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## **1. Effective Date**

- 1.1 This policy is effective on **20 April 2022**.
- 1.2 This policy replaces the previous Department of National Defence (DND)/Canadian Armed Forces (CAF) Financial Management (FM) policy instruments related to advance payments namely Financial Administration Manual (FAM) Chapter 1020-3, Prepayments, dated 13 January 2005.
- 1.3 The policy was approved by the Assistant Deputy Minister, Finance (ADM (Fin)) on **20 April 2022**.

## **2. Application**

- 2.1 This policy applies to all advance payments for goods and services that result from contractual requirements or agreements within the DND/CAF.
- 2.2 The purpose of this FAM chapter is to provide the DND/CAF with the FM policy on advance payments and to help meet the requirements for issuing advance payments as set out in the Directive on Payments. This policy also provides policy direction on the accounting and disclosure of advance payments for financial reporting purposes.
- 2.3 Although the same concepts apply to advance transfer payments, the detailed requirements for advance transfer payments are not found in this FAM. For details, please refer to Treasury Board (TB) Directive on Transfer Payments.

## **3. Context**

- 3.1 The department must manage its cash in a prudent manner to reduce overall risks. Before advance payments are included in contracts or agreements, the department should ensure they are issued only in exceptional circumstances and are essential in achieving program objectives. This requires the establishment of practices and controls to ensure compliance with the requirements of the TB policy instruments listed in [paragraph 3.3](#) and applicable legislation (e.g. *Financial Administration Act (FAA)*).
- 3.2 Due to the nature and complexity of its programs, the DND/CAF are faced with unique situations that may not be addressed or fully articulated under TB FM policy instruments. This policy outlines and explains the DND/CAF advance payments policy in these circumstances.
- 3.3 This policy must be applied in conjunction with and after reading the following:
  - TB Directive on Payments;
  - TB Guide to Advance Payments; and
  - TB Directive on the Management of Procurement
- 3.4 All financial documentation supporting the transactions must be retained for six years from the end of the fiscal year in which the transaction takes place. When an

Accounts Receivable is created, all documentation is retained until the account is cleared. When a criminal, disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed.

- 3.5 See [Appendix A](#) for the definitions applicable to this policy and a list of acronyms used.

## **4. Objectives and Expected Results**

- 4.1 The objectives of this policy are to:

- Identify the DND/CAF key stakeholders involved with the financial management of advance payments and outline their roles and responsibilities; and
- State and explain the DND/CAF FM policies and practices for advance payments that are not addressed in the TB Directive on Payments and the TB Guide to Advance Payments.

- 4.2 The expected results of implementing this policy are:

- Effective governance, oversight, and internal controls over DND/CAF advance payments;
- Key DND/CAF stakeholders are aware of and understand their roles and responsibilities with respect to advance payments; and
- The DND/CAF advance payments are issued and managed in accordance with this policy, are recorded in the Departmental Financial Management System (DFMS), and are reported in the department's external financial reports on a timely basis.

## **5. Requirements**

### **General**

- 5.1 As defined in the TB Directive on Payments, an advance payment is a payment made by or on behalf of Her Majesty, before the work, delivery of the goods, or rendering of the service has been completed. Advance payments are the result of a contractual requirements or agreement.
- 5.2 Advance payments are made only under exceptional circumstances and are the least preferred method of payment for the government. They may only be issued when the requirements of this policy and other criteria within applicable legislations (e.g. FAA, appropriation acts) are met.
- 5.3 The economic benefits of advance payments will not be realized until the goods or services are provided in the future. As such, advance payments are recorded in the DFMS as assets and they are reported in the department's financial reports as prepayments.
- 5.4 Examples of advance payments for the DND/CAF can include some of the following:

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- Required advances under Foreign Military Sales (FMS) contracts and other North America Treaty Organization (NATO) contracts; and
- Payments to suppliers in industries, or segments of industries where advance payments are an entrenched tradition or practice such as:
  - Software licenses and certain licensing fee agreements;
  - Building leases and certain rental agreements;
  - Subscriptions;
  - Some training and conferences;
  - Certain travel (e.g. flight and rail tickets); and
  - Online purchase agreements.

5.5 The following type of transactions should not be recorded as advance payments as they do not meet the definition of advance payments in [paragraph 5.1](#) of this policy. Please note the following list is not exhaustive and only includes examples:

- [Early payments](#);
- [Progress payments](#);
- [Accountable advances](#) (see FAM Chapter 1016-9, Accountable Advances);
- [Authorized loans to CAF members](#);
- [Military salary advances](#) (see FAM Chapter 1023-2, Financial Administration of Military Pay);
- [Civilian salary advances](#) (see FAM Chapter 1023-1, Financial Management of Civilian Pay); and
- [Standing advances](#) (see FAM Chapter 1016-9-4, Accountable Advances – Petty Cash).

### **Core Requirements for Advance Payments**

- 5.6 The standard approach for the Government of Canada is to issue payment for goods or services after the goods have been delivered or once the services have been provided. In general, advance payments in the DND/CAF can be made only under exceptional circumstances and when:
- The payments are considered essential to achieving program objectives;
  - No other reasonable alternative exists; and
  - The payments are in accordance with a contract, agreement or legislation.
- 5.7 Further, in accordance with the TB Directive on Payments, advance payments in a given fiscal year (FY) must relate to and cannot exceed the reasonably expected value of the work performed or goods and services received during that year.
- 5.8 However, there are a limited number of cases where justified exceptions are allowed, to permit the amount of an advance payment to exceed the expected value of the work performed or the goods and services received during that year. Please see [paragraphs 5.36 to 5.39](#) for details.
- 5.9 In addition to these core requirements above, please see the following sections on [Fundamental Principles of Advance Payments](#) and [Additional Requirements of](#)

[Advance Payments](#) for additional requirements and considerations related to their appropriate use.

### **Fundamental Principles of Advance Payments**

- 5.10 The core requirements for advance payments set out in [paragraph 5.6 and 5.7](#) are based on two fundamental principles as indicated below:
- Advance payments are only issued in exceptional circumstances; and
  - Advance payments do not exceed the expected value of the goods or services to be received in that FY.

#### **Exceptional Circumstances Principle**

- 5.11 Usually the department pays for goods and services once the goods have been delivered or services provided, to help ensure that the DND/CAF agreements with suppliers are respected and to better manage its cash. When the DND/CAF pays in advance, it takes on greater risks and administrative burdens, and has fewer recourse options if the agreement is not respected.
- 5.12 Before agreeing to an advance payment, the department should explore other possibilities such as using alternate suppliers that will accept payment after goods and services have been delivered, or negotiating other payment terms such as progress payments.
- 5.13 When there are no other reasonable alternatives to achieve the program objective, the DND/CAF can deviate from the standard payment practice and issue an advance payment. For example in industries or segments of industries, where advance payments are an entrenched tradition or practice, paying in advance is acceptable, because no other reasonable alternative exists (see [paragraph 5.4](#) for examples).
- 5.14 In addition, the payments must be in accordance with a contract, agreement or legislation as stipulated in Section 34 of the FAA. The agreement provides the legal basis for certifying the advance payment and therefore an advance payment clause must be documented in a contract or agreement to ensure the department reduces its risks.

#### **Expected Value of Goods and Services Principle**

- 5.15 In general, advance payments in any given FY must relate to and not exceed the expected value of the goods or services to be received in that year. This ensures that the DND/CAF uses the funds appropriated by Parliament annually to deliver programs in that FY. This is also required to respect the principles of annual appropriations and the basis on which funds are appropriated by Parliament.
- 5.16 Advance payments cannot be used as a tool to spend funds that would otherwise lapse at the end of the FY as stipulated in the requirements of the FAA and the appropriation acts.
- 5.17 Advance payment amounts that exceed the expected value of work performed or goods and services received during that FY must be recovered immediately. In such

instances, FAM Chapter 1018-2, Control of Receivables Public Revenue and Debt Deletion Authorities, should be consulted regarding establishing a receivable to recover the excess.

- 5.18 In exceptional circumstances where it is necessary to issue an advance payment in one FY to cover the cost of goods or services to be received in a future year, approval of exceptions to the TB Directive on Payments must be sought from the President of the Treasury Board, as explained in [paragraphs 5.36 to 5.39](#) below.

### **Additional Requirements for Advance Payments**

#### **Include Advance Payment Clauses in Contracts and Contractual Arrangements**

- 5.19 Advance payment clauses must respect the principles of parliamentary control found in section 3.2 of The Parliamentary Financial Cycle, the provisions of the appropriation acts, the requirements of the FAA and the TB Directive on Payments. The DND Procurement Administration Manual (PAM) provides details on the considerations and requirements for including advance payment clauses in contracts.
- 5.20 Before negotiating for the use of advance payments as part of a procurement strategy and including such clauses in a contract, the DND/CAF should ensure:
- It has a compelling business rationale for issuing an advance payment and including appropriate clause(s) in the contract;
  - It assesses the risks associated with paying for the goods and services before receiving them;
  - It considers the financing and interest costs to the department; and
  - It considers how any excess advance payment would be identified and how it would be recovered in cases where the advance payment exceeds the value of goods and services received in a FY.
- 5.21 The DND/CAF contracting and procurement personnel should consider including advance payments in a contract only if:
- Adequate security for the advance payment is ensured. This could include mechanisms to recover any advance payments made if the contract is not fulfilled;
  - The department receives value that is equivalent with the amount of the payment;
  - The department has adequate funds; and
  - One of the following circumstances exists:
    - The economic advantage to the department clearly outweighs the financing and interest costs associated with the advance payment;
    - The contractor would suffer hardship or could provide financing only with difficulty or at rates considered to be uneconomical in relation to prevailing chartered bank prime lending rates;
    - The value of the contract is considered to be beyond the contractor's assessed financial capabilities;
    - There is to be a long duration for contract performance; and/or

- The industry or segment of industry has an entrenched tradition or practice of receiving advance payments from the purchaser (for example, subscriptions, flights and training).
- 5.22 DND/CAF personnel are reminded that, even when the conditions in [paragraph 5.21](#) are met, use of advance payment is not necessarily warranted. Advance payments are normally issued in exceptional circumstances only.
- 5.23 Further, when determining the frequency of advance payments and the time frame for recovering excess advance payments under a contractual agreement, the objectives should be to:
- Limit the department's exposure to risk;
  - Minimize the financing costs; and
  - Minimize the gap between when advance payments are issued and when the related goods and services will be received.
- 5.24 Please see [Appendix B](#) for a decision tree to assist users with identifying the type of cases for which advance payment clauses may be an appropriate method of payment option to include in a contract.

### **FY Alignment**

- 5.25 Advance payments must align with the FY and cannot exceed the reasonably expected value of the work performed or goods and services received during the FY. Therefore advance payments:
- Must not be used to avoid lapsing funds at year end;
  - Cannot be made in one FY under a contract/agreement that begins the following year; and
  - In each FY, cannot exceed the expected contractors' expenditure even when the payments are made for extraordinary start-up costs.
- 5.26 Notwithstanding the above in [paragraph 5.25](#), as part of supporting normal ongoing departmental operations later in the FY, in certain cases where advance payments are required due to an entrenched industry tradition or practice and no other reasonable alternative exists, the DND/CAF allows the use of advanced payments to meet program objectives. As such, advance payments can be used in the following cases when all other requirements are met:
- For training, when in the last two months of the FY, it is necessary to register and pay for training that will start in the first month of the new FY, in order to secure the participant(s) place in the training (i.e. the training is needed for program purposes and there are concerns about availability) as long as the course is completed in the new FY; and
  - For travel, when in the last two months of the FY it is necessary to register and pay for travel that will start and end in the first three months of the following FY in order to secure the participant(s) place (i.e. the travel is needed for program purposes and there are concerns about availability).

### **Advance payments to Other Government Departments**

- 5.27 The requirements for advance payment for goods and services in this policy, and under the authoritative documents referenced in [paragraph 3.3](#), also apply to advance payments made under interdepartmental agreements.
- 5.28 The use of advance payments with Other Government Departments (OGD) must be documented in an interdepartmental agreement and the agreement should include requirements for:
- Regular reconciliations of the advance payments against the value of goods and services received; and
  - Any excess advance payments to be returned by the end of the FY.
- 5.29 Advance payments between departments apply only in situations where one OGD is providing goods and services to the DND/CAF, which is paying for them in advance in accordance with this policy. The deposit of funds into an OGD suspense account is not an advance payment. For details on OGD suspense accounts, please refer to FAM 1016-6-1, OGD Suspense Accounts.

### **Authority for Approval of Advance Payments**

- 5.30 The use of advance payments must be properly authorized and approved in accordance with all legislative, contracting and financial policy requirements for the government and the DND/CAF.

#### **Expenditure Initiation and Commitment Authority**

- 5.31 Expenditure initiation and commitment authority (Section 32 of the FAA) must be exercised for advance payments. The proposed expenditures should be reviewed to ensure that authority exists that allows for the expenditure of public funds and that sufficient encumbered funds are available and a commitment is recorded in the DFMS. Refer to FAM Chapter 1016-2 Expenditure Initiation and Commitment Control - FAA section 32 for further guidance.

#### **Contracting Authority**

- 5.32 In the cases where the core and additional requirements for advanced payments detailed in this policy are met, the individual who has delegated contracting authority within the department can approve the inclusion of advance payment clauses within a contract. If the contract requires Treasury Board approval, then TB must approve the advance payment clauses as well.
- 5.33 The TB submission seeking approval to enter into the contract must also seek TB's approval of the amount and the schedule of any advance payments made under the contract.

#### **Certification Authority**

- 5.34 Proper certification authority must be in place where the delegated manager ensures that the contract or agreement contains the terms for the advance payment as

stipulated under Section 34 of the FAA. Refer to FAM Chapter 1016-3 Account Verification - FAA section 34 for further guidance.

### **Approval of Advance Payments Impacting Multiple Years**

- 5.35 As stipulated in the TB Guide to Advance Payments, standard practice for the Government of Canada is that advance payments in a given FY must relate to and cannot exceed the reasonably expected value of the work performed or the goods and services received during that year.
- 5.36 Every effort should be made to align the payment schedule with the government's FY. In exceptional circumstances where such alignment is not possible, the TB Guide to Advance Payments requires that advance payments impacting multiple FYs must obtain the approval of the President of the Treasury Board for an exception to the TB Directive on Payments, subsections 4.1.2.2 and 4.1.3 to allow:
- The department to make advance payments that exceed the goods or services reasonably expected to be received in that particular FY; and
  - The department to recover any excess advance payments given to the contractor in the following FY under the terms of the contract or agreement.
- 5.37 A request for approval of these exceptions to the TB Directive on Payments should clearly present the rationale for the exception, including the reasons for the exception, the controls in place to limit the crown's exposure to risk and to identify and recover promptly any excess advance payments.
- 5.38 Multi-year advance payments should also be limited to situations where the advance payment spans no more than two FYs. Requesting exceptions spanning more than two FYs generally present higher risks and should be avoided whenever possible.
- 5.39 In order to ensure that the department materially meets the above TB requirements to obtain the TB President's approval of exceptions to issue advance payments impacting multiple FY's, while limiting the administrative burden required for normal ongoing departmental business occurring later in the FY, the DND/CAF applies these requirements as follows:
- In cases where the DND/CAF is not the contracting authority of a particular contract,(e.g. FMS contract), the department which is the contracting authority (e.g. Public Service Procurement Canada (PSPC)) will normally get the TB approval on behalf of the department;
  - In cases where the DND/CAF is the contracting authority of a specific arrangement, and the advance payments are required due to an entrenched industry tradition or practice, where no reasonable alternative exists, the TB President's approval will not be requested. This applies only to software licenses and certain licensing fees, building leases and certain rental agreements, subscriptions, some training and conferences, certain travel and online purchase agreements; and
  - In all other cases where the DND/CAF is the contracting authority of a contract, and the advance payment amount will exceed \$100,000, the department will seek the TB President's approval. The approval is sought prior to the contract being signed (e.g. through a related TB Submission). However, if in any case where the

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need for these exceptions only develops after an advance payment has already been issued (e.g. as a result of unexpected supplier shortages or emergencies where a previously issued advance payment will no longer be consumed by year end) the TB President's approval would also be required.

- 5.40 If uncertain whether the TB President's approval for an exception is required, contact your Level One (L1) comptroller, who can engage Director Financial Policy (DFP) as required.

### **Accounting and Reporting Advance Payments**

- 5.41 Advance payments must be recorded within the DND/CAF as depicted in subsection 3.4 of The Financial Information Strategy Accounting Manual. As the disbursement is for goods or services to be provided in the future, the payment is recorded as a prepaid expense and the amount is subsequently reduced when the actual goods or services are provided by the supplier in the future.
- 5.42 Advance payments are subject to federal and provincial sales tax legislation depending on the nature of the supply. For GST/HST guidance, see FAM Chapter 1024-1, Taxes – Goods and Services Tax (GST)/Harmonized Sales Tax (HST). For QST guidance, refer to the TB Guide to Collecting and Paying Federal and Provincial Sales Taxes. Where applicable, the PST exemption should be claimed in the province of British Columbia, Saskatchewan and Manitoba in accordance with Policy Memorandum 7356-11-2 – Use of Government of Canada Provincial Sales Tax (PST) Exemption.
- 5.43 Advance payments may also be subject to non-resident income tax withholding as described in FAM Chapter 1016-3, Account Verification – FAA Section 34.

### **Reporting and Disclosure**

- 5.44 When an advance payment is recorded, the resulting payment shall be recognized in the department's external financial reports reflecting the amount of advance payments that are outstanding at the time of the report.
- 5.45 Advance Payments are presented on the Statement of Financial Position as prepaid expenses under the heading "Non-financial assets". Additional details regarding the major types of advance payments outstanding are also disclosed in the notes and schedules of the department's external financial reports.

### **Monitoring**

- 5.46 The DND/CAF should ensure that controls are in place to monitor advance payments. This should include:
- Regular reconciliation of advance payments against the value of goods or services received; and
  - Recovery of advance payment amounts when it is forecasted that they will exceed the expected value of the work performed or the goods and services received during the FY.

## **6. Roles and Responsibilities**

6.1 The following identifies the roles and responsibilities of various DND organizations related specifically to advance payments.

### **Deputy Minister**

6.2 The Deputy Minister (DM) is responsible for:

- Establishing an effective departmental governance and oversight framework to ensure a risk-based departmental system of internal financial control over assets including advance payments is established, monitored and maintained;
- Ensuring L1 Advisors and the Assistant Deputy Minister (Finance)/Chief Financial Officer ADM (Fin)/CFO are aware of their responsibilities and have the necessary knowledge to carry them out; and
- Ensuring that the ADM (Fin)/CFO advises the Office of the Comptroller General (OCG) on a timely basis where there are difficulties in complying with this policy.

### **Assistant Deputy Minister (Finance)/Chief Financial Officer**

6.3 The Assistant Deputy Minister (Finance)/Chief Financial Officer (ADM(Fin)/CFO) is responsible for:

- Establishing, maintaining and monitoring a risk-based system of internal controls over financial management within the DND/CAF to ensure the appropriate identification, management and reporting of all advance payments;
- Providing financial functional direction and guidance across the department and the CAF on matters related to advance payments; and
- Ensuring that corrective actions are taken to address instances of non-compliance with this policy by a civilian, or in the case of a CAF member, notifying the military chain of command that corrective actions must be taken.

### **Level 1 Advisors**

6.4 Level One (L1) Advisors (ADM and Military L1s) are responsible for:

- Ensuring that this policy is properly applied within their organization;
- Ensuring Responsibility Centre (RC) Managers within their organization are aware of their responsibilities and have the necessary knowledge to carry them out; and
- Notifying the CFO of material control weaknesses and ensuring that prompt corrective action is taken when control weaknesses are identified in their area of responsibility.

### **Director General Strategic Financial Governance**

6.5 The Director General Strategic Financial Governance (DGSFG) is responsible for:

- Ensuring that this policy takes into consideration the unique situations and circumstances of the DND/CAF;

- Ensuring the development of financial controls, systems, and procedures that adequately support the recording, management and reporting of advance payments in accordance with this policy; and
- Bringing to the ADM (Fin)/CFO's attention any significant compliance issues with this policy that they become aware of and providing recommendations on how to address them.

### **Director Financial Policy**

- 6.6 The Director Financial Policy (DFP) is responsible for:
- Defining and developing the departmental FM policy for advance payments; and
  - Providing policy interpretation and clarification when appropriate.

### **Director Financial Control**

- 6.7 The Director Financial Controls (DFC) is responsible for:
- Developing and assessing the effectiveness of key controls related to in-scope business processes and systems and making recommendations based on the results of the assessments;
  - Reporting on the status of the assessments and completing the annual summary for inclusion as an Annex to the departmental financial statements; and
  - Tracking and reporting on the status of remediation action plans.

### **Director Financial Systems Integration**

- 6.8 The Director Financial Systems Integration (DFSI) is responsible for:
- Creating and maintaining financial business process documentation on advance payments;
  - Assisting with the development and design of business process as well as remediation assistance through financial business process re-engineering and transformation activities when requested or required; and
  - Establishing and issuing mandatory procedures in compliance with this policy that standardize how activities related to advance payments are performed across the DND/CAF.

### **Director General Financial Operations and Services**

- 6.9 The Director General Financial Operations and Services (DGFOS) is responsible for:
- Supporting the implementation and overseeing the day-to-day application of this policy including by ensuring the appropriate procedures are in place; and
  - Bringing to the attention of the ADM (Fin)/CFO any significant compliance issues with this policy that they become aware of and providing recommendations of how to address them.

### **Director Financial Accounting**

- 6.10 The Director Financial Accounting (DFA) is responsible for:
- Monitoring the advance payment details reported by Level 1 Comptrollers for overall reasonableness, to help ensure they are appropriately recorded and disclosed in the department's external financial reports; and
  - Reporting and disclosing the advance payments of the department appropriately in the department's external financial reports.

### **Level 1 Comptrollers**

- 6.11 Level 1 (L1) Comptrollers are responsible for:
- Ensuring that all staff within their organization who are involved in the contracting and accounting for advance payments including FAA Section 32 and 34 processes apply this policy and supporting procedures appropriately;
  - Providing financial direction and guidance on the department's advance payments policy and procedures within their L1 Organization;
  - Ensuring that compliance with this policy is monitored within the L1 organization;
  - Ensuring that RC Managers are properly applying this FM policy within their area of responsibility; and
  - Engaging Canadian Forces Legal Advisor (CFLA) for legal advice regarding advance payment contracts or agreements as required.

### **Regional Departmental Accounting Office Comptrollers**

- 6.12 Regional Departmental Accounting Office (RDAO) Comptrollers are responsible for:
- All responsibilities identified in [paragraph 6.11](#) of this policy for L1 Comptrollers;
  - Providing guidance and assistance to RC Managers within their area of responsibility in applying this policy; and
  - Ensuring that RC Managers are properly applying this FM policy within their area of responsibility.

### **Responsibility Centre Managers**

- 6.13 Responsibility Centre (RC) Managers are responsible for:
- Ensuring that advance payments issued are carried out in accordance with this policy instrument;
  - Ensuring that all staff involved in advance payment processes understand and comply with this policy and related procedures;
  - Ensuring that there is regular reconciliation and monitoring of advance payments against the value of goods and services received;
  - Engaging their L1 Comptroller, through the financial chain of command, when a contract or agreement with advance payments terms and conditions are not being complied with; and
  - Taking corrective measures to remedy any deficiencies identified in the management and reporting of advance payments.

### **Procurement/Contracting Authorities**

- 6.14 The Procurement/Contracting Authorities (PA/CA) are responsible for:
- Negotiating and including advance payment clauses in contracts when appropriate and in accordance with the requirements of this FM policy; and
  - Monitoring the contract to ensure all delivery, performance and payment terms, including those for advance payments, are met.

### **Director Materiel Policy and Procedures**

- 6.15 The Director Materiel Policy and Procedures (DMPP) is responsible for:
- Developing the departmental policy and procedures for advance payments in the PAM and providing policy interpretation and clarification when appropriate; and
  - Providing advice to ADM (Mat) and other L1 organizations as required, regarding contractual arrangements and transactions involving advance payments.

### **Canadian Forces Legal Advisor**

- 6.16 The DND Canadian Forces Legal Advisor (CFLA) is responsible for:
- Providing legal assistance, interpreting and providing guidance on Advance payment terms and contract agreements as required, including where there are disputes or risks of non-compliance; and
  - Providing direction to the L1 organizations to take the necessary action to recover the advance payment, when there is an act of default under the contract.

### **Judge Advocate General**

- 6.17 Judge Advocate General (JAG) is responsible for:
- Providing legal interpretations and assistance to the DND/CAF with regard to international contracts and agreements with advance payment terms and conditions.

## **7. Consequences of Non-Compliance**

- 7.1 Under the TB Policy on Financial Management the DM is responsible for investigating and acting when significant issues regarding policy compliance arise. The DM must also ensure that appropriate remedial actions are taken to address such issues within the DND/CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include; the impact of the non-compliance, whether there is a history of non-compliance, whether there was intent and whether there are other circumstances.
- 7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM (Fin)/CFO or in the case of a member of the CAF, the military chain of command at the ADM (Fin)/CFO's direction, must ensure corrective actions are taken

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and that consequences are commensurate with the nature of the non-compliance with this policy. Corrective actions and consequences can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated spending and financial authorities, disciplinary action or other measures as appropriate. For additional information refer to the TB Framework for the Management of Compliance.

## **8. References**

### **8.1 Legislation**

*Accountable Advances Regulations  
Appropriation Act  
Financial Administration Act  
Government Contracts Regulations  
Parliamentary Financial Cycle*

### **8.2 Treasury Board and Central Agency FM Policy Instruments**

[TB Policy on Financial Management](#)  
[TB Contracting Policy](#)  
[TB Directive on Payments](#)  
[TB Directive on Transfer Payments](#)  
[TB Directive on Public Money and Receivables](#)  
[TB Guide to Delegating and Applying Spending and Financial Authorities](#)  
[TB Financial Information Strategy Accounting Manual](#)  
[TB Guide to Advance Payments](#)  
[TB Guide to Collecting and Paying Federal and Provincial Sales Taxes](#)  
[TB Directive on the Management of Procurement](#)  
[TB Framework for the Management of Compliance](#)

### **8.3 DND/CAF FM Policies**

[FAM Chapter 1016-2 Expenditure Initiation and Commitment Control – FAA Section 32](#)  
[FAM Chapter 1016-3 Account Verification – FAA Section 34](#)  
[FAM Chapter 1016-6-1, OGD Suspense Accounts](#)  
[FAM Chapter 1018-2 Control of Receivables Public Revenue and Debt Deletion Authorities](#)  
[FAM Chapter 1024-1, Taxes – Goods and Services Tax \(GST\)/Harmonized Sales Tax \(HST\).](#)  
[PAM Chapter 3 Plan Procurement: Procurement Administration Manual](#)  
[Policy Memorandum 7356-11-2 – Use of Government of Canada Provincial Sales Tax \(PST\) Exemption.](#)

### **8.4 DND/CAF FM Guides, Forms, Tools, and Other References**

[Receiver General Specific guidelines for individual plate reporting - Public Accounts of Canada](#)

## **9. Enquiries**

- 9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.
- 9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.
- 9.3 If the L1 Comptroller needs policy guidance on the matter(s) raised, the L1 Comptroller may contact DFP.

## Appendix A – Definitions and Acronyms

The following definitions apply to this policy:

### **Definitions**

**Accountable Advances (*avance comptable*)** is a sum of money advanced to a person from an appropriation, for which the person is accountable and includes imprest funds and working capital advances administered under an imprest system.

**Assets (*les actifs*)** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits may be obtained.

**Agreement (*accord*)** is a formal agreement between two or more parties that articulates the terms and conditions of a particular relationship.

**Advance Payment (*paiement anticipé*)** is a payment made by or on behalf of Her Majesty before the work, delivery of the goods, or rendering of the service has been completed.

**Contract (*contrat*)** is an agreement between a contracting authority and a person or firm to provide a good, perform a service, construct a work, or to lease real property for appropriate consideration.

**Early Payment (*paiement hâtif*)** is a payment issued after the goods have been received or the services have been rendered but before the invoice is due.

**Loan (*prêt*)** is a financial asset of the government that is represented by a promise by a borrower to repay a specific amount, at a specified time or times, or on demand, usually with interest. In other words, a loan must be repaid. For details on loans, refer to the Directive on Public Money and Receivables.

**Progress Payment (*paiement progressif*)** is a payment made after partial completion of the work or when a specific milestone have been met.

**Suspense Account (*compte d'attente*)**: Suspense accounts are used when a department is administering a program on behalf of another department.

**Transfer Payments (*paiement de transfert*)** is the transfer of money and/or goods or services from the Government or a Department to an individual or organization, for which the department does not receive any goods or services directly in return or expect a financial return. These include grants or contributions.

### **Acronyms**

ADM – Assistant Deputy Minister

ADM (FIN) – Assistant Deputy Minister Finance

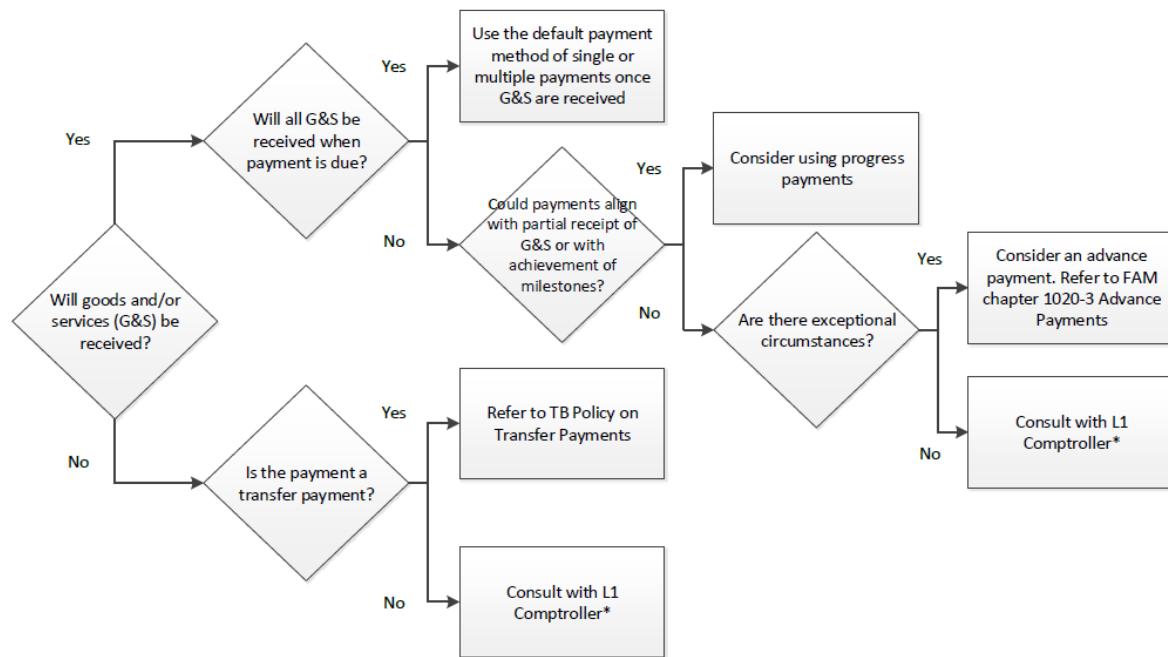
ADM (MAT) - Assistant Deputy Minister Materiel

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CA - Contracting Authority  
CAF – Canadian Armed Forces  
CFLA – Canadian Forces Legal Advisor  
CFO – Chief Financial Officer  
DFA – Director Financial Accounting  
DFC – Director Financial Controls  
DFMS – Departmental Financial Management System  
DFSI – Director Financial Systems Integration  
DFP – Director Financial Policy  
DGFOS – Director General Financial Operations and Services  
DGSFG - Director General Strategic Financial Governance  
DM – Deputy Minister  
DMPP – Director Materiel Policy and Procedures  
DND – Department of National Defence  
FAA – Financial Administration Act  
FAM – Financial Administration Manual  
FM – Financial Management  
FMS – Foreign Military Sales  
FY – Fiscal Year  
G&S – Goods and Services  
GST - Goods and Services Tax  
HST - Harmonized Sales Tax  
JAG – Judge Advocate General  
L1 – Level One  
NATO – North Atlantic Treaty Organization  
OCG – Office of the Comptroller General  
OGD – Other Government Department  
PA – Procurement Authority  
PAM - Procurement Administration Manual  
PSPC – Public Service Procurement Canada  
PST - Provincial Sales Tax  
RC – Responsibility Centre  
RDAO – Regional Departmental Accounting Office  
TB - Treasury Board

## Appendix B – Decision Tree to Determine Payment Options



\*L1 Comptroller will consult DFP if required.

The tree diagram above shows the questions to ask to determine which method of payment to include in a contract.

The first question is “Will goods and/or services (G&S) be received?”

If the answer to this question is yes, the next question is “Will all G&S be received when payment is due?”

- If all G&S will be received when payment is due, use the default payment method of single or multiple payments once G&S are received.
- If all G&S will not be received when payment is due, the next question is “Could payments align with partial receipt of G&S or with achievement of milestones?”
- If the answer to this question is yes, consider using progress payments.
- If the answer to this question is no, the next question is “Are there exceptional circumstances?”
  - If there are exceptional circumstances, consider an advance payment.
  - If there are not exceptional circumstances, consult your L1 Comptroller. L1 comptroller will contact DFP if more guidance is required.

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Returning to the initial question in the decision tree, “Will goods and/or services (G&S) be received?”, if the answer is no, the next question is “Is the payment a transfer payment?”

- If it is a transfer payment, refer to the Policy on Transfer Payments and the Directive on Transfer Payments.
- If it is not a transfer payment, consult your L1 Comptroller. The L1 Comptroller will contact DFP if further guidance is required.

An advance payment must be made only under exceptional circumstances when the payment is considered essential to achieving program objectives and when no other reasonable alternative exists. Advance payments are not to be used to avoid lapsing funds at the end of a FY or as a way to carry funds forward from one FY to the next.