

# ADVANCE PAYMENT POLICY



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# **Advance Payment Policy**

## **1.0 Introduction**

1.1 This policy has been developed to guide Procuring/Contacting Agencies on the procedures and processes to follow when making advance payments.

## **2.0 Definition**

2.1 An advance is a transfer of cash to finance the provision of goods, services or works not yet delivered.

2.2 Advance payment in Government is synonymous with travel advances, pro forma invoice; executed contracts and any form of payment made to suppliers prior to the delivery or completion of goods, services or works.

## **3.0 Purpose**

3.1 The purpose of this policy is to:

- (i) Outline procedures and controls for making advance payments;
- (ii) Ensure proper utilisation of advance as a financing mode;
- (iii) Act as an accountability tool;
- (iv) Promote prudent management of government finances;
- (v) Ensure maximum value for money is obtained; and
- (vi) Eliminate or minimize fraud and overpayments.

## **4.0 Scope**

4.1 This policy applies to any Procuring/Contracting Agency that at one point or another, under their contractual obligations or in respect of any procurement is required to make advance payments.

## **5.0 Requirements of the Finance Instruction**

5.1 Section 14 (8) of the FI gives the authority to the Chief Accountant (Treasury) to approve advance payment in circumstances where it is necessary for goods received through shipment from overseas, and for contractual agreements if stated as such.

5.2 The above clause effectively covers all advance payment in respect of goods, services or works regardless of amounts and location of suppliers.

## **6.0 Terms and Conditions**

- 6.1 Ministries and Departments must ensure that there are adequate funds available for the payment and goods, services or works paid in advance and that these will be received and completed within the timeframe specified in the terms of agreement.
- 6.2 Advance payment to any supplier must be within the range of 10% only of the overall purchase or contract price unless otherwise approved by Chief Accountant (Treasury) in respect of any of the following conditions:
- (i) The supplier has a good reputation to Government;
  - (ii) The supplier is the sole/exclusive provider of the good, services or works;
  - (iii) Emergency purchases where time is of the essence;
  - (iv) The transaction relates to a one off purchase.
- 6.3 In any situation where the supplier/contractor requires for advance payment, there is to be a corresponding undertaking by the Supplier/Contractor in the provision of an advance payment security.
- 6.4 Advance payment security<sup>1</sup> must be sufficient and adequate to cover any contractual breach or any discrepancies regarding one off purchases/projects, should the situation arise.
- 6.5 Advance payment security<sup>2</sup> to be in the form of a bank guarantee or credit financier guarantee equivalent to the value of the advance plus an additional 5% of the advance amount unless approved by Chief Accountant (Treasury).
- 6.6 Guarantee is provided by a bank, or by a prominent credit financier so as to ensure that they honour the guarantee in the event that the supplier fails to deliver the goods, services or works in accordance with the contract or purchase agreement and will also allow Government to call on and get refunded the payment that had been paid in advance should there be any breaches.
- 6.7 Advance payment security may be waived by the Chief Accountant (Treasury) at the advice of Director FPO in any of the conditions specified in 6.2 above.
- 6.8 Proper due diligence has been carried out to determine the authenticity of the company and its capabilities in providing quality goods and services to ensure the prevention of loss and corporate espionage as well as to ensure that maximum value for money is obtained. Assessment can be waived on suppliers that have a good reputation to government or to the procuring/contracting agency.

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<sup>1</sup> from the Contractor/Bidder to Government

<sup>2</sup> from the Contractor/Bidder to Government

- 6.9 All invitation to tender submitted through Fiji Procurement Office for publication **must not** include an advance payment clause, exception will only be granted if Chief Accountant (Treasury) through consultation with Director FPO deem that the advance is necessary. Resorting to advance payment as a means of utilizing budgetary allocated funds are strictly prohibited unless approved by Chief Accountant.
- 6.10 All contractual agreements with an advance payment clause must be vetted and cleared by the Office of the Solicitor General before it is signed by the contracting agency.
- 6.11 Details covered in the contract should include the advance payment security, remedial actions to be taken when a party fails to comply with significant terms and condition of the contract and in cases where a business relationship ceases.
- 6.12 Where the goods services or works are not delivered or completed within the specified timeframe in the terms of the agreement, the procuring agency shall execute recoupment of the bank guarantee. If and when necessary, the agency through consultation with the Chief Accountant (Treasury) can request for a carryover of appropriation in accordance with section 19(2) of the Financial Management Act 2004. The rationale for extending the duration of the contract shall be documented and filed in the procuring agency's contract file.
- 6.13 Advance payment will not apply to any contractor/supplier that has a pending financial obligation with government or a history of legal offences.
- 6.14 In any situation, it is the prerogative of the procuring Ministry and/or Department concerned to assess the modes of payments requested by the Supplier/contractor and to ensure that the mode chosen is cost effective, ensures value for money and minimizes Government's exposure to risk.
- 6.15 Any negotiation undertaken will have to consider all aspects stated in 6.13 and should there be no settlement/agreement, the procuring Agency may pursue procurement or project completion with the 2<sup>nd</sup> best bidder.
- 6.16 If the procuring Agency remains unsatisfied with the offer, reputation, commitment, etc of the 2<sup>nd</sup> bidder, the Agency may pursue requesting the Chief Accountant for an increase in the advance payment % of the 1<sup>st</sup> bidder to a rational level that brings about cost efficiency, ensures value for money and minimizes Government's exposure to risk.

## **7.0 Responsibilities of the Procuring/Contracting Agency**

- 7.1 It is the responsibility of the Procuring or Contracting Agency to ensure that:

- (i) Adequate funds are available in the appropriate allocation to finance the payment;
- (ii) A thorough evaluation of the supplier/contractor is conducted to determine its credibility;
- (iii) All necessary details are captured in the contractual agreement;
- (iv) The contract has been vetted and cleared by the Office of the Solicitor General before it is signed;
- (v) Approval has been obtained from the Chief Accountant (Treasury) prior to including an advance payment clause in any documentation;
- (vi) The advance payment security is adequate and continues to be adequate following approval for payment;
- (vii) Goods, services or works are delivered or completed according to plan and set timelines and these timelines must be within the validity period of the guarantee;
- (viii) Accounting Heads must also ensure that payment of goods, services or works is undertaken efficiently and processed as soon as practical upon carrying out the necessary checks and verification.
- (ix) They are familiar with delivery terms and conditions and must be well versed with the latest Incoterms to be able to identify and clearly interpret the tasks; costs and risks associated with the transportation and delivery of goods;
- (x) The guarantee is reviewed constantly, either at the end of every year or at the end of the validity period, whichever is earlier;
- (xi) Progress of work(s) carried out by the supplier(s) is closely monitored and it shall be the responsibility of the purchasing agency to initiate subsequent payments after verifying that the work or parts of it has been completed;
- (xii) Proper inspection is carried out on all delivered items to ensure that they are consistent with the ones ordered and correspond with the purchase order and delivery note or bill of lading;
- (xiii) Director FPO is advised in writing that the consignment received is exactly what has been ordered and this shall be conclusive evidence for the remaining cost to be paid to the supplier. Copies of the report shall also be submitted to Chief Accountant (Treasury) and respective suppliers;
- (xiv) Any discrepancies between order and shipment shall be brought to the supplier's attention as soon as it is evident and within the timeframe stipulated in the contract and in accordance with the delivery terms and conditions;
- (xv) Calling upon the bank or credit financier as guarantor in the event of a breach by the supplier and returning the letter of guarantee once terms of the contract are satisfactorily fulfilled;
- (xvi) Legal action against the supplier is instituted if the advance payment cannot be recouped and all recovery means has proven futile. This is the last resort and should be taken only after consultation with the Office of the Solicitor General.

## **8.0 Responsibility of the Ministry of Finance**

8.1 The Chief Accountant (Treasury) is responsible for:

- (i) Reviewing, verifying and approving any request for advance payment which is more than 10% of the contracted sum;
- (ii) Ensuring that advance payment security is adequate and has been arranged by the Contractor/Supplier; and
- (iii) Ensuring that important documentation such as Government Tender Board approval; supplier's payment mode etc is submitted before endorsing the advance payment request.

## **9.0 Penalties and Corrective Measures**

### **9.1 Unauthorized advance payment or unauthorized expenditure:**

Penalty - Disciplinary or surcharge action in accordance with financial regulations and procedures and criminal charges as appropriate may be pursued. Restitution for an illegal transaction will be required.

#### **Non compliance to Procurement Regulations and relevant Processes**

Penalty: Disciplinary or surcharge action in accordance with financial regulations and procedures and criminal charges, as appropriate may be pursued. Restitution for all illegal transactions will be required.

**Fraud**: This is a deliberate action taken for personal gain or to deceive the agency. Intentional use of funds or resources for personal use is fraudulent and prohibited.

Penalty - Disciplinary or surcharge action in accordance with financial regulations and procedures and criminal charges as appropriate may be pursued. Restitution for an illegal transaction will be required.

## **10.0 Review of Policy**

10.1 The Permanent Secretary for Finance may, on the advice of the Financial Policy Assurance Unit review the policy as and when deemed necessary.