



Department  
for International  
Development



# Accounting Officer System Statement

July 2020



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## 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). Junior Ministers support the Secretary of State. Ministers work within the Ministerial Code and are accountable to Parliament on all aspects of DFID's policy and delivery decisions.

#### Principal Accounting Officer's Statement

As Acting 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. HM Treasury also provides a set of delegated spending authorities which specify the circumstances when I can seek 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 legal basis for the UK's expenditure on development and humanitarian assistance is the International Development Act 2002. DFID 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 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.

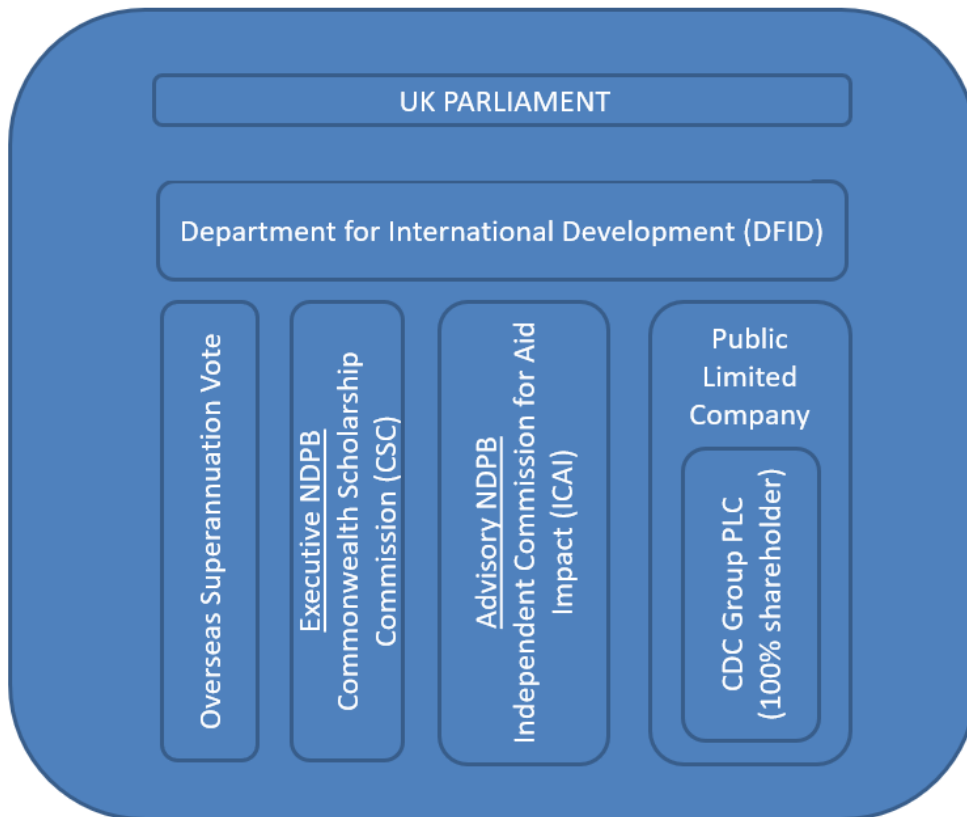
This statement describes the accountability system which is in place at July 2020 and will continue to apply until a revised statement is published. It summarises the systems I have in place to fulfil my responsibilities as an accounting officer in accordance with HM Treasury's guidance set out in Managing Public Money.

2. DFID, working closely with other government departments, leads the UK's work to end extreme poverty, deliver the Sustainable Development Goals (SDGs), and tackle global challenges in line with the UK Government's Aid Strategy. Some 99% of its budget is classed as Official Development Assistance (ODA) under the rules established by the Organisation for Economic Co-operation and Development. DFID ensure that the UK Government meets its target to spend 0.7% of GNI 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.

### System of accountability

4. DFID is a Ministerial department responsible for two arm’s length bodies: the Independent Commission for Aid Impact and the Commonwealth Scholarship Commission. DFID is a 100% shareholder in a public limited company (CDC Group plc). DFID operates an arm’s-length relationship for its shareholding meaning 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 investment decision making. More information on CDC can be found in the section of this statement on Investments, joint ventures and other assets.
5. DFID employs staff who work in its offices in London, East Kilbride and globally. It works in countries across Africa, Asia and the Middle East, many of which are fragile or affected by conflict. DFID also has 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 contributions to multilateral organisations.
6. DFID works with the private sector, non-governmental organisations, overseas governments and other development actors including multilateral organisations. With this operating model, it can deliver at scale and flexibly across several fragile and conflict-affected countries. DFID uses a range of funding instruments to fulfil its policy objectives including grants, contracts and financial investments. DFID’s accountability system consists of an evidence-based business planning process, supported by governance, monitoring, audit, assurance and risk management processes.

Figure 1 – Scope of the System



7. DFID’s operating framework for all programme activity and expenditure is designed around a set of ‘Smart Rules’ that set out the approval and management processes which spending teams should follow. The Programme Cycle Committee reviews the Smart Rules every six months and revises them when necessary. The Smart Rules are built on the principle of

'empowered accountability'. Each programme has a Senior Responsible Owner (SRO) who is accountable for programme delivery and is 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. DFID delivers programmes within a governance framework that provides oversight from resource allocation, through programme design, to closure. It consists of eight 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):** This sets out DFID's objectives and how it will achieve them.
  2. **Business Plans:** Individual business units develop business plans setting out what and how they will deliver, consistent with DFID's SDP. Ministers approve business Plans.
  3. **Concept Note:** The Concept Note sets out a proposal for an individual programme, explaining how it fits with the strategic objectives in a Business Plan, what the proposed intervention is and why it is recommended for approval.
  4. **Business Case:** The Business Case details how a programme will achieve its objectives and contribute to delivering the Business Plan strategic objectives and results.
  5. **Formal Agreement:** The formal agreement establishes roles and responsibilities between DFID and its implementing partner/supplier. Programme delivery mechanisms are formalised through a variety of agreements using a set of standard templates.
  6. **Delivery Plan:** SROs are responsible for developing and updating a Delivery Plan setting out, for each programme: delivery priorities; key milestones; a finalised logical framework, or log frame; roles and responsibilities; and risk management strategies. They also record the flow of funds to partners through maintaining a delivery chain map of the programme.
  7. **Annual Review:** All programmes are annually reviewed unless an exemption has been approved. The review assesses performance, ongoing relevance, value for money, lessons learned, and identifies any remedial action required. A programme's score contributes to our portfolio quality index which provides an assessment of how our programmes are performing.
  8. **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; liabilities are extinguished; available documents are published; and lessons learned are captured.

### **Managing risk**

9. DFID bases its risk management framework on HM Treasury's process for managing risks (identify, assess, respond, and control) and DFID's delivery model is defined by the Smart Rules (design, mobilisation, delivery, and closure). The framework provides an approach and standards for identifying, assessing, responding to and controlling risks, within agreed principles and using a consistent set of risk categories and tools. The six categories through which risk is assessed are: external context, delivery, safeguarding, operational, fiduciary and reputational.
10. DFID uses risk registers at all levels across the organisation from the strategic risk register (reviewed monthly by the Management Board) to departmental and programme risk registers. This enables risks to be clearly identified, along with information on their

management and the individual responsible for monitoring and reporting on them. Risk management is integrated within DFID’s programme cycle . DFID’s delivery teams own and manage risk throughout the lifecycle of the programme ensuring it is within set category risk appetite.

**Control and assurance framework**

11. In DFID, internal controls protect funds and assets from fraud, error or loss, and give assurance that risks are effectively addressed. The Control and Assurance Framework applies to all staff and sets out DFID’s 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, the framework provides:

- clear rules, policies and guidance;
- control and responsibility matrices;
- management information; and
- robust assurance processes and tools.

Figure 2 – Control and Assurance Framework



**Control environment**

12. DFID’s control environment operates across the three lines of defence model setting out the roles, responsibilities and expectations of all staff to make sure it meets its objectives.

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> </ul>	<ul style="list-style-type: none"> <li>• Alignment of strategic objectives with risk assessment and related responses.</li> <li>• Ensures the first line of defence is properly</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> </ul>

<ul style="list-style-type: none"> <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>	<p>designed and operating as intended.</p> <ul style="list-style-type: none"> <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>• Independent investigation of fraud and allegations of malpractice in first two lines.</li> </ul>
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- The **first line of defence** is fulfilled by front-line spending teams who own the decisions they take which reflect 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**

- DFID’s Counter Aid Diversion Framework aligns with the Government Functional Standard on Counter Fraud (GovS 13). It is framed within DFID’s three lines of defence providing an outline of its counter aid diversion landscape and an overview of roles and responsibilities. The framework covers DFID’s approach to all aid diversion risks: fraud, terrorist financing, money laundering and bribery and; 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.
- In recognition of its changing internal and external environment, DFID refreshed its Counter Aid Diversion Strategy setting out the strategic objectives on aid diversion for the next two years. The strategy focusses on three strategic priorities:
  - Strengthening its governance and controls.
  - Innovation including the innovative use of data to find more aid diversion.
  - Investment in organisational understanding, capacity and capability.
- 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.
- The Counter Aid Diversion Steering Group is a strategic level working group responsible for tracking progress against the Counter Aid Diversion Strategy and oversight for the management of counter aid diversion risks.
- The Control and Assurance Team is responsible for shaping the counter aid diversion framework by ensuring adequate counter aid diversion governance, risk management and control and assurance processes are in place. The team provides direction and support to equip staff to have the capacity, capability and confidence to deliver their responsibilities.



18. The Internal Audit Investigation Section is an independent investigative unit that sits within the Internal Audit Department. It is responsible for leading and undertaking investigations including those 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.
19. Both the Control and Assurance Team and the Internal Audit Investigations Section work closely with their FCO counterparts to ensure a consistent approach and share information and best practice.
20. Fraud Liaison Officers provide a link between individual offices/departments and the Internal Audit Investigation Section. This work includes supporting individual enquiries and increasing understanding and awareness of risks within the country office/ department.

## **Safeguarding**

21. 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 continues to place a particular focus on sexual exploitation, abuse and harassment (SEAH). Around 20 DFID staff, including the Safeguarding Unit, work full-time on SEAH. The Director General for Policy, Research and Humanitarian has overall accountability.
22. DFID's Smart Rules and Risk Management Framework make it clear that teams and partners should escalate any concerns or credible suspicions of SEAH as they arise, reporting them through our independent reporting hotline or email address. DFID's Safeguarding Investigations Team is accountable for ensuring an appropriate investigatory response to all reported concerns.
23. Preventing the abuse and exploitation of beneficiaries of DFID-funded programmes starts at the design phase. It then runs throughout its lifecycle with several control points that provide opportunities to anticipate, identify and respond to safeguarding concerns, including the sexual exploitation and abuse or sexual harassment of beneficiaries.
24. DFID is committed to improving safeguarding standards across the aid sector. DFID aims to ensure that all those working in reducing poverty internationally take all reasonable steps to prevent harm, particularly sexual exploitation, abuse and harassment from occurring; listen to those who are affected; respond sensitively but robustly when harm or allegations of harm occur; and learn from every case.
25. DFID will continue to convene regular meetings with partners, donors, representatives of vulnerable groups and other interested parties. DFID will continue to fund and support initiatives to stop perpetrators, to build sector capability and adherence to internationally-agreed safeguarding standards, and to support survivors and victims of SEAH. DFID will adapt its approach as needed to emerging evidence and challenges such as COVID-19.
26. DFID will continue to support the safeguarding work of all UK Government Departments who spend ODA based on the forthcoming 2020 UK government ODA safeguarding strategy.

## **Responsibilities within the core department**

27. DFID's governance structure was reviewed and updated in 2019. DFID's vision for corporate governance is to create an inclusive, accountable and transparent structure that enables its leadership to take effective decisions that are communicated across the organisation. The aim is to:
  - support horizon scanning for longer term issues and risks;
  - agree and communicate strategic priorities;
  - enable coherent forward planning and the allocation of resources to priorities;
  - track progress and impact; and

- make it clear how cross-departmental decisions are taken and who is accountable for them.

28. The Departmental Board, Management Board, Executive Committee and subcommittees govern DFID’s internal policies and priorities.

29. DFID is structured across the three functional areas (business operations, oversight functions and independent assurance) with oversight from the Departmental Board. The Management Board, Executive Committee and other sub-committees support the Departmental Board, which has overall responsibility for DFID’s governance.

Figure 4 – Governance structure\*



\* Green indicates bodies that are advisory, not decision making.

30. The **Departmental Board** supports the Accounting Officer, who is responsible for DFID’s governance, risk management and internal control arrangements.

31. The Secretary of State chairs the Departmental Board, the membership of which includes Ministers, Non-executive Directors, and the Executive Committee. The Board is advisory and supervisory in its scrutiny of departmental performance. It provides a challenge function, based on the precepts of good corporate governance: leadership, effectiveness, accountability and sustainability. It does this in five main areas: strategic clarity, commercial sense, talented people, results focus and management information. The Audit Risk and Assurance Committee reports directly to the Departmental Board.

32. The **Management Board** meets monthly. It has the same membership as the Executive Committee, but Non-executive Directors are invited to, and often do, attend. Observers have access to as many agenda items as possible. The Board’s role is to consider and approve strategic shifts and major organisational change, oversee formal governance and

management processes across the organisation, monitor performance and risk and ensure the department is equipped to deliver its objectives.

33. The **Executive Committee** meets at least biweekly and includes the department's senior management team: The acting Permanent Secretary, Directors General and Directors for Finance and Delivery, Strategy and People. The Executive Committee is not open to observers. The committee receives papers that require substantive internal or sensitive consideration. It responds to live and urgent issues, taking strategic decisions to facilitate the smooth running of the organisation.
34. The **Challenge Board** is advisory and meets monthly before the Management Board. Its membership rotates annually and includes members of staff at different grades and from different teams within the department. It considers Management Board or Executive Committee papers and offers written and verbal advice.
35. The **Leadership Group** is both a consultative group to inform the Management Board and Executive Committee discussions, and a leadership group for the development and implementation of strategies, policies and corporate change processes affecting the department.
36. The main sub-committees are: The Investment Committee; People and Operations Committee; and Security Committee.
37. The Investment Committee provides assurance that the programme portfolio is delivering value for money. It achieves this through monitoring programme and portfolio performance and agreeing actions to address poor performance. It does not make specific investment decisions, which rest with Ministers.
38. The **People and Operations Committee** ensures strong people capability, operational excellence and delivery. It is responsible for DFID's overall administrative efficiency and supports decisions and policy changes where there will be a significant or organisational impact.
39. 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.
40. The acting Permanent Secretary chairs the **Senior Leadership Committee**. The Committee takes systemic or policy issues from the People and Operations Committee and is responsible for overall workforce planning and management of the Senior Civil Service cadre, including ratifying all Senior Civil Service appointments.
41. The Audit, Risk and Assurance Committee is a subcommittee of the Departmental Board and advises 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 and Accounts. It monitors the reporting of fraud and other improper acts including being satisfied that all significant losses brought to the Committee's attention have been properly investigated, resolved and communicated.
42. The Accounting Officer delegates responsibility 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 within the requirements of [HM Treasury's Managing Public Money](#).
43. Directors are accountable to the Management Board for delivering business plans across their division's portfolio and acting 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 operate effectively in their areas and work with their peers to give corporate leadership on department-wide issues. The Annual Statement of Assurance forms an integral part of this control environment, requiring Directors and Heads of Department to provide assurance that our internal controls and corporate governance arrangements have been consistently applied within their business unit.

44. Each 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, acting to improve, to restructure or to close; and
  - that all the risks associated with programmes are clearly articulated and summarised in the Business Case and Delivery Plan.

### ***International UK departments alignment***

45. DFID aligning more closely with the FCO and other internationally facing Government departments provides a practical framework for day-to-day activity to support the most coherent UK outward-facing presentation in that country and to maximise the impact that the UK has in that country.
46. This AOSS of course frames the arrangements for DFID prior to the creation of FCDO in September 2020 when DFID and the FCO will merge. An updated AOSS will be produced at that point.
47. Separate Secretaries of State and Accounting Officers are appointed for the FCO and DFID. Functions of the Departments are complementary and aligned. DFID officials report to British ambassadors and high commissioners in country offices, the rationale being that the ambassador or high commissioner within a country is the most senior official representative of the UK Government in a particular country.
48. In terms of accountability and Accounting Officer oversight, this remains the same as before so that DFID's Accounting Officer retains decision-making authority over DFID funds. The DFID head of department is responsible for delivery of the DFID part of a country plan and is held accountable by the head of mission for the delivery of that plan.

### ***Audit and assurance***

49. DFID's risk and assurance arrangements support the delivery and accountability requirements of the Accounting Officer and the Departmental Board, providing evidence-based assurance on the management of risks that threaten successful achievement of public service delivery objectives.
50. Internal Audit Department provides an important source of assurance to the Accounting Officer and to the Audit and Risk Assurance Committee. It is an independent function which reports outside the line management chain to the Accounting Officer, reviewing all DFID's activities periodically (overseas offices every two years; headquarters functions every five years).

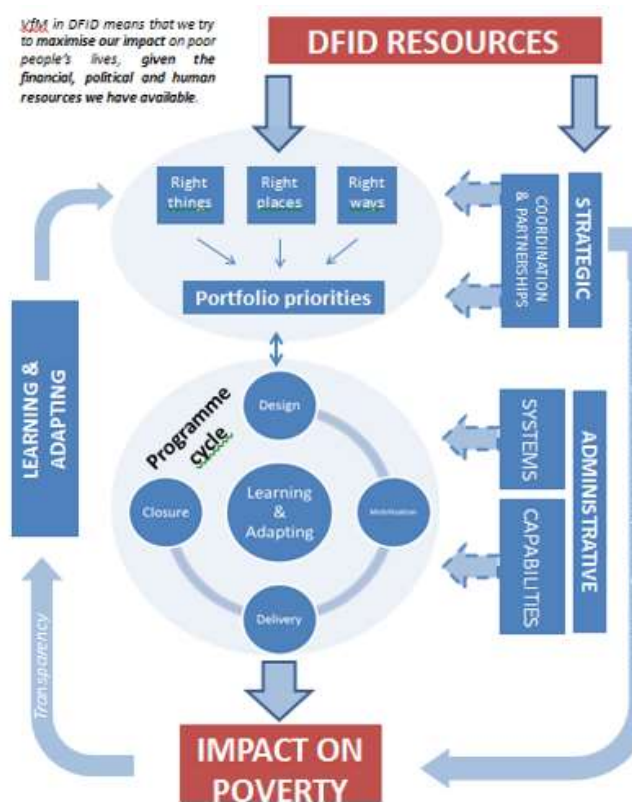
51. The National Audit Office, as DFID's external auditor, have a statutory responsibility for the audit of DFID's annual Report and Accounts. They also undertake periodic reviews and thematic investigations to assess whether DFID spending represents value for money.
52. The Parliamentary International Development Committee (IDC), the Public Accounts Committee (PAC) and the Independent Commission for Aid Impact (ICAI) provide further scrutiny and independent oversight.
53. The 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.
54. The PAC 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.
55. 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 from the Internal Audit Department and through the Statement of Assurance exercise and management information produced as part of DFID's in-year assurance activities.
56. Directors and Heads of Department provide assurance that DFID's internal controls and corporate governance arrangements have been consistently applied within their business unit (or explain where these have not been so applied) through the Statement of Assurance exercise. DFID has improved its management information reporting through developing a series of dashboards and response analysis to strengthen the integrity of the information captured and is developing its approach to transition to an in-year assurance model.

### **Value for money**

57. Value for money (VFM) in DFID means that it works to maximise the impact of each pound spent to support the world's poorest people, deliver the Global Goals and promote our national interests. DFID has a responsibility to those living in extreme poverty and to the UK taxpayer to ensure that its actions maximise VFM.
58. DFID implements strong VFM systems and processes in all aspects of its work, articulated through four levels of activity; strategic, portfolio, programme and administrative.
 

At a strategic level, DFID works to improve all UK Official Development Assistance (ODA) and influence the international system. At a portfolio level, DFID ensures its resources are allocated effectively and have in place strong corporate oversight to monitor and drive VFM. At a programme level, DFID ensures that the design, procurement, management, and evaluation of its interventions maximise the impact of its resources. And at an administrative level, DFID maximises the impact that its people and resources can have by empowering staff to use all resources as efficiently as possible.
59. The Independent Commission for Aid Impact (ICAI) recognises that DFID's approach to value for money drives up the return on investment in UK Aid.

Figure 5 – How DFID systems aim to maximise VfM



**Relationships with Arm's Length Bodies**

60. The Accounting Officer is accountable for two Non-Departmental Public Bodies (NDPB) [1]: The Independent Commission for Aid Impact (ICAI) and the Commonwealth Scholarship Commission (CSC).

**Independent Commission for Aid Impact**

61. ICAI is an advisory NDPB 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.

62. A Framework Agreement between DFID and ICAI sets out the governance arrangements designed to ensure ICAI's propriety and value for money while safeguarding its operational independence. The acting Permanent Secretary appoints the Head of ICAI's Secretariat as the designated Accounting Officer for ICAI who is responsible for the safeguarding of public funds. DFID systems are used to make all payments for ICAI. ICAI is subject to DFID's control framework including review by DFID's Internal Audit Department. The most recent audit was completed in 2019.

63. ICAI publishes its Annual Report and Accounts in June of each year.

1 From 30 April 2018 to 31 March 2019 DFID was responsible for the Equalities and Human Rights Commission due to the Rt Hon Penny Mordaunt MP being appointed as Minister for Women and Equalities, in addition to her role as the Secretary of State for International Development. From 1 April 2019, Government Equalities Office moved from DFID to the Cabinet Office.

## Commonwealth Scholarship Commission

64. The Commonwealth Scholarship Commission in the UK (CSC) is an NDPB and was established by an Act of Parliament in 1959. The Secretary of State appoints up to fourteen Commissioners and a chair following the 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.
65. The Secretary of State is accountable to Parliament for the activities and performance of the Commission. The International Development Act 2002 sets out the responsibilities of the Secretary of State. The DFID acting Permanent Secretary, as Principal Accounting Officer for DFID's accounts, has appointed the CSC Chair as CSC Accounting Officer.
66. The Commissioners oversee the running of CSC, taking decisions on its strategic direction and 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 in the UK and the British Council overseas.
67. 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 in line with Cabinet Office guidance on NDPBs. DFID's Internal Audit Department carries out regular audits of CSC. The latest audit was in March 2020. The Cabinet Office carried out a review of the three scholarship programmes provided by HMG (the "Cluster Review"), which concluded in April 2016. A gap analysis tailored review of the CSC concluded and was agreed by Cabinet Office Public Bodies team in March 2020.
68. CSC publishes its Annual Report and Accounts in Parliament usually in December before Recess each year.

## Overseas Superannuation Vote

69. 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. OPD manages the schemes, which are closed to new members. OPD is also responsible for the formulation of HMG's policy on overseas pensions and UK pension increase supplements.
70. The majority of pensions come 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 103 pension schemes 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; and
  - UK Police and Firemen Acts 1997.
71. OPD is part of DFID's control and assurance framework and the National Audit Office audit its accounts.

## Impact of Covid-19 on DFID's control framework

72. The impact of the Covid-19 pandemic on DFID's control framework is being actively managed and continues to be monitored. Where external context, fiduciary and safeguarding risks have increased due to enforced changed ways of operating, DFID teams are working closely with partners to ensure risks continue to be monitored and appropriate controls are in place. To support a timely response to the pandemic, new Covid-19 related

spending is being approved through humanitarian approval processes. Many DFID staff who were working in overseas locations were drawn down in March and April 2020 and flexibility has been granted to ensure duty of care for those returning in terms of accommodation (in line with FCO guidance) and more broadly across the organisation in terms of discretionary leave given new caring commitments. The ongoing impact will continue to be managed to support DFID and HMG objectives in line with DFID's duty of care and value for money commitments.

### **Grants to private and voluntary sector bodies**

73. DFID provides grants to a range of Civil Society Organisations (CSOs), both through its country offices and central departments.
74. Grants to CSOs are designed, approved, managed and closed in line with DFID's programme cycle and the eight control points outlined above. DFID transfers responsibility for delivery of grant outputs and outcomes to grant recipients through formal grant arrangements. DFID receives initial assurance that the recipient's policies, procedures, processes and systems are robust through a due diligence assessment prior to issuing the grant letter. Assurance throughout the delivery of the grant comes from regular meetings with partners, using delivery plans to monitor finance, risk and results and through formal annual reviews. Project completion reviews are undertaken to provide final assurance that the grant has delivered against expected outputs and outcomes.
75. DFID may engage a fund manager to manage larger grant schemes. In such cases, DFID transfers responsibility for the proper selection and management of grants in line with DFID and wider government rules through a contract following a formal contracting procedure. DFID officials recommend awarding grants for approval by the Secretary of State. More detail on the accountability and assurance systems for contracts is provided above.
76. In 2019, the Cabinet Office conducted a maturity assessment [2] 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 Functional Standard for General Grants that was introduced in December 2016.
77. Of the 22 indicators, eight were assessed as 'advanced' (level 4), eleven 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.
78. In addition to any actions agreed with Cabinet Office, DFID is currently strengthening its grant making processes in a number of areas. This includes refreshing the capability offer to SROs and programme managers through a new blended learning package and providing greater oversight and consistency in its due diligence assessments through the introduction of a new central hub.

### **Major contracts and outsourced services**

79. Contracting is an important part of DFID's delivery model providing access to world class expertise in specialist areas, whilst allowing operational flexibility. DFID is committed to providing an end-to-end procurement and commercial solution delivering the right interventions at the right time.
80. DFID tenders its contracts in accordance with the UK Public Procurement Regulations 2015. This legislation requires authorities to observe the principles of equal treatment, non-

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<sup>2</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 3 ('established') and above demonstrates maturity that surpasses the minimum standards.



discrimination, transparency and proportionality. DFID's contracts are competitively tendered following a set of standard processes set out in the regulations.

81. If a contract is selected with a supplier as the best delivery route, DFID requires maximum value for money throughout the life of the contract. Consideration is given to the programme design, the most appropriate public procurement route to ensure sufficient competition and value for money, tender evaluation and the management and evaluation of the programme to deliver the maximum impact for UK aid. This includes options to scale up or close programmes.
82. The effectiveness and value for money of DFID's partners are subject to scrutiny, both in advance and throughout delivery. 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 as part of the tendering process.

### **Multilateral Funding**

83. The UK is a founding member and key funder of many of the world's leading international organisations including the World Bank, the United Nations and newer organisations such as the Global Funds for health, climate and education. Multilaterals mobilise significant resource and expertise from others, expand the UK's development reach and influence, and support action to tackle global challenges that the UK can't address alone. Their leadership, meetings and co-ordination functions can reduce transaction costs, and their role in brokering and monitoring adherence to international agreements can raise and protect norms and standards across the international system.
84. The multilateral system has received around 40% of DFID's budget in core contributions in the last five years. In addition, DFID's bilateral programmes commission multilaterals to deliver projects (known as multi-bi programmes), accounting for around 20% of DFID's budget.
85. In 2018, Ministers agreed a set of overarching principles that require multilateral funding to demonstrate:
  - alignment with DFID and UK priorities;
  - how the multilateral organisation delivers value for money, results, and contributes to a strong and effective international system; and
  - that the recommended level of funding is appropriate, compared to funding from other donors and other calls on DFID's budget.
86. All decisions (core and multi-bi) to fund multilateral organisations are appraised, designed, approved, managed and closed in line with DFID's programme cycle. As with all DFID programmes, the performance of multilateral programmes is closely monitored to ensure they deliver results, remain cost effective and demonstrate value for money for UK taxpayers. DFID's decisions are informed by central assurance assessments, which assess the multilateral organisation's role in the international system, governance structure, financial stability, and ability to deliver and work with downstream partners. For multi-bi programmes, due diligence assessments provide information on the maturity of the organisation's systems in the local context. DFID receives additional assurance on multilateral performance through its membership of the Multilateral Organisation Performance Assessment Network (MOPAN). This is a network of 19 donors, which funds assessments to find strengths and areas for improvement in the multilateral organisations, and collectively uses findings to inform Board discussions and improve effectiveness.
87. The UK's investments in multilateral institutions gives us significant influence in driving reform and improvements to make multilaterals more efficient and transparent, and to shape the broader international system in line with UK values. At Board meetings and in committees, DFID and UK delegations work closely with other donors to hold multilateral institutions to account, ensure strong results and value for money and secure reform where necessary.

## ***Investments, joint ventures and other assets***

88. 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**

89. 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.

90. As the UK's development finance institution, CDC is DFID's principal partner on development capital. CDC brings 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.

91. A Board of Directors governs CDC and is 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 are presented for approval by the shareholder at an Annual General Meeting, following normal company practice.

92. 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; and
- development impact.

93. CDC recycles all profits generated by returns on investments into new investments to deliver additional development impact. New legislation passed in 2017 enables 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**

94. The department holds the UK interest in several International Financial Institutions which invest in and advise developing countries. DFID's strategy is to hold these investments for the long term.

95. DFID also holds several 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.

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