

AGA KHAN UNIVERSITY

Guidelines, Policies and Procedures

Policy Name	Advance to Third Party Policy
Policy Number	AKU-K/FIN/PL - 009
Approved by	Chief Financial Officer
Date of Approval	4th November 2022
Contact Office	Office of the University Registrar

1. Purpose:

1.1. Institution will pay advance only where there is no other alternate option of vendor available for credit term. It is prudent to coordinate with Purchasing and Supply Chain Management (PSCM) to provide advance to known and reputable vendors in case of direct procurement.

1.2. Scope:

1.3. The policy is applicable to all units of The Aga Khan University Kenya (AKU-K). The word AKU-K is herein referred to as the "Institution".

2. Responsibility:

2.1. A request for an advance to supplier/contractor must be approved by an authorized personnel as per financial authority matrix defined in Financial Authorization and Delegation Policy.

2.2. Finance Department must ensure that advance request is supported by proper documentation mentioned below for each advance category.

2.3. The responsibility for follow up and adjustment against advances given, shall rest with the relevant officer in the Purchasing and Supply Chain Management Division or such other department on whose request the advance has been processed.

2.4. Concern user departments are responsible for ensuring goods/services associated with the advance payment are satisfactorily received and shall be responsible for the technical approval of relevant department (i.e., Facility Management Division, Information Technology Department etc.

2.5. Mode of requesting advance payment must be followed by concern user departments as per defined protocol in the policy.

2.6. Finance Department will prepare advance to third party schedule on Monthly basis to reflect unsettled advances.

2.7. Finance Department will send an information memo on monthly basis to the relevant department soliciting comments and update on outstanding cases.

3. **Terms and Definitions:**

- 3.1. **“Advance/Prepayment”:** is a form of payment, which is made before goods/services have been received.
- 3.2. **“Third parties”** refer to suppliers of goods and services.
- 3.3. **“Advance to Third Parties Schedule”** is a document prepared Monthly to reflect supplier accounts with outstanding advances at the end of each month.
- 3.4. **“An Information Memo”** is a document through which, the person initiating the request for advance is informed of the status of advances against which the due dates for providing goods and/or services has been lapsed according to the agreement.
- 3.5. **“Supplier and Contractor”** means any party / individual contracted for delivery of goods or services to the institution whatever nature may be.

4. **Process / Procedure:**

4.1. **Observations and limitations**

- 4.1.1. As a matter of principle advances should be discouraged. However, where necessary it can be expanded based on institutional needs.
- 4.1.2. Suppliers to whom advance funds are given are required to supply the goods / services within 30 days of the date of advance for local contracts and up-to 120 days in case of foreign suppliers. Whereas, foreign contracts may take up to 180 days in case of exceptional circumstances only.
- 4.1.3. However, in exceptional circumstances Director Purchasing and Supply Chain Management approve advances beyond these limits after putting in reasons for such exception.
- 4.1.4. While each and every case shall be evaluated at its own merit, the following general guidelines shall apply:
- 4.1.5. All advance payments covered under this policy are expected to be processed within 5 working days except for Freight related advances which due to its nature of urgency must be made on the same day of its request.

4.2. Procedure for local currency advances

- 4.2.1. Where necessary the advance should be restricted to Kshs. 500,000/- . In such cases the need for the advance should be adequately justified by the Manager Purchase / Head of the User Department authorizing advance request.
- 4.2.2. Advance will be given only for 30 days' period. However, this period may be extended up to a maximum period of 120 days, in exceptional circumstances by Director, Purchasing and Supply Chain Management / Head of the User department at the Director level.
- 4.2.3. All local currency advances up to Kshs. 500,000/- will be approved by Manager, Purchase/ Head of User department. In instances where it is necessary to advance funds beyond the stipulated limit, the Director Purchasing and Supply Chain Management / Head of the User department at the Director level shall approve such requests however, bank guarantee will be required in such cases and where bank guarantee is difficult to obtain, approval from the Director Purchasing and Supply Chain Management / Head of the User department at the Director level shall require to waive the bank guarantee.
- 4.2.4. Advances must be requested individually by relevant Purchase Officer and such request should be supported by the Purchase Order and proforma Invoice. Whereas, User Department would request on separate Release of Payment Form (ROP) along with vendor's advance.

4.3. Procedure for contract related advances

- 4.3.1. Advances for contracts may be extended and recovered over the period of its activities in the following manner:
 - 4.3.1.1. The advance shall be restricted to maximum of 50% of the contract value or Kshs. 500,000/- whichever is lower. In exceptional cases the Director Facilities Management or Project Director may approve a higher advance. However, the reason for such advances shall be clearly documented.
 - 4.3.1.2. Mobilization advance for contract may be given up to a maximum of 15% (irrespective of value), however in

exceptional circumstances this limit can be extended on the approval of Director, Facilities Management /Project Director. This however require bank guarantee.

- 4.3.1.3. For all advances above Kshs. 500,000/-, the contractor shall be requested to provide a bank guarantee / insurance bond. The Director Facilities Management / Project Director may however, relax this limit to Kshs. 1,000,000/-.

4.4. **Procedure for foreign currency advances**

- 4.4.1. The terms for foreign currency payments should follow below priorities:
 - 4.4.1.1. On credit.
 - 4.4.1.2. Letter of Credit unconfirmed.
 - 4.4.1.3. Letter of Credit confirmed
 - 4.4.1.4. Cash advance basis
- 4.4.2. Principally advance against orders shall not be entertained. However, where other options are not available, the advance shall be restricted to 50% of the invoice/order value or US\$ 10,000, whichever is lower. However, Director Purchasing and Supply Chain Management may approve advance beyond this limit, which will require financial guarantees from local agent.
- 4.4.3. Before extending an advance to a supplier it is necessary to investigate the financial credibility of supplier, and our previous experience. The fallback options in case of default by the supplier also need to be adopted e.g. financial guarantees from local agent etc.
- 4.4.4. Material against these advances must be shipped within 120 days of payment. However, in exceptional circumstances this period may be extended up to 180 days by approval of Director Purchasing and Supply Chain Management. In such cases the reason for the extended delivery period must be documented.
- 4.4.5. When it is known that material/services, for which funds were advanced, will not be available in the near future, efforts should be initiated for recovery of the funds advanced.

4.4.6. Advances up to 50% or US\$ 10,000 shall be approved by the Manager, Purchase and those beyond that would require approval by the Director, Purchasing and Supply Chain Management.

4.5. **Process for freight related advances**

4.5.1. CNF advances mainly includes payment for excise duty, civil aviation charges and storage fee etc. which must be paid through banking channel only to custom authorities immediately after lodging of goods declaration.

4.5.2. Advances must be requested by relevant purchase officer through email which should be addressed to the concerned person responsible in Finance Department for processing of such payment.

4.5.3. Such request should be supported by sheet detailing names of individual payee and amount associated in particular to be made to them.

4.5.4. It is responsibility of relevant purchase officer to segregate advances pertaining to The Aga Khan University Kenya and Aga Khan University Hospital in particular upon requesting advances.

4.5.5. Advance will be given for 30 days' period only. Moreover, responsibility for submitting proper documentation within finance department rest with PSCM for advance adjustment purpose

4.6. **Procedure for follow up and adjustment of advances**

4.6.1. The responsibility for follow up and adjustment against advances given, shall rest with the relevant officer in the Purchasing and Supply Chain Management, or such other User Department on whose request the advance has been processed.

4.6.2. The Finance Department shall be kept informed of the status of funds outstanding and of the efforts made for the recovery of goods/services or funds advanced; a copy of the relevant correspondence shall be marked to the Finance Department as well.

4.6.3. All documentation required for settlement of the advance shall be forwarded to the Finance Department within fourteen days from the date of delivery. The relevant department shall be responsible to sort out all queries with the Purchasing and Supply Chain Management for preparation of Goods Receiving Note, resolution of Discrepancy

Report, Acknowledgement of Goods / Services in case of direct purchase, within fourteen days of delivery.

- 4.6.4. The Finance Department will send a statement of advances on quarterly basis to the relevant department soliciting comments and update on outstanding cases.
- 4.6.5. A request for a second advance to a supplier shall not be entertained if an earlier advance is under dispute.
- 4.6.6. In instances where appropriate response is not forthcoming from the supplier the Finance Department in consultation with the requesting department, shall withhold the disputed amount from the next payment to such supplier.
- 4.6.7. PSCM should carry out annual review with the coordination of Finance Department, for advances that remain unadjusted for the tenure of 3 years or more. Such advances should be written-off if found nonadjustable with the approval of Directors of PSCM and Director Finance as per institutional authority matrix.

5. **Review of Policy**

- 5.1. This policy document shall be reviewed every three years or as required.

6. **Reference(s):**

- 6.1. N/A

7. **Annexures:**

- 7.1. N/A