

13 July 2018

Mr. Kieran Lenihan
Clerk, Public Accounts Committee
Dáil Éireann
Leinster House
Kildare Street
Dublin 2

Dear Kieran

I refer to correspondence dated 8 June 2018 regarding a meeting of the Committee of Public Accounts on 31 May 2018 where the Committee requested an information note on the structures in place to deal with prepayments, the risk associated with such structures and the lessons learned from the Dublin Institute of Technology case. (**Ref No: PAC32-I-956**)

The information note requested by the Committee is provided in Appendix 1

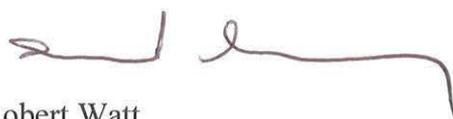
The Minister for Finance and Public Expenditure and Reform accepts the recommendation of the Committee that the Department of Public Expenditure and Reform should develop appropriate guidance in relation to up-front payments for procured services as part of general procurement procedures

The Government Accounting Unit of his Department will work with the Office of Government Procurement (OGP) to clarify the position in relation to up-front payments for procured services as part of general procurement.

It should also be noted that the OGP publishes a standard suite of template documentation including a standard contract form on the OGP (OGP.gov.ie). This provides, inter alia, procedures for payments under a public contract and requires the setting out of the payment process, any milestone conditions, relevant deliverables, and appropriate rates.

I hope this material is of assistance to the Committee.

Yours sincerely



Robert Watt
Secretary General

Appendix 1

Information Note for the Committee of Public Accounts on Prepayments

This note was prepared in response to a request from the Committee of Public Accounts for a note on the structures in place to deal with prepayments, and the risk associated with such structures.

The Department of Public Expenditure guidance regarding prepayments and financial control is set out in the Public Financial Procedures (PFP) Manual which is available on the Government Accounting Website <https://govacc.per.gov.ie/>

The relevant Extracts from Public Financial Procedures Manual are provided below.

Public Financial Procedures**Section C5 – Payments and Receipts**

Note: Extracts from the relevant sections of Public Financial Procedures that relate to payment principles and prepayments is set out below. PFP (C5.1 – C5.7).

Payments

1. Section 24 of the Exchequer and Audit Departments Act, 1866 prescribes that the sums that have actually come in course of payment in a year should be shown in the Appropriation Account for that year. This means that all payments made by a Department/Office in the year must be recognised in the Appropriation Account for that year.
2. Payment procedures must be initiated where a liability has been incurred and when payment is due (matured), even at the risk of incurring an Excess Vote. Payment procedures must not be initiated where a liability has not matured for payment. In the case of goods and services, payment is due when the goods or services have been provided satisfactorily and the supplier has submitted their account (which may be in electronic format) and when optimum advantage has been taken of the credit terms, if any, allowed by the supplier, at the same time avoiding the incurrence of any interest on late payments.
3. In the case of grant payments, payment is due when the grant or benefit payment has been fully approved and processed in accordance with the terms and conditions of the particular scheme and when the applicant has fulfilled all the necessary conditions.

4. Payments under cash-limited grant schemes (see Section C3.10) must cease when the subhead allocation has been exhausted. The exercise of virement to increase or create a cash-limited grant scheme is not permissible. Proper management of such schemes should ensure that no commitments are made or approvals issued once the limit has been reached. In the case of open-ended schemes, there may be an obligation to pay (i.e. liabilities may mature for payment) even where the allocation has been exhausted.
5. Departmental arrangements for making payments should ensure that:
 - a. there is proper authority for the service, viz. Department of Public Expenditure and Reform sanction, etc;
 - b. the service has been properly performed or goods received or the grant/benefit application has been fully processed;
 - c. the making of a grant payment is consistent with the subhead provision (e.g. if cash-limited, that the limit has not been exhausted);
 - d. the claim is in accordance with the contract terms;
 - e. the claim is arithmetically correct;
 - f. payment has not already been made;
 - g. valid tax clearance arrangements exist. For public sector contracts, grants and similar type payments, these arrangements are set out in Department of Finance Circulars 43/2006 and 44/2006. In summary, subject to certain exclusions set out in these circulars, where payments are expected to total €10,000 (inclusive of VAT) or more within any 12-month period, a payee is required to produce a valid Tax Clearance Certificate issued by the Revenue Commissioners.
6. To ensure the integrity of the Appropriation Account, all due payments (i.e. matured liabilities) should be settled at year-end and payments that are not matured should not be brought forward into the current accounting period. This instruction does not preclude the making of advance payments in cases where it is necessary under the terms of a contract to make payments in advance (e.g. in the case of an overseas supplier). Departments and Offices should be aware that the circumstances under which they may enter into an Escrow or Letter of Credit arrangement are very limited. Any agreement to use these forms of payment requires the prior sanction of the Department of Public Expenditure and Reform.

Public Financial Procedures

Section A5.5 – Statement of Internal Financial Control

Accounting Officers are required to supply a signed Statement of Internal Financial Control (SIFC) to the Comptroller and Auditor General with the annual Appropriation Account. A sample SIFC is provided in the attached Appendix 2.

Risk and Control framework

On foot of the 2002 *Report of the Working Group on the Accountability of Secretaries General and Accounting Officers*, the Accounting Officer of each Government Department is required to sign a Statement on Internal Financial Control (SIFC) in respect of the appropriation accounts.

Statement of Internal Financial Control

The Statement of Internal Financial Control is a mandatory requirement whereby the Accounting Officer sets out his approach to, and responsibility for, risk management, internal control and corporate governance.

Within this Statement the Accounting Officer of each Government Department/Office acknowledges responsibility for ensuring that an effective system of internal financial control is maintained and operated by the Department/Office.

Maintenance of the system of internal financial controls is a continuous process and the system and its effectiveness should be kept under on-going review. Accounting Officers should include for the current year all relevant control elements which are in use.

The statement should outline the risk and control framework in place in the Department/Office, including any weakness identified and actions taken or planned. The statement may also explain (where appropriate) any enhancements to internal financial controls.

Financial Control Environment

The Accounting Officer is required to confirm that a financial control environment containing the following elements is in place:

- financial responsibilities have been assigned at management level with corresponding accountability;
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned;
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action;
- there is an audit committee to advise him/her in discharging his/her responsibilities for the internal financial control system.

The Accounting Officer is also required to confirm that the Department/Office has an internal audit function with appropriately trained personnel, which operates in accordance with a written charter which they have approved. Its work is informed by analysis of the financial risks to which the Department or Office is exposed and its annual internal audit plans, approved are based on this analysis. Procedures are required to be in place to ensure that the reports of the internal audit function are followed up.

Statement of Internal Financial Control (SIFC)

(PFP Section A5.5)

Statement by Accounting Officer on internal financial controls to be included with the 2005 Appropriation Accounts (and the accounts for subsequent years)

Responsibility for System of Internal Financial Control

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the Department/Office. This responsibility is exercised in the context of the resources available to me and my other obligations as Secretary General/Head of Office. Also, any system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner. Maintaining the system of internal financial controls is a continuous process and the system and its effectiveness are kept under ongoing review.

The position in regard to the financial control environment, the framework of administrative procedures, management reporting and internal audit is as follows:

Financial Control Environment

I confirm that a control environment containing the following elements is in place:

- financial responsibilities have been assigned at management level with corresponding accountability;
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned;
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action;
- there is an audit committee to advise me in discharging my responsibilities for the internal financial control system.

Administrative Controls and Management Reporting

I confirm that a framework of administrative procedures and regular management reporting is in place, including segregation of duties and a system of delegation and accountability and, in particular, that:

- there is an appropriate budgeting system with an annual budget which is kept under review by senior management;
- there are regular reviews by senior management of periodic and annual financial reports, which indicate financial performance against forecasts;
- a risk management system operates within the Department/Office;
- there are systems aimed at ensuring the security of the ICT systems;
- there are appropriate capital investment control guidelines and formal project management disciplines.

Internal Audit

I confirm that the Department/Office has an internal audit function with appropriately trained personnel, which operates in accordance with a written charter which I have approved. Its work is informed by analysis of the financial risks to which the Department or Office is exposed and its annual internal audit plans, approved by me, are based on this analysis. These plans aim to cover the key controls on a rolling basis over a reasonable period. The internal audit function is reviewed periodically by me and the Audit Committee. I have put procedures in place to ensure that the reports of the internal audit function are followed up.

Signed: Accounting Officer