including competencies) must be carefully considered for each individual whose duties will include imprest management.

### **Task assigned to: Head of Department, Head of Overseas Office**

3. The bank account for imprest funds must not be held in the name of an individual. The account must either be opened in the name of a DFID office or an individual project.

### **Task assigned to: Project Staff**

4. Unless agreed otherwise by FMG, an Imprest Holder must be trained by FMG before operating the account. The training will take account of the Imprest Holder's previous experience in financial management.

### **Task assigned to: Head of Department, Head of Overseas Office**

5. Heads of Overseas Offices must be briefed on their financial management responsibilities before taking up post, including the accounting instructions that they will be expected to sign up to.

### **Task assigned to: Head of Department, Head of Overseas Office**

6. Heads of Department/Overseas Offices must ensure that unannounced spot-checks, using the standard checklist, are carried out at least four times a year for each imprest account.

### **Task assigned to: Head of Department, Head of Overseas Office**

## **Risks of non-compliance**

- Payments in advance of need tie up DFID and Exchequer funds for which DFID pays a surcharge (current capital charges are 3.5% on all suspense balances)
- Excessive amounts paid in advance increase costs and possibly hide fraud
- FMG has the right to refuse to make any payment if it is not satisfied that the procedures have been complied with
- Advance may not properly be accounted for.

## **Associated learning and skills**

Training for all Imprest Holders and briefing for new Heads of Overseas Office is mandatory.

## ***C4: Meeting our financial audit requirements for the use of Aid Funds***

### **Background**

DFID's Accounting Officer (the Permanent Secretary) is accountable to Parliament for DFID's spending. The National Audit Office (NAO), on behalf of Parliament, scrutinises DFID's systems for ensuring effective management and proper use of the development budget for their audit of our accounts. NAO has access to all DFID's books and files.

As a manager of taxpayers' money, DFID has to be able to provide assurance: (a) that we have paid money to the intended recipient and (b) that funds have been used for the purposes agreed. This is a key part of our broader responsibility for ensuring that our spending represents Value for Money (VfM) and contributes to delivery of the Millennium Development Goals (MDGs)

Evidence that we have paid money to the intended recipient is normally generated through the standard payments system (e.g. for all financial aid, partner governments provide us with a satisfactory degree of assurance that payments have been transferred to the intended account; and for non-financial aid our own accounting and banking systems provide this assurance).

Evidence that funds have been used for the purpose agreed can require further action, and project staff will often be involved in securing the additional evidence required.

The evidence we need to have about the use of funds varies depending on the form of aid:

- For Financial Aid in the form of Poverty Reduction Budget Support (PRBS), the basic accounting discharge is provided by the partner government, which confirms that funds have reached, for example, the Consolidated Fund of the partner country concerned. However it is mandatory to undertake a Fiduciary Risk Assessment (FRA) as part of our Financial Aid appraisal, and that we put in place reasonable arrangements to monitor the partner Government's financial management. These arrangements would normally be based on the output of the partner Government's reporting and accounting systems, and the reports of the partner Government Auditor General, backed up by additional information or safeguards where necessary. In most cases our assessment and monitoring should be part of a common reporting and audit framework for all funders, and there will often be an agreed financial management reform programme to support and strengthen these local systems.

- For non-budget financial aid, where there is more detailed specification of what funds are to be used for, and where money is being reimbursed to the partner government for local expenditure, we need either:

- Annual Audited Statements (AAS) from the Auditor General which confirm that the partner Government has used DFID finances as intended or
- an alternative audit discharge through independent continuous audit or other external audit (see Processes and Tools below).

- For Financial Aid expenditure where a Procurement Agent is the buyer on behalf of the partner Government, additional audit evidence is required. We use invoices and supporting vouchers and documentations associated with the payment to confirm what the money has been spent on.

- Where DFID itself buys goods and services, additional audit evidence is required. We use invoices, supporting vouchers and documentation associated with the payment to confirm what the money has been spent on.

- For grants to international organisations, we need evidence about the use of funds from the organisation's own audited accounts, or special audited statements. Our requirements are set out in (MOU) texts.

- For Accountable Grants to Civil Society Organisations (CSOs)/Non Government Organisations (NGOs) others, we need evidence about the use of funds through the receipt of Annual Audited Accounts, which show funds received from DFID, or through a separate audited statement. Our requirements are set out in the standard Accountable Grant letter.

## **Compliance Tasks**

- For PRBS, project staff must ensure that we have documentation, demonstrating that funds have reached the partner Government's Central Exchequer (usually the Consolidated Fund). Project staff must also both undertake a Fiduciary Risk Assessment (FRA) for all Financial Aid proposals, and specify the systems which DFID will use to monitor the partner Government's financial management and spending when providing PRBS. Cash transfer programmes, for example, welfare payments, present a particular risk and require specific assessment - See the Guidance.

### **Task assigned to: Project Staff**

- For non-budget financial aid, project staff must identify what evidence is needed to establish that funds have been spent on the locally procured goods and services intended; and ensure that this evidence is provided. Unless there is good evidence that a partner is able to provide Annual Audited Statements endorsed by the partner Government Auditor General, an alternative (continuous audit or external audit) must be used. Provisions for the method chosen should be written into the MOU.

### **Task assigned to: Project Staff**

- For other grants (bilateral and multilateral), project staff must agree audit arrangements with recipients as in standard MOU texts. Any proposal for other ways of providing evidence about the use of funds must be agreed with Effective Programmes, Value for Money Dept.

### **Task assigned to: Project Staff**

- Spenders must also ensure that agreed monitoring and audit arrangements are carried out by them and complied with by partner Governments or other partners. They should ensure that audit reports are received and scrutinised, especially if there is a qualification or other relevant comment made by the auditors and take and record appropriate action.

### **Task assigned to: Project Staff**

## **Risks of non-compliance**

- Diversion of funds
- Qualification of DFID's annual accounts or other criticism by NAO requiring the Permanent Secretary to appear before the Public Accounts Committee
- Protracted time spent trying to find out how money was spent



- Reputational risk
- Increased risk of fraud.

## **Associated learning and skills**

The tasks described in the Background are closely related to other Templates in the Blue Book. They are designed to ensure that public money is properly used and accounted for. See especially the links in Processes and Tools to the following:

- Formalising Commitments: B8
- Making Payments (Procure to Pay) : C1
- Fraud : F2
- Write-Offs and Special Payments : C8

### ***C5: Receipts***

#### **Background**

DFID receives money for a variety of reasons including repayment of principal on loans, sales of surplus stores and equipment and exchange rate gains. This money comes from a variety of sources and in a number of forms, e.g. cash, cheques, credit notes and receivable orders.

Some receipts, such as the return of unspent funds and personal telephone costs are able to be returned straight to the expenditure account code and component they were originally paid from. However, other receipts require appropriate provision in DFID's Estimates for Appropriations-in-Aid (A & A). These are receipts, which with the authority of Parliament, can be used to finance some of the gross expenditure voted by Parliament for international development. Performance and Resource Management (PRM) will ask spending departments to check that they have appropriate provisions for A & A and to detail any changes which need to be made. If adequate provision for A & A is not made through the Estimates process, the receipt has to be surrendered to the Treasury and is therefore lost to DFID.

#### **Compliance Tasks**

- Spending Departments must inform Performance and Resource Management (PRM), as part of the Resource Allocation Round, of expected receipts for the following year so that adequate provision can be included in the Main Estimate.

**Task assigned to: All Staff**

- Should Spending Departments receive a cheque they are responsible for completing a Bank Giro Credit slip and sending it with the cheque to the Royal Bank of Scotland. Cheques received by overseas offices that cannot be taken into a local bank account should be sent to the Treasury and Banking Team in Financial Accounting and Operations, who will arrange for the cheque to be deposited in DFID's account.

**Task assigned to: All Staff**

- Spending Departments with access to the ARIES system must create an invoice on the system as soon as anticipated income or receipts are identified in order to monitor and ensure income is received and credited to the correct codes.

**Task assigned to: All Staff**

- Spending Departments without access to the ARIES system must enter known debts in the Claims Register.

**Task assigned to: All Staff**

- Transactions must be accounted for on a gross basis. Net accounting, i.e. offsetting receipts against expenditure and vice versa is not allowed.

**Task assigned to: All Staff**

- All receipts must be credited to one of five possible accounting destinations:
  - a. A & A account code and component
  - b. Consolidated Fund Extra Receipts (CFER) account code (no component)
  - c. Travel/other staff advance account code & component
  - d. Net Sub-Head account code & component
  - e. Expenditure account code & component.

**Task assigned to: All Staff**

- Any foreign currency receipts, or cheques drawn on foreign banks, must be sent to Treasury and Banking Team in the UK for action unless an overseas office can deposit the funds in their local bank accounts.

## **Task assigned to: All Staff**

### **Risks of non-compliance**

- Funds surrendered to Her Majesty's Treasury (HMT) because of failure to include them in the Estimates
- Funds wrongly surrendered to HMT
- Funds wrongly credited to the aid programme
- Inaccurate and poor forecasting against our Estimates that could lead to loss of income or overspending.

## **C6: Assets**

### **Background**

Before reading DFID's rules, you must read and understand the Government Spending Controls published on the Cabinet Office website (see link under Processes and Tools section below).

In order to be able to provide a value for what DFID owns we need to have a permanent record of items that DFID regards as belonging to the department. These are our Tangible Fixed Assets and information about them is recorded in our Fixed Asset Register.

We treat an item as a tangible fixed asset if:

- it has a useful life of more than one year
- the purchase price or development cost of the asset is in excess of £1,000 or equivalent in local currency
- it is used in support of general administrative activity i.e. not on a specific project or programme.

Examples of tangible fixed assets are; buildings (offices), vehicles, fixture & fittings and IT equipment.

Equipment and supplies with a value of less than £1,000 (one thousand pounds) are defined as Consumables, and are not entered onto the Fixed Asset Register. Such items will be charged to administration costs.

Equipment and supplies purchased from programme funds are defined as programme assets. These assets are not recorded on the Fixed Asset Register, but details of such assets should be maintained by departments on an asset inventory.

## **Compliance Tasks**

- Every departmental DFO must maintain an electronic Asset Register of assets financed from administrative resources.

**Task assigned to: Departmental Finance Officer (DFO)**

- Each DFO must maintain an electronic Asset Register of Programme assets when ownership is retained by DFID.

**Task assigned to: Departmental Finance Officer (DFO)**

- Every DFID department/office, must make arrangements for the secure storage of assets and consumables.

**Task assigned to: Departmental Finance Officer (DFO)**

- Departments have delegated authority to dispose of DFID owned equipment and assets by transfer of ownership to the aid recipient, or by sale to a third party subject to certain restrictions. Disposals must be noted on departmental asset returns.

**Task assigned to: Project Staff**

## ***C7: Accounts preparation***

### **Background**

DFID has a statutory obligation to produce an Annual Report, incorporating accounts, in accordance with Her Majesty's Treasury (HMT) guidance (Government Financial Reporting Manual "FreM"). We must also adhere to international financial reporting standards (IFRS) and Generally Accepted Accounting Practice (GAAP). In this respect, our accounts are very similar to those prepared by private sector business.

DFID's accounts are accruals based. Accruals accounting is a method of recording expenditure as it is incurred, not when it is paid out, and income as it is earned, not when it is received. DFID's accounts require the inclusion of the organisation's assets and liabilities as well as our expenditure.

The National Audit Office (NAO) or their subcontractors audit the accounts. Their audit focusses on the accurate presentation of the accounts and whether these give a true and fair view of the financial position of DFID. An additional opinion is also offered on the regularity of expenditure, whether DFID's expenditure and resources have been used on activities authorised by Parliament. DFID's Accounting Officer (the Permanent Secretary) signs them before they are presented to Parliament each year, before summer recess.

Certain information used to populate the accounts is obtained directly from departments through the Year End Pack exercise, although the majority is taken directly from Aries. The faster close agenda means that DFID, like other Government Departments, has to continually improve the time that it takes to present its accounts to Parliament each year. This requires accurate and timely completion of the Year End Pack by each department as part of the year-end process.

In addition to annual accounts DFID is required to produce interim accounts to 31 December for audit. These are audited by NAO and presented to the Audit Committee in order to provide additional comfort on the year end process and help meet the accelerated timetable. This also requires the cooperation of staff in completing their interim packs and quarterly asset returns on a timely basis, in accordance with the given deadlines.

### **Compliance Tasks**

- Departments must complete and submit the quarterly asset returns, Interim Packs and Year End Pack to the Financial Accounting team within prescribed timescales.

**Task assigned to: All Staff**

- The Accounts must comply with the Government Financial Reporting Manual.

**Task assigned to: All Staff**

- The Accounts should be available for audit by NAO by the date agreed in the project plan.

**Task assigned to: All Staff**

- Accounts must be laid in the House of Commons by the statutory date.

**Task assigned to: All Staff**

### **Risks of non-compliance**

- Failure to adhere to guidance could result in accounts being late and/or qualified.

### ***C8. Delegated Authority to Approve Write Offs and Special Payments***

## Background

A write off occurs if DFID funds, or goods purchased with them, are lost/stolen/damaged, or where proper accounting documents for expenditure cannot be obtained. An additional example is where DFID has incurred non-refundable expenditure but has not received the benefit out of these payments. Examples include cancelled flights or training courses. Such items cannot be charged against DFID's budget as normal expenditure in delivering international development. They must, however, still appear in DFID's accounts.

This is done by the process of writing off. Writing off expenditure is the last resort in dealing with a loss of funds or goods. It must only be done after all possible action to recover the loss has failed. After the requirement to record a write off has been identified, staff must prepare a write off submission for endorsement from their Head of Department. Following this approval, the write off submission must be submitted to Financial Accounting for secondary approval and where this is forthcoming, the required Aries action to be completed.

As well as approval to take write off action Managing Public Money sets out the requirement to receive HM Treasury Approval before making any payment classed as a Special Payment. Special Payments are those out with the activities and payments permitted by Parliament, set out within DFID's Estimate. The following are classed as special payments:

:

- Extra-contractual payments to staff
- Ex-gratia payments to staff
- Compensation payment to staff or suppliers/other parties
- Extra-statutory payments to staff.

The module links contain guidance which will allow you to define the type of payment required for your particular requirement and submit for approval:

See also guidance on Definitions of Special Payments.

DFID has no authority to make special payments, without preapproval from HM Treasury. Therefore, if a department identifies the need for a proposed special payment they should prepare a submission requesting approval from HM Treasury. This should be submitted to the Losses Officer, within Financial Accounting, who will seek approval from HM Treasury. No payment can be made until this approval has been granted.

### **Compliance Tasks**

- Losses due to fraud, theft or other culpable action must be reported to Counter Fraud Unit  
Task assigned to: All Staff
- The department must take the necessary steps to recover such losses, and pursue prosecution wherever possible. Counter Fraud Unit will provide guidance, where required

### **Task assigned to: All Staff**

- In cases of overpayment Project Staff must assess the extent to which recovery is justified and/ or feasible  
Task assigned to: Head of Department, Head of Overseas Office
- A submission must be prepared by staff for internal approval of write off by Head of Department or Head of Overseas Office  
Task assigned to: All Staff, Head of Department, Head of Overseas Office
- All submissions for write off action must be endorsed by the relevant Head of Department and sent to the Losses Officer in Financial Accounting with a request that approval be given for write off  
Task assigned to: Head of Department, Head of Overseas Office
- All requests for special payments must be referred to the Losses Officer in Financial Accounting for advice as soon as they are received, who will seek the mandatory approval from HM Treasury to be granted, before payment can be made  
Task assigned to: All Staff, Head of Department, Head of Overseas Office

- No indication of any kind about the likely outcome must be given to persons or organisations making claims on DFID for a special payment

### **Task assigned to: All Staff**

### **Risks of non-compliance**

- NAO providing a qualified audit opinion within DFID's Annual Report and Accounts on the grounds of regularity of expenditure stating payments were unauthorised
- Secretary of State or Permanent Secretary called before the Public Accounts Committee to explain unauthorised payments
- Negative publicity
- Reputational risk

### ***C9: Promissory notes***

#### **Background**

A promissory note is a written undertaking to pay money on demand, up to a specified limit, to a named recipient.

The governing bodies of the development banks from time to time pass Resolutions requiring member states to pay, by a certain date, assessed contributions, perhaps to the capital stock of the bank, or to a development fund set up by the bank (DFID's legal powers to make these payments are set out in the International Development Act 2002). Some Resolutions stipulate payment in full in cash, but most often, they allow member states to pay some or all of the contribution by way of a promissory note, the essential text of which is usually stipulated in the Resolution.

If DFID choose to use Promissory Notes these do not always need to be underpinned by a Statutory Order laid before Parliament. Orders are required when DFID are bound to make a contribution towards the establishment or capital stock of the bank. Contributions to development funds held by the bank do not require orders to be placed before Parliament.

The deposit of a promissory note is counted as 'official development assistance' (oda) at the time of deposit, not when it is encashed.



The Director for Value for Money signs promissory notes issued by DFID. DFID uses them mainly, but not exclusively, as part of the arrangements whereby we pay certain sums to International Development Banks and Funds.

## **Compliance Tasks**

- The Director for Value for Money signs Promissory Notes on advice from Financial Accounting.

### **Task assigned to: Director**

- A payment schedule must be agreed in writing with the beneficiary before a promissory note is issued

### **Task assigned to: Project Staff**

- Before a promissory note can be issued, Project Staff must send a letter to the Bank of England appointing them or (or referring to their existing appointment) as depository for the promissory note or series of notes in question, and summarising the content of the note that DFID will shortly be sending them for deposit and encashment from DFID's Promissory note account (account number 20000936 - Sort Code 10-00-00)

### **Task assigned to: Project Staff**

- The promissory note must contain wording stating that it is non-interest bearing and non-negotiable
- Shortly before a promissory note is due for deposit the spending department must send the original promissory note to Financial Accounting for onward transmission to the Director of Value for Money, with a minute indicating:
  1. The Resolution under which the payment is being made, where applicable.
  2. The replenishment, or fund contribution, etc., to which the payment relates.
  3. The total amount of the UK commitment of which the promissory note forms a part.
  4. The date by which, in accordance with the Resolution, the deposit of the promissory note is required.
  5. That any Ministerial and Parliamentary approval required in accordance with the 2002 Act has been given.

- That the Bank (of England) has been duly appointed as depository, and that they are aware that this note is being deposited.
- That there is aid framework provision for the scheduled expenditure.
- That the beneficiary has been notified that the note is being deposited.

**Task assigned to: All Staff**

## **Risks of non-compliance**

Failure to agree a payment schedule with the beneficiary may result in a demand for funds in excess of the aid framework and also payment in advance.

## ***C10: Contingent liabilities***

### **Background**

Contingent liabilities are potential calls on Government funds, i.e. dependent upon particular events happening in the future.

They include commitments to pay subscriptions to international financial institutions, guarantees, indemnities and letters of comfort whether given in the normal course of business or otherwise.

Contractual commitments, or commitments to pay grants in future years, do not count as contingent liabilities when made in the normal course of DFID's business.

Certain contingent liabilities have to be reported to Parliament, e.g. those for which we do not have statutory authority (i.e. activities not covered by legislation). They are reported by Financial Operations by way of a Departmental Minute.

### **Compliance Tasks**

- Financial Operations must be consulted if it is proposed that DFID give a guarantee, indemnity, or a letter of comfort.

**Task assigned to: All Staff**

- A contingent liability must only be accepted when it is absolutely necessary for an activity to proceed, or where statutory authority for specific activities already exists.

**Task assigned to: All Staff**

- Before any contingent liability is accepted, whether in the normal course of DFID business or not, Project Staff must make a careful appraisal of the risks, including where appropriate, the legal aspects and consult Financial Management Group.

**Task assigned to: All Staff**

- A guarantee or indemnity not covered by statutory authority for more than £250,000 (Two hundred and fifty thousand pounds) must be notified to Parliament by Financial Operations, by Departmental Minute, and before acceptance of the liability.

**Task assigned to: All Staff**

- Spending Departments must review all their liabilities, reportable or not, at least once a year as part of the annual Resource Accounts.

**Task assigned to: All Staff****Risks of non-compliance**

- Unexpected call on Public Funds
- Spending not consistent with the International Development Act (IDA) 2002 and the Human Rights Act (HRA) 1998
- Potential criticism from Internal Audit and National Audit Office.

***C11: Debtors*****Background**

Each Department/Office should be aware of any outstanding debts owed to DFID in respect of that Department/Office's area of responsibility. Departments/Offices with access to ARIES must record outstanding debts by means of creating an invoice on the system. Departments/Offices without access to ARIES must maintain a Claims Register and ensure it provides an up to date record of outstanding debts owed to DFID in respect of that Department/Office's area of responsibility.

With the exception of advances of pay and related allowances, Department/Offices must record all other expected receipts.

**Compliance Tasks**

1. Heads of Department/Overseas Offices must designate an officer in the Department/Office to be responsible for monitoring debts (normally the Departmental Finance Officer (DFO) or Accountant).

**Task assigned to: Head of Department**

2. Project staff must create an invoice on the ARIES system as soon as the debt is identified.

**Task assigned to: Project Staff**

3. Outstanding invoices must be monitored on a monthly basis and a report sent to the Head of Department/Overseas Office.

**Task assigned to: Head of Department, Head of Overseas Office**

4. The Claims Register must either be a bound book (not loose leaf) with printed numbered pages, or a computer based record, for which the following additional requirements must be followed:

- Access to the record is restricted to designated individuals responsible for maintaining the register, through either a password control mechanism and/or physical security of the computer and ancillary equipment (for example diskettes).
- Each claim entered on the register must be given a unique identification number, running sequentially.
- The register must record the debtor, the nature of the debt, the amount owed and the action being pursued (with appropriate file references).
- A claim, once entered on the register, must not be removed under any circumstances (to preserve in complete form a record for audit purposes). Claims settled are to be marked accordingly in the register.
- Designated officers must circulate details of outstanding debts to the rest of the Department/Office on a monthly basis for review and updating.

**Task assigned to: Departmental Finance Officer (DFO)**

5. Heads of Department/Overseas Offices are responsible for ensuring that debtors are pursued and that debts are not allowed to become 'aged', i.e. over three months old.

**Task assigned to: Head of Department, Head of Overseas Office**

6. If a debtor fails to pay/repay DFID in a reasonable amount of time and without good reason. The Head of Department/Overseas Offices must consult

Internal Audit Department (IAD) and Financial Management Group (FMG) on whether or not to take legal action to recover the debt.

**Task assigned to: Head of Department, Head of Overseas Office**

### **Risks of non-compliance**

- Claims on parties outside DFID get overlooked
- There is no action to recover the debt
- Potential criticism from Internal Audit, National Audit Office
- Loss of funds to DFID/Her Majesty's Treasury (HMT).

## **C12: Value added tax (VAT)**

### **Background**

DFID is required to have a Value Added Tax (VAT) Liaison Officer (VLO) who is responsible for its VAT affairs. DFID's officer is situated in Financial Management Group (FMG). Any member of staff requiring advice on VAT should contact the VLO. Only the VLO may communicate with Her Majesty's Revenue & Customs (HMRC) about VAT matters.

Like all Government Departments, DFID is registered for VAT. DFID has two VAT registration numbers:

- GD 888 8137 56 for use in dealings with UK suppliers and customers;
- GB 888 8137 56 for use in dealings with suppliers and customers in other member states of the European Union (EU).

In most situations, VAT liability is determined by who is the immediate recipient of the supply, and never by who is the eventual recipient. Services supplied to DFID for the eventual benefit of one or more overseas aid recipients are services to DFID, not to an overseas recipient. In some cases where DFID is liable to pay VAT it can be reclaimed by the VLO from HMRC.

Services supplied to an overseas recipient will normally be outside the scope of VAT. Services supplied to DFID will attract VAT at the standard rate. Goods exported directly overseas by procurement agents should not attract VAT. Goods delivered to DFID in the UK, even if they are to be eventually exported will attract VAT at the standard rate unless they have been ordered by or for an overseas office that has Diplomatic status.

## **Compliance Tasks**

1. DFID staff must never give VAT advice to a supplier. The supplier, not DFID, is responsible for determining the VAT liability. If a supplier asks for VAT advice, refer the supplier to their Local VAT Office.

### **Task assigned to: All Staff**

2. All contracts for services must clearly state in Section 1 and in the terms of reference to whom the supplier is to supply the services e. g. to DFID, or to a named overseas recipient.

### **Task assigned to: All Staff**

3. Staff must consult the VLO if VAT is charged when you think it should not be, or not charged when you think it should be.

### **Task assigned to: All Staff**

4. Invoices on which VAT is charged must not be altered even if the supplier agrees that the invoice is incorrect or that VAT should not have been charged. Ask the supplier to reinvoice.

### **Task assigned to: All Staff**

5. If an incorrect VAT charge is paid, it must be recovered from the supplier, not from HMRC.

### **Task assigned to: All Staff**

6. If a supplier does not charge VAT but discovers later that he/she should have done, and issues an invoice for the tax, DFID should pay. If the VAT charge is in order check whether it is reclaimable.

### **Task assigned to: All Staff**

## **Risks of non-compliance**

- Loss of funds through paying VAT when it should not have been paid.
- Fines imposed on DFID by Customs and Excise because too much VAT reclaimed.