



Department  
for International  
Development



# Accounting Officer System Statement

July 2018



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## **Contents**

Section 1: Scope of the system.....	2
Section 2: System of accountability .....	3
Section 3: Responsibilities within the core department .....	9
Section 4: Value for money .....	13
Section 5: Relationships with Arm's Length Bodies .....	14
Section 6: Overseas Superannuation Vote .....	15
Section 7: Grants to private and voluntary sector bodies .....	16
Section 8: Major contracts and outsourced services .....	17
Section 9: Multilateral Funding.....	18
Section 10: Investments, joint ventures and other assets .....	19

# Section 1: Scope of the system

## Statement of Accounting Officer Responsibilities

1. The Secretary of State for International Development has overall responsibility for the Department for International Development (DFID). The Secretary of State is supported by junior Ministers. Ministers operate in compliance with the Ministerial Code and are accountable to Parliament on all aspects of DFID's policy and delivery decisions.

### Principal Accounting Officer's statement

As Permanent Secretary, I am appointed by HM Treasury as the Principal Accounting Officer to the Department for International Development with responsibility for all funding under the DFID Estimate and the Overseas Superannuation accounts approved by Parliament. I also receive, directly from HM Treasury, a set of delegated spending authorities which specify the circumstances when I seek separate additional Treasury approval to commit resources.

This statement covers my core department, its arm's length bodies and other arm's length relationships. It describes accountability for all expenditure of public money through my department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

The primary legal basis for the UK's expenditure on development and humanitarian assistance is the International Development Act 2002. DFID also reports annually to Parliament on development policies and programmes and the provision of development assistance to partner countries under the International Development (Reporting and Transparency) Act 2006. The International Development (Gender Equality) Act 2014 ensures that the department considers gender equality before providing assistance and the International Development (Official Development Assistance Target) Act 2015 commits the UK government to the target of spending at least 0.7% of gross national income (GNI) on overseas aid.

As Accounting Officer I am also responsible for DFID's Overseas Pensions Department, which administers pension schemes that have been set up under the Acts of Parliament: Overseas Pensions Act 1973, Pensions (Increase) Act 1971, as amended, Hong Kong (Overseas Public Servants) Act 1996 and the UK Police and Firemen Acts 1997.

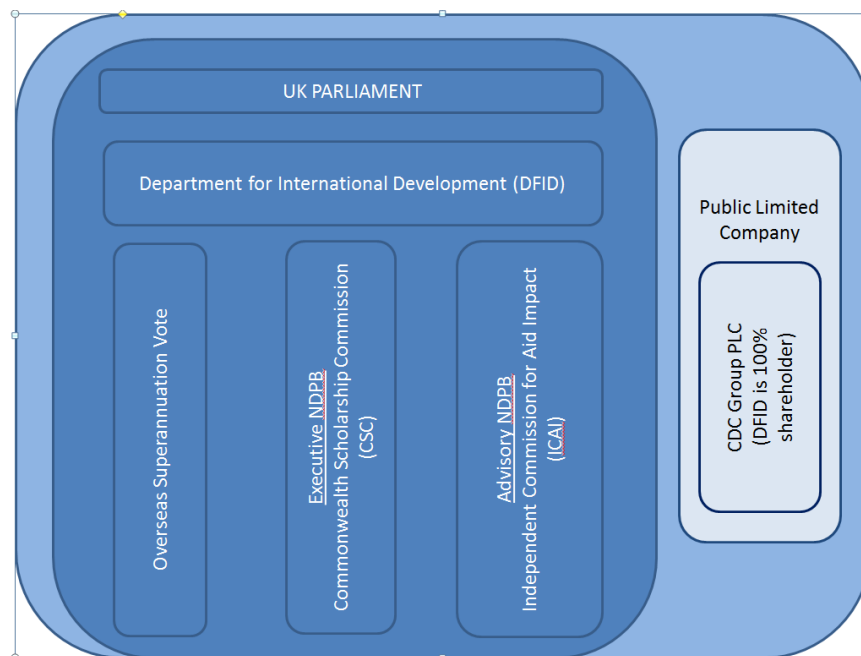
This statement describes the accountability system which is in place at July 2018 and which will continue to apply until a revised statement is published. It summarises the systems I have in place to fulfil my responsibilities as an accounting officer in accordance with HM Treasury's guidance set out in Managing Public Money.

2. DFID delivers objectives which are set out in the Government's UK Aid Strategy. Some 99% of our budget is classed as Official Development Assistance (ODA) under the rules established by the Organisation for Economic Co-operation and Development. Each calendar year DFID has to ensure that the UK Government meets its target to spend 0.7% of Gross National Income on overseas aid.
3. Through the Overseas Pensions Department (OPD), DFID administers pension schemes to former expatriate colonial civil and public servants and their dependants. OPD is also responsible for the formulation of the UK Government's policy on overseas pensions and UK pension increase supplements.

## Section 2: System of accountability

4. DFID leads the UK's work to end extreme poverty, deliver the UN Global Goals for Sustainable Development and tackle global challenges. DFID is a Ministerial department supported by two arm's length bodies: the Independent Commission for Aid Impact and the Commonwealth Scholarship Commission. In addition DFID is a 100% shareholder in CDC. CDC is a public limited company and DFID has an arm's-length relationship for its shareholding in CDC. This means that day-to-day operations and investment decisions are independent of government. DFID is not involved in investment decisions and CDC is solely responsible and accountable for making investment decisions. More information on CDC can be found in Section 10: Investments, joint ventures and other assets.
5. DFID was established in 1997 and employs staff who work in our offices in London, East Kilbride and globally. We work in countries across Africa, Asia and the Middle East, many of which are fragile or at risk from fragile neighbours. We also have regional programmes in Africa, Asia and the Caribbean, and development relationships with aid-dependent Overseas Territories. In addition to working directly in countries, DFID also provides UK aid through multi-country global programmes and core contributions to multilateral organisations.
6. DFID works with the private sector, non-governmental organisations, overseas governments and other development actors including multilateral organisations. By using this operating model, DFID can deliver at scale and flexibly across a number of fragile and conflict-affected countries. DFID uses a range of funding instruments to fulfil our policy objectives including grants, contracts and financial investments. Our accountability system is provided through a rigorous, clear, evidence-based business planning process, supported by governance, monitoring, audit, and assurance and risk management processes.

Figure 1 – Scope of the System<sup>1</sup>



<sup>1</sup> In April 2018 the Secretary of State became Minister for Women and Equalities within Government. This statement covers the accountability systems of the Department for International Development and will be updated once the governance and accountability systems are agreed for oversight of the Government Equalities Office.

7. DFID introduced a set of “Smart Rules” in July 2014 to provide an updated and enhanced operating framework for all programme activity and expenditure. These set out the approval and management processes which spending teams have to follow. The Smart Rules are reviewed every six months and revised when necessary. They are built on the principle of ‘empowered accountability’. Senior Responsible Owners (SRO) are identified for each programme and held accountable for the delivery of their programmes. They are empowered to make day-to-day decisions. The Smart Rules and supporting documents make it clear that programme teams should proactively escalate concerns, major risks or significant changes in the operating environment
8. Programmes are delivered within a governance framework that provides oversight from resource allocation, through programme design, to closure. DFID’s programme governance framework consists of seven control points (set out below), using standard templates wherever possible. The scope of this framework is applicable for all forms of programme expenditure:
  1. **Single Departmental Plan (SDP):** DFID’s SDP<sup>2</sup> sets the overall policy and resource framework for the department’s work and allocates resources to individual business units to deliver specific results.
  2. **Business Plan:** Individual business units develop business plans setting out what and how they will deliver, consistent with DFID’s SDP. Business Plans are approved by Ministers.
  3. **Business Case:** The Business Case translates elements of the SDP into an individual programme, setting out how each programme will contribute to deliver the Business Plan results. Ministers approve all business cases over £5m.
  4. **Formal Agreement:** Programme delivery mechanisms are formalised through a variety of agreements using a set of standard templates. These include clauses to ensure DFID adheres to legislative requirements and clarifies partner organisation responsibilities with respect to safeguarding, fraud and loss. DFID uses a suite of delivery mechanisms and formal agreements. The most suitable delivery method and formal agreement is identified as part of the Business Case development. The formal agreement establishes roles and responsibilities between DFID and our implementing partner/supplier.
  5. **Delivery Plan:** SROs are responsible for developing and updating a Delivery Plan that sets out delivery priorities, key milestones, a log frame, roles and responsibilities and risk management strategies for each programme in a proportionate way.
  6. **Annual Review:** All programmes are reviewed annually, providing an assessment of performance, ongoing relevance, and value for money, lessons learned and any remedial action required. From this data, we derive an overall portfolio quality score which gives us an assessment of how our programmes are performing.
  7. **Project Completion Review:** All programmes have a Project Completion Review within three months of formal operational closure, ensuring that all monies are accounted for; unspent funds are returned and lessons learned are captured.

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<sup>2</sup> <https://www.gov.uk/government/publications/department-for-international-development-single-departmental-plan/department-for-international-development-single-departmental-plan>

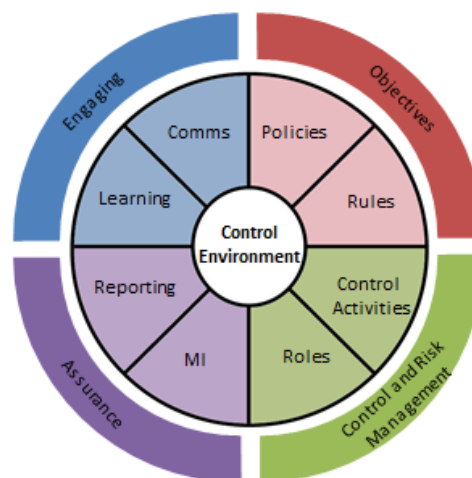
## Managing risk

9. DFID's risk management framework is based on HM Treasury's process for managing risks (identify, assess, respond, and control) and incorporates DFID's delivery model as defined by the Smart Rules (design, mobilisation, delivery, and closure). The framework provides a DFID-wide approach and standards for assessing, identifying, responding to and controlling risks, within agreed principles and using a consistent set of risk categories and tools. The six categories of risk are: external context, delivery, safeguards, operational, fiduciary and reputational.
10. Risk registers are held at all levels across the organisation from the strategic risk register (owned by the Management Board) to departmental and programme risk registers. This approach enables risks to be clearly identified, along with information on their management and the individual responsible for monitoring and reporting on them. Risk assessments are embedded within the business case and risk is managed throughout the programme within the risk appetite approved within that business case.

## Control and assurance framework

11. In DFID, internal controls are designed to protect our funds and assets from fraud, error or loss, and to provide assurance that risks are effectively addressed.
12. In 2017, DFID published our Control and Assurance Framework and clarified our 'Corporate Rules which further strengthened our internal control environment. The 'Corporate Gateway', an internal online platform, sets out responsibilities for all staff and makes it clear who is accountable for what in the main corporate processes.
13. The Control and Assurance Framework applies to all staff and sets out our approach through a series of inter-related components: the control environment; DFID objectives; risk assessment; control activities; and monitoring and assurance activities. For corporate processes we have developed :
  - Clear rules, policies and guidance.
  - Control and responsibility matrices.
  - Management information.
  - Robust assurance processes and tools.

Figure 2 – Control and Assurance Framework



## Control environment

14. The control environment uses the three lines of defence model<sup>3</sup> and provides the clear governance structure and organisational responsibilities to support the system of internal control. The control environment is set through leadership behaviours, attitudes, awareness and actions regarding the internal control system and its importance to the organisation. This is expressed in DFID's management style, corporate culture, values, philosophy and operating style as well as the organisational structure, human resources policies and procedures and the capacity and capability of staff.

Figure 3 – Three lines of defence

First line responsibilities	Second line responsibilities	Third line responsibilities
<ul style="list-style-type: none"> <li>Identifies, assesses, controls, and mitigates risks.</li> <li>Applies internal controls and policies.</li> <li>Executes risk and control procedures on a day-to-day basis.</li> <li>Responds to changes in risks / risk appetite.</li> <li>Implements corrective action to address deficiencies.</li> <li>Manages and supervises to ensure compliance and identify any breakdown in controls.</li> </ul>	<ul style="list-style-type: none"> <li>Align strategic objectives with risk assessment and related responses.</li> <li>Ensures the first line of defence is properly designed and operating as intended.</li> <li>Designs and implements risk management policies and procedures.</li> <li>Provides methods and tools to support management of risk.</li> <li>Monitors compliance with risk and control policies.</li> </ul>	<ul style="list-style-type: none"> <li>Provides independent, objective assurance.</li> <li>Recommends improvements to the management of risk and control activities.</li> <li>Independently investigates fraud and allegations of malpractice in first two lines.</li> </ul>

- The **first line of defence** is fulfilled by front line spending teams who take decisions on risk-based judgements.
- The **second line of defence** sets the policy, procedures and guidance, and monitors compliance through constructive challenge. Corporate departments support first line teams to build the capabilities they need to operate within the Control Framework.
- The **third line of defence** provides independent oversight and scrutiny ensuring that the Framework remains appropriate and is adhered to. It is provided internally by the Internal Audit Department and the Audit Risk and Assurance Committee.

## Counter Aid diversion

15. DFID's Counter Aid Diversion Strategy sets out our approach to active management of counter aid diversion risks, and strengthens our internal controls to safeguard UK aid through clear accountability and the effective management of risk. The strategy covers DFID's approach to all aid diversion risks: **fraud, terrorist financing, money laundering and bribery**. Framed within DFID's three lines of defence it provides an outline of our counter aid diversion landscape and an overview of roles and responsibilities. It articulates the processes setting out the activities that will be delivered to strengthen counter aid diversion further in DFID. The strategy is designed to create a culture that:

<sup>3</sup> <https://www.gov.uk/government/publications/assurance-frameworks-guidance>



- Encourages prevention;
  - Promotes detection;
  - Ensures effective investigation where suspected aid diversion has occurred; and
  - Applies sanctions and enforces a zero tolerance approach where aid diversion has been committed.
19. The Counter Aid Diversion Framework is designed in line with the Cabinet Office Fraud Functional Standards. The standards were developed in conjunction with the government counter fraud profession with the objective of protecting taxpayers' money from fraud and error.
  20. The Director General for Finance and Corporate Performance is DFID's Counter Fraud Champion. The Counter Fraud Champion sets the tone and oversees the fight against aid diversion by instilling an anti-fraud culture in the organisation. Responsibility to manage the risk of fraud resides at all levels within DFID including assurance, programme delivery, policy and corporate functions.
  21. The Control and Assurance Team is responsible for shaping DFID's counter aid diversion framework by ensuring that there are adequate counter fraud governance, risk management and control and assurance processes in place. This translates into the provision of direction and support to equip staff to have the capacity, capability and confidence to competently discharge their first line responsibilities through the creation of governance structures, the provision of guidance, and supporting resources including tool kits, training; fraud awareness events and the provision of lessons learned to the first line.
  22. The Counter Fraud Section is an independent investigative unit that sits within the Internal Audit Department. It has responsibility for leading and undertaking investigations including related to abuse, exploitation and harassment. It manages DFID's independent reporting hotline [reportingconcerns@dfid.gov.uk](mailto:reportingconcerns@dfid.gov.uk) where all staff must report any potential misappropriation of DFID funds.

## Safeguarding

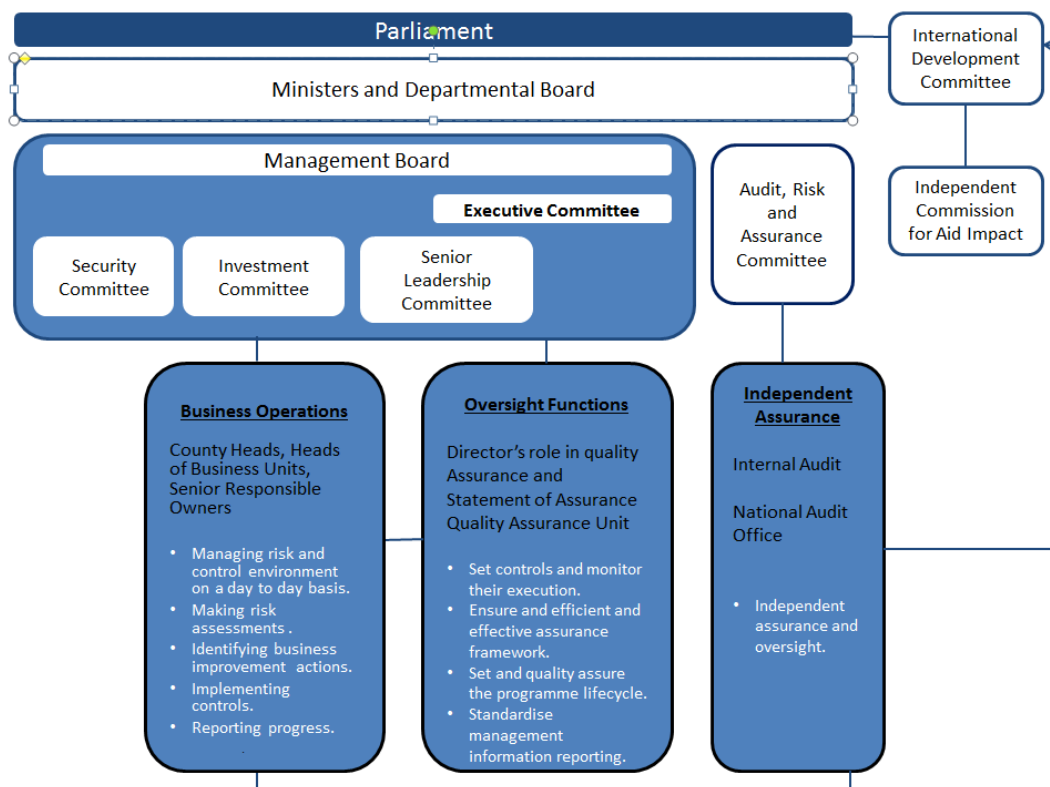
23. Safeguarding for DFID means taking all reasonable steps to prevent harm, exploitation and abuse from occurring and to protect people (especially vulnerable adults and children) from that harm. DFID has zero tolerance for sexual assault or harassment. All DFID staff are required to comply with the values and behaviours set out in the Civil Service Code and Management Code as well as our Standards of Conduct.
24. DFID's Smart Rules and overall Risk Management Framework make it clear that teams and partners should proactively escalate any concerns as they arise including reporting them to DFID's independent reporting hotline, managed by Counter Fraud Section (CFS).
25. Preventing the abuse and exploitation of beneficiaries of DFID-funded programmes starts at the design phase of a programme and runs throughout its lifecycle. This issue falls under the Safeguarding category in DFID's Risk Management Framework which is used when designing and managing programmes. Since March we have provided new guidance to support staff and partners to identify safeguarding risks as part of due diligence. Throughout DFID's programme cycle there are a number of additional control points which provide opportunities for teams to identify and respond to safeguarding concerns, including sexual exploitation and abuse of beneficiaries.
26. DFID is committed to improving safeguarding standards across the aid sector. We established a dedicated Safeguarding Unit in February 2018 which reports to the Director General for Policy, Research and Humanitarian who is the designated Management Board lead on safeguarding. We are taking action to ensure all those working in poverty reduction internationally take all reasonable steps to prevent harm, particularly sexual exploitation, abuse and harassment from occurring; to protect people,

especially vulnerable adults and children, from that harm; and to respond appropriately when harm does occur.

## Section 3: Responsibilities within the core department

27. DFID's internal policies and priorities are set and governed by a Departmental Board, a Management Board and its subcommittees.
28. The organisational component of DFID's control environment is structured across the three functional areas (business operations, oversight functions and independent assurance) with oversight from the Departmental Board. The Departmental Board, supported by the Management Board and other sub-committees, has overall responsibility for DFID's governance.

Figure 4 – Governance structure



29. The Accounting Officer, supported by the Departmental Board, is responsible for ensuring that there are robust governance, risk management and internal control arrangements across the whole organisation. He is supported by those responsible for business operations that deliver DFID's objectives and identify and provide assurance on risks that could be a threat to DFID's ability to deliver and reach those in need.
30. The Departmental Board advises on, and monitors, the delivery of the Secretary of State's strategy and policy priorities. The Departmental Board sets DFID's strategic direction, monitors policy and priorities, has oversight of DFID's Single Departmental Plan and advises on significant risks to implementation. It recommends remedial actions if operational or financial performance is off track. The Departmental Board is chaired by the Secretary of State and meets at least quarterly in formal session.
31. The Management Board provides strategic direction to the management of DFID's operations, staff and financial resources by guiding our strategy and policy priorities in line with direction set by the ministerial team and Business Plan. It communicates our vision, direction and priorities to staff and other stakeholders, ensuring effective

allocation and management of our staff and financial resources and monitoring and improving our performance and capability.

32. The Executive Committee makes decisions on sensitive, time critical, internal operational and policy implementation issues that may have an organisational impact.
33. The Investment Committee is responsible for providing assurance that the programme portfolio is delivering value for money. To do this, the Investment Committee looks across the integrated control and quality assurance framework to ensure the seven control points along the programme cycle are working well and delivering value for money, independently and together. To achieve this, it systematically monitors portfolio performance and quality through management information and other qualitative reports, taking action as appropriate.
34. The Senior Leadership Committee is responsible for ensuring that the structure and role of DFID's Senior Civil Service (SCS) is designed to meet our future and changing leadership needs. It also manages SCS performance, pay and rewards, ratifies appointments, and leads on talent and succession management.
35. The Security Committee is responsible for monitoring the adequacy and effectiveness of all aspects of DFID's global security. Its primary focus is on security of DFID staff, however it also reviews all aspects of cyber, physical and information security; along with health and safety.
36. The Audit, Risk and Assurance Committee is a subcommittee of the departmental board and has an oversight function in advising the Board and the Accounting Officer on the assurance processes and actions in relation to management of risks, strategic processes for risk management, internal control and governance. This includes accounting policies, financial statements and DFID's Annual Report. It has oversight of DFID's anti-fraud policies, procedures, whistleblowing processes and arrangements for special investigations, each of which is reviewed on a regular basis.
37. Accountability is delegated by the Accounting Officer to DFID's Directors General, Directors and Deputy Directors, who have the authority to approve expenditure and commit resources within predefined limits, together with the responsibility for proper stewardship of these resources and compliance with the requirements of HM Treasury's Managing Public Money.

Figure 5 – Organisational structure



38. Directors are accountable to the Management Board for delivering business plans across their division's portfolio and taking action to re-balance programme portfolios when necessary. They identify and manage portfolio risks, ensuring that systems are in place to provide assurance that these risks (including the risk of fraud) are managed properly. They are accountable for ensuring that DFID controls are operated effectively in their areas, working with their peers to give corporate leadership on department-wide issues. The Annual Statement of Assurance forms an integral part of this control environment. It requires Directors and Heads of Department to provide assurance that DFID's internal controls and corporate governance arrangements have been consistently applied within their business unit.
39. The Head of Department is responsible for managing resources and delivering results within their area. They are accountable for their portfolio of programmes. The Head of Department appoints a Senior Responsible Owner (SRO) for each programme who is accountable for its design and delivery oversight. The SRO leads a team of DFID staff which includes commercial, financial, programme management and technical (e.g. health) expertise. The SRO role includes ensuring:
- Delivery of DFID's objectives as set out in the programme Business Case and Delivery Plan.
  - Designing and adapting programmes to changing contexts, based on learning and feedback.
  - Compliance with the Smart Rules (with respect to design, delivery and closure of programmes).
  - Objectivity when evaluating under-performance, taking action to improve, to restructure or to close.
  - All the risks associated with programmes are clearly articulated and summarised in the Business Case and Delivery Plan.

## Audit and assurance

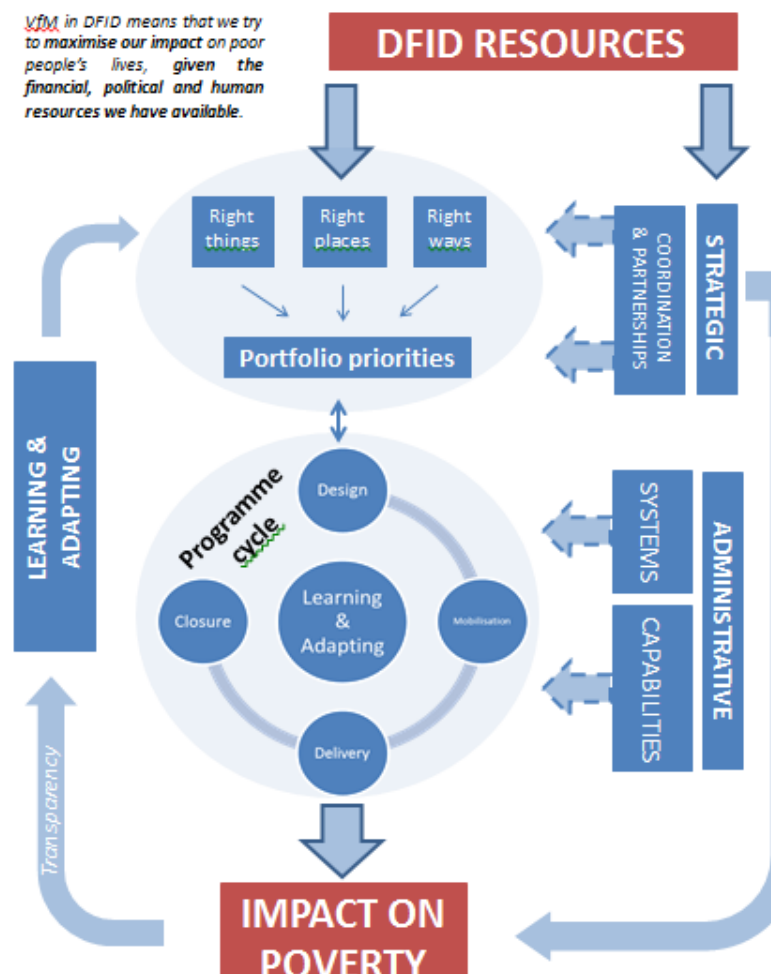
40. DFID's risk and assurance arrangements support the delivery and accountability requirements of the Accounting Officer and the Board, providing evidence-based assurance on the management of risks that threaten successful achievement of public service delivery objectives.
41. IAD reports outside the line management chain to the Accounting Officer and reviews all DFID's activities (overseas offices every two years, headquarters functions over five years). The aim is to assess the risks faced by DFID and how effectively they are identified and managed. This provides an important source of assurance to the Accounting Officer and to DFID's Audit and Risk Assurance Committee.
42. The National Audit Office, as DFID's external auditors, has a statutory responsibility for the audit of DFID's annual report and accounts. They also undertake periodic reviews and thematic investigations to assess whether DFID spending represents value for money.
43. Further scrutiny and independent oversight is also provided by the Parliamentary International Development Committee, the Public Accounts Committee and the Independent Commission for Aid Impact.
44. The International Development Committee (IDC) monitors DFID's policy, administration and spending, along with that of its associated public bodies. The IDC takes an interest in the policies and procedures of the multilateral agencies, contractors and non-government organisations to which DFID contributes. The Committee consists of eleven Members of Parliament and sets its own programme and chooses subjects for inquiries.
45. The Public Accounts Committee scrutinises value for money (the economy, efficiency and effectiveness of public spending) and generally holds DFID and its non-departmental bodies (NDPBs) to account for delivery.

46. An annual Governance Statement is included within the Annual Report and Accounts. It covers DFID's corporate governance, risk management and internal control arrangements. This statement incorporates an evaluation on how well the arrangements have operated in practice based on assurance received by the Internal Audit Department (IAD) through the statement of assurance exercise and management information produced as part of in-year assurance activities.
47. The Statement of Assurance exercise requires Directors and Heads of Office/Department to provide assurance that DFID's internal controls and corporate governance arrangements have been consistently applied within their business unit (or to explain where it has not been so applied).

## Section 4: Value for money

48. Value for money (VfM) in DFID means that we maximise the impact of each pound spent to improve poor people's lives. DFID has a duty to those living in extreme poverty and to the UK taxpayer to ensure that we do everything we can to maximise the VfM from our actions.
49. Maximising VfM applies to all aspects of DFID's work. At a strategic level, we work to improve the impact of all UK development financing to amplify the impact of the UK and other donors' aid. At a portfolio level, VfM means we aim to allocate our limited resources to maximise impact by doing the right things, in the right places, and in the right ways. At a programme level, we strive to design, procure, manage, and evaluate our interventions to maximise impact. At an administrative level, VfM means that the ways we work as an organisation make best use of our people and resources.
50. Across all of these levels, we invest in the central enablers to delivering VfM, such as transparency, data, scrutiny, payment by results and learning. A strong evidence base is essential for the provision of more effective development assistance, helping us to maximise VfM, learn lessons for the future and demonstrate impact.

Figure 6 – How DFID systems aim to provide vfm



## Section 5: Relationships with Arm's Length Bodies

51. DFID has two Non Departmental Public Bodies (NDPB) for which the Accounting Officer is accountable: the Independent Commission for Aid Impact (ICAI) and the Commonwealth Scholarship Commission.

### Independent Commission for Aid Impact

52. ICAI is an Advisory NDPB and was established in May 2011. It provides independent evaluation and scrutiny of the impact and value for money of all UK Government ODA. It reports on its work to Parliament through the International Development Committee.
53. A Framework Agreement between DFID and ICAI sets out the governance arrangements that are designed to ensure ICAI's propriety and value for money while safeguarding its operational independence. The Financial Memorandum to the Framework Agreement sets out arrangements for the delegation of financial responsibilities to ICAI. The Head of ICAI's secretariat is appointed by the Permanent Secretary as the designated Accounting Officer for ICAI and is responsible for the safeguarding of public funds. All payments for ICAI are made through DFID systems and, as such, are subject to DFID's control framework including review by DFID's Internal Audit Department. The most recent audit was completed in 2018.
54. ICAI publishes its Annual Report and Accounts in June of each year.

### Commonwealth Scholarship Commission

55. The Commonwealth Scholarship Commission in the UK (CSC) was established by an Act of Parliament in 1959. It is an executive NDPB comprising of up to fourteen Commissioners and a Chair, who are appointed by the Secretary of State for International Development in line with Cabinet Office Public Appointments code of practice and the International Development Act 2002. The CSC manages the UK's contribution to the Commonwealth Scholarship and Fellowship Plan, an international programme under which member governments offer scholarships and fellowships to citizens of other Commonwealth countries.
56. The Secretary of State is accountable to Parliament for the activities and performance of the Commission. The International Development Act (IDA) 2002 sets out the responsibilities of the Secretary of State. The CSC Accounting Officer role is held by the Chair of the Commission who was appointed by DFID's Permanent Secretary.
57. The Commissioners are selected via an open, competitive process on the basis of merit, in accordance with the principles of the Code of Practice for Ministerial Appointments to Public Bodies. The Commissioners are responsible for overseeing the running of CSC, taking decisions on its strategic direction and, most importantly, selecting scholars and fellows. The CSC has no employees, contracting out its secretariat and other management functions to two external bodies: the Association of Commonwealth Universities and the British Council.
58. In line with Cabinet Office guidance on NDPBs, CSC's governance, financial controls, assurance arrangements and performance monitoring mechanisms are set out in the Framework Document and an associated Financial Memorandum signed between DFID and CSC. DFID's Internal Audit Department carries out regular audits of CSC. The latest audit was completed in November 2016. The Cabinet Office carried out a review of the three scholarship programmes provided by HMG (the "Cluster Review"), which concluded in April 2016. A further tailored review of the scholarship schemes is due 2018/19.



## Section 6: Overseas Superannuation Vote

59. DFID, through its Overseas Pensions Department (OPD), is responsible for the administration and payment of pensions and related benefits to former expatriate colonial civil and public servants, including those derived from service and military capacity in former British India, Sudan and Egypt public service. The schemes managed by OPD are closed to new members. OPD is also responsible for the formulation of HMG's policy on overseas pensions and UK pension increase supplements.
60. The majority of pensions paid by OPD derive from two policy initiatives by the British Government: a 1962 agreement to supplement the pensions paid to certain former colonial civil servants; and a 1970 announcement that the British Government would assume responsibility from overseas governments for the payment of pensions due to expatriate colonial civil servants who had mainly been appointed by, or on behalf of, the Secretary of State for the Colonies. The 102 pension schemes that have been set up are covered under the following Acts of Parliament:
- Overseas Pensions Act 1973
  - Pensions (Increase) Act 1971, as amended
  - Hong Kong (Overseas Public Servants) Act 1996
  - UK Police and Firemen Acts 1997.
61. OPD is part of DFID's control and assurance framework and the accounts are audited by the Controller and Auditor General.

## Section 7: Grants to private and voluntary sector bodies

62. DFID provides grants to Civil Society Organisations (CSOs), through its country offices and central departments.
63. Grants to CSOs are designed, approved, managed and closed in line with DFID's programme cycle and the seven control points outlined in section two. In summary, DFID transfers accountability for delivery of the grant outputs and outcomes to the grant recipient through a formal grant arrangement. DFID receives initial assurance that the recipient's policies, procedures, processes and systems are sufficiently robust through a due diligence assessment prior to awarding the grant letter. Assurance throughout the delivery of the grant comes from regular meetings with partners, monitoring of logical frameworks and evaluating progress against delivery plans as well as via formal annual reviews. Project completion reviews are undertaken to provide final assurance that the grant has delivered expected outputs and outcomes.
64. DFID may choose to engage a fund manager to manage larger grant schemes. In such cases, DFID transfers accountability for the proper selection and management of grants in line with DFID and wider government rules through a contract following a formal contracting procedure. The final recommendations on awarding grants are made by DFID officials and approved by the Secretary of State. More detail on the accountability and assurance systems for contracts is provided in Section 8.
65. In early 2018, the Cabinet Office conducted a maturity assessment<sup>4</sup> of DFID's grant making processes. DFID received an overall assessment of 'established' (level 3 of a 5 point rating scale) which the Cabinet Office considers as a level of maturity that surpasses the government minimum grant standards that were introduced in December 2016.
66. Of the 22 indicators, 10 were assessed as 'advanced' (level 4), nine were 'established' and three were 'developing' (level 2). The areas identified as 'developing' were related to market engagement prior to awarding grant funds. DFID is continuing discussions with Cabinet Office colleagues to agree specific improvement actions.
67. In addition to any actions agreed with Cabinet Office, DFID is planning to further strengthen its grant making processes over the course of 2018/19. This will include introducing additional due diligence checks and extending the code of conduct (introduced for contracted suppliers in 2017) – see Section 8 to grant recipients.

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<sup>4</sup> The Cabinet Office maturity model is structured around 22 indicators covering both the Cabinet Office's 6 stages of the grant making process, from design through to final evaluation, and 3 broader themes of governance, capability and technology. For each indicator departments are assessed against a five point scale from 'basic' (level 1) to 'leading' (level 5). At each level, the model sets out the practices and outcomes required to improve performance. Level three ('established') and above demonstrates maturity that surpasses the minimum standards.

## Section 8: Major contracts and outsourced services

68. Contracting is an important part of DFID's overall delivery model which provides DFID with access to world class expertise in specialist areas, whilst allowing operational flexibility. We are committed to providing an end-to-end procurement and commercial solution delivering the right interventions at the right time.
69. DFID's contracts are tendered in compliance with the EU Public Procurement Directives and the UK Public Procurement Regulations 2015. This legislation requires authorities to observe the principles of equal treatment, non-discrimination, transparency and proportionality. DFID's contracts are competitively tendered following a set of standard processes set out in the regulations.
70. If a contract with a supplier is selected as the best delivery route, the programme management cycle provides for value for money to be maximised throughout the life of the contract. Consideration is given to the programme design, route to market, tender evaluation and the management and evaluation of the programme. This includes options to scale up or close down programmes.
71. All of our partners are subject to rigorous scrutiny of their effectiveness and value for money, both in advance and throughout delivery. To be successful in a comprehensive tendering process, DFID looks for the right combination of technical and country expertise, ability to provide value for money, and capacity to mobilise and manage the programme in-country.
72. The outcomes of DFID's review of its supplier practices were announced in October 2017. The key outcomes are:
  - A new, contractually binding Supplier Code of Conduct to ensure the highest standards of ethical and professional conduct by suppliers. This is complemented by a mandatory Staff Code of Practice, setting out the standard of behaviour expected of DFID staff when communicating with or managing external partners.
  - New clauses in our standard terms and conditions to allow increased use of open book accounting to inspect costs, overheads and fees. We will monitor the profits made by contracted suppliers, with the right to intervene where we believe excessive profits are being made.
  - An enhanced supplier relationship management programme to ensure DFID get better value for money and captures greater innovation and learning from our most strategic suppliers across their portfolios.
  - In addition, DFID has taken a number of measures to boost competition and open up DFID's market to new businesses including small enterprises in the UK and the world's poorest countries. These include contract checks to ensure fair treatment for sub-contractors and greater use of market engagement in the UK and overseas.

## Section 9: Multilateral Funding

73. DFID is a founding member and major shareholder of many of the world's leading international organisations including the World Bank, the United Nations and newer public/private development financing bodies such as the Global Funds. These organisations' leadership, convening and co-ordination functions can reduce transaction costs for developing countries and donors; and their role in brokering and monitoring adherence to international agreements can raise standards across the international system as a whole.
74. The multilateral system has received around 40% of DFID's budget in core contributions in the last five years. DFID's share of core investment in multilateral institutions differs in relation to their alignment with the UK aid strategy and a sharing of burden with other donors. In addition DFID's bilateral programmes commission multilaterals to deliver particular projects, accounting for a further 20% of DFID's budget. The rules governing these bilateral-through-multilateral projects are set out in separate Memoranda of Understanding and relevant Smart Guides (and are subject to the same business case approval process set out in Section 2: System of accountability)
75. Decisions to fund multilateral organisations are appraised, designed, approved, managed and closed in line with DFID's programme cycle and the seven control points outlined in Section 2. DFID's decisions are informed by central assurance assessments, which assess the multilateral organisation's role in the international system, its track record in delivering results and its capacity and commitments to improvements through reform. At a country level, DFID's regular due diligence provides a light on the maturity of the organisation's systems in the local context.
76. The UK has a prominent position in the governing bodies of multilateral agencies, in keeping with its significant financial contributions, public profile in development and DFID's capacity to engage across the range of multilateral policy. Through UK board membership, at board meetings and in committees, DFID and UK delegations to multilateral institutions work closely with other member states to hold managers to account and to secure improvements to policies and regulations where evidence shows this is necessary.
77. In December 2016 the Government published a Multilateral Development Review which systematically assessed the performance of the 38 multilateral institutions that each receives over £1 million in core funding annually from DFID. It identified that the majority of multilateral institutions are working well, with some achieving exceptional results. The UK will continue to give these agencies strong support while pressing for even higher standards.
78. DFID receives additional assurance on multilateral performance through its membership of the Multilateral Organisation Performance Assessment Network (MOPAN). This is a network of 18 donors who fund assessments to identify strengths and areas for improvement in the multilateral organisations. Areas assessed include organisational effectiveness and whether the agency makes an efficient contribution to relevant and sustainable results. Findings are used for discussions with the organisations and with their partners to improve effectiveness. In 2017-18, MOPAN assessed 14 multilateral organisations in 13 countries.

## Section 10: Investments, joint ventures and other assets

79. DFID is increasingly making investments, which we call development capital, to create jobs, catalyse private sector investment and build markets in challenging regions. Long-term capital can demonstrate the financial viability of investing in the world's poorest countries, reducing costs and risk for private investors. In this way, DFID-supported investments can draw in multiples of the funds invested and put economic development on a sustainable footing.

### CDC Group plc

80. DFID holds 100% of the issued share capital of CDC Group PLC, which is a development finance institution. It invests in private sector businesses in Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places.
81. As the UK's development finance institution, CDC is our principal partner on development capital. CDC brings much-needed capital to the poorest and most fragile countries to support businesses to thrive. CDC delivers development benefits alongside financial returns, demonstrating that investments in challenging environments can be commercially viable by building markets that generate investment opportunities for the long term. CDC has made pivotal investments across sectors including finance, mobile telecoms and infrastructure.
82. CDC is governed by a Board of Directors answerable to DFID as shareholder. The Secretary of State appoints the Chair of the board and two of the non-executive directors, and agrees CDC's Investment Policy. The Investment Policy sets five-year objectives including instruments, geographies, excluded activities, reporting obligations and performance targets linked to financial returns and development impact. It also incorporates a Code of Responsible Investing which sets compliance standards for environmental, social and governance issues. Quarterly shareholder meetings are held to review results and progress against performance measures. CDC prepares and publishes annual audited financial statements to 31 December which it presents to the department at an Annual General Meeting.
83. DFID sets an overall profitability hurdle for CDC based on the financial return on its total portfolio and two performance hurdles targets for CDC which are equally weighted:
- Financial return of the commercial risk total CDC portfolio.
  - Development impact.
84. All profits generated by returns on investments made by CDC are recycled into new investments to deliver additional development impact. New legislation passed in 2017 will enable DFID to increase the level of financial support it can invest in CDC. DFID currently has no plans to sell any of its shares in CDC.

### Other investments

85. The department holds the UK interest in a number of International Financial Institutions which invest in and advise developing countries. DFID's strategy is to hold these investments for the long term.
86. DFID also holds a number of development capital investments including investments in private equity funds, limited partnerships, companies limited by shares and debt. These investments are designed to achieve specific development aims across a sector or geographical location. The private equity funds and limited partnerships are for a fixed term and DFID will exit the investments when they are wound-up at the end of their

life. The debt instruments all have agreed schedules for repayment. For the companies limited by shares, the intention is to exit by selling shares at the end of the investment period set out in the business case.

87. Given the additional complexity of financial investments, DFID's Director, Finance and Delivery is responsible for all approvals prior to a business case submission to Ministers.