



The Global Fund

# Financial Management Handbook for Grant Implementers

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## Table of Contents

<b>1</b>	<b>Executive Summary</b> .....	<b>4</b>
1.1	Introduction.....	4
1.2	Purpose and Scope .....	5
1.3	The Global Fund Funding Model .....	6
1.4	The Global Fund’s Financial Management Principles.....	6
1.5	Financial Management System .....	7
<b>2</b>	<b>The Global Fund Funding Cycle</b> .....	<b>9</b>
2.1	Overview .....	9
2.2	Financial Management in the Funding Cycle .....	9
2.2.1	Stage 1: Country Dialogue.....	9
2.2.2	Stage 2: Funding Request.....	10
2.2.3	Stage 3: Grant Making.....	10
2.2.4	Stage 4: Implementation .....	12
2.2.5	Stage 5: Grant Closure .....	12
<b>3</b>	<b>The Global Fund’s Financial Management Principles</b> .....	<b>13</b>
3.1	Overview .....	13
3.2	Financial Management Arrangements .....	13
3.2.1	Principal Recipients.....	15
3.2.2	Sub-Recipients.....	17
3.2.3	Payment for Results (PfR) .....	17
3.3	Financial Management Capacity Assessment of Implementers.....	18
3.4	Strengthening the Financial Management of Implementers .....	20
3.5	Financial Management Impact Review .....	21
3.6	Assurance Planning, Execution and Management .....	21
3.7	Portfolio Optimization.....	22
<b>4</b>	<b>Institutional and Oversight Arrangement</b> .....	<b>23</b>
4.1	Overview .....	23
4.2	Institutional Arrangement .....	23
4.3	Oversight Arrangement.....	25
4.3.1	Management Oversight .....	26
4.3.2	Finance and/or Audit Committee.....	27
4.3.3	Country Coordinating Mechanism .....	28
4.4	Internal Controls .....	30
4.4.1	Principles and Approach for Risk and Assurance Framework.....	31
4.4.2	Components of Internal Control .....	33
4.4.3	Control Environment.....	33
4.4.4	Risk Assessment (Risk Management Process).....	34

4.4.5	Control Activities .....	35
4.4.6	Information and Communication .....	38
4.4.7	Monitoring.....	40
4.5	Human Resources .....	41
4.5.1	Human Resources Function .....	41
4.5.2	Human Resources Policies and Procedures .....	42
4.5.3	Recruitment Process.....	42
4.5.4	Benefits, Compensation and Leave Policy.....	42
4.5.5	Staff Accountability and Performance Evaluation .....	43
4.5.6	Staff Retention and Employee Turnover .....	43
4.5.7	Payroll Processing.....	43
4.5.8	Code of Conduct.....	44
4.5.9	Selecting the Grant Financial Team .....	45
4.6	Financial Management Information System (FMIS) .....	46
4.6.1	Global Fund's Minimum Requirements for a Financial Management Information System .....	46
<b>5</b>	<b>Financial Controlling.....</b>	<b>48</b>
5.1	Overview .....	48
5.2	Principles of Financial Controlling .....	48
5.2.1	Accounting and Finance Function.....	49
5.2.2	Accounting and Finance Policies and Procedures.....	49
5.2.3	Accounting Principles, Policies and Basis .....	49
5.2.4	Organizational Chart of Accounts (CoA) .....	54
5.3	Planning, Budgeting and Fund Flow .....	55
5.3.1	Budgeting Cycle and Process .....	56
5.3.2	Budget Control and Monitoring .....	57
5.3.3	Budget Adjustments .....	58
5.3.4	Funds Flow .....	58
5.4	Contracts Management .....	60
5.4.1	Contract Management .....	60
5.5	Invoices, Payments and Recording .....	62
5.5.1	Payment Methods.....	63
5.5.2	Payment Process.....	64
5.5.3	Key Supporting Documents.....	65
5.5.4	Specific Considerations for the Global Fund.....	66
5.5.5	Advance Payments.....	68
5.6	Treasury Management .....	70
5.6.1	Bank Account Management.....	70
5.6.2	Petty Cash Management .....	73
5.6.3	Mobile Money.....	74

5.6.4	Foreign Currency Risk Management.....	75
5.7	Assets and Inventory Management.....	77
5.7.1	Assets and Inventory Management Policy .....	78
5.8	Documents and Records Management .....	79
5.8.1	Documents and Records Management Policy .....	79
<b>6</b>	<b>Financial Reporting and Audit.....</b>	<b>80</b>
6.1	Overview .....	80
6.2	Financial Reporting.....	80
6.2.1	Management Reports .....	81
6.2.2	Statutory Reporting.....	81
6.2.3	Donor Reporting.....	81
6.2.4	Ad-hoc Reporting .....	82
6.3	Audit .....	82
6.3.1	Internal Audit .....	82
6.3.2	External Audit.....	86
	<b>Glossary and Appendices .....</b>	<b>88</b>
	Glossary.....	89
	Appendices .....	92

# 1 Executive Summary

## 1.1 Introduction

1. The purpose of the Global Fund is to attract, manage and disburse additional resources to fight AIDS, tuberculosis and malaria. Accordingly, the Global Fund needs to ensure: a) adequate fiduciary controls are in place for the management of funds at the Global Fund Secretariat and country level; and b) a minimum set of reliable financial information is available on a timely basis regarding the implementation of grants. High quality financial information plays a critical role in improving accountability, good governance and achieving overall financial control over grant implementation and impact.
2. As a financing organization rather than an implementing agency, one of the founding principles of the Global Fund is country ownership. This principle relies on the conviction that individual countries are best placed to determine their own solutions to fight these three diseases, solutions that reflect national ownership and respect country-led formulation and implementation processes. Thus, the principle of country ownership implies that Principal Recipients, chosen by the Country Coordinating Mechanism (or its equivalent), are responsible for elaborating programs governed by good financial management principles and mechanisms for the entire grant lifecycle. In essence, Principal Recipients (either themselves or through sub-recipients and/or service providers) are responsible for implementing the Global Fund grants<sup>1</sup>.
3. The Global Fund recognizes the fact that the ability of both: (a) the Global Fund's Grant implementers (which mainly include Principal Recipients and sub-recipients, defined collectively as "implementers") to implement a successful grant and national program; and (b) the Global Fund to fulfil its fiduciary responsibilities and make timely disbursements, is fundamentally affected by the quality and effectiveness of the financial management systems<sup>2</sup> used in grant implementation. The implementers shall ensure that an **adequate financial management system** are in place for the effective and efficient use of financial resources for the intended purposes while the Global Fund will ensure "**continuous improvement**", timely disbursement and optimization of available resources to deliver greater impact.
4. The Global Fund as part of the 2017-2022 strategy has included "strengthening financial management and oversight (SO2g)" of grant implementers as a core component of strategic objective 2 "Build Resilient and Sustainable Systems for Health" to support the grant implementers to enhance the financial management and oversight capacity. As a part of this strategy, the Global Fund has developed the "Financial Management Handbook for Grant Implementers" (hereinafter referred to as the Financial Management Handbook) using a principles-based approach<sup>3</sup> to outline the core aspects required for robust financial management systems and to set out the required standards expected for optimal and efficient absorption of allocated grant resources to achieve maximum impact.

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<sup>1</sup> Sub-recipients and service providers can generally be distinguished as follows:

1. Sub-recipients receive Grant Funds directly or indirectly from the Principal Recipient and are responsible for implementing specified program activities (as set out in the Grant Agreement (which is defined in paragraph 6)). They are an integral part of the Grant Agreement and must have obligations that are generally equivalent to the obligations of the Principal Recipients particularly in relation to disbursement, accounting, reporting, monitoring and audit; and
2. Service providers have obligations for the provision or delivery of specified milestones or outputs under the terms of a specified contractual arrangement with, most commonly, the Principal Recipient or sub-recipient. Payments are made to service providers once the specified milestones or outputs are achieved.

<sup>2</sup> Refer to the people, processes, systems and overall internal control environment deployed in an organization for financial management. An effective financial management system includes but is not limited to a well-designed accounting system and associated processes and people to ensure that the right financial data is collected and aggregated to provide useful and timely financial information for analyses and decision-making.

<sup>3</sup> The principles based approach is effective and flexible as it requires "either comply or explain", because it:

- ✓ provides guidance that can be applied to the various circumstances and can cope with rapid changes of business environment;
- ✓ prevents the "box-ticking" approach to decision-making and the use of legalistic loopholes to avoid compliance with guidance; and
- ✓ focuses on the spirit of the guidance and encourage responsibility and the exercise of professional judgment.

## 1.2 Purpose and Scope

5. The purpose of the Financial Management Handbook is to support the implementers in designing, improving or strengthening a robust approach to financial management systems. It provides clear guidance and clarifies expectations on the Global Fund's financial management system requirements. Further, it provides an understanding on the role of financial management systems in the entire grant lifecycle and for grant management purposes.

6. To the extent that there is an inconsistency between what is set out in the Financial Management Handbook and the provision of a relevant the Framework Agreement (including where applicable, the Global Fund [Grant Regulations 2014](#)<sup>4</sup>) and the Grant Confirmation (collectively, the "Grant Agreement"), the provision of the Grant Agreement shall govern. Nothing in the Financial Management Handbook should be construed in a way that would modify or waive any obligations under the relevant Grant Agreement.

7. The Global Fund intends for the implementers to use the Financial Management Handbook as a guide for benchmarking, validating or improving their financial management systems while highlighting the elements required to transition away from Fiscal Agents and "Pass through Principal Recipients" or become Principal Recipients or sub recipients for the first time.

8. In addition to helping the grant implementers understand the financial management principles and requirements of the Global Fund, the Financial Management Handbook shall support the implementers to ensure that:

- effective institutional and oversight arrangements exist for proper performance management and accountability;
- financial management systems (people, processes and systems) are adequate to properly manage and account for programs funds including donor-funded programs;
- internal controls, including but not limited to finance, governance and human resources, are appropriate to manage programs including donor-funded programs;
- internal controls and accounting systems are adequate to generate timely and reliable financial information;
- mechanisms are in place to control and mitigate operational fiduciary and financial risks<sup>5</sup> as well as risks related to grant management;
- funding provided is effectively and efficiently used for the intended purposes;
- periodic, accurate financial reports are generated and submitted on a regular and timely basis to the Global Fund for review; and
- regular independent audits are conducted to verify those financial reports and to provide independent external assurance.

9. The Financial Management Handbook provides guidance only; it does not cover all systems or prescribe solutions for specific financial management challenges. The implementers should therefore adopt internal controls and operational processes that are acceptable<sup>6</sup> to the Global Fund, taking into account the operational context for entities in each country.

10. The Financial Management Handbook should be used in conjunction with the relevant Global Fund guidelines available. Furthermore, these guidelines should also be read in conjunction with the pertinent clauses of the relevant Grant Agreement governing the grant (see para 6 above).

11. Local Fund Agents and any Global Fund assurance provider should use these guidelines to inform their work on the implementers' capacity assessment, budget review, expenditure verification, and to complement the Global Fund tools and guidelines at their disposal.

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<sup>4</sup> For round based grants, the legal relationship is set out in the Grant Agreement.

<sup>5</sup> Financial Risks include but are not limited to the low-absorption rate of allocated resources; delays in implementation because of inefficiencies in financial management systems and policies and procedures; limited capacity (people, processes and systems) in financial management; non-availability of reliable financial information on timely basis (budget and expenditure reports); misuse of funds for non-compliant/non-allowable expenditures; fraud, diversion or misappropriation of funds.

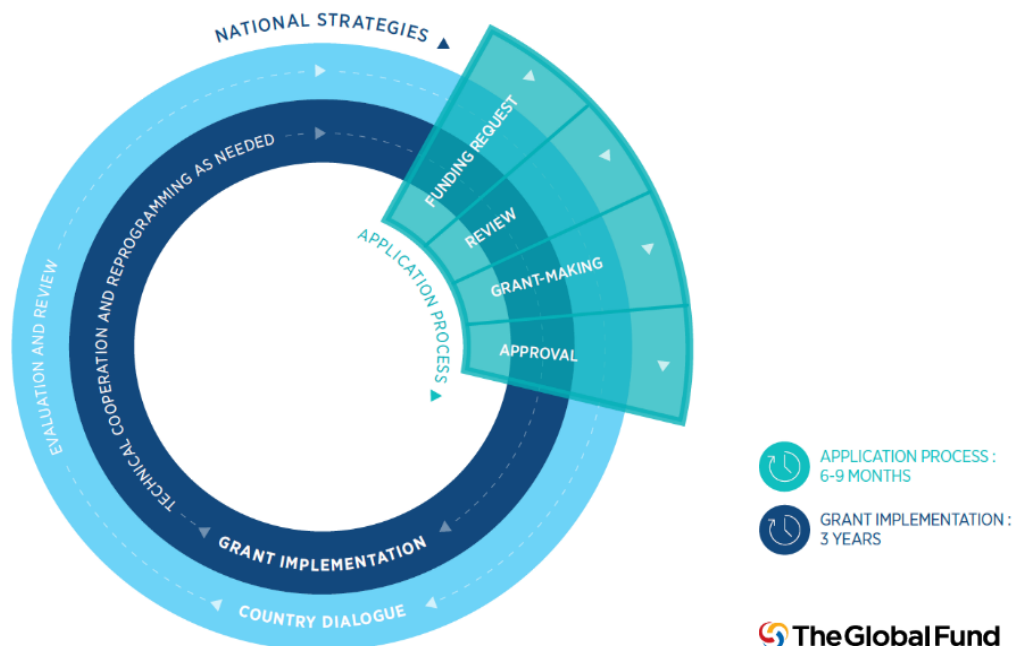
<sup>6</sup> Agreed with the Country Team during the grant making or through agreed management action during implementation.

## 1.3 The Global Fund Funding Model

12. The Global Fund allocation-based funding model is designed to enable strategic investment for maximum impact, by focusing resources on those countries that have the highest disease burden and lowest ability to pay. It provides implementers with flexible timing, alignment with national strategies and predictability on the level of funding available. There is active engagement with implementers and partners throughout the funding application and grant implementation processes to ensure greater global impact.

13. The diagram below outlines the funding cycle. More information on the stages of the funding cycle is available on the [Funding Model](#) page of the Global Fund website.

### FUNDING CYCLE



14. There are also resources available to support applicants and partners in understanding the relevance of the stages of the funding cycle. These include e-learnings, documents outlining frequently asked questions, information notes and strategic-investment guidance. These and other resources are available on the [Global Fund website](#).

## 1.4 The Global Fund's Financial Management Principles

15. The Global Fund's Financial Management Principles refer to mechanisms designed and implemented by the Global Fund's Secretariat to control and mitigate operational fiduciary and financial risks related to grant implementation. The mechanisms include but are not limited to activities relating to financial management oversight, financial management arrangements, financial management capacity assessment and the building of financial management capacities for grant implementers.

16. The oversight and management approach for Global Fund grants has evolved since the inception of the allocation based model. As a result, sound financial management is considered critical to maximizing the impact and efficient absorption of allocated resources.



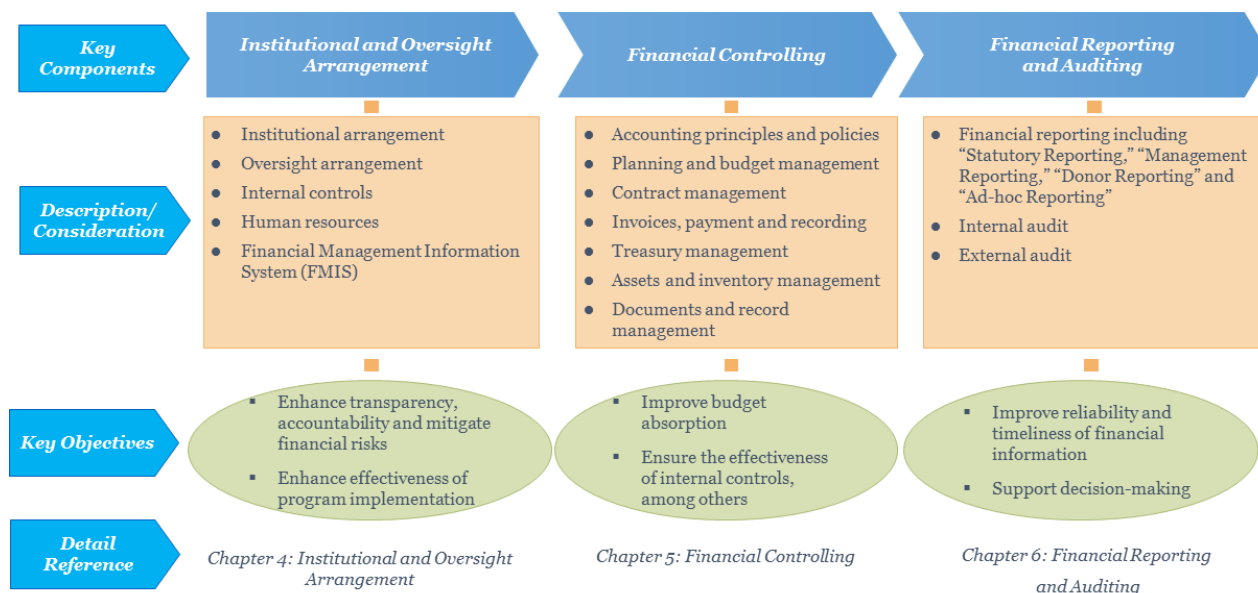
17. The Global Fund financial management principles include, but are not limited to, the following:
- financial management arrangement
  - financial management assessment
  - strengthening financial management and oversight
  - financial management impact review
  - assurance planning, execution and management
  - portfolio optimization

18. These operate together and help the Global Fund to proactively redesign and refine its financial management approach to improve its impact on the ground and address the issues reported by the assurance providers (Local Fund Agents and External Auditors) and/or the Office of the Inspector General. That oversight requires a vibrant partnership between key organizations and a harmonized approach for mutual accountability among the Grantee, Principal Recipients, Country Coordinating Mechanisms, partners and the Global Fund.

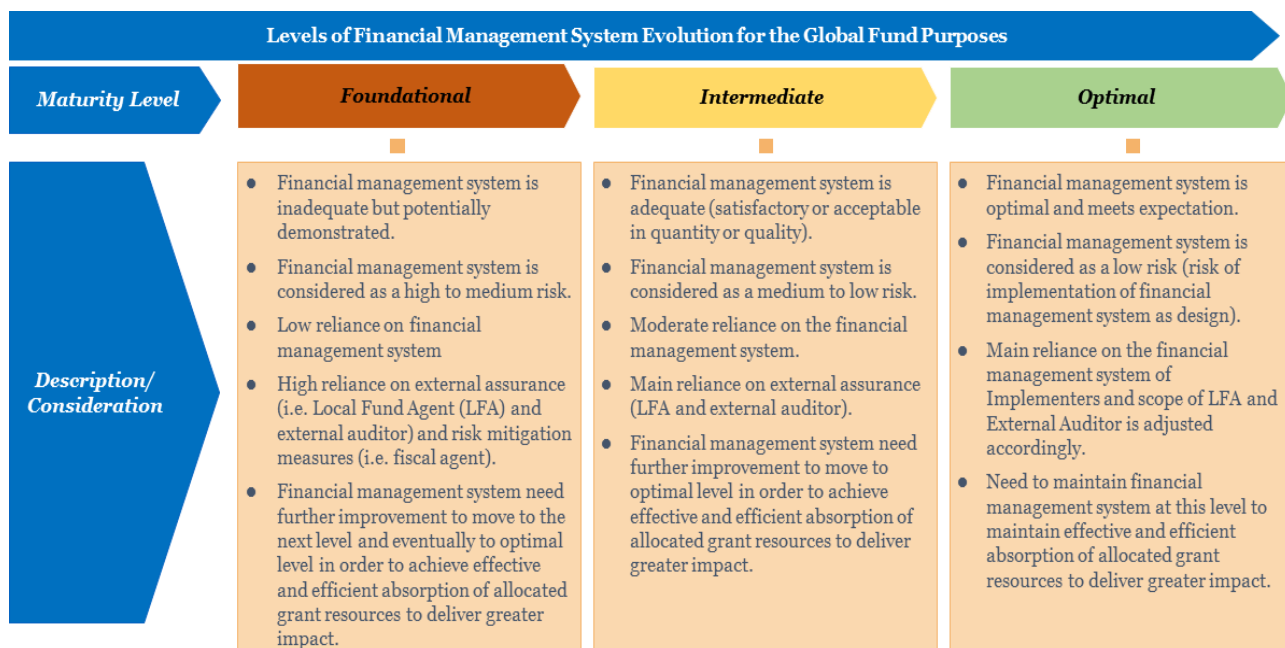
## 1.5 Financial Management System

19. The financial management system refers to the information systems, processes and people involved in the financial management of an organization. A robust financial management system plays a critical role in the successful implementation of grant resources by enabling fiduciary control and reducing fiduciary risks, by improving budget absorption, accountability, transparency and control over financial activities, and by achieving the overall objectives of an organization.

20. The key components of the financial management systems are summarized in the table below and are further described in the Chapters 4, 5 and 6 to provide detailed guidance to the implementers in the benchmark, design and/or strengthening of financial management systems to achieve the above-mentioned objectives.



21. For the purpose of the Global Fund, following are the key features/component of a financial management system of an organization at various level:

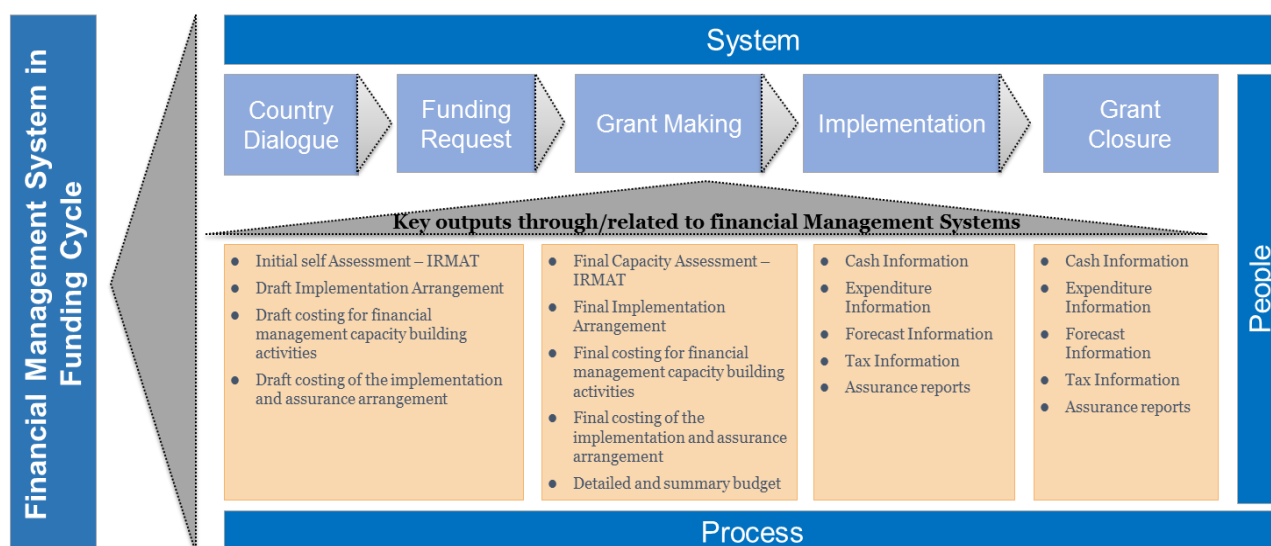


## 2 The Global Fund Funding Cycle

### 2.1 Overview

22. At the beginning of each funding cycle<sup>7</sup> the Global Fund allocates donors' money to eligible countries so they can achieve greater impact in their fight against HIV/AIDS, tuberculosis and malaria. Countries can apply for their allocated funding at any time during the three-year cycle. This allows them to align the funding request with their own national processes as well as with their national strategic plan for the diseases.

23. The Global Fund's funding cycle in relation to financial management is summarized below:



### 2.2 Financial Management in the Funding Cycle

24. Before going into detail over the “Financial Management System” and the Global Fund’s Financial Management Principles, it is important that implementers know and understand the various stages of the funding cycle and the role and relevance of the financial management system at each stage.

#### 2.2.1 Stage 1: Country Dialogue

25. At the Country Dialogue stage, implementers should examine whether existing systems, processes and people are adequate for the management of Global Fund grants in their role as Principal Recipients, sub-recipients or other implementing partners.

26. The Global Fund recommends that each implementer should perform the self-assessment of its financial management system on a regular basis. As such, the Global Fund requests implementers to complete an [Implementation Arrangement](#) (IA mapping) and may require the implementer to assess its operations across four functional areas<sup>8</sup> necessary for the implementation of Global Fund grants using the Global Fund Integrated Risk Management and Assessment Tool (IRMAT). This assessment also allows for the identification of gaps that may require funding.

27. The guidance on the Global Fund grant implementation arrangement is provided in Chapter 3 whereas Chapters 4, 5 and 6 describe the key components of robust financial management systems, subject to capacity assessment.

<sup>7</sup> The current one is 2017 to 2019

<sup>8</sup> The four functional areas are: i) Programmatic and Monitoring & Evaluation; ii) Financial and Fiduciary; iii) Health Product Management and Supply Chain; and iv) Governance, Oversight and Management.

28. The capacity assessment results should lead to an action plan to address the weaknesses (if any) and where applicable it should also provide a transition plan for Fiscal Agent or any other mitigation measures as applicable. The action plan should ultimately be incorporated into the Grant Agreement

29. The finance staff of the implementers should also be engaged throughout the country dialogue process to ensure:

- clarity of understanding of the national strategy by disease and how the implementers' capacity can be deployed to deliver impact;
- Advocacy for funding to address gaps identified in the financial management capacity of implementers, because a lack of advocacy makes it difficult to fund financial capacity building projects later in the grant cycle if the costs are not anticipated at the funding request stage.

For further details please refer to the [Operational Policy Manual](#), Section 1: Access to Global Fund Financing.

### **2.2.2 Stage 2: Funding Request**

30. At this stage, implementers should be able to demonstrate to the Country Coordinating Mechanism (CCM) that their organization has adequate capacity<sup>9</sup> (including financial management capacity) to manage Global Fund grants assuming that Principal Recipients are proposed and selected.

31. The finance staff of the implementers may also be requested to provide input on budgeting of specific interventions or activities within the Funding Request.

32. Implementers should therefore be able to deploy:

- financial management systems that are able to generate historical financial information to support the budgeting of inputs for the funding request;
- financial processes that facilitate robust budget preparation and validation in compliance with the [Global Fund Guidelines for Grant Budgeting](#) for inclusion in the funding request; and
- the right people with requisite knowledge of the organization and Global Fund processes to support the implementer throughout this stage. The human component would be critical in ensuring sufficient advocacy for the inclusion of financial management capacity building activities as identified during the capacity assessment.

#### **Key financial deliverables or outputs at country dialogue and funding request stages:**

- initial self-assessment of financial management system (where applicable);
- draft implementation arrangement (IA map);
- draft inputs to the Funding Request submitted by the Country Coordinating Mechanism, including budgeting for financial management capacity building activities as well as for the implementation of assurance arrangements, including measures to mitigate financial risks and to incorporate external auditors; and
- funding gap analysis & co-financing requirement that the Principal Recipient's finance team should support (where applicable<sup>10</sup>).

### **2.2.3 Stage 3: Grant Making**

33. At this stage, following a review of the Funding Request by the Technical Review Panel (TRP) and approval by the Global Fund, implementers would have been selected to manage specified grants as Principal Recipients or sub-recipients.

34. The initiation of the capacity assessment in the earlier stage would allow the implementer sufficient preparation time for making representations to the Country Coordinating Mechanism within the context of the funding request. For new Principal Recipients and key implementers, the capacity assessment must be undertaken using the Integrated Risk Management and Assessment Tool (See [Integrated Risk Management and Assessment Tool User Guide](#) and the [Integrated Risk Management and Assessment Tool](#)) whereas for

<sup>9</sup> Two areas of growing focus at the Global Fund are the strengthening of implementer internal audit functions and the use of financial management and accounting software.

<sup>10</sup> It will only be applicable where the Principal Recipient is a Government Organization (Ministry of Health or Ministry of Finance).

existing Principal Recipients and key implementers, a capacity assessment is not required unless the Principal Recipients will be conducting activities in a new area for which their capacity has not yet been assessed. The Country Team, however, can at any time choose to conduct a capacity assessment where it deems necessary. For further details, please refer to the [Operational Policy Manual](#), Section 1.1: OPN on Access to Funding, Grant-Making and Approval.

35. Implementers, including key finance staff, are expected to demonstrate how their financial systems, processes and people can be deployed throughout the budget preparation and validation process as well as to establish a framework for reporting under Global Fund grants. Key issues to be addressed at this stage include:

- defining the budget preparation and validation process:
  - *identification of staff who will prepare the budget and those who will be responsible for review and validation; and*
  - *preparation of a detailed budget in compliance with the Global Fund budgeting templates and the [Global Fund Guidelines for Grant Budgeting](#).*
- defining the existing and new internal controls required to ensure efficient and effective implementation of grant activities;
- defining tax exemption and tax reimbursement schemes (as required under applicable Grant Agreements) existing at the country level and their impact on the grant budget;
- reviewing and agreeing on the Action Plan resulting from Local Fund Agent (LFA) and Global Fund review feedback on the capacity assessment;
- agreeing on grant reporting timelines, including audit report due dates considering the financial year of the implementer;
- defining audit arrangements in alignment with the [Guidelines for Annual Audits of Global Fund Grant Program Financial Statements](#);
- defining banking arrangements and identifying dedicated grant bank accounts in grant and local currency (refer to the Treasury Management section for more information);
- defining authorized signatories for Global Fund disbursement requests and the dedicated grant bank account (s);
- defining the timing of cash outflows to sub-recipients and suppliers, taking into account any delays in the implementation of activities including the recruitment of staff and product delivery etc.; and
- assessing the cash balances remaining at Principal Recipient and sub-recipient levels and detail of financial commitments and financial obligations (for further on financial commitments and financial obligations please refer to [section 5.2.3](#) below) by the new grant start date, as well as any unmet financial commitments with sub-recipients and suppliers.

36. Implementers should also plan to engage with the Local Fund Agent and the Global Fund Country Team for the subsequent review of the budget and other grant documents as part of the Global Fund assurance mechanism at the grant-making level.

**Key financial deliverables or outputs at this stage:**

- Detailed and summary budget;
- Final implementer self-assessment using the IRMAT;
- Final implementer Implementation Arrangement (IA map) ; and
- Assessment report on capacity of sub recipients (if applicable).

**Other deliverables or outputs at this stage:**

- Principal Recipient Signatory Information Template;
- Principal Recipient Bank Information Template;
- Third-Party Bank Letter Template (if applicable);
- Grant Confirmation and management actions;
- Confirmation of Tax exemption, if applicable at lower levels and reimbursement schemes; and
- Audit arrangements (including draft external audit terms of reference based on “[Guidelines for Annual Audits of Global Fund Grant Program Financial Statements](#).”)

For further details please refer to the [Operational Policy Manual](#), Section 1: Access to Global Fund Financing.

## 2.2.4 Stage 4: Implementation

37. At this stage, implementers are given three years for grant implementation using financial management systems that have been classified by the Global Fund as either adequate or requiring improvement based on an agreed action plan. The Financial Management Handbook provides benchmark and guidance for the assessment and improvement of financial management systems.

38. During the implementation stage the implementers should ensure that the financial management systems in place are capable of supporting effective program implementation and of providing timely and accurate financial information to program management and the Global Fund to allow for the disbursement of funds. The key financial reports required by the Global Fund are:

### **Key categories of deliverables or outputs at this stage:**

- cash information;
- expenditure information;
- forecast; and
- tax information.

For further details please refer to the [Operational Policy Manual](#), Section 2: Grant Implementation.

## 2.2.5 Stage 5: Grant Closure

39. At this stage, implementers should have maintained or enhanced their financial management systems to support the closure<sup>11</sup> of grants within six months of the end of the grant implementation period. Robust financial management systems should be able to complete the following actions within the timeframes specified by the Grant Agreement:

- development of a grant closure work plan and budget (as necessary);
- generation of a listing of grant assets to be proposed for disposal in accordance with Global Fund guidelines;
- generation of a list of commitments and advances (including sub-recipients) and liquidation thereof;
- generation of a list of cash balances (including sub-recipients) due for refund (including clearance from authorities as to tax implication on residual assets, remaining staff/employees commitments);
- generation of final financial reports under the specific grant; and
- submission of the final audit report for the specific grant.

### **Key deliverables or outputs at this stage:**

- grant closure budget and grant closure plan for approval by the Global Fund;
- final inventory of assets including proposals for transfer or disposal;
- final program progress report;
- financial report for the closure period;
- final audit report; and
- final expenditure report).

For further details please refer to the [Operational Policy Manual](#), Section 3: Grant Closure.

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<sup>11</sup> Risk of grant closure delays; the reasons are: poor handover process, e.g. personnel remaining in the organization do not know about the background information of the grant; audit of closure period does not cover all the months of the closure because of delays; the Principal Recipient does not know how to deliver (in which template) the close-out information; and pending tax reimbursements.

## 3 The Global Fund's Financial Management Principles

### 3.1 Overview

40. The main purpose of this chapter is to provide the implementers with an overview of the key principles/mechanisms followed by the Global Fund for the financial management of grant funds. It provides guidance to the implementers to align their financial management systems to meet the financial management requirements of the Global Fund, including financial management oversight, financial management arrangement, financial management capacity assessment and financial management capacity building for grant implementers.

### 3.2 Financial Management Arrangements

41. As a financing organization rather than an implementing agency, the Global Fund does not directly implement grants/programs. The Global Fund grants are implemented by the Principal Recipients (nominated by the Country Coordinating Mechanism) either itself and/or through sub-recipients and/or service providers.

42. The Grant Agreement governs the legal relationships between the Grantee, the Principal Recipients and the Global Fund. These legal documents set out terms and conditions applicable to grants funded by the Global Fund. The implementers<sup>12</sup> are required to ensure that funds allocated and approved for grant implementation are utilized solely for the intended purposes set out in these legal documents and managed with effective internal control mechanisms.

43. Financial management is a process that brings together planning, budgeting, accounting, financial reporting, interbank controls, auditing, procurement (each of these components are explained in Chapters 4, 5 and 6 below), and the performance of the grant with the aim of managing approved grant resources properly to achieve greater impact.

44. Financial management, as broadly defined above, is essential for Global Fund investments and remains more than just an administrative or simple control process ("checking the box"). Sound financial management is a critical component of the grant implementation cycle to achieve impact in an efficient manner. Timely and relevant financial information provides a basis for optimal decision-making, identifying leakages and inefficiencies, thus expediting the progress for the execution of activities, the absorption and optimization of allocated funds, and the reduction of operational risks. Sound financial management provides:

- reliable and value-added information needed by those who implement, manage and supervise the grants for timely and transparent decision-making;
- assurance for key stakeholders that funds allocated and approved for grant implementation (i.e. program delivery) are being used efficiently for the intended purposes to maximize impact; and
- deterrence and prevention against fraud and corruption, because effective internal controls strengthen the ability of implementers to quickly identify unusual occurrences and deviations.

45. A thorough understanding of the strategic objectives and targets of the grant is essential both in designing and/or improving any financial management system. The five aspects that need to be addressed are:

- **The Strategic Objective:** This is derived from the global investment case, strategic priorities and the funding request received from the applicant/country. At the implementation level, it relates to the planned interventions and the actions that must be taken for the allocated and approved grant resources to be effective;
- **Participating Entities:** This relates to all the entities participating in the grant lifecycle. Appropriate reference should be made to the implementation arrangements, which ought to have clearly identified the roles and responsibilities for the respective entities in the grant-implementation cycle (including technical and other partners);

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<sup>12</sup> Implementers for the purposes of this document may include Principal Recipient, sub-recipient and other implementing entities involved in grant implementation.



- **Information Requirements:** It is necessary for all parties involved to agree on the information required by the Global Fund, the implementing entities, the government oversight agencies, and other stakeholders to monitor the grant implementation to maximize impact;
- **Funds Flow:** It is necessary to understand how funds flow from the Global Fund, through the grant, to the implementing entities. The share of financing from the government or other counterparts, and the procedures for mobilizing the funds, should be established; and
- **Assurance and capacity:** It is necessary to understand capacity weaknesses, agree on required mitigating actions and to establish appropriate assurance plans to ensure the strategic objective and targets are achieved.

46. Robust and detailed financial management arrangements for any grant need to be formalized and properly documented in the financial management manual and/or “[Implementation Arrangement Map](#)” as early as possible and before requesting funding to the Global Fund and well before signing the grant.

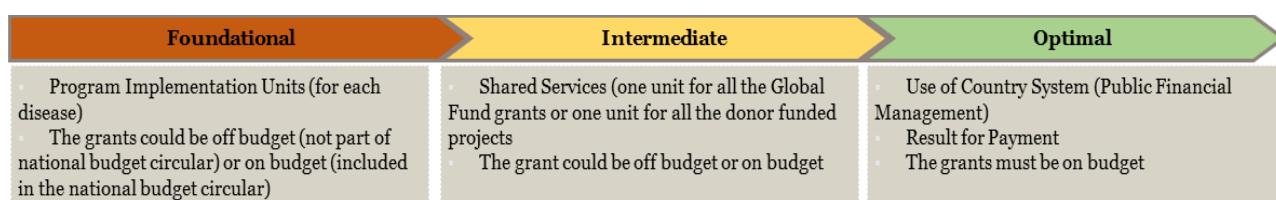
47. The ability of an implementer to comply with Global Fund financial management requirements is strongly influenced by whether the proposed implementer is already using Global Fund grants (existing Principal Recipient or sub-recipients), whether the financial management staff have successfully managed and accounted for an externally funded program, or whether the implementer has been selected for the first time.

48. To ensure smooth implementation, it is important to start working on the financial management arrangements and any associated gaps that need to be addressed well in advance of grant signing to ensure that mitigating measures are effectively planned, budgeted for and managed.

49. The Country Coordinating Mechanism and the nominated Principal Recipients(s) (with support from the Country Team) should develop an implementation arrangement map, which depicts:

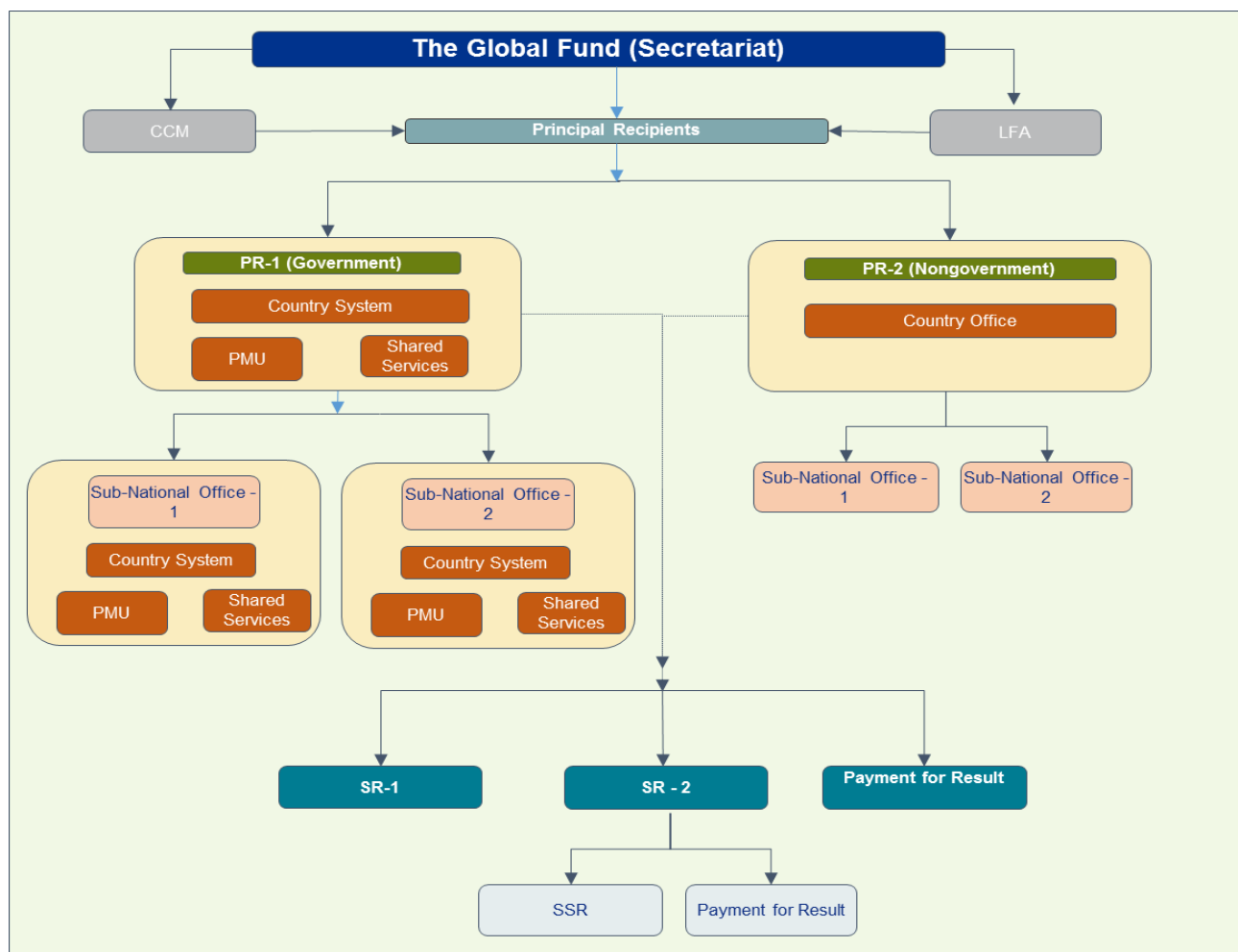
- all entities receiving grant funds and/or playing a role in program implementation;
- each organization’s role in program implementation including program activities to be implemented;
- the flow of funds, commodities and data (financial and programmatic information);
- the beneficiaries of program activities; and
- any unknown information on the implementation arrangement, for example the sub-recipients to be selected etc.

50. The mapping is an iterative exercise that captures known and unknown information about the implementation arrangement at a particular point in time. The guidance on [Implementation Arrangement Mapping](#) provides further details on this exercise. Following are the various level of Implementation arrangement with Governmental Principal Recipients (Government Organizations):





51. The following are key implementation arrangements that should be discussed and agreed with the Global Fund preferably at the country dialogue stage of the grant life cycle:



### 3.2.1 Principal Recipients

52. Pursuant to the terms of the Grant Agreement, Principal Recipients are legally responsible to the Global Fund, under a written Grant Agreement, to implement programs (typically based on proposals submitted by Applicants<sup>13</sup> and approved by the Global Fund Board). The Principal Recipients:

- must be nominated<sup>14</sup> by the Country Coordinating Mechanism or equivalent in a documented and transparent manner at the time of proposal development;
- must have certain minimum capacities and adequate systems to ensure the accountability of program activities and financial systems for a grant;
- are responsible for disbursed funds and reporting on program results;
- should report to the Country Coordinating Mechanism and the Global Fund about program progress or lack thereof; and
- should provide necessary access and information to assurance provider including but not limited to the Local Fund Agent (LFA), Office of Inspector General (OIG), External Auditor and the Technical Evaluation Reference Group for the necessary verifications of program progress.

53. Principal Recipients receive funds directly from the Global Fund. The primary responsibility of a Principal Recipient is to ensure that systems are put in place and maintained for:

- implementing the program to effectively achieve goals and objectives of the proposal;
- managing grant funds prudently;

<sup>13</sup> It mainly refers to Country Coordinating Mechanisms

<sup>14</sup> In some cases the Global Fund could select the Principal Recipients i.e. in the case of a country under [Additional Safeguard Policy](#)

- appropriately managing and disbursing funds to all sub-recipients where applicable;
- carrying out procurement and supply management in compliance with applicable laws and the Global Fund's policies;
- monitoring, evaluating and reporting on the progress made on program objectives to the Global Fund and the Country Coordinating Mechanism; and
- Complying with the Grant Agreement and all other Global Fund policies.

54. Generally, Global Fund Principal Recipients are national government organizations, local and international civil society organizations, and multilateral organizations. In either case, the Principal Recipients usually works directly with national government programs in charge of implementing relevant disease interventions.

55. In order to align itself with the principles of country ownership and sustainability, the Global Fund prefers to have national organizations as Principal Recipient. However, a multilateral organization or international nongovernmental organization may be nominated as a Principal Recipient if a suitably qualified national organization is not available. Such an arrangement should be temporary and the multilateral organization Principal Recipients should prepare an action plan and the relevant budget to prepare the national organization to ultimately take over as Principal Recipient. Bilateral organizations cannot become Principal Recipients unless in exceptional circumstance agreed and approved by the Global Fund.

56. Where a multilateral organization is Principal Recipient, the Country Coordinating Mechanism/Government should collaborate with the multilateral Principal Recipient in order to prepare and implement an action plan to build the capacity of a national organization to take over capacity from the multilateral. The Global Fund resources may be used for this purpose.

57. The national organizations willing to become Principal Recipients should play an active role in the transfer of capacity to them. The action plan should include clear milestones (i.e. implementation of financial management information systems and training) and progress should be reported to and monitored by the Country Coordinating Mechanism and the Global Fund Country Team respectively on a regular basis.

58. The implementation arrangements for working with a governmental Principal Recipients varies from the full use of national systems, partial use of those systems (separate bank account, specific reporting), implementation shared between several programs or donors, or a program management unit dedicated to a Global Fund program. The Global Fund encourages full or partial integration of its grants into the national systems to ensure ownership, sustainability and economies of scale, but will work together with national partners on designing the most effective and cost-efficient implementation arrangement depending on the context and key challenges faced.

59. For detail on implementation arrangements when government organizations are Principal Recipients, including various structures (arrangements) and the related advantages and disadvantages, please refer to [Appendix 1](#).

60. As part of the Global Fund's commitment to strengthening the role of civil society in the management of the Global Fund grants, Country Coordinating Mechanisms are encouraged to pursue a "dual track financing" approach in nominating Principal Recipients when submitting proposals for funding to the Global Fund. "Dual track" financing refers to the channeling of funds through two "tracks": the public and the non-public sectors. If a Country Coordinating Mechanism does not nominate two Principal Recipients, it should explain its reasons for not pursuing this recommended approach.

61. In some circumstances, Principal Recipients may be changed during program implementation. Such changes may be initiated by the Country Coordinating Mechanism or the Secretariat based on factors that, if left unaddressed, could place grant funds or service delivery at risk.

### 3.2.2 Sub-Recipients

62. Sub-recipients should be selected by the Principal Recipients and validated by the Country Coordinating Mechanism, to implement all or parts of a program. The Principal Recipient is however ultimately responsible for the performance of sub-recipients and any of their actions or omissions, as if they were its own. Contracting with a sub-recipient does not release the Principal Recipient from its obligations to the Global Fund. The Principal Recipient must:

- assess the capacity of the proposed sub-recipients to implement program activities;
- ensure that the sub-recipients have the capacity to carry out the required reporting and monitoring and evaluation activities needed to collect the necessary data for the program's progress;
- enter into a Grant Agreement with each sub-recipient with terms and conditions that will enable the Principal Recipient to meet the requirements of the Grant Agreement signed between the Global Fund and the Principal Recipient; and
- put in place a system to manage the sub-recipients, including the ongoing monitoring and supervision of sub-recipients.

### 3.2.3 Payment for Results (PfR)

63. In order to improve efficiency, effectiveness and economies of scale for the grant, the Principal Recipients and/or sub-recipients may use a payment-for-results<sup>15</sup> approach for the implementation of parts of a program or for a specific activity (milestones/outputs indicators), subject to:

- a) Principal Recipients/sub-recipients meeting certain criteria as outlined in paragraph 65;
- b) Service providers meeting minimum capacity requirements (including but not limited to the factors outlined in [Appendix 2](#)); and
- c) The approval of the Global Fund.

64. The payment-for-results approach is based on the Activity Based Contracts (with service providers) concept to deliver specific outputs or milestones. Sub-recipients and service providers are both accountable to the Principal Recipients with respect to grant funds and program activities that are assigned to them.

65. The Global Fund encourages the implementers (Principal Recipients and sub-recipients) to consider this contracting modality for organizations implementing activities and providing services below the value of US\$100,000 annually. However, if the total amount of Payment for Result exceeds the lesser of either US\$3 million or of 20% of the specific grant amount for a particular implementation period, this modality must become an integral part of the Funding Request and approved as part of the regular grant-making approval process. In the event this modality is enabled during grant implementation (post GAC approval), the secretariat will apply an internal approval<sup>16</sup> process.

66. Refer to [Appendix 2](#) for detail on the key phases in the delivery of goods or services under the payment-for-result approach and a description of various types of "Payment for Result or Activity Based Contracts."

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<sup>15</sup> Implementers that are interested in using the "Payment for Result" approach should discuss and agree on this approach with the respective Country Team.

<sup>16</sup> Approved by Head of Grant Management and Chief Risk Officer through Head of Department and Head of Program Finance and Controlling.

### 3.3 Financial Management Capacity Assessment of Implementers

67. In accordance with the Global Fund’s policy and procedures, the Global Fund needs to have the required assurances that the proposed implementation arrangements, financial management systems and capacity of key grants implementers are adequate for effective financial and program management of the grant funds with the aim of maximizing impact in the fight against the three diseases.

68. The capacity assessment (including the assessment of financial management systems) supports the process of establishing whether minimum standards are met, and allows the Global Fund to address any issue it may have in verifying the implementer’s compliance with the standards or requirements outlined in the Integrated Risk Management and Assessment Tool.

69. The financial management implementation arrangements will be reviewed to assess the capacity of the Principal Recipient to record, control and manage all grant-related resources and productions in timely, understandable, relevant and reliable financial statements. The financial management assessment is a snapshot of the financial management system at a point in time and is better conducted at an early stage in the grant lifecycle (i.e. preferably between the Funding Request submission and the grant-making phase). It will allow the Global Fund to make an informed decision and put in place any required mitigation and capacity building plans for optimal financial management and the absorption of funds to achieve and maximize impact. The assessment should take into account any previous assessments done as well as any previous assessments by other donors or organizations.

70. The cross functional capacity assessment aims to:

- describe and assess the proposed implementation arrangements and systems to be used for grant implementation;
- determine if the key implementers have adequate capacity and systems in place to fulfill the role assigned to them for implementation; and
- identify critical gaps and determine measures to address these in the short, medium or long term to enhance the efficiency and effectiveness of grant implementation to maximize impact.

71. The assessment may include a review of both the design and the effectiveness of the financial management system. Where a financial management system is in place at the time of the assessment, the Global Fund<sup>17</sup> assesses the system to ascertain if it meets the Global Fund’s requirements for financial management capacity of the implementers. If no financial management system is yet in place, the assessment will consist of enabling the design of an adequate system that meets the Global Fund’s requirements in accordance with the country context.

72. The outcome of the assessment will take into account the “people,” “process” and “systems” dimension and will provide a holistic view on the financial management system of grant implementers. Remedial actions to address identified weaknesses and/or to enhance the system should be agreed between the implementer and the Global Fund. A comprehensive action plan with defined timelines establishes the path to develop and mitigate the identified gaps in the financial of the implementer.

73. The action plan is a living document and needs to be monitored and updated throughout the lifecycle of the grant (funding request, grant making, grant implementation) to document problems encountered, actions required and progress made on implementing actions. It is the implementer’s responsibility to ensure that all actions identified are addressed in a timely manner. Progress updates on the implementation of the action plan should be submitted along with the relevant financial reports and discussed with the Global Fund on a regular basis.

74. Further, as a part of ensuring continuous and sustainable improvements, the Global Fund recommends that Principal Recipients of High Impact and Core countries perform a self-review of the financial management systems on a regular basis (at least annual to correspond with the financial year) by using a standardized “*Financial Management Systems Self-Review Tool*”<sup>18</sup>. This is an objective review tool that helps the implementers to identify and determine the financial management issues or bottlenecks along with their root

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<sup>17</sup> This assessment could be performed by the Local Fund Agent or any assurance provider mandated by the Global Fund.

<sup>18</sup> The tool will be available in January 2018.

causes. The guidance provided in this Financial Management Handbook shall support and facilitate the implementers in addressing the identified financial management issues and bottlenecks along with supporting the implementers in the design, development and/or improvement in the financial management system to meet the Global Fund’s expectations relating to key areas of the financial management systems.

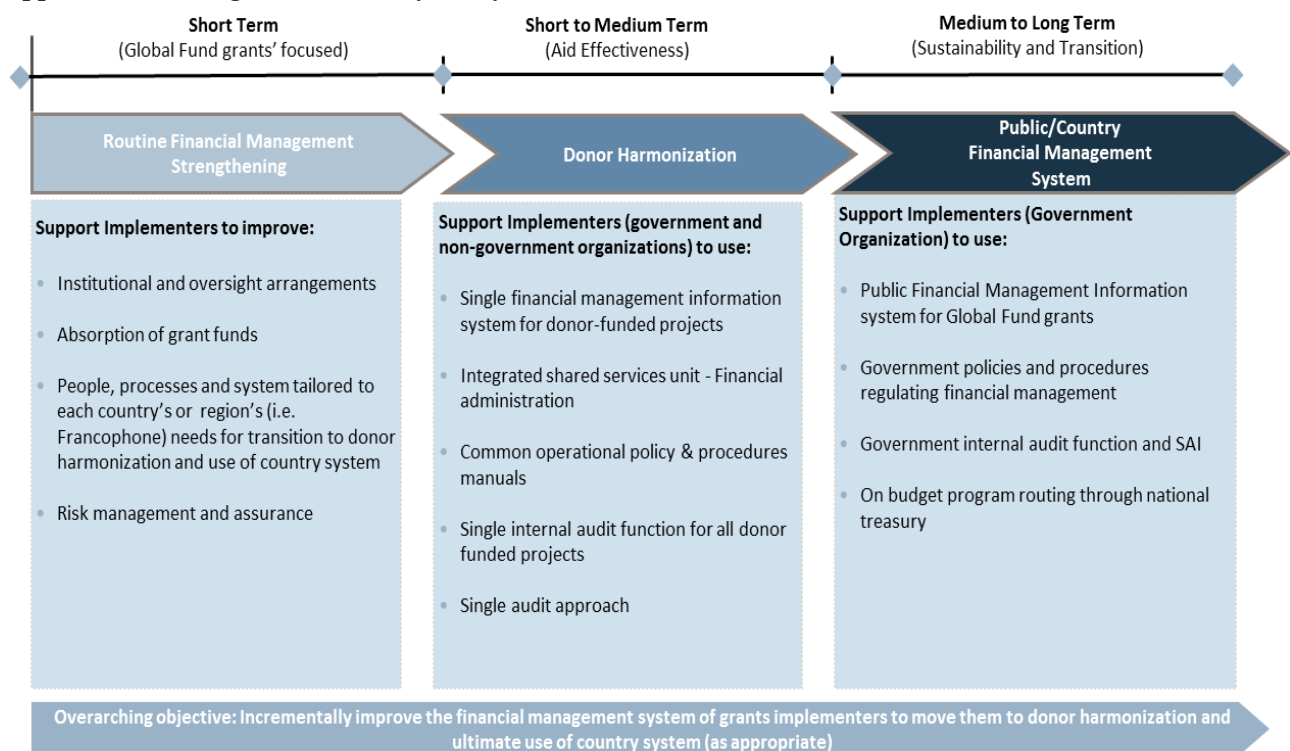
75. The following table list down the key areas subject to capacity assessment as per the Integrated Risk Management and Assessment Tool and corresponding key areas covered in this Handbook:

<b>Per Integrated Risk Management and Assessment Tool</b>		<b>Per Financial Management Handbook for Grant Implementers</b>
i.	Funds Flow	Funds Flow Treasury Management
ii.	Internal Controls	Institutional and Oversight Management Internal Controls Human Resources Assets and Inventory Management
iii.	Accounting and Financial Reporting	Financial Management Information System Principles of Financial Controlling Documents and Records Management Financial Reporting Invoices, Payment and Recording
iv.	Value for Money	Planning and Budgeting Procurement and Contracts Management
v.	Fraud Corruption and Theft	Management Responsibility Relating to Fraud Code of Conduct
vi.	Financial Assurance	External Audit and Internal Audit

### 3.4 Strengthening the Financial Management of Implementers

76. Notwithstanding the responsibility of grant implementers to put in place sound financial management and internal-control mechanisms, the Global Fund, as part of its 2017-2022 strategy, has included “strengthening of in-country financial management” as a core component of the “Building Resilient and Strong Systems for Health (RSSH)” strategic objective. This will support countries and grant implementers to enhance the financial management systems and capacities required for grant management, including the implementation of remedial actions to address the weaknesses identified during the capacity assessment.

77. The strengthening of in-country financial management aims at maximizing the performance of program investments by improving implementers’ financial management systems for the sustainable fiduciary management of grants. The Global Fund shall facilitate technical support and encourage implementers to prioritize specific budgeted action plans relating to strengthening financial management with clear goals outlined in their respective grant budgets (country allocation) for the Global Fund’s consideration and approval. Following is the summary of key initiatives:



*For details on the approach and methodology followed by the Global Fund to help implementers in strengthening their financial management capacity, please contact the Global Fund Country Team.*

### **3.5 Financial Management Impact Review**

78. In addition to financial management capacity assessment and related capacity building initiatives, the Global Fund Secretariat performs regular (on a bi-annual basis for the period ending 30<sup>th</sup> June and 31<sup>st</sup> December each year) impact review of financial management system of grant implementers in all High impact and Core countries. The purpose of this review is to ascertain or demonstrate the impact of financial management strengthening activities on a particular grant, implementer and country portfolio.

79. The financial management impact review is a desk review of key outputs of the financial management system using a predefined financial management review tool. Following are the key areas covered in the financial management impact review (in principle there should be a positive trend over period of time):

- timeliness and accuracy of financial reports
- number of issues (raised by the Global Fund or his assurance providers) addressed or closed by the implementer
- number of new major issues raised by the Global Fund or his assurance providers
- level of financial absorption

80. The financial management impact review tool is an objective review tool that include multiple questions for each of the areas listed above with a clear criteria ranging high risk (score 1) to meet expectation (score 4) for each of the question, area, grant and implementers etc. Accordingly, based on the inputs into financial management impact review, the tool shall automatically classify each grant, implementer and portfolio into either:

- high risk - needs fundamental improvements
- medium risk - needs fairly significant improvements
- low risk - needs some slight improvements
- meet expectations - no further action required

81. The outcome of the financial management impact review may lead to a further detailed review or assessment of financial management systems including internal controls and related strengthening activities.

### **3.6 Assurance Planning, Execution and Management**

82. By definition, financial assurance is an objective and independent review of grant activities by internal and external assurance providers<sup>19</sup> with the ultimate goal of ensuring the achievement of each grant's objectives. The Global Fund uses a combined assurance approach to ensure it uses assurance resources efficiently and effectively in validating grant outcomes.

83. A key change in this approach involves the concept of the Global Fund risk owners - being technical 'owners' of the different risk areas: financial, procurement, programmatic – who will provide technical leadership in their areas of expertise and set standards and a "second line of review" in assessing the adequacy of Country Team's overall assurance plans. This new approach formalizes the need for Country Teams to develop "Assurance Plans" that demonstrate how the overall assurance mechanisms work and hence how they meet the requirements stated above.

84. The financial assurance plan is part of the Global Fund's initiative to strengthen overall assurance methods and approaches across the portfolio. It is aimed at ensuring that each grant has effective and efficient assurance mechanisms to provide sufficient assurance that the key financial risks are managed appropriately during the implementation of the grant.

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<sup>19</sup> In this document, Internal assurance providers are all assurance mechanism established at the Principal Recipient and which can be used to get assurance on the grants' risks e.g. internal audit and compliance teams, etc. External assurance providers are external parties that are independent to the Principal Recipients that perform different types of checks on Principal Recipient's operations/activities e.g. external audit, Local Fund Agent, etc.



85. The financial assurance plan is developed for every grant by the Finance Specialist<sup>20</sup> in consultation with the Principal Recipient identifying:

- where the key financial risks of the grant reside and hence where the evidence of effective financial control and oversight will be most important to the ongoing success of the grant.
- who the most appropriate financial assurance provider for the risks will be, both from an efficiency and an effectiveness perspective; and
- when the assurance providers will be expected to provide their reports and what they are expected to report on.

86. The precursor to planning financial assurance is to understand the nature of the financial risks within grant implementation. These risks shall be assessed based on information from assurance providers including the Local Fund Agent, external audit, OIG audits/investigations as well as other internal assessments done by the Global Fund and other assurance providers. No separate risk assessment will be required to prepare the financial assurance plans as the Global Fund should base their work on the intelligence already available in the reports mentioned above as well as other information they may possess.

87. The financial assurance planning is to be performed on an annual basis. For High Impact and Core countries, if significant changes take place during the year, financial assurance plans may need to be updated more frequently to reflect those changes. The key performance indicators of a good financial assurance plan include:

- timeliness - ensure that the plan can be implemented within the required timeframes;
- effective monitoring of the assurance plan – ensure that all assurance is provided and that key issues are followed up;
- cost effectiveness of the proposed assurance plan;
- integration of the financial assurance plan in the overall grant view of assurance

### **3.7 Portfolio Optimization**

88. On a regular basis, the Global Fund goes through a forecasting process for both grant disbursements and grant expenses which gives an indication of how much is likely to be disbursed or expensed given the historical burn rate and the projections for the future for each grant. The forecasting exercise brings to the fore countries and/or grants which are likely to have unutilized funds by the end of the allocation utilization period<sup>21</sup>. The exercise also shows which grants and by extension countries are most likely to have funding gaps and might need additional funds to meet the strategic objective in their National Strategic Plans to achieve impact.

89. As a first step, countries should actively reprogram potentially unutilized funds within the same country disease component throughout the grant lifecycle, including towards priorities registered as Unfunded Quality Demand. Portfolio optimization is then conducted at a portfolio level- not country-level. The process of portfolio optimization does not change the allocations, but it focusses on optimizing portfolio absorption and making sure that no money is left on the table. It also ensures that funds are efficiently allocated to maximize impact by making funds available to countries which have run out of funds to achieve strategic impact. Such funds are attributed to activities registered as Unfunded Quality Demand according to prioritization criteria approved by the Global Fund Strategy Committee. A guidance document on the prioritization framework is available on the [Global Fund website](#).

90. Countries with implementation challenges or barriers to scale-up will not be penalized in the implementation of the prioritization framework: individual grants with low absorption will retain the possibility of catching up with spending and programmatic activities until the end of their grant implementation period up to their allocation amount.

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<sup>20</sup> For Core and High Impact, for Focused Countries it is the Local Fund Agent.

<sup>21</sup> The Allocation Utilization Period is the 3-year period during which the country allocation per disease component can be utilized to implement programs. For further detail please refer to the [Operational Policy Manual, Section 1: Access to Global Fund Financing](#).



## 4 Institutional and Oversight Arrangement

### 4.1 Overview

91. Institutional arrangement refers to the organizational, management and accountability structure to achieve common objectives whereas oversight mainly refers to risk management and control activities performed by the senior management to ensure the achievement of the objectives.

92. Effective institutional and oversight arrangement creates a control environment that sets the tone of an organization, influencing compliance with established mechanisms in a consistent manner. It provides the required structure in the organization and is the main foundation for the other components of the internal control framework.

93. Institutional and oversight arrangement is one of the key components, and is assessed/reviewed by donors before selecting the implementers for their respective program/project. This section will help the implementers to design and implement effective institutional and oversight arrangements to meet donor requirements, including those of the Global Fund, and will also help an organization address gaps already identified in assessments.

### 4.2 Institutional Arrangement

94. Adequate institutional arrangement for grant implementation is fundamental to the smooth operation of the financial system. The key purpose of institutional arrangement is to:

- establish a legal framework<sup>22</sup> for carrying out the organization’s activities;
- establish a responsibility, accountability and hierarchy of authority in the organization’s functions and staff;
- define a vision, mission and common goals, objectives and purposes; and
- coordinate the effort in an effective and efficient manner.

Key Features/Components - Optimal Institutional Arrangement		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• The Implementer is legally registered and is allowed to receive funds from International Organization or Donors.</li> <li>• Tax status is defined and any related exemption status duly formalized in accordance with the applicable laws and donor requirements.</li> <li>• The Implementer has an appropriate management structure clearly specifying various function of an organization.</li> <li>• Functional level roles and responsibilities are defined, documented and communicated to personnel to ensure a mechanism for proper accountability at all levels.</li> <li>• The units/individuals (as appropriate) of the Implementers with overall responsibility for the management of finance functions is stated explicitly. The roles and responsibilities of key financial management actors should be described in the relevant “Terms of References.”</li> </ul>	<ul style="list-style-type: none"> <li>• The Implementer has an appropriate governance body responsible for strategic direction, oversight of organization activities including mechanisms for the prevention and detection of fraud.</li> <li>• The adequate segregation of roles and responsibilities is introduced within the governance and operating structures to ensure a mechanism for regular checks and balances.</li> <li>• Operations are planned in a manner that ensures value for money and the optimal utilization of the organization’s resources in full compliance with applicable laws, regulations, and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• The Implementer has an appropriate and independent governance body responsible for strategic direction, oversight of organization activities including mechanisms for the prevention and detection of fraud.</li> <li>• The management has adopted a philosophy and operating style that ensures effective and efficient internal control over operations and a timely achievement of strategic goals and objectives.</li> <li>• A robust analysis of the resources (technical, human and other) required to effectively deliver the program goals is undertaken on regular basis. The analysis should take into account existing resources, earmarked/allocated funds from donors and other funding sources along with any associated risks and the impact funding gaps could have on program delivery.</li> </ul>

95. Following the establishment of a legal framework for carrying out the organization’s activities, the formal organizational structure should be established. The organizational structure refers to the formal arrangement of an organization’s functions or activities to achieve common objectives.

<sup>22</sup> Legal framework may include registration certificate, memorandum of association, article of association and in case of government ministries laws and regulation guiding the operation of line ministries.

96. Each implementer should have a formal organizational structure duly approved by the relevant or competent authority<sup>23</sup>. The organizational structure varies from one organization to another, depending on the size of the organization, the complexity of the operations and the available budget etc.

97. The organizational structure, including the required positions and competencies, should be appropriate for the activities and financial volume envisioned with clearly defined lines of reporting and accountability including the positions funded by various donors. An effective organizational structure should:

- reflect a vertical authority channel and reporting relationship (chain of command and vertical hierarchy);
- identify the source of the organization’s expertise and specify the major functions (horizontal specialization);
- depict the span of control and number of organizational levels; and
- provide a clear view of positions (permanent and temporary) funded by donors and proportion of funding per donor.

98. Following is the summary of key steps that should be followed to establish an effective institutional arrangement:

Key Step	Description								
Mission	Every organization should have a mission statement defining the overall purpose of the organization. The mission should in principal support and contribute to the overall National Strategic Plan and Heath Sector Strategic Plan.								
Goals and objectives	The mission statement must be supported by the set of goals and objectives supporting or contributing to the national strategic plan. The objectives must be developed using the SMART principle (Specific, Measurable, Achievable, Realistic and Time-bound).								
Management philosophy, operating style and governance structure	The organization’s management should adopt a philosophy and operating style that ensures effective and efficient control over operations and the timely achievement of strategic goals and objectives. This will result in the development of an overall organizational plan indicating various operating units and governance structures to provide strategic direction and oversight of organizational activities.								
Functional roles and responsibilities	Operational activities to support the achievement of functional objectives should be identified. Functional level roles and responsibilities should be documented and communicated to the personnel to ensure a mechanism for accountability at functional level. The principle of RACI (Responsible, Accountable, Consulted and Informed) should be used to identify functional roles and responsibilities. RACI refer to: <table border="1" data-bbox="507 1417 1366 1760"> <tbody> <tr> <td>Responsible (R)</td> <td>Those responsible for executing, implementing and/or operating the tasks to complete the activity.</td> </tr> <tr> <td>Accountable (A)</td> <td>Those that have accountability, oversight and ultimate ownership for the activity being completed.</td> </tr> <tr> <td>Consulted (C)</td> <td>Those whose opinions are sought prior to completing an activity. Such communications are two-way.</td> </tr> <tr> <td>Informed (I)</td> <td>Those kept up-to-date and notified on the progress of an activity. Such communications are one-way.</td> </tr> </tbody> </table>	Responsible (R)	Those responsible for executing, implementing and/or operating the tasks to complete the activity.	Accountable (A)	Those that have accountability, oversight and ultimate ownership for the activity being completed.	Consulted (C)	Those whose opinions are sought prior to completing an activity. Such communications are two-way.	Informed (I)	Those kept up-to-date and notified on the progress of an activity. Such communications are one-way.
Responsible (R)	Those responsible for executing, implementing and/or operating the tasks to complete the activity.								
Accountable (A)	Those that have accountability, oversight and ultimate ownership for the activity being completed.								
Consulted (C)	Those whose opinions are sought prior to completing an activity. Such communications are two-way.								
Informed (I)	Those kept up-to-date and notified on the progress of an activity. Such communications are one-way.								
Assessment of technical, human and infrastructure resources	A formal assessment of technical, human and infrastructural resources should be carried out to ensure that available resources are adequately identified and positioned and that the organization’s requirements with respect to project/program implementation are adequately identified. This should be done when an organization is established or a new project/program is initiated and at least once a year thereafter.								

<sup>23</sup> For Nongovernmental Organizations, the relevant authority is the board of trustees or the board of directors. Whereas in the case of the Ministry of Health, the competent authority is the Public Service Commission and/or the relevant Parliamentary Oversight Committee or Parliament.

Key Step	Description
Coordination of operating activities among operating functions and with other partners	Operational activities should be adequately planned and coordinated between an implementer's operational functions and those of counterparts (if any) to ensure that programs are implemented in an efficient and coordinated manner. Project responsibilities should be adequately identified and documented to ensure that relevant parties/personnel are aware of their roles and responsibilities and may thus be held accountable.

*Please refer to Appendix 3 for a sample “Overall Organization Structure” and Appendix 4 for “Guidance on Delineation of Responsibilities between Program Team and Financial Management Team.”*

### 4.3 Oversight Arrangement

99. The oversight of an organization's activities refers to the review and monitoring of activities to ensure the accomplishment of desired objectives. Each implementer should have a formal oversight arrangement based on the applicable laws, rules and regulations, which also takes into account any donor requirements (including the Global Fund). The bodies with overall responsibility for delivering the Global Fund grant(s) are required to provide assurance that governance arrangements are operating effectively to ensure the efficient management of risks and a sound decision-making process.

100. Oversight arrangements vary from one organization to another, however, there are general implementer oversight arrangements that can be followed. Below are some examples:

Key Features/Components - Oversight Arrangement (Government Organizations)		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>Routine management review</li> </ul>	<ul style="list-style-type: none"> <li>Management review committee</li> <li>Country Coordinating Mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Parliamentary oversight committee</li> <li>Line Ministry/ Agency responsible for oversight of donor funded programs (Ministry of Economy etc.)</li> <li>Audit Committee</li> <li>Country Coordination Mechanism Oversight Committee</li> </ul>
Key Features/Components - Oversight Arrangement (Nongovernment Organizations)		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>Routine management review</li> </ul>	<ul style="list-style-type: none"> <li>Management review committee</li> <li>Country Coordinating Mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Board of trustees</li> <li>Audit Committee</li> <li>Country Coordination Mechanism Oversight Committee</li> <li>Relevant ministry or government agency (Ministry of Health)</li> <li>Line Ministry/ Agency responsible for oversight of donor funded programs (Ministry of Economy etc.)</li> </ul>

### 4.3.1 Management Oversight

101. Management oversight can be summarized as the governance mechanisms put in place by management to ensure that it can effectively identify, manage and minimize the risks inherent in delivering on the goals or objectives of an organization or specific project.

102. Management oversight is synonymous with management assurance. An effective oversight by those entrusted to manage a grant provide the Global Fund with assurance that program objectives are being achieved and grant resources are being properly managed.

103. The management authority tasked with Global Fund grant oversight can only fulfill its responsibilities if it has a proper grasp of the risks facing the grant. Management needs to determine the appropriate actions (including controls<sup>24</sup>) to mitigate risks and figure out the types and level of management assurance appropriate to these actions at any given point in time.

104. Regarding risk management, implementers must have their own policy and mechanisms. If it works, the Global Fund will rely on it based on the information provided by the Global Fund assurance providers. The Global Fund will add other layers of controls (i.e. fiscal agent) only when the implementer's mechanisms present gaps in risk management.

105. **Management's Responsibilities Relating to Fraud:** Fraud refers to an intentional act of deception by one or more individuals to obtain an unjust or illegal advantage. Each and every staff member has a responsibility to deter, prevent and detect fraud, while management/governance has an additional responsibility for oversight of overall fraud prevention efforts. Further, the management is also responsible to train key staff on fraud awareness, prevention, deterrence and detection.

106. The following is a non-exhaustive summary of key fraud, related indicators, symptoms, characteristics and suggested controls. The suggested controls are illustrative and implementers are responsible for employing additional controls as necessary.

Type of Frauds	Indicators	Symptoms	Characteristic	Controls
<b>Assets misappropriation</b> (stealing cash or other assets and adjusting records)	<b>Lack of employee rotation</b> in sensitive positions, such as cash handling.	<b>Document symptom:</b> any tampering with the accounting records to conceal a fraud.	<b>Pressure or incentive</b> is the need a person tries to satisfy by committing fraud.	<b>Effective (optimal) institutional arrangement</b>
<b>Disbursement Fraud</b> (payment for fictitious goods or services, overstatement of invoices, or use of invoices for personal reasons)	<b>Inappropriate combination of job duties</b>	<b>Lifestyle symptom:</b> Unexplained rise in an employee's social status or level of material consumption.	<b>Opportunity</b> is the ability to commit a fraud.	<b>Effective (Optimal) oversight arrangement</b>
<b>Expense reimbursement fraud</b> (payment for fictitious or inflated expenses)	<b>Unclear line of responsibilities and accountability</b>		<b>Rationalization</b> occurs when a person attributes his/her actions to rational and creditable motive without analysis of the true, especially, unconscious motives.	<b>Effective (Optimal) internal controls</b>
<b>Payroll Fraud</b> (false claim for compensation)	<b>Unrealistic targets</b>	<b>Behavioral symptoms:</b> a drastic change in an		<b>Effective (Optimal) human resource management</b>
	<b>An employee refuses to take vacations or refuses promotion</b>			
	<b>Established controls are not</b>			

<sup>24</sup> Organizational-level, process control or transaction -level control.

Type of Frauds	Indicators	Symptoms	Characteristic	Controls
<p><b>Fraudulent financial reporting</b> (including Financial statement or financial information misrepresentation)</p> <p><b>Corruption including kickbacks</b> (improper use of power)</p> <p><b>Bribery</b> (offering, giving, receiving, or soliciting anything of value to influence an outcome)</p> <p><b>Conflict of Interest</b> (an undisclosed personal economic interest in a transaction that adversely affects the organization or its shareholders).</p>	<p><b>applied consistently.</b></p> <p><b>High turnover</b> among supervisory positions in finance and accounting areas</p> <p><b>Excessive or unjustifiable use of sole-source procurement</b></p>	employee's behaviors.		

107. **Management Responsibilities Relating to Financial Management Arrangements:** As part of oversight responsibilities, management should ensure:

- the existence of the proper organization structure and procedures;
- the accuracy in the keeping of the accounting records;
- the generation of various financial reports, and
- the financial statements and other financial documents of the organization are accurate and complete by signing these documents.

108. Management should also organize the timely filing of financial statements with the relevant authorities and donors including the Global Fund, as well as provide for the timely disclosure of the relevant information to stakeholders.

### 4.3.2 Finance and/or Audit Committee

109. The governance body of an organization mainly executes its oversight responsibilities relating to financial management through an Internal Audit function (refer to Chapter 6 below) reporting to an independent Finance and/or Audit Committee.

110. While the institutionalization of a **Finance and/or Audit Committee** is not mandatory for smaller Global Fund grant programs, for larger Global Fund grant programs this would normally be expected but would need to be determined on a case-by-case basis. The principles governing a finance and/or Audit Committee may still be relevant in certain countries and operational contexts as part of the grant implementation oversight. A Finance and/or Audit Committee is responsible for monitoring the stewardship of the accounting function to ensure the effectiveness of all aspects of financial management, including monitoring the integrity of risk management, combined assurance, compliance with relevant laws and regulations, financial reporting and the associated required disclosures and communication to multiple stakeholders. In the case of Global Fund grant programs, such a body would provide independent oversight of the whole risk and assurance framework and compliance with Global Fund, local and organizational fiduciary requirements.

111. The Audit Committee is a sub-unit of the board of directors (senior management committee). The following criteria should be followed when forming an Audit Committee:

- majority membership should not include employees of the organization (i.e. adherence to the membership principle of predominantly nonexecutive independent members<sup>25</sup>); and
- at least one member must be a financial expert.

112. The key responsibilities of the Audit Committee should include:

- oversee the implementation of the risk and assurance framework;
- oversee financial management of the grant(s), including independent review of grant performance, absorption and expenditure rates, variance analysis;
- promote the independence of the internal and external auditors by protecting them from the influence of the management;
- select and appoint the Chief Audit Executive (CAE) and the external auditor including a review of that auditor's professional qualifications and independence, the potential risk of conflicts of interests, as well as the auditor's fees;
- approve the internal audit charter and risk based internal audit plan and internal audit budget and resources plan and review the internal audit activity's performance relative to its plans;
- review the internal, external audit report and reports of other assurance provider including Local Fund Agent and ensure that the issues and recommendations from those reports are given appropriate attention by the management and the staff;
- conduct an annual review of the performance of the external auditors, and make recommendations to the board and the Global Fund (through the board) on the appointment, reappointment, or termination of the external auditor's contract;
- work with the external auditor to coordinate the scope, plan, and procedures to be followed for the annual audit, taking into consideration both the implementer's present circumstances, the Global Fund requirements toward the annual audit and any applicable changes in legislation and other regulatory requirements;
- work to resolve any problems encountered in the normal course of the external auditor's work, including any restrictions on the scope of the audit or access to information;
- discuss any significant findings or recommendations made by the internal auditor, external auditor and other assurance provider including Local Fund Agent and management's proposed response thereto, as well as any other appropriate actions to be taken based on such recommendations;
- establish procedures for reviewing and handling complaints or concerns received by the implementer regarding the internal control process, financial accounting and reporting, or the external audit; and
- enable employees to submit concerns confidentially and anonymously, and review the disclosure of any fraud that involves management or other employees with significant roles in internal control.

### 4.3.3 Country Coordinating Mechanism<sup>26</sup>

113. The body with overall responsibility for delivering the Global Fund grant needs to be confident that governance arrangements are operating effectively within the grant programs. In the Global Fund model, this typically means that the Country Coordinating Mechanism or another nonexecutive management board oversees the grants.

114. Implementer management is accountable to the Country Coordinating Mechanism, which provides governance, guidance and oversight on the implementation of Global Fund financed grants. Effective Country Coordinating Mechanisms are objective, capable and inquisitive. They also have knowledge of the implementer's activities and environment, and commit the time necessary to fulfill their oversight responsibilities. Managers without appropriate accountability could be in a position to override controls and ignore communications from subordinates, enabling a dishonest management to misrepresent program and financial results to cover its tracks. A strong and active Country Coordinating Mechanism, particularly when coupled with effective upward communications channels and capable financial, program and legal expertise, is often able to identify and correct such problems.

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<sup>25</sup> Independence means not having day-to-day involvement in operations of the organization; not having been an employee of the organization in the last three years; not having any other contractual relationship with the organization by way of a customer or supplier; and, finally, not being related to anybody falling within the above meaning of independence.

<sup>26</sup> Or its equivalent.



115. The Country Coordinating Mechanism is thus the equivalent of a “board of directors” with the overall oversight responsibility in the management of Global Fund grants at the country level as stipulated in the Grant Agreement. It is therefore imperative in this process that the required controls are in place for the development of a funding request, controls that take into account the comprehensive drivers of the program and the financial resources required to achieve the objective and targets and to maximize impact.

116. Therefore, Country Coordinating Mechanisms should be able to assess and evaluate the financial aspects of the funding request prior to submission to the Global Fund. It is important to focus on the clear application of the following core Global Fund principles:

- integration of critical strategic enablers for impact (e.g. Human rights, women and girls, KAPs, etc.)
- analysis of gaps in existing financial resources and what is needed to achieve impact;
- value-for-money incorporated in the budgeting techniques;
- accurate and reasonable unit prices and application of existing government policies<sup>27</sup> (salaries, per-diem rates, overhead, administrative costs; etc.); and
- budgeting for investment in a financial management system to ensure the meeting of minimum standards.

117. During grant implementation, and as part of its oversight function, the Country Coordinating Mechanism needs to put in place mechanisms to ensure that grant funds are utilized for the intended purposes to achieve the objectives and targets. Such mechanisms should include the following financial oversight functions:

- impact of financial status on program performance;
- absorption rate of grant implementation (i.e. budget versus actual expenditures);
- proactive reallocation of resources;
- timely delivery of audit reports and recommendations (internal and external) for each grant and its implementers; and
- follow-up on the implementation of audit recommendations (internal/external auditors).

### **Recommendation:**

The Global Fund strongly recommends that Country Coordinating Mechanisms **institute an ad-hoc or a standing committee on financial management and oversight for grants (particularly in the case where implementers do not have a Finance and or Audit Committee)**. This committee should meet at least biannually and include the following core members (representatives from these structures):

- The Inspector<sup>28</sup>/Auditor General of the Government (permanent member)
- The Ministry of Finance (permanent member)
- Senior Banker or Treasurer – Financial sector (rotates every two years)
- Senior Finance Person – In-country development partners (rotates every two years)
- Senior Finance Person - Civil society organizations (rotates every two years)
- Senior Finance Person – Private-sector organizations (audit and financial advisory firms)
- Senior Finance Person – A Principal Recipient (rotates every two years)

<sup>27</sup> For nongovernmental entities, the applicable rates are those of the organization and/or its headquarters.

<sup>28</sup> In certain jurisdictions, this will be the central audit department with responsibility for performing internal audits, including the oversight of government ministries, departments and agencies (MDAs).

## 4.4 Internal Controls

118. Internal controls consist of all the policies and procedures adopted by an implementer to assist in achieving an orderly and efficient program implementation, complying with applicable laws and regulations and donor requirements, recording and reporting financial transactions and events, safeguarding financial resources and assets, preventing or detecting fraud and error, and the issuing on a timely basis of financial management reports for monitoring and decision-making.

119. Internal controls help entities achieve important objectives and sustain and improve performance. An effective internal control system will help an organization to reduce risks to acceptable levels, and support sound decision-making and governance.

120. Internal controls are not a static process but rather a **dynamic** and **integrated** process that continuously adapts to the changes the organization is facing. Management and personnel at all levels must be involved in this process to address risks and to provide reasonable assurance of the achievement of the organization's mission and objectives.

121. Each organization may choose to implement internal controls differently. A smaller organization's system of internal controls may be less formal and less-structured, yet still considered effective within the operational context of the organization.

122. The implementer's management is responsible for developing, implementing and monitoring an effective system of internal controls. At the level of implementers, internal control objectives relate to:

- **Effectiveness and efficiency of operations:** addressing the organization's basic business objectives, including performance goals and the safeguarding of assets;
- **Reliability of financial information and reporting:** ensuring that financial information is reliable for the required periodic donor updates, annual financial statements, and any other financial reports;
- **Compliance with applicable rules and regulations:** dealing with rules governing the organization as stipulated in the Operations Manual or Manual of Procedures as well as general regulations applicable in the country.

123. This Financial Management Handbook provides a general framework, when implementing a system of internal controls, management is responsible for developing the detailed policies, procedures, and practices to fit its organization's operations and to ensure those policies and applicable laws and regulations are built into and are an integral part of operations.

124. It is important to note that no matter how well designed and operated, internal controls cannot provide management and external stakeholders with absolute assurance regarding the achievement of the objectives. An effective internal control system will provide a "reasonable" level of assurance. Reasonable assurance equates to a satisfactory level of confidence given the considerations of costs, benefits and risks.

Adequate internal controls help an organization to ensure that:

- programs or work plans are implemented efficiently and effectively to achieve the desired objectives or results;
- expenditures incurred are reasonable and allowable against budgetary allocations, and that inappropriate payments and non-compliant expenditures<sup>29</sup> are prevented;
- fraud, misappropriation of assets, waste or abuse and errors of misstatement to financial reports are significantly mitigated; and
- Risk areas are identified and mitigated to acceptable levels

<sup>29</sup> Non-compliant expenditures include but are not limited to unsupported expenditures, expenditure outside the scope or period of the grant, expenditures compromised by prohibited practices, and other types of non-compliance and mismanagement of grant funds. For details, please refer to the "Global Fund Guidelines for Budgeting."



Key Features/Components - Internal Controls		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>A comprehensive manual of procedures (including specific controls, identifying those who perform controls and the frequency of those controls) are in place, implemented and updated as needed</li> </ul>	<ul style="list-style-type: none"> <li>The roles and responsibilities of staff are defined, documented (considering the segregation of duties) and communicated to respective staff. The role and responsibilities are based on the segregation of duties principles i.e. transactions should be divided into tasks completed by different individuals to increase the chance of detecting unintentional errors and preventing fraud.</li> <li>The initiation, authorization and approval of transactions and custody of related assets should be performed by different units or individuals as appropriate.</li> <li>A description of procedures that ensure proper and accurate documentation should be available and duly filed in accordance with robust document management procedures.</li> </ul>	<ul style="list-style-type: none"> <li>A defined and documented internal control framework, including a clear description of processes, process objectives, related controls and the people responsible for those processes, etc. should be in place and implemented.</li> <li>A formal risk assessment process should be in place that identifies, assesses, manages and controls critical risk on a timely basis. A risks register should be maintained for the documentation of critical risks and the monitoring thereof.</li> <li>An arrangement should be in place to provide reasonable assurance on the appropriateness and effectiveness of internal controls and risk-management processes</li> </ul>

125. This section will help the implementers to develop effective internal controls based on internationally recognized frameworks by describing the key components of an internal control framework.

#### 4.4.1 Principles and Approach for Risk and Assurance Framework

126. Some principles that should guide the development of the risk and assurance framework for an organization are given below:

- **Overall governance culture** – this is often referred to as setting the “tone at the top.” Management shows leadership in promoting good governance and sets the right tone by constantly demonstrating its respect for governance and, in particular, for risk and assurance frameworks. This can include a range of behaviors that promote the importance of good governance, from ensuring that internal communications regularly address the issue to contributing relevant input to assurance initiatives like risk and audit committees;
- **Accountability and transparency** – the assurance framework should be designed in a way that enhances accountability and promotes transparency. Accountability means that management accepts the consequences and rewards of the decisions it takes and the performance it oversees. Financial information should be accurate, accessible in a timely manner, and reported with clarity (proper audit trail) without hindrance;
- **Independence and conflicts of interest** – management assurance can only be effective if it is independent and free from conflicts. Therefore, the risk and assurance framework should have built-in checks to ensure that its effectiveness cannot be diluted by lack of independence. For example, there should be a well-understood and respected procedure through which management declares any conflicts of interest that may impinge on a relevant decision;
- **Effective communication** – communication of the risk and assurance framework at the appropriate levels will facilitate acceptance and understanding of the framework’s importance and context. A communication strategy provides the means by which management may emphasize the importance of following the framework;
- **Skills and competencies** – the skills of key stakeholders engaged at a management level to provide effective assurance and oversight should be appropriate for the task;
- **Assurance should be reasonable, not absolute** – Absolute assurance is rarely attainable and, in many cases would be prohibitively expensive to obtain. Assurance therefore needs to be set at a reasonable level to ensure that the identified risks are being managed within an acceptable level;
- **Future-oriented framework** – taking into account past events, the risk and assurance framework should be forward-looking to effectively manage the strategic and operational bottlenecks and issues affecting the achievement of impact and absorption of approved funding.

127. The following is an example of an ideal step-by-step framework for a Global Fund program, which could be tailored to different types of organizations:

- **1st step** – identifying **key objectives** to achieve outcomes across the grants and, if applicable, more broadly to achieve desired country and/or global disease outcomes;
- **2nd step** – identifying **key risks** that might prevent achievement of the objectives and managing these risks effectively through the organization’s risk-management arrangements. Identifying key risk effectively involves a formal assessment of what can go wrong or what may prevent grant objectives from being met. This information should then be used to put in place plans to mitigate the risk, e.g. if a lack of skills in technical positions is a key risk then the Implementer can begin to plan for additional resources or to better train and motivate staff. This is a crucial step, which many organizations fail to address formally, leaving them exposed when the risks eventually materialize;
- **3rd step** – documenting the **key controls** in place to manage risks, including controls around the risk of fraud. This step involves preparing an appropriate risk mitigation strategy and designing the specific control steps that will address the identified risks;
- **4th step** – determining the **independent assurance** required for the organization to be governed effectively. Considering the types of assurance available, coordinating these effectively and identifying areas where further assurance is required. In other words, tailoring assurance to the organization’s needs;
- **5th step** – **reporting** key information to senior management and the governing body/bodies (including the Country Coordinating Mechanism), including information on existing controls and assurances that are working well, as well as identifying inadequate controls or where insufficient assurance exists;
- **6th step** – developing an **action plan** to be agreed by senior management with the Country Coordinating Mechanism to address gaps in controls and assurance with proposals to take corrective, restorative or remedial steps, as required, and active monitoring of the plan.

128. As part of its documentation of the controls, the Principal Recipient should establish a consolidated risk-and-control matrix that maps out risks, associated controls, the people responsible for those controls as well as the frequency and timing of controls, etc. This register is mandatory for Core and High-impact countries. This matrix is linked to all financial operational risks, including the risk of fraud. An example of the risks matrix or risk register is provided in [Appendix 5](#).

129. Examples of management assurance:

**Country cases: management assurance**

**Case History 1: Ministry of Health – Country X**

- The MoH in Country X is the Principal Recipient for the TB, Malaria and HIV grants. For better coordination and oversight, a Project Coordination Committee (PCC) has been set up to facilitate oversight, coordination and financial management of the Global Fund grants. The PCC comprises of a range of professional expertise including finance experts. The chair of this committee reports to the Permanent Secretary of the MoH on a regular basis.
- This committee holds regular quarterly meetings with the implementing units and provides technical, budgeting, financial management and procurement support to these units.
- It also follows up on key issues emanating from the Country Coordinating Mechanism, Progress Update and Disbursement Request (PU/DR) reviews, internal and external audits and ensures that key risks are being dealt with properly and that the grants are on track.
- This framework provides much-needed assurance to the Global Fund, Country Coordinating Mechanism and other stakeholders that the financial risks to grant objectives are being managed.

**Case History 2: Country YY – All Grants**

- The country has a fully functional Country Coordinating Mechanism. The Country Coordinating Mechanism has strengthened structures. The finance committee is one of the constituted standing committees. The chair of the finance committee is a member of the executive committee.

- The Country Coordinating Mechanism holds quarterly meetings, at a bare minimum, where the Principal Recipients give financial progress updates as part of the progress reports. The finance committee follows up on action points agreed at Country Coordinating Mechanism meetings, reviews reports from various assurance providers (internal auditor, external auditors, etc.), as well as provides support and technical guidance on financial management when needed. The chair of the finance committee reports to the executive committee.
- In most cases, partners in the country are members of the Country Coordinating Mechanism and when pertinent issues arise that need attention, they are in a position to provide further oversight through technical assistance or reviews.

#### 4.4.2 Components of Internal Control

130. The Global Fund adopted the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework in 2012. The COSO internal control framework is an internationally recognized framework designed by a consortium of academics, business leaders and experts. It is designed to enable organizations to develop systems of internal control to reduce risks to acceptable levels and to support decision-making within the appropriate governance settings.

131. As depicted in the diagram below, COSO defines internal controls as having five components. These components define a recommended approach for internal controls and provide a basis against which internal controls can be evaluated. These components apply to all aspects of an organization’s operation.

132. There is a direct relationship between the general objectives, which represent what an organization strives to achieve, and the internal-control components, which represent what is needed to achieve the general objectives. The relationship is depicted in a three-dimensional matrix, in the shape of the cube below:



COSO cube (2013 edition) [www.coso.org](http://www.coso.org)

#### 4.4.3 Control Environment

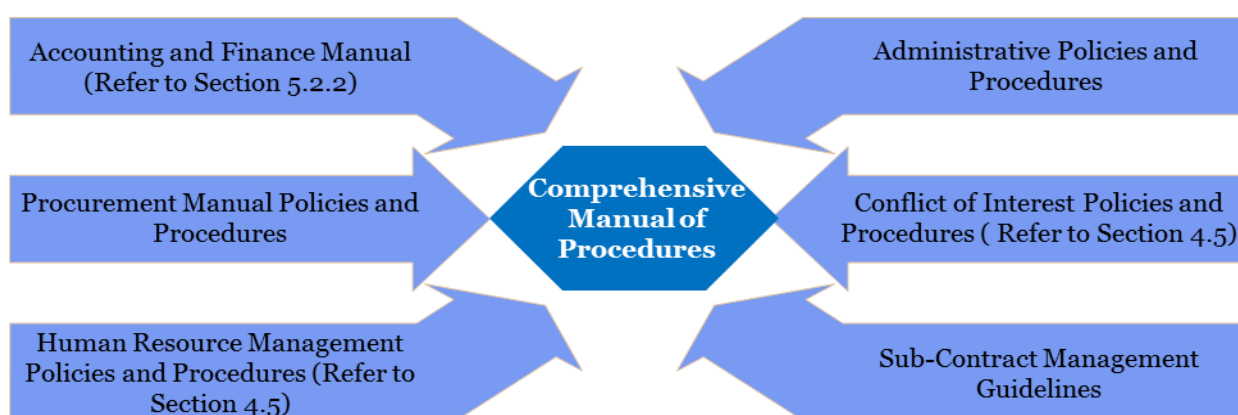
133. **Control Environment** is the foundation for the entire internal control system and provides the discipline and structure as well as the direction that influences the overall quality of internal control. The control environment includes the governance and management function of an organization. It focuses largely on the attitude, awareness and actions of those responsible for designing, implementing and monitoring internal controls.

134. **Who is responsible?** By setting up the control environment, management “sets the tone” of the entire organization, influencing the control-consciousness of its staff. By promoting key values such as integrity, ethics, transparency, competence and dedication to good management practices, management provides a framework for discipline and structure.

135. Implementer management should therefore foster a control environment that encourages:
- the highest levels of integrity, personnel and professional standards;
  - a leadership philosophy and operating style that promotes internal controls throughout the organization;
  - the appropriate assignment of authority and responsibility;
  - management commitment and competencies; and
  - compliance with human resource policies and procedures.

136. The integrity of the implementer’s management is fundamental to the effective functioning of the organization and is critical to ensuring that the internal control systems are not compromised. It is important to ensure that an implementer’s management is not dominated by an individual with a strong personality, or who is involved in illegal or questionable activities, or who lacks appropriate experience.

137. In order to enhance an implementer’s internal control system, efforts should be made to have a **Comprehensive Manual of Procedures** accessible to all employees (hardcopy and/or email, internet access) at all times with a focus on the following areas:



#### 4.4.4 Risk Assessment (Risk Management Process)

138. The central theme of internal control for Global Fund grants is (1) to identify risk areas; (2) to propose mitigating measures to address such risks; and (3) to provide assurance that the mitigating measures are working to support the achievement of program objectives.

Key Features/Components - Risk Assessment (Risk Management Process)		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• Management and board are not aware of their responsibilities for risk management process and oversight of risk management process respectively.</li> <li>• There is no formal risk management process in place.</li> </ul>	<ul style="list-style-type: none"> <li>• Management and board are understand their responsibilities for risk management process and oversight of risk management process respectively.</li> <li>• There are formal risk management processes in place, however, these are either not adequate or not effective.</li> </ul>	<ul style="list-style-type: none"> <li>• Formal risk management process are in place, adequate and effective.</li> <li>• A risk register is maintained including all the key risk and updated regularly.</li> <li>• Risk management process are monitored through ongoing management activities, separate evaluation or both.</li> <li>• Internal auditor is made responsible to report on the effectiveness of risk management process.</li> </ul>

139. **Risk assessment** requires an assessment of the risks facing the organization and provides the basis for developing an appropriate response to risk. The risks associated with grant implementation influence how the grant is designed, the financial management arrangements, and the systems of internal control. Identifying the risks associated with a grant influences the choice of appropriate courses of action with respect to designing a sound financial management system and formulating measures to mitigate risk. The Global Fund financial

management staff as well as Local Fund Agents can assist the implementer's management to identify risk factors and to determine how to best deal with those risks.

140. **Risk assessment** is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives. This, in turn, forms a basis for determining how those risks should be mitigated and managed during grant implementation.

141. **Who is responsible?** To properly manage their programs, managers of grant implementers, Principal Recipients in particular, need to determine the level of operational, financial and compliance risk they are willing to assume. **Risk assessment** is one of management's responsibilities and enables management to act proactively in reducing unwanted surprises. Failure to consciously manage these risks can result in a lack of confidence that program, financial and compliance goals will be achieved.

142. **Risk identification** means the identification of anything that could jeopardize the achievement of the program's objectives. For each objective, applicable risks should be identified. Examples of key risks to the Global Fund grants are (i) the risk of loss of funds when transporting cash for training programs or for the payment of workers for a mass campaign (ii) the risk of low grant absorption because of a lack of budget-variance monitoring (iii) the risk of fraud as a result of non-recruitment or a delay in the hiring of additional finance staff (iv) the risk of ruptures in commodity stocks in because of poor stock tracking or reconciliations.

143. It is extremely important that **risk identification** is comprehensive and regularly updated at the grant implementation level for all activities and processes to measure performance and ensure sound financial reporting, and compliance with objectives. Both external and internal risk factors need to be considered at all times. Usually, several risks can be identified for each objective. A consolidated risk register must be maintained and all risk identified by implementer staff, management and the Audit Committee. The internal auditor and external auditor must also be included in the consolidated risk register (refer to [Appendix 5](#) for sample of "Risks Register").

144. **Risk analysis and prioritization.** Every risk identified must be assessed for the probability of its occurrence and its potential effect and should be ranked accordingly. Risk responses, including control activities must be based on the outcome of risk analysis and prioritization.

145. **Monitoring of risk management processes.** Risk management processes are monitored through ongoing management activities, separate evaluation or both. The internal audit function (where applicable) should be responsible to report on the effectiveness of the risk management process.

146. The effectiveness of the risk management processes is determined through professional judgment considering but not limited to the following<sup>30</sup>:

- organizational objectives support and align with the organization's mission;
- significant risks are identified and assessed;
- appropriate risk responses are selected that align risks with the organization's risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

#### 4.4.5 Control Activities

147. **Control activities** include an organization's approach to mitigating risk, usually through control activities that can be preventive and/or detective. Corrective actions are a necessary complement to internal control activities to achieve the objectives. Control activities and corrective actions should provide value for money. Organizations are expected to direct significant resources to preventive controls in an effort to significantly mitigate their overall risk exposure.

148. **Control activities** are actions, supported by policies and procedures that, when carried out properly and in a timely manner, manage or reduce risks.

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<sup>30</sup> per Interpretation of Standard 2120

149. **Who is responsible?** In the same way that an implementer’s management is primarily responsible for identifying financial and compliance risks for their programs, they also are responsible for designing, implementing and monitoring their internal control system.

150. **Preventive and detective controls:** Each implementer should design and implement preventive and detective controls for the effective functioning of its internal control system. Each control has a different objective. Preventive controls are essential in discouraging errors, irregularities and losses from occurring while helping to ensure grant objectives are being met. On the other hand, detective controls play a critical role in providing evidence that the preventive controls are functioning and preventing losses during grant implementation.

Key Features/Components - Internal Controls Activities		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>Approval authority (scheme of delegation or authority grid)</li> <li>Approval of transaction</li> <li>Segregation of duties (as appropriate)</li> <li>Audit (External)</li> </ul>	<ul style="list-style-type: none"> <li>Control of assets</li> <li>Reconciliation</li> <li>Management review</li> </ul>	<ul style="list-style-type: none"> <li>Physical inventory</li> <li>Audit (Internal)</li> </ul>



**Preventive Controls** attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. Examples include:

Type	Description																		
Segregation of duties	<p>Segregation of duties means dividing the processing of a financial transaction between staff so that work done by one person is reviewed by another, and to ensure that no one person has complete control of the process. It reduces the risk of both erroneous and inappropriate actions. In general, the approval function, the accounting or reconciling function, and the asset-custody function should be separated among employees.</p> <p>In the proper segregation of duties, the following responsibilities should be performed by different functions or individuals:</p> <ul style="list-style-type: none"> <li>✓ authorization to execute a transaction;</li> <li>✓ recording of the transaction; and</li> <li>✓ custody of assets involved in the transaction.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="background-color: #0056b3; color: white;">Example of appropriate segregation of duties</th> </tr> <tr> <th style="background-color: #00a0e3; color: white;">Person who:</th> <th style="background-color: #00a0e3; color: white;">Should not:</th> </tr> </thead> <tbody> <tr> <td>Prepares vouchers</td> <td>Approve vouchers</td> </tr> <tr> <td>Prepares checks</td> <td>Sign checks</td> </tr> <tr> <td>Has access to blank checks</td> <td>Post payments to the ledger</td> </tr> <tr> <td>Receives cash</td> <td>Record cash receipts</td> </tr> <tr> <td>Prepares bank deposits or records cash receipts</td> <td>Prepare bank reconciliation</td> </tr> <tr> <td>Is responsible for the physical security of assets</td> <td>Perform the physical register of assets</td> </tr> <tr> <td>Maintains driver logs</td> <td>Monitor fuel usage</td> </tr> </tbody> </table>	Example of appropriate segregation of duties		Person who:	Should not:	Prepares vouchers	Approve vouchers	Prepares checks	Sign checks	Has access to blank checks	Post payments to the ledger	Receives cash	Record cash receipts	Prepares bank deposits or records cash receipts	Prepare bank reconciliation	Is responsible for the physical security of assets	Perform the physical register of assets	Maintains driver logs	Monitor fuel usage
Example of appropriate segregation of duties																			
Person who:	Should not:																		
Prepares vouchers	Approve vouchers																		
Prepares checks	Sign checks																		
Has access to blank checks	Post payments to the ledger																		
Receives cash	Record cash receipts																		
Prepares bank deposits or records cash receipts	Prepare bank reconciliation																		
Is responsible for the physical security of assets	Perform the physical register of assets																		
Maintains driver logs	Monitor fuel usage																		
Control of assets	<p>Liquid assets (cash), vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition or use. Typically, access controls are a good way to safeguard these assets. Examples of access controls are as follows:</p> <ul style="list-style-type: none"> <li>✓ safes for cash and important documents;</li> <li>✓ locked doors, locked filing cabinets, key-pad systems, card-key systems, badge systems, guards;</li> <li>✓ terminal lock, computer password and data encryption.</li> </ul>																		
Approval of a transaction	<p>Approval of a transaction means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures.</p> <p>Approvers should review supporting documentation, question unusual items, and make sure that necessary information is present to justify the transaction before signing it. The signing of blank forms should never be allowed.</p>																		
Approval authority (Scheme of Delegation or Authority Grid)	<p>Approval authority may be linked to specific monetary levels (limits of authority). Transactions that exceed the specified amount would require approval at a higher level.</p> <p>Under no circumstance should an approver tell someone that they could sign the approver's name on behalf of the approver. Similarly, under no circumstance should an approver with electronic approval authority share his/her password with another person. To ensure the proper segregation of duties, the person initiating a transaction should not be the person who approves the transaction. The implementer's approval levels should be specified in the policies and procedures manual and updated regularly.</p>																		

**Detective controls** attempt to detect undesirable acts and determine whether internal controls are functioning properly:

Type	Description
Reconciliation	<p>Reconciliation is the comparison of different sets of data to one another, identifying and investigating differences and taking corrective action when necessary. For example:</p> <ul style="list-style-type: none"> <li>✓ verification of charges in the general ledger to file copies of approved invoices;</li> <li>✓ reconciling monthly cash expenses in the accounting records of the implementer to monthly bank statements issued by the bank;</li> <li>✓ reconciling payroll to check that all the accounts affected by the payroll transactions agree and compare with previous months and identifying and analyzing any variance.</li> </ul> <p>Reconciliation helps to ensure the accuracy and completeness of transactions that have been charged to an implementer's accounts. To ensure the proper segregation of duties, the person who approves transactions or handles cash receipts should not be the person who performs the reconciliation. Differences should be identified, investigated and explained; corrective actions must be taken.</p> <p>Reconciliations should be documented and approved by the appropriate authority.</p>
Management review	<p>Management should review management reports, progress updates, financial statements, reconciliations, and other information, and provide a basis for detecting problems.</p> <p>Management should compare information about current performance to budgets, forecasts, prior periods or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up. Management's review should be documented as well as the resolution of items noted for follow-up. Some good examples of such reviews include:</p> <ul style="list-style-type: none"> <li>✓ budget to actual comparison</li> <li>✓ current to prior period comparison</li> <li>✓ performance indicators</li> <li>✓ follow-up on unexpected results or unusual items</li> </ul>
Physical inventory	<p>Regular independent cash and stock checks must be performed to promote the safeguarding of assets.</p>
Audit	<p>Regular internal audits and external audits should be conducted to ensure the internal controls are functioning properly.</p>

151. Control activities must be implemented thoughtfully, conscientiously, and consistently; a procedure will not be useful if performed mechanically without a sharp continuing focus on conditions for which the controls are developed and directed. Further, it is essential that unusual conditions identified as a result of detective controls are investigated and appropriate corrective actions are taken as early as possible.

#### 4.4.6 Information and Communication

152. **Information and Communication** is vital for an organization to run and control its operations. An organization's management needs access to relevant, complete, reliable, correct and timely communication related to internal as well as external events. Information systems generate reports that facilitate the oversight and control of grant activities. Information should be appropriate, timely, and current, as well as accurate, complete and accessible. Information must be communicated so that individuals can do their jobs properly.



Management should clarify to all employees his/her role in the control structure. Also, effective communication should be maintained with donors, government supervisory agencies, suppliers, and grant beneficiaries.

Key Features/Components - Information and Communication		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• Informal information and communication mechanism is in place.</li> <li>• Two ways communications from senior management down to the subordinates and from subordinate up to the senior management.</li> </ul>	<ul style="list-style-type: none"> <li>• Organizational structure clearly define communication and reporting line.</li> <li>• Multidirectional communication (downward, upward and horizontal communication) where all part of the organization are expected to communicate with each other, not merely along the line of authority.</li> </ul>	<ul style="list-style-type: none"> <li>• Formal information and communication systems are in place, generating reports that facilitate the oversight and control of grant activities.</li> <li>• Senior management and staff have access to relevant, complete, reliable, correct and timely communication related to internal as well as external events.</li> <li>• Information is communicated on timely basis so that individuals can do their jobs properly</li> </ul>

153. **Information and communication** are essential for effective controls. Information about an implementer’s plans, control environment, risks, control activities and performance must be communicated up, down, and across the grant management chain. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it, in a form and timeframe that is useful. Information systems produce reports, containing operational, financial, and compliance-related information that makes it possible to run and control an organization.

154. Information and communication systems can be formal or informal. Formal information and communication systems, which range from sophisticated computer technology to simple staff meetings, should provide input and feedback data related to grant implementation, absorption, financial reporting, and compliance objectives; such systems are vital for grant implementation success. Informal communication with the relevant stakeholders often provide some of the most critical information needed to identify risks and opportunities.

155. When assessing internal control over a significant activity (or process), the key questions to ask about information and communication are as follows, especially in the management of information from the Global Fund, Country Teams, Country Coordinating Mechanism, and the communication of requirements to sub-recipients:

- does the implementer get the information it needs from internal and external sources in a form and timeframe that is useful? Example, data received from Global Fund and sub-recipients;
- does the implementer get information that highlights internal or external risks?
- does the implementer get information measuring its performance information that informs whether it is achieving its operational, financial reporting and compliance objectives?
- does the implementer identify, capture, process, and communicate the information that others need (e.g., information used by sub-recipients) in a form and timeframe that is useful?
- does the implementer provide information to others that highlights internal or external risks?
- does the implementer communicate effectively, internally and externally?

## 4.4.7 Monitoring

156. **Monitoring.** Internal control is a dynamic process that has to be adapted continuously to the risks and changes an organization faces; for that reason, monitoring of the internal control system is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

Key Features/Components - Monitoring		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>No formal mechanism is in place by Implementers to assess the effectiveness of internal controls.</li> <li>The Local Fund Agent or any other assurance provider are mandated by the Global Fund to assess the internal controls of Implementers.</li> </ul>	<ul style="list-style-type: none"> <li>The effectiveness of internal controls is assessed mainly through on-going monitoring activities (management and supervisory activities) and self-assessment.</li> </ul>	<ul style="list-style-type: none"> <li>The internal controls are assessed by the independent auditor on regular basis (internal and external auditors).</li> <li>The services of assurance providers (LFA, internal auditor and external auditor) is coordinated to ensure that each adds value and duplication of efforts is avoided</li> </ul>

157. **Monitoring** is the assessment of internal control performance over time; it is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal/external audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed and effective. Internal control is adequately designed and properly executed if all five internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) are present and functioning as designed. Internal controls are effective if management and interested stakeholders have reasonable assurance that:

- the extent to which operational objectives are being achieved is well understood ;
- published financial statements are being prepared accurately, reliably and in a timely manner;
- applicable laws, regulations, policies and procedures are being complied with.

158. While internal control is a process, **its effectiveness is ascertained through the assessment of the conditions of the process at one or more points in time.** Just as control activities help to ensure that actions to manage risks are carried out, monitoring helps to ensure that control activities and other planned actions are carried out properly and in a timely manner and that the end result is effective internal control.

159. On-going monitoring activities include various management and supervisory activities that evaluate and improve the design, execution, and effectiveness of internal control across the grant lifecycle. Separate evaluations, on the other hand, such as self-assessments and audits, are periodic evaluations of internal control components resulting in a formal report on internal control. Employees of the implementers are encouraged to regularly perform self-assessments, while auditors provide an independent appraisal of internal control by performing audits on the effectiveness of internal controls.

160. **The Global Fund monitoring of implementers' Internal Controls:** The Local Fund Agent and/or any other assurance providers mandated by the Global Fund are required to review and test regularly the adherence of grant implementers to financial controls. Principal Recipients may provide grant funds to other entities (sub-recipients) to carry out program activities. In such cases, the Principal Recipient is responsible for providing evidence-based assurances that the principles of internal control as outlined in this document are applied in the management of funds by sub-implementers.

161. The services of assurance providers, such as the Local Fund Agent, internal auditor or external auditor etc., should be coordinated by the Country Team to ensure that each adds value and that the duplication of efforts is avoided.

## 4.5 Human Resources

162. Human resources management covers the people and activities related to the organization's staff, including recruitment, training, development, rewards and retention efforts. It is one of the key enabling functions of all organizations and has a direct and indirect impact on an organization's performance. Accordingly, each implementer should have an adequate and appropriate human resources function<sup>31</sup> supported by formal human resources policies and procedures.

Appropriate and adequate human resources (staff) are a prerequisite for the effective implementation of an organization's strategy and work plan.

An effective human resources function supported by appropriate human resources policies and procedures are critical enablers in attracting and retaining appropriate and adequate human resources.

Key Features/Components - Human Resources		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>Adequate structure and staff are in place to perform the human resources related activities.</li> <li>Terms of reference including job descriptions and job specifications of all staff are developed, properly documented and communicated to ensure that every staff member is clear on his/her role in the organization or function and to ensure the most efficient utilization of human resources</li> <li>The employee salary structure is aligned to local salaries for comparable roles. Salaries should be set according to the level of the role and should take into consideration the skills and experience of the staff member in question.</li> <li>Financial team for the Global Fund grants is selected in a transparent way through competitive, and unbiased selection process (the Global Fund management may wish to be involved or delegate its involvement to Local Fund Agent in the selection process for key positions).</li> </ul>	<ul style="list-style-type: none"> <li>Policies and procedures are developed based on applicable laws and regulations including donor requirements governing human resources activities.</li> <li>Written policies and standards are in place to govern the ethical behavior of all staff members and training on standards for ethical behavior should be provided to all employees.</li> <li>Payroll are prepared by the human resources function. Sufficient and appropriate controls should be implemented to ensure that payroll is accurately prepared according to a staff member's employment contract and personal data. Deductions should be made in accordance with applicable taxation and other local employment laws. Further:               <ul style="list-style-type: none"> <li>There is a adequate segregation of duties in preparation and payment of payroll;</li> <li>Payroll is prepared based on appropriate supporting documents (e.g. contract, time sheets and relevant laws and regulations) and should be approved by competent authority;</li> <li>Payroll transactions are posted accurately and in the proper accounting period;</li> <li>Reconciliation of payments is carried out before the disbursement of each pay cycle; and</li> <li>Regular review of payroll expenditures is carried out by the finance staff.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Human resources workforce planning are conducted to ensure that various functions of the organization have adequate and appropriate staff.</li> <li>Performance evaluation processes are in place including, SMART objectives (Specific, Measurable, Achievable, Realistic, Time-bound) for individuals as well as Key Performance Indicators developed at the individual and project level to more accurately evaluate the performance of each individual and substantiate the contribution of individuals toward the achievement of goals</li> <li>Effective staff retention policies are in place, linked with a careful performance evaluation process, to ensure that critical staff are retained and the organization does not suffer from capacity gaps as a result of high staff turnover.</li> <li>A system of succession planning are in place to ensure, among other things, that positions critical to mission delivery in an organization are not affected by a sudden and unexpected vacancy. An assessment of training needs is carried out regularly to identify the needed development of staff skills, which helps to adequately plan staff development and the allocation of the necessary budget.</li> <li>Policies and procedures are developed clearly defining "conflict of interest," "related party transactions" and whistle-blowing.</li> </ul>

163. The following section provides guidance on the key components of human resources to enable the implementers to establish effective human resources management:

- establishment of the human resources function; and
- development and implementation of human resources policies and procedures.

164. This section and related appendices provide only suggested guidance and examples. Implementers must first and foremost comply with any applicable laws or regulations in developing their human resources practices.

### 4.5.1 Human Resources Function

165. Adequate structure and staff based on the size of the organization should be in place to perform the human resources function. Workforce planning should be appropriately performed to ensure that various departments have adequate and appropriate staff when needed.

<sup>31</sup> Function refers to a team, unit or department, depending on the size and structure of an organization.

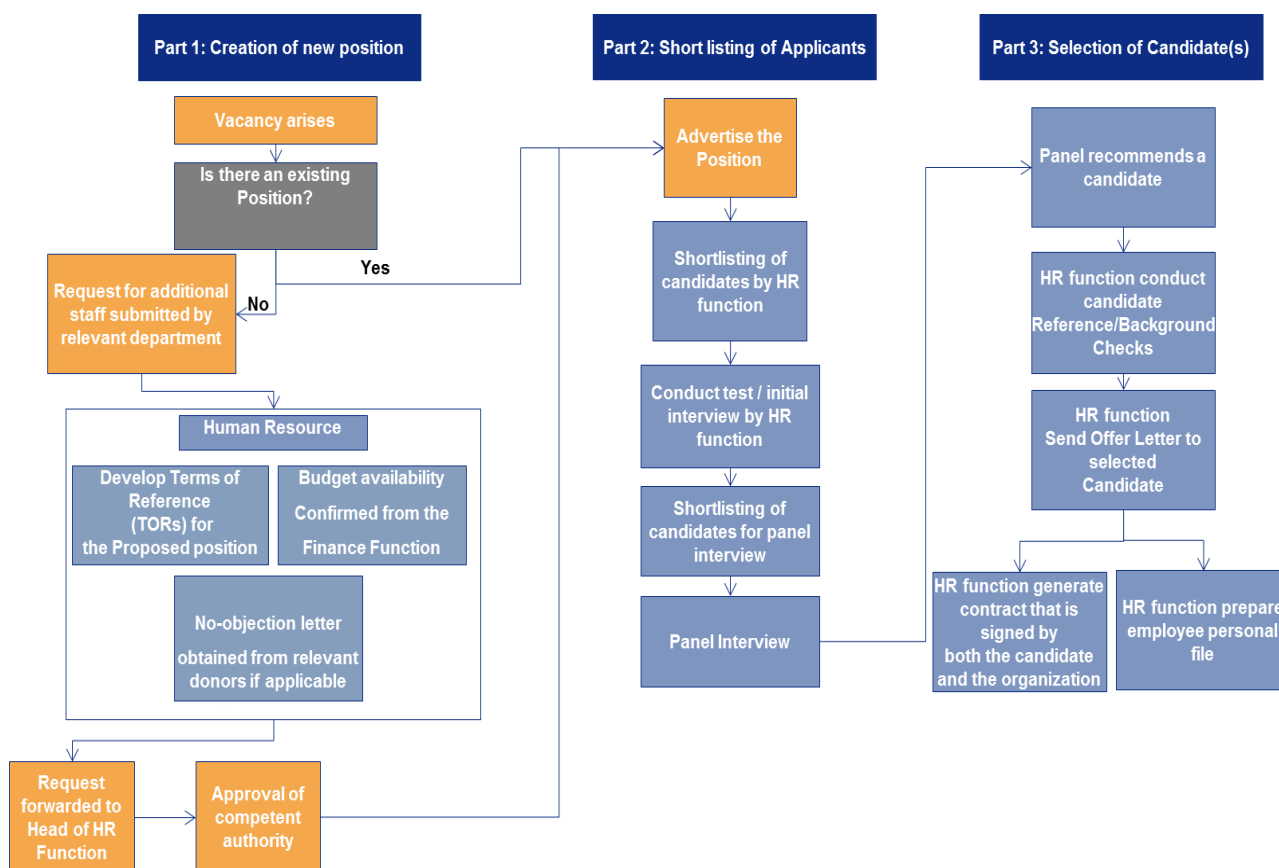
166. The implementers should recruit, develop/train and retain appropriate staff with required qualifications, skills, experience and knowledge of donor-funded operations, what is needed for program continuity and other requirements specific to the grant.

#### 4.5.2 Human Resources Policies and Procedures

167. Human resources policies and procedures should be developed based on the best practice, applicable laws and regulations and specific donor requirements (if any) and approved by the competent authority. Human resources activities of implementers should be governed by the approved human resources policies and procedures. The following sub-sections provide guidance to implementers based on good practice to develop effective human resources policies and procedures.

#### 4.5.3 Recruitment Process

168. The human resources policies and procedures should clearly describe the recruitment process (including the indication of various steps and the staff members responsible for each step) to ensure the transparency and accountability of that process. The human resources department should be responsible for coordinating recruitment and the selection processes. The following are the standard recruitment steps or processes (*for detail description please refer to Appendix 6*):



#### 4.5.4 Benefits, Compensation and Leave Policy

169. There should be a clearly defined policy for benefits and compensation. Generally, the salary structure should be in line with the local comparable wages/salaries within the sector of work and/or functional area.

170. When developing a benefits and compensation policy, the following additional factors should be considered:

- sustainability and application of the same policy across funding sources, including an organization's own resources;
- applicable laws and regulations (including in relation to working hours etc.);
- job responsibilities, experience and qualifications; and
- any other donor specific requirements.

171. The benefits and compensation offered by the organization, should enable the organization to attract and retain the appropriate talent in a sustainable manner. Furthermore, compensation should be performance-based.

172. There should be a formal leave policy based on applicable laws and regulations as well as donor requirements (if any). The leave policy should provide specific guidance on national holidays, annual leave, medical leave, parental leave, unpaid leave and casual leave etc. In addition, the procedures to apply for a leave and the approval authority of leaves should be clearly defined.

#### **4.5.5 Staff Accountability and Performance Evaluation**

173. Roles, responsibilities and reporting lines should be clearly defined bearing in mind the need for effective internal controls and the segregation of duties. In addition, they should be communicated to all staff members.

174. Also, the key personnel that are leaving the organization must do a proper handover to the staff continuing.

175. A performance evaluation framework should be developed, which describes the process and procedures for the development of Key Performance Indicators (KPIs) at the individual and project/program level. The framework will also outline how to evaluate the performance of each individual and measure the contribution of individuals toward the achievement of the project/program's objectives. The following key steps should be followed. Please refer to [Appendix 12](#) for steps followed for objective setting and performance evaluation.

#### **4.5.6 Staff Retention and Employee Turnover**

176. An effective staff retention policy, linked with an appropriate performance-evaluation process, should be developed to ensure that critical staff are retained and the organization does not suffer from capacity gaps resulting from high staff turnover. At the same time, the organization should institute succession plans to ensure that unexpected vacancies in critical positions do not disrupt operations.

177. Succession plans that prepare appropriately identified staff to perform critical functions will also aid staff retention and ensure the continuity of operations. Please refer to [Appendix 13](#) for the key elements of a retention policy, which can be applied taking into account applicable laws and regulation as well as donor requirements.

#### **4.5.7 Payroll Processing**

178. Human resources constitute a significant cost center in an organization or project. Therefore, each implementer should establish a proper system to effectively manage and control the organization's payroll. This system, depending on the size of the organization, should ideally be computerized and provide for the calculation and payment of the salaries and benefits. Also, the system should provide complete and accurate records in support of payments made and their posting to the accounting system.

179. The human resources function should notify the accounting and finance function of any changes to staff members' employment conditions arising from new recruitments, appointments/assignments, promotions, salaries (including increases or decreases, suspension, and termination/dismissal etc). Standard forms should

be used to communicate the information and all forms must be authorized by the appropriate person under the delegation scheme.

180. Payroll processing should be based on systems that capture employee's contract, labor laws of the country and employee attendance (if applicable<sup>32</sup>), such as attendance registers and/or timesheets, and that exist to support the accruing of payroll expenses. For instance, each staff member should submit a monthly time sheet to human resources (setting out time spent on each project, leave, overtime, etc.) that is approved by the supervisor/line manager. The human resources department should prepare payroll based on time sheets before submitting it to the accounting and finance department for payment.

181. Based on the above mentioned payroll input, the accounting and finance departments should prepare a pay slip for each staff member and should clearly indicate the following information: month of payment, name and staff number of the employee, base salary, any allowances, statutory deductions and other deductions in accordance with the employment contract or applicable local laws and regulations, gross and net pay.

182. Sufficient and appropriate controls (preparation, review and approval by different individuals) should be designed and implemented to ensure that payroll is accurately prepared on the basis of personnel records and appropriate adjustments/ deductions are made in accordance with the organization's policies and procedures as well as applicable taxation and other laws.

183. Payroll should be paid via bank transfer where possible. The accounting and finance function should ensure that the payments are made from the appropriate source of funding in case the organization has multiple donors.

184. Staff costs should be monitored regularly to ensure that variances in relation to the original budget are adequately analyzed and payments are made to existing employees.

*For the Global Fund specific requirements relating to human resources budgeting and costing, please refer to the ["Global Fund Guidelines for Grant Budgeting"](#)*

#### **4.5.8 Code of Conduct**

185. Each implementer should develop and implement a formal Code of Conduct based on applicable laws and regulations. The Code of Conduct should include, but not be limited to, the:

- Core values, principles and expected conduct of employees;
- Guiding principles;
- Guidance for conduct in specific situations;
- Procedures for the administration and enforcement of the code;
- Rules and procedures for reporting violations of the code;
- Internal grievance and dispute-resolution processes, to be supplemented by applicable local labor laws and legislation.

186. The Code of Conduct connects the organization's mandate and values to the daily work of its employees. Through observance of the Code of Conduct, employees contribute to the kind of organizational culture the Global Fund expects of its grant recipients, reflecting integrity, respect and accountability. Advantages of instituting a Code of Conduct include:

- earning and maintaining the public trust necessary for the organization to accomplish its mission;
- upholding by employees of their fiduciary responsibilities and those of the institution as a whole; and
- creating a positive, productive and motivating work environment.

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<sup>32</sup> This should only apply for staff that work in more than one project different than the Global Fund's project, and also according to the country's context. For example, in the case of employees overtime, does the project is going to pay for that? Clear rules should apply. How needed were the overtime – who defines that?



187. The Code of Conduct should also provide guidance on the following areas:

- Conflicts of Interest:
- Related Party Transaction:
- Whistle-blowing:

*The Global Fund has issued the [Code of Conduct for Recipients of Global Fund Resources](#). The purpose of this Code of Conduct is to establish the principles and standards of conduct required of all recipients of Global Fund grant funds, including, without limitation, Principal Recipients sub-recipients, sub-sub-recipients, Country Coordinating Mechanisms, and procurement agents.*

#### **4.5.9 Selecting the Grant Financial Team**

188. The overall grant implementation plan should cover staffing issues, including those of the financial management staff, such as the availability of competent staff and matters associated with competitiveness in staff compensation. Principal Recipients should select an appropriate grant implementation team based on qualifications, skills and experience as well as knowledge of donor-funded operations and other grant-specific requirements to ensure continuity, effectiveness, and efficiency. Key grant implementation staff generally should include a grant coordinator or head of Program Management Unit (PMU), a treasurer or head of the grant financial management unit, an accountant or finance officer, a procurement officer, a monitoring and evaluation officer, and an independent internal auditor. It is important to distinguish between the responsibilities of the grant coordinator and the grant financial staff. Further information is provided in the [Appendix 4](#) the “Guidance on Delineation of Responsibilities” between the grant coordinator and grant financial management staff. Program Management Unit management should establish links between the plan and other relevant processes associated with the grant, for example, the links between planned activities and contractors’ availability.

189. Selection of the financial team should be done in a transparent way through a competitive, objective and unbiased selection process. The Global Fund Secretariat may wish to be involved or delegate its involvement to Local Fund Agent in the selection process for the key positions. The implementer should refrain from hiring finance personnel with a negative employment records for Global Fund related activities.

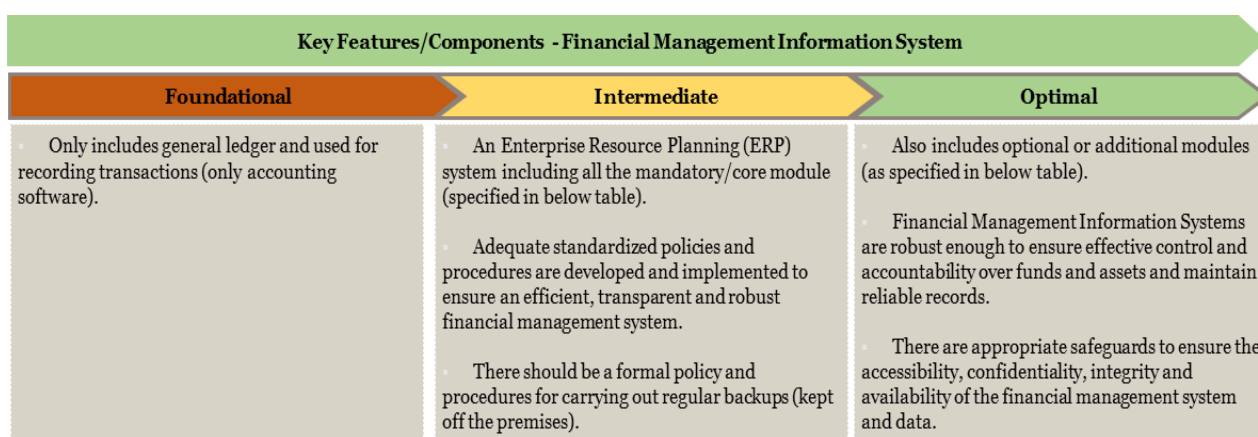
190. Where the Principal Recipient has no experience with the implementation of the Global Fund grants or the Principal Recipients is a government organization and does not have adequate finance staff or capacity, it can hire qualified consultants (national or international) to provide support in financial management at initial stage and in support in financial management capacity building. Appropriate terms of reference should be developed and the process of engagement must be objective and transparent. Any possible conflict of interest should be given adequate consideration. Key staff candidates, including consultants, should be agreed with the Global Fund. Furthermore, appropriate attention must be paid to information systems and monitoring and evaluation. Please refer to the [Appendix 8](#) for sample terms of references (TORs) for guidance in selecting key grant financial management staff.



## 4.6 Financial Management Information System (FMIS)

191. Financial Management Information System (FMIS) refers to the use of financial accounting software and database management systems. The use of a Financial Management Information System simplifies and automates the recording of events, the processing of transactions and the reporting of financial information. An Appropriate and effective FMIS helps an organization to:

- provide support in budget preparation, execution, adequate management of accounts and allows donor-specific reporting;
- collects accurate, timely, complete, reliable and consistent information;
- facilitates the preparation of financial statements and provides a complete audit trail to facilitate audits and compliance review; and
- track the status and fund usage in long term project to monitor progress and identify bottlenecks.



### 4.6.1 Global Fund's Minimum Requirements for a Financial Management Information System

192. Ideally, the implementer should have an automated financial management system that should be integrated with the financial management systems of respective governments or headquarters in the case of a government organization and Nongovernmental organizations respectively. The Financial Management Information System of an implementer should have following modules:

Mandatory/Core Modules	Optional/Additional Module
General Ledger	Human Resources Management
Budget Management	Procurement Management
Account Receivables and Account Payables	Business Intelligence
Asset and Inventory Management	Documents Management
Cash Management	Project Management
Reporting	

193. A robust financial management information system should include the following modules/sub-modules and related functionalities:

Key Modules	Key Functionality
General Ledger	<ul style="list-style-type: none"> <li>✓ Automatic reconciliation of GL with sub-ledgers</li> <li>✓ Accounting journal adjustments for current and previous periods</li> <li>✓ Month-end closure capability</li> <li>✓ Automatic re-evaluation of open balances (monthly or quarterly)</li> <li>✓ Reporting capability (trial balance, customized report for donors based on mapping table...)</li> <li>✓ FX management</li> <li>✓ Tax Management</li> </ul>
Budget Management	<ul style="list-style-type: none"> <li>✓ Capability to store agreed budget and revised budget in the financial system</li> <li>✓ Budgetary control by Activities and Interventions</li> <li>✓ Capability to report budget consumption, variance and accurate forecasts</li> </ul>
Account Receivables (AR) and Account Payables (AP)	<ul style="list-style-type: none"> <li>✓ Automatic reconciliation of AP and AR transactions with GL</li> <li>✓ Integration with Cash Management</li> <li>✓ Automatic re-evaluation of open balances (monthly or quarterly)</li> <li>✓ Reporting capability (Aging balance, Open invoices / receivables...)</li> <li>✓ Supplier and Customer Master Data Management (shared with Procurement module)</li> </ul>
Asset and Inventory Management	<ul style="list-style-type: none"> <li>✓ Integration with procurement module to automate asset / inventory entry</li> <li>✓ Capability to record asset / goods movement</li> <li>✓ Standard reporting to track assets and monitor stocks</li> </ul>
Cash Management	<ul style="list-style-type: none"> <li>✓ Automated integration of bank statement &amp; generation of payment file</li> <li>✓ Automatic bank reconciliation</li> <li>✓ Capability to report cash balance and cash forecast</li> </ul>
Reporting	<p>System should be able to manage:</p> <ul style="list-style-type: none"> <li>✓ Regular country reporting (Financial Statements...)</li> <li>✓ Global Fund (and other donors) specific reports</li> </ul>
Procurement Management	<ul style="list-style-type: none"> <li>✓ Commitment accounting to impact budget and reporting</li> <li>✓ Capability to manage approval hierarchy for PO</li> <li>✓ Automatic control between PO, receipt and invoice</li> <li>✓ Quality of Supplier master data (Data cleansing prior to the system implementation)</li> </ul>

*For further guidance on the Global Fund requirement for the Financial Management System of Implementers, please contact the Global Fund.*

## 5 Financial Controlling

### 5.1 Overview

194. Financial controlling encompasses all the systems, structures, policies, procedures and processes relating to planning, budgeting and fund flow; procurement management; payment and recording; treasury management; asset and inventory management; and financial accounting for an organization.

195. The overarching objective of this chapter is to delineate key principles for the design and implementation of an effective financial controlling system in an organization to ensure the effectiveness of internal controls and to improve budget absorption. This chapter provides detailed guidance to the implementers on identifying and selecting the appropriate accounting principles and policies, as well as designing and implementing systems to improve planning, budgeting, fund flows, payments, treasury management and asset/inventory management.

### 5.2 Principles of Financial Controlling

196. An effective financial management system mainly depends on adequate, qualified and experienced finance staff and the application of formal accounting and finance policies and procedures.

- Effective financial controlling ensures the consistency and reliability of financial information and enhances the transparency and accountability of financial information;
- Consistent and reliable financial information supports stewardship accounting and enhances the confidence of all stakeholders (including the Global Fund) in the financial management of the organization.

Key Features/Components - General Accounting and Finance		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• An adequate structure and staff possessing the appropriate skills and experience are in place to perform the accounting and finance function of the organization.</li> <li>• A formal chart of accounts duly approved by the competent authority should be in place and adequately reflects categories of income, expenditures, assets and liabilities. Further, the chart of accounts should be flexible enough to accommodate additional requirements for the creation of new codes (if required).</li> <li>• Formal "Accounting Basis" are adopted based on the applicable accounting standards and the Global Fund requirements (if any) and consistently applied.</li> </ul>	<ul style="list-style-type: none"> <li>• An accounting and reporting framework are in place based on the Generally Accepted Accounting Principles, international or other local standards.</li> <li>• Accounting and finance policies and procedures are developed and implemented to ensure efficient, transparent and robust financial management. The policies and procedures should ensure effective control and accountability over funds and assets and the maintenance of reliable accounting records.</li> </ul>	<ul style="list-style-type: none"> <li>• Procedures exist to ensure that only authorized persons can alter or establish new accounting principles, policies and procedures.</li> <li>• The organizational chart of account is duly mapped with the Global Fund cost inputs to facilitate in recording and reporting of financial information.</li> </ul>

197. This section covers guidance on the following key components to aid implementers in establishing an effective financial controlling system:

- establishment of an accounting and finance department;
- development and implementation of accounting and financial policies and procedures;
- identification/specification and application of accounting principles, policies and basis; and
- design and development of an organizational chart of accounts.

### **5.2.1 Accounting and Finance Function**

198. A dedicated accounting and finance department appropriate for the amount of activities and the financial volume should be established for implementers and the program. The head of that function should directly report to the head of the organization and to the board. Additionally, the structure of the accounting and finance function should ensure a clear line of the segregation of duties, reporting and accountability.

199. The accounting and finance department should employ competent and qualified staff to carry out the designated responsibilities efficiently and effectively. The staff should possess adequate qualifications and expertise in the field of accountancy and an understanding of relevant laws and regulations to ensure that reliable accounting records are maintained and funds are utilized through the use of best practices.

### **5.2.2 Accounting and Finance Policies and Procedures**

200. Each implementer should develop and implement a formal (documented and approved) set of accounting and finance policies and procedures (accounting and finance manual/financial management manual) based on the guidance provided in this handbook (best practices) taking into account the applicable laws and regulations. The policies and procedures should include but are not limited to:

- Accounting principles, policies and basis (covered in this chapter);
- Internal controls (covered in Chapter 4)
- Financial management information system (covered in Chapter 4)
- Planning, budgeting and fund flow (covered in this chapter);
- Procurement management<sup>33</sup>;
- Invoices, payments and recording (covered in this chapter);
- Treasury management (covered in this chapter);
- Asset and inventory management (covered in this chapter);
- Document and record management (covered in this chapter);
- Financial reporting and audit (covered in Chapter 6).

201. Accounting and finance policies and procedures should be reviewed on a periodic basis (at least annually) to incorporate current developments or changes (if any) in practice, legislation and/or techniques. However, changes/modification to the accounting and finance manual should be formally approved by the competent authority<sup>34</sup>.

### **5.2.3 Accounting Principles, Policies and Basis**

202. Accounting principles are a set of rules, standards and guidelines used by an organization for the recording and reporting of financial information. The implementer must identify and follow the applicable accounting standards, which may include:

- International Financial Reporting Standards (IFRS);
- International Public Sector Accounting Standards (IPSAS);
- Local or national accounting standards; and
- Generally Acceptable Accounting Principles (GAAP)<sup>35</sup>.

203. Accounting policies are the specific principles, bases, conventions, rules and practices applied by an organization when preparing and presenting financial statements. The implementer must select and apply the appropriate accounting policies consistently for similar transactions as well as for other events and in other conditions.

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<sup>33</sup> Only contract management is covered in this Financial Management Handbook, for details on procurement-related policies and procedures of the Global Fund, please contact the Global Fund Country Team.

<sup>34</sup> In the case of government entities, the competent authority should be the Accountant General and in case of a nongovernmental organization it should be the head of finance (Head Office).

<sup>35</sup> This may include US GAAP and UK GAAP etc.

204. Implementers are required to document the significant accounting policies in the Financial Management Manual in accordance with the requirements of the applicable accounting standards and laws and regulations. The accounting policies may include but are not limited to:

- Basis of recognition and measurement of income and expenditure;
- Recognition and measurement of fixed (non-current) assets;
- Treatment of foreign currencies;
- Basis of allocation of common expenses;
- Treatment of capital and revenue expenditures; and
- Advances to subcontractors/recipients and staff, etc.

205. The implementer must clearly identify the basis of accounting for the preparation of financial statements and for audit purposes. The following is a summary of various accounting bases commonly followed by government, nongovernment, multilateral and bilateral organizations:

Accounting Basis	Description
Cash accounting	A method of accounting that recognizes income/revenue when related cash is received (receipts basis) and recognizes expense/expenditure when related cash is paid (payment basis).
Accrual accounting	Under accrual accounting the revenue/income is recorded when it is earned <sup>36</sup> and expensed when it is incurred <sup>37</sup> irrespective of the dates in which any associated cash flows occur.
Modified cash accounting	It combines cash accounting with accrual accounting. Under modified cash accounting: <ul style="list-style-type: none"> <li>✓ income and expenditure are recognized/accounted for using a cash basis;</li> <li>✓ short-term financial statements items (current assets and current liabilities) are recognized/accounted for using a cash basis; and</li> <li>✓ long-term financial statements items (noncurrent assets and liabilities) are recognized/accounted for using an accrual basis.</li> </ul>
Modified accrual accounting	It combines the accrual basis with the cash basis, under modified accrual: <ul style="list-style-type: none"> <li>✓ income/revenue is recognized/accounted for using a cash basis;</li> <li>✓ expense/expenditure are recognized/accounted for using accrual basis;</li> <li>✓ short-term financial statements items (current assets and current liabilities) are recognized/accounted for using accrual accounting; and</li> <li>✓ long-term financial statements items (noncurrent asset and liabilities) are recognized/accounted for using a cash accounting basis.</li> </ul>

206. The following are key definitions for the purposes of the Global Fund (for further detail please refer to the [Global Fund Guidelines for Grant Budgeting](#)):

Key Definitions for the purposes of the Global Fund:
<b>Financial commitment:</b> are current contractual obligations to pay a specified amount of cash against goods and services already received, but for which the related payment has not yet been made (all or partial).
<b>Financial obligation:</b> are current contractual obligations to pay an agreed amount of cash (i.e., as per signed contract and/or purchase order) to a third party for the provision of goods/services at a certain point of time in the future, i.e., the goods or services are yet to be received.

<sup>36</sup> Amount an organization has received/has a right to receive for the goods or services provided to another organization or person.  
<sup>37</sup> Amount an organization has paid/has an obligation to pay for goods or services received from another organization or person.

207. The following table summarizes the difference in the recognition of various Financial Statements (FS) items under each accounting basis:

Financial Statements Items	Cash Accounting	Modified Accrual Accounting	Modified Cash Accounting	Accrual Accounting
Income	Cash Basis (when cash is received)	Cash Basis (when cash is received)	Cash Basis (when cash is received)	Accrual Basis (when income is earned)
Expenditure	Cash Basis (when cash is paid)	Accrual Basis (when expense is incurred)	Cash Basis (when cash is received)	Accrual Basis (when expense is incurred)
Current Assets	Cash Basis  Typical account balances: ✓ Cash and bank balance	Accrual Basis  Typical account balances: ✓ Cash and bank ✓ Prepayments ✓ Advances ✓ Account receivables	Cash Basis  Typical account balances: ✓ Cash and bank balance	Accrual Basis  (All applicable account balances)
Current Liabilities	N/A (Cash Basis)	Accrual Basis  Typical account balances: ✓ Account payables ✓ Other accruals	N/A (Cash Basis)	Accrual Basis  (All applicable account balances)
Noncurrent Assets (Fixed Assets)	N/A (Noncurrent assets are expensed out on acquisition)	N/A (Noncurrent assets are expensed out on acquisition)	Accrual Basis  (All applicable account balances for fixed assets including related depreciation)	Accrual Basis  (All applicable account balances including related depreciation)
Noncurrent Liabilities	N/A (Cash Basis)	N/A (Cash Basis)	Accrual Basis  Typical account balances: ✓ Loans ✓ Creditor (long terms) ✓ Provision etc.	Accrual Basis  (All applicable account balances)
Depreciation and Amortization	N/A	N/A	Yes	Yes

208. The Global Fund encourages implementers to follow applicable accounting standards and laws and regulations for selecting the basis of accounting. In each instance, the accounting basis being followed should be clearly defined and described (including the recognition and measurement of income, expenses, assets and liabilities) in the accounting and financial manual and applied consistently.

209. Changes (if any) in the accounting basis should be dealt with in accordance with the applicable accounting standard i.e. IAS 8 – Accounting Policies, Change in Accounting Estimates and Error.

210. Furthermore, in order to enhance visibility in the short to medium term, the Global Fund strongly recommends that implementers maintain updated records of all the financial commitments and financial obligations irrespective of the accounting basis being followed. This will enhance the reliability of forecasts on

liquidity requirements and facilitate the accurate reporting of program progress and the tracking of the absorption of funds.

211. For reporting purposes, the Global Fund requires the following adjustment to the respective reports based on the accounting basis being followed by particular implementers:

Basis of Accounting	Recommended Adjustments		
	Cash Reconciliation Statement	Budget Variance	Annual Financial Report
Accrual	<ul style="list-style-type: none"> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets), i.e. for the Global Fund reporting the expense incurred for a noncurrent asset should be considered as revenue expenditure not capital expenditure.</li> <li>Adjust for financial commitments (accrued expenses and liabilities)</li> </ul>	<ul style="list-style-type: none"> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets), i.e. for Global Fund reporting the expense incurred for a noncurrent asset should be considered as revenue expenditure not capital expenditure.</li> <li>Adjust for financial commitments (accrued expenses and liabilities)</li> </ul>	<ul style="list-style-type: none"> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets), i.e. for Global Fund reporting the expense incurred for a noncurrent asset should be considered as revenue expenditure not capital expenditure.</li> </ul>
Modified Accrual	<ul style="list-style-type: none"> <li>Adjust for financial commitments (accrued expenses and liabilities)</li> </ul>	<ul style="list-style-type: none"> <li>Adjust for financial commitments (accrued expenses and liabilities)</li> </ul>	<ul style="list-style-type: none"> <li>No adjustment required</li> </ul>
Modified Cash	<ul style="list-style-type: none"> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets), i.e. for Global Fund reporting the expense incurred for a noncurrent asset should be considered a revenue expenditure not a capital expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets) i.e. for the Global Fund reporting the expense incurred on noncurrent assets should be considered as revenue expenditure not capital expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Record the financial commitments (accrued expenses and liabilities)</li> <li>Adjust for expense accounting relating to noncash items, i.e. depreciation.</li> <li>Adjust for the capitalization of noncurrent assets (fixed assets), i.e. for Global Fund reporting the expense incurred for a noncurrent asset should be considered as revenue expenditure not capital expenditure.</li> </ul>
Cash	<ul style="list-style-type: none"> <li>No adjustment required</li> </ul>	<ul style="list-style-type: none"> <li>No adjustment required</li> </ul>	<ul style="list-style-type: none"> <li>Record the financial commitments (accrued expenses and liabilities)</li> </ul>



## Case Study

### **Scenario:**

In country XYZ, the Ministry of Health is the Principal Recipient for the Malaria program and signed a grant XYZ-M-MOH with a total budget of US\$1,130,000 for three years beginning on Jan. 1, 2014.

PR	2014	2015	2016	Total
MOH	\$ 360,000	\$ 320,000	\$ 450,000	\$ 1,130,000

At the end of 2014, the Principal Recipient had a total expenditure of US\$300,000. The reported expenditure does not include a financial commitment of US\$50,000 for the payment of renovated health centers (HSS part of the grant). The Principal Recipient also has a financial obligation of US\$30,000.

1. What would be the total reported expenditure as per XYZ financial management system under both the cash and accrual basis of accounting and the total figures in “Cash Reconciliation, Budget Variance and Annual Financial Report” for 2014?

At the end of 2015, you have the following information:

- Cash payment of US\$200,000, including US\$50,000 relating to the payment of last year’s financial commitment and excluding payables of US\$80,000 for 2015.
  - An about-to-be-signed contract for the procurement of vehicles of US\$36,000.
2. What would be the relevant total the reported expenditure as per XYZ’s financial management system both on a cash and accrual basis of accounting and total figures in “Cash Reconciliation, Budget Variance and Annual Financial Report” for 2015. What would the cumulative figures at the end of 2015 be?

At the end of 2016, the situation is the following:

- Cash expenses of US\$320,000 for 2016 include US\$36,000 for procurement of vehicles and (in case of the accrual basis of accounting is used by Principal Recipients, the vehicles are depreciated at 10 percent on a straight-line basis) and US\$80,000 relating to previous year financial commitments.
  - Payables of US\$70,000;
  - Accrued expenses US\$30,000 resulting from contracted work and utilities during 2016;
  - A contract of US\$40,000 for the procurement of computers for health centers on 24/12/2016 with no delivery yet made.
3. What would be the relevant total reported expenditure as per XYZ financial management system both on a cash and accrual basis of accounting and total figures in “Cash Reconciliation, Budget Variance and Annual Financial Report” for the 2016?
  4. What would be the cumulative figures at the end of December 2016?

### **Solution:**

*Please refer to Appendix 14*

## 5.2.4 Organizational Chart of Accounts (CoA)

212. The organizational chart of accounts is a key component of financial management, one that facilitates the recording, reporting and analyses of an organization's financial information.

A chart of accounts duly mapped with the cost categories/inputs of donors (including the Global Fund) helps an organization to automatically generate the required reports (including donor-specific requirements). The use of such a system significantly reduces the time and cost of financial reporting.

Further, a chart of accounts helps to generate reports based on national health strategy/intervention resulting in the identification of funding gaps, helping to inform relevant stakeholders of the prioritization of their projects/programs.

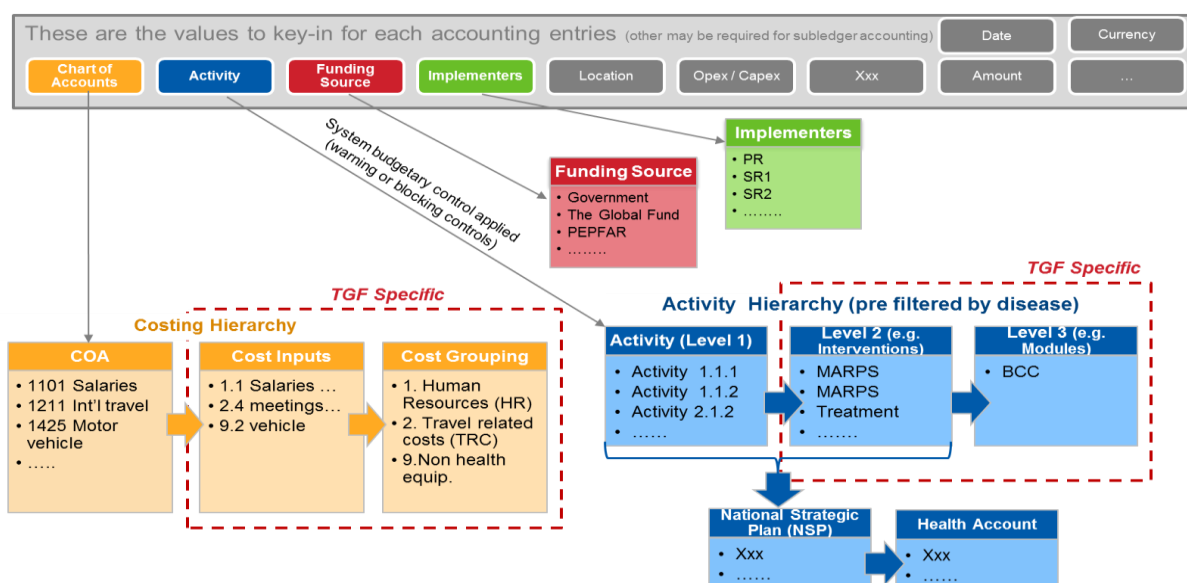
213. The chart of accounts is a listing of all account codes used in the general ledger of an organization and should include information relating to the activities, implementers, sources of funding, etc. The chart of accounts provides the structure for recording and controlling the budget and accounting functions and summarizes the data for monitoring and reporting.

214. The following basic principles should be observed in constructing and maintaining a chart of accounts:

- account labels should reflect as much as possible the nature and the purpose of the income or expenditure;
- accounts should be arranged and designated to give maximum information without the need for supplementary analysis;
- account codes should be structured to enable identification, monitoring and reporting of financial information for the financial management of grant activities;
- guidelines on the use of the accounts codes should be provided to the relevant staff;
- regular review of the chart of accounts must be performed to ensure that it adequately supports the financial management and internal control requirements of the organization; and
- modification to the chart of accounts must be controlled and approved by the appropriate person as per the delegation of authority of the organization.

215. To follow country ownership principles and to ensure sustainability, the Global Fund encourages implementers to use their own chart of accounts/government chart of account for Global Fund grants. However, an implementer's chart of accounts must be mapped out with Global Funds cost inputs to be able to automatically generate the required specific reports.

216. The following graph depicts the principle of chart of accounts mapping:

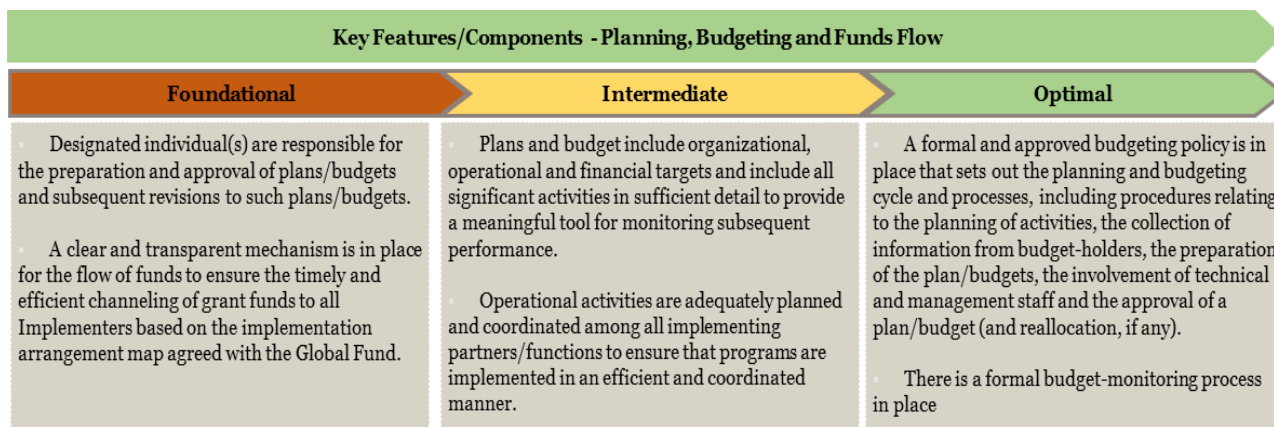


*For further guidance and support on mapping the chart of accounts, please contact the Global Fund.*

## 5.3 Planning, Budgeting and Fund Flow

217. Planning and budgeting is the foundation of every project and financial management system. Planning refers to the development of goals and objectives and the identification of related activities to support the mission of an organization or project, whereas budgeting is the translation of the plan into financial terms.

A credible plan and budget is a prerequisite for the signing of any program with any donor including the Global Fund. An effective planning and budgeting mechanism helps an organization to develop a plan and budget that meets the requirements of donors and other stakeholders.



218. A planning mechanism should be in place with the objective of ensuring that the budgeting approach and systems underpinning Global Fund grants provide relevant information and analysis to support strategic investments designed to increase impact, value for money, performance, planning and investment decisions. The budget should therefore:

- be based on existing national and institutional policies and follow best practices in local markets;
- facilitate a strong link between inputs, outputs and outcomes to maximize impact;
- be transparent and verifiable and include definitions and sources of data (qualitative and financial), assumptions and methods for calculating costs;
- reflect the balance between the benefit of better information and the cost of obtaining it, by focusing on the design, implementation and continuous improvement of costing methods and data collection; and
- be consistent and enable the comparison of costs over time (should take into account the historical cost of budget).

219. The Global Fund approved budget<sup>38</sup> is the financial framework to fund approved activities for grant implementation. The [“Global Fund Guidelines for Grant Budgeting”](#) sets the standard for budgeting, flexibilities and other associated requirements for the utilization of grant funds.

220. This section provides guidance to implementers on key areas -- like the budgeting cycle and process, budget control and monitoring, and budget adjustments -- to establish and implement an effective planning and budgeting process.

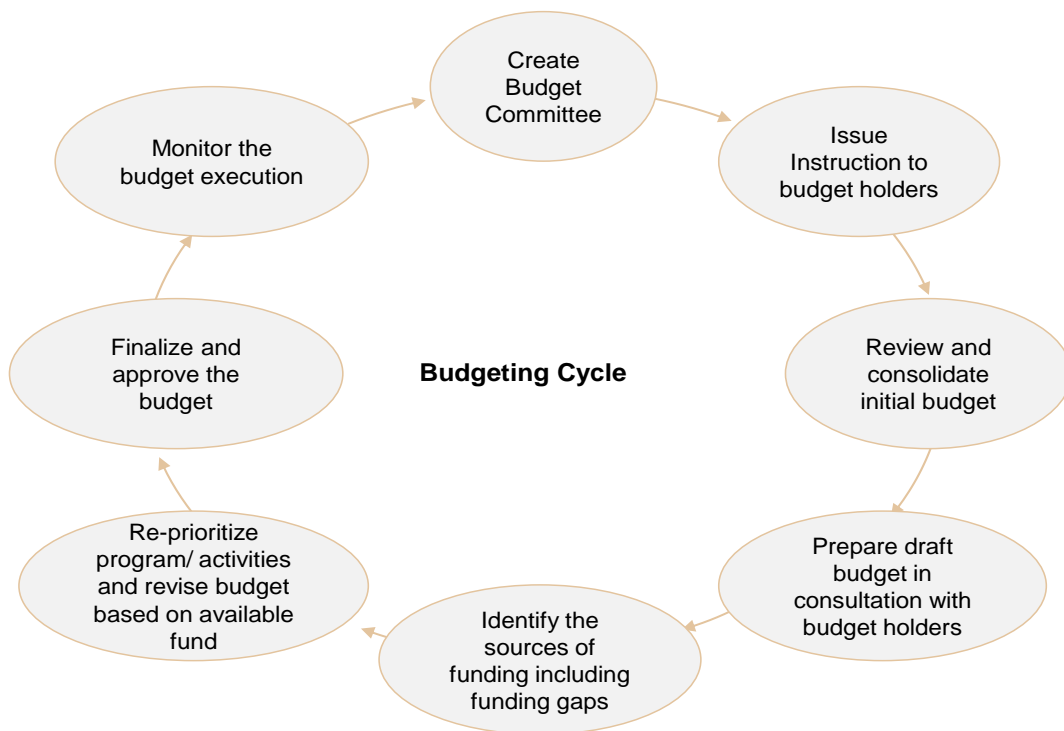
<sup>38</sup> As set out in the Grant Agreement or any subsequent modification resulting from an implementation letter.

### 5.3.1 Budgeting Cycle and Process

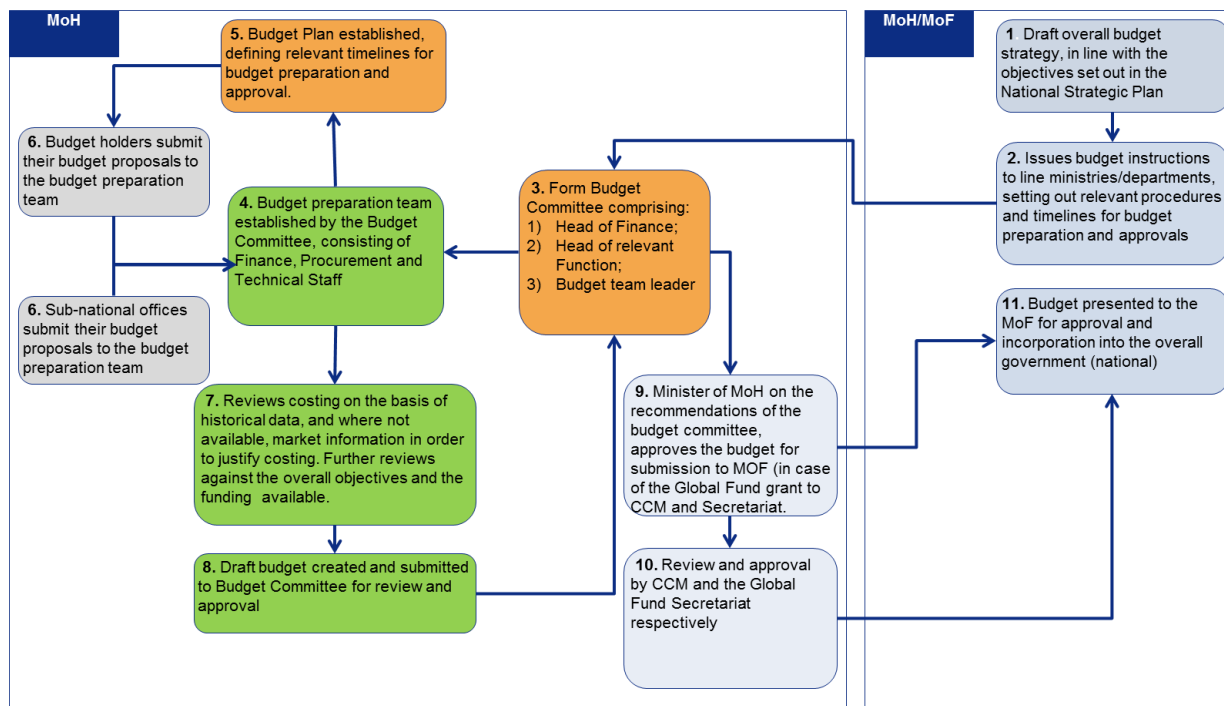
221. The implementers should specify the annual budget cycle, which should be aligned with the national budget cycle and donor requirements. The preparation of a budget should be approached in a structured way, with input from a number of sources. The budget process should involve asking various questions including:



222. As depicted in the graphic below, a typical budget cycle includes the following steps:



223. It should be the responsibility of the budget-holder(s)<sup>39</sup> to identify the necessary activities and resources required to achieve the objectives of the project. The process should be collaborative, involving all key stakeholders including the support functions (finance, human resources, information technology etc.) and partners where relevant. This will help ensure a realistic budget, taking into account feasibility, timing, costs etc. The following is a sample planning and budgeting processes for a governmental Principal Recipient (The Ministry of Health):



### 5.3.2 Budget Control and Monitoring

224. A budget-control and monitoring mechanism should be in place to ensure the achievement of project/program and organizational objectives. The purpose of regular budget control and monitoring is to assist budget-holders to:

- analyze the performance of their project/activity and make appropriate management decisions;
- control their budget so that expenditures do not exceed limits set in the approved budget; and
- identify and resolve critical issues, including those limiting the effective absorption of grant funds.

225. The table below shows the respective responsibilities of budget-holders and finance staff in relation to budgeting and budget-monitoring:

Budget-Holder	Finance Staff
<b>Budgeting</b>	
<ul style="list-style-type: none"> <li>▪ Participate in the budget discussion and preparation, particularly during the annual planning cycle;</li> <li>▪ Prepare budgets for respective activities to be included in donor budgets in line with relevant procedures and requirements;</li> <li>▪ Document detailed budget assumptions and calculations;</li> <li>▪ Phase out the budgets into months and quarters in accordance with latest activity/action plans;</li> <li>▪ Ensure all budget items are in line with relevant requirements, including donor requirements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Perform overall financial analysis based on system-generated information;</li> <li>▪ Organize the budget process (through templates etc.) and support the budget-holder in the budget preparation;</li> <li>▪ Provide information such as exchange rates and inflation rates and check financial aspects of budgets, proposals and contracts;</li> <li>▪ Maintain and manage the budget in the finance system;</li> </ul>

<sup>39</sup> The budget-holder is the person responsible for carrying out the specific project or activity being budgeted for.

	<ul style="list-style-type: none"> <li>▪ Consolidate the budgets as well as underlying assumptions and calculations provided by the budget-holders;</li> <li>▪ Verify that all the budgets submitted by budget-holders are properly supported with assumptions, calculations, etc.;</li> <li>▪ Ensure that the consolidated budget is within the available funding amount;</li> </ul>
<b>Monitoring Expenditure</b>	
<ul style="list-style-type: none"> <li>▪ Review budget monitoring variance reports and detailed transaction reports;</li> <li>▪ Analyze, understand and provide explanations for significant variances and identify appropriate actions;</li> <li>▪ Identify, prepare and recommend/authorize adjustments to be made to the plan or budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide timely and accurate financial management information including ad-hoc analyses requested by the budget-holders;</li> <li>▪ Prepare and record authorized adjustment journals;</li> <li>▪ Inform relevant staff if financial analysis suggests there are issues, etc.;</li> <li>▪ Consolidate the information related to the variances between the budget and actual expenditures to be used for donor reporting.</li> </ul>

### 5.3.3 Budget Adjustments

226. The implementers should have formal policies and procedures for budget adjustment based on applicable laws and regulations and donor requirements.

*For details on Global Fund requirements regarding budget adjustments during grant implementation, please refer to the “Global Fund Guidelines for Grant Budgeting” and the [Operational Policy Manual, Section 2.2 “OPN on Grant Revisions”](#)*

### 5.3.4 Funds Flow

227. Funds flow refers to the manner in which the disbursements of cash resources is channeled from the Global Fund to various grant implementers for the execution of program activities, in accordance with Grant Agreements and the agreed implementation arrangement map<sup>40</sup>. This involves the need to understand how funds (including the various steps) will be transmitted from the Global Fund to a Principal Recipient and from a Principal Recipient to sub-recipients and other implementers in the implementation landscape.

228. The following principles should be observed when setting out the mechanisms used in the flow of funds:

- arrangements for the flow of funds should identify service providers in the financial-services sector (such as banks) critical to ensuring the smooth channeling of grant funds at all levels of implementation;
- arrangements for the flow of funds should be cost-effective and minimally disruptive to program implementation;
- implementers need to ensure, as part of their internal control process reviews, that fund-flow arrangements not only mitigate the fiduciary risk of the organization but are also efficient in ensuring the absorption of grant funds;
- fund-flow arrangements should be agreed prior to grant signing and implementation, and need to be aligned with the implementation-arrangements map submitted to the Global Fund. Any changes to agreed fund-flow mechanisms should be reviewed and agreed with the Global Fund.

229. In general, the Global Fund money should be kept separate, and not comingled with government funds or funds from other development partners (see section 3.4 of the Grant Regulations). Exceptions to this

<sup>40</sup> An implementation-arrangement map is a diagram showing the arrangements put in place to undertake a grant program. It identifies implementers at all levels, the broad types of activity to be carried out by each implementer and traces funding flows, including amounts going from the Global Fund to each implementer.

practice could occur when the grant specifically calls for the pooling of funds or Program-for-Result (PfR) financing is used. In these situations, special arrangements should be agreed upon with the Global Fund and documented in the joint financing agreement.

230. The proper flow of funds facilitates the achievement of management objectives, such as liquidity and efficient cash management, and improves the reliability of cash forecasting. It has the dual purpose of ensuring that funds are available where and when needed to cover payments, while also preventing funds from being drawn unreasonably far in advance or from being used for purposes other than payment of eligible expenditures of the grant.

231. The timing and amounts of cash requirements, including amounts to be contributed by the government and other development partners, need to be properly projected and planned. It is critical to forecast the cash requirements and balances per year and per quarter to determine any possible shortfall and to resolve how this shortfall will be managed.

232. To the extent possible, funds should be managed through the treasury/banking system with direct transfers and payments by check. This provides a third-party accounting for funds, giving a robust separation of duties and an added check-and-balance in the internal controls. This arrangement typically provides security for the funds, while putting the existing capacity of the banking system at the service of the project for a nominal cost.

233. An effective fund-flow system will have some of the following major features:

- provide adequate internal accounting controls for cash balances and cash receipts from the time of receipt to deposit in the appropriate depository;
- establish a set of internal controls and procedures for ensuring that disbursements are made only for the purposes intended;
- ensure that payments are made for expenses that have actually incurred and that payments go to the rightful recipients;
- maintains adequate accounting records for cash receipts and disbursements; and
- makes use of proven technology for improving cash management, such as electronic fund transfers and other non-check payment procedures.

234. **Disbursement Decisions:** A disbursement is the actual transfer of cash from the Global Fund to the Principal Recipient or to third parties on behalf of the Principal Recipient for the payment of goods and services. Disbursements are generally made in the currency/currencies of the signed Grant Agreement, however, disbursement may be made in other currencies at the discretion of the Global Fund.

235. **Direct Disbursement to Third Parties:** A direct disbursement to a third party can be initiated by the Principal Recipient or mandated by the Global Fund. Third parties that can receive direct disbursements include:

- Procurement service agents;
- Agents that are directly contracted by the Global Fund Secretariat (e.g., fiduciary agents, fiscal agents);
- Auditors and other service firms that provide independent assurance to the Global Fund on grant implementation (external audit, diagnostics and other independent reviews);
- Private entities and internationally recognized technical assistance agencies and service providers with which the Global Fund has signed partnership agreements (including the official travel agent of the Global Fund when it is deemed more optimal and efficient for the Secretariat to arrange implementers' travel on grant-related missions to Geneva);
- Green Light Committee (for the payment of the cost-sharing element pursuant to the Memorandum of Understanding with the Green Light Committee);
- Sub-recipients, in cases where sub-recipients are acting as procurement agents, sub-recipients in Additional Safeguard Policy (ASP) countries or in countries where the political and/or the financial context does not enable the Principal Recipient to pay the sub-recipient directly, and sub-recipients that are in different geographic locations<sup>41</sup> than the Principal Recipient and where risks exist relating to potential foreign-exchange exposure and/or inefficient banking regulations.

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<sup>41</sup> For example, for regional grants where the Principal Recipient and sub-recipients are located in different countries.



236. Third party payments outside of the above cases should be strongly justified and agreed with the Global Fund.

237. **Sequence and Flow of Documents and Funds:** Please refer to [Appendix 15](#) for description of the procedures followed, controls applied as well as the flow of funds and documents required by the Global Fund.

## 5.4 Contracts Management

238. Procurement refers to the acquiring/buying of goods, services and/or work from external sources. Procurement is a key component of every organization or grant and has a critical impact on financial management. Accordingly, there should be an effective procurement function and a procurement policy manual based on the applicable procurement laws and regulation/policy and specific donor requirements.

Effective procurement functions and procurement policies and procedures help an organization to:

- formalize the procurement processes and hence enhance efficiency and effectiveness
- ensure value for money
- enhance transparency and accountability of procurement-related activities
- enhance confidence of donors and other stakeholders
- reduce the risk of misuse of funds relating to the procurement of goods/services and/or works

239. This section only covers the post-contract activities, for detailed guidance on Global Fund requirements relating to procurement, please contact the respective Global Fund Country Team.

240. The implementer shall procure health products of assured quality in accordance with applicable laws, the Global Fund Quality Assurance policies and where health products are concerned, in accordance with the [“Guide to Global Fund’s Policies on Procurement and Supply Management of Health Products”](#) (2016, as may be amended from time to time).

241. The Global Fund had issued the [Code of Conduct for Suppliers](#) that requires all bidders, suppliers, agents, intermediaries, consultants and contractors, including all affiliates, officers, employees, subcontractors, agents and intermediaries of Suppliers, to observe the highest standard of ethics in Global Fund-funded activities regarding supply of goods and/or services to the Global Fund or any recipient of Global Fund financing, including Principal Recipients, sub recipients, Country Coordinating Mechanism, procurement agents and first line buyers.

*Implementers must ensure that this Code is communicated to and complied with by all of their Suppliers.*

### 5.4.1 Contract Management

242. The staff designated for the management of contracts should be responsible for monitoring the performance of contractors, managing documentation and validating payments and other obligations called for under the contract. The procurement policies and procedures should establish a list of the procurement records and key information/documents that must be kept at the operational level.

243. Further, the implementer should ensure that all goods delivered are subject to inspection and verification by an internal auditor, supervising engineer or inspection committee (including subject matter experts on inspecting specific product), as appropriate, and verifications should happen prior to goods’ acceptance.

244. Please refer to [Appendix 16](#) for a detailed check list for “Contract Management.”

245. Following are the key documents relating to procurement, which should be considered by the finance staff for payment purposes:

Key Documents	Description
Contract	<p>All payments for goods or services (including staff salaries) should be based on formal contracts duly signed by the competent authority and follow the appropriate procurement process. Comprehensive procurement policies and procedures should be developed based on best practices, applicable laws and regulations and specific donor requirements (if any) to provide guidelines for the procurement of goods, works and services.</p> <p>The payment must be made in accordance with the terms of payment outlined in the related contract.</p>
Purchase Order (PO)	<p>The purchase order (<i>please refer to Appendix 16</i>) is an external document used to place orders with suppliers and is a commitment to spend. A purchase order must be used for all procurements regardless of amount, volume and mode of payments.</p> <p>Purchase orders should be issued once the price of goods or services to be procured has been determined through the appropriate procurement process and the related contract signed.</p> <p>The purchase order is of immense importance and needs to be issued very carefully, as it can bind the organization to a payment for the supplied materials or services. The purchase order must clearly set out an item description, model, specifications, quantity, prices and delivery schedule, and where the goods will be delivered.</p> <p>Purchase orders must be authorized by the relevant budget-holder in line with the scheme of delegation. Budget-holders should be provided with all relevant documentation of the procurement process followed, to ensure that the purchase order is compliant with organizational and donor requirements.</p> <p>The finance department must approve all purchase orders before they are sent to the supplier to ensure that funds are earmarked and available to be disbursed when the payment is needed.</p> <p>In order to enhance the visibility of commitments/obligations resulting from the issuance of purchase order, such orders should be recorded in the financial management system and netted off when the related liability is recorded or payment is made.</p>
Good Receipts Note (GRN)	<p>The goods received note (<i>refer to Appendix 17</i>) is used to acknowledge the receipt of goods and must be completed at the time of receipt of the purchased materials by the person who receives the items, i.e. the “receiver.”</p> <p>The “receiver” inspects and checks the items against the information on the purchase order, and prepares the goods received note. The item description, quantity and date of delivery must be noted on the goods received note in addition of any specific information if stated on the purchase order i.e. make/model, specifications, packaging.</p> <p>The “receiver” who receives and inspects the items should be someone other than the procurement staff and preferably from the program or department that requested the goods to ensure segregation of duties.</p>

## 5.5 Invoices, Payments and Recording

246. The process and procedures relating to invoicing and payment, including the authority matrix, should be defined and documented in the accounting and finance policies and procedures to enhance accountability and transparency. Furthermore, transactions should be recorded (preferably in the Financial Management Information System) on a regular basis (normally daily) in accordance with the applicable accounting standards and organization regulatory framework to ensure that accounting records are up to date.

247. The head of the finance function should be accountable for ensuring that transactions are entered/recorded on a regular basis and that the necessary processes and controls are in place. The finance staff, on the other hand, should be responsible for guaranteeing that financial records are complete, accurate, appropriately authorized and in a complete audit trail, including the adherence to effective records management practices.

Adequate payment processes ensure that expenditures to be incurred are reasonable and allowable against budgetary allocations and prevent inappropriate payments and non-compliant expenses.

Key Features/Components - Invoices, Payment and Recording		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• Adequate policies, procedures and systems are in place to ensure an efficient, transparent, and effective control and accountability over payment processes.</li> <li>• A scheme of delegation/authority matrix is defined and approved by the competent authority.</li> <li>• Adequate controls are in place to ensure that payments are made based on sufficient and adequate supporting documentation and payments are reasonable and allowable against budgetary allocations.</li> <li>• The Global Fund's specific requirements relating to the following payments are complied:               <ul style="list-style-type: none"> <li>✓ Direct payment to third party by the Global Fund (PPM);</li> <li>✓ Payment and liquidation of advances including advances to sub recipient, subcontractor, staff and travel advances; and</li> <li>✓ Recording and payment of financial commitment.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive policies and procedures are in place based on applicable laws and regulations and donor requirements.</li> <li>• The following responsibilities are performed by different units or individuals:               <ul style="list-style-type: none"> <li>✓ Authorization to execute a transaction;</li> <li>✓ Recording of the transaction; and</li> <li>✓ Custody of assets involved in the transaction.</li> </ul> </li> <li>• Financial transactions are recorded in the accounting system, from source documents, on a timely basis</li> </ul>	<ul style="list-style-type: none"> <li>• The functions of ordering, receiving, accounting for and paying for goods and services are appropriately segregated.</li> <li>• An effective document management system is in place for all source documents upon which transactions are based. This also includes, where appropriate, keeping a register of accountable documents for the effective management of accounting source document receipts and issues.</li> </ul>

248. This section covers guidance on the following key areas relating to invoices and payments to aid implementers in establishing effective and efficient payment procedures and processes:

- various methods of payment;
- payment processes;
- specific consideration for the Global Fund.

## 5.5.1 Payment Methods

249. Payment methods and related controls should be defined and documented at each level of implementation. There should be a scheme of delegation for various types of payments and payments should be authorized only if they are accompanied by sufficient and appropriate supporting documents. Below are the key payment methods available, which should be used considering the local context and with appropriate controls:

Payment Type	Description
Cash	This is the riskiest method of payment and should be avoided for any type of payment other than a petty cash expense. Each implementer should define the maximum limit (considering local applicable laws and regulations, and if there is no such limits set in national regulation, the implementer should define the policy for the grant-implementation purposes) for which a cash payment can be made and design the appropriate controls over the petty cash management (please refer to the Treasury-Management section for details).
Payment by Checks	<p>This method should only be used where electronic banking is not available at the implementation level, subject to the appropriate controls in place, including but not limited to the following:</p> <ul style="list-style-type: none"> <li>• <b>Obtaining and storing checks:</b> <ul style="list-style-type: none"> <li>✓ the checkbook must be stored in the safe;</li> <li>✓ the custodian (who should not be a signatory) of checkbooks must diligently check to ensure the completeness of information in the checkbook,</li> <li>✓ all checks must be pre-numbered;</li> <li>✓ only one checkbook per bank account should be in use at any one time;</li> <li>✓ monitoring of checkbooks, inter-alia, should be included in an accountable-documents register.</li> </ul> </li> <li>• <b>Issuing checks:</b> <p>All checks must be signed by at least two authorized signatories and open or bearer<sup>42</sup> checks should not be issued. A blank check should not be signed. In addition, appropriate controls should be established over the delivery of check to the payee, i.e.:</p> <ul style="list-style-type: none"> <li>✓ checks should be given to the individual/organization (authorized representative) and acknowledgment of receipt should be obtained;</li> <li>✓ checks may be delivered by post depending on the reliability of postal services;</li> <li>✓ the custodian of the checks may deliver the cheque to the payee in person and acknowledgment of receipt should be obtained from the relevant person.</li> </ul> </li> <li>• <b>Canceled/stopped checks:</b> <p>Canceled/stopped checks should be marked cancelled/stopped and must be retained for audit purposes. If an issued check is lost or stolen, the bank must be informed immediately not to process the payment. A check can only be reissued if there is evidence that the previous check has been canceled or stopped without being cashed. All canceled or stopped checks should trigger an approved journal entry to reverse the original entries made in the books of accounts.</p> </li> </ul>
Bank Transfer	<p>Bank transfer is the preferred method of payment. The following controls should be in place for making payments via bank transfer:</p> <ul style="list-style-type: none"> <li>✓ a preprinted and pre-numbered form should be used;</li> <li>✓ there should be a scheme of delegation for bank transfers;</li> <li>✓ the transfer form should be kept in a safe.</li> </ul>
Mobile Money	Mobile money is a service to make and receive payments using mobile phones where banking facilities are normally not available (for details please refer to section 5.6.3 below).

<sup>42</sup> Open checks refer to uncrossed checks whereas bearer checks refer to the checks that can be payable to any person who present these for payment at the bank counter.

## 5.5.2 Payment Process

250. The payment process and procedures should be established and documented in accordance with applicable laws and regulations and best practices. The overall responsibility to ensure compliance with these processes and procedures rests with the senior management, including the head of the finance function. The processes and procedures should include but not be limited to:

- the different type of payment (capital expenditure, revenue expenditure, local payment, national and international payments, including foreign currency payment, etc.);
- the different steps involved in the payment process (initiation, authorization, approval and recording, etc.) for each type of payment;
- the personnel responsible for each type of payment; and
- the supporting documentation required for each type of payment.

251. Expenditures should be authorized by the appropriate competent authority in accordance with the approved scheme of delegation/authority matrix. The finance function should consider:

- the necessity of the expenditure; whether it serves the objective(s) of the activity/project/program;
- the reasonableness of the expenditure;
- whether an item is budgeted for, and if the necessary approval was received; and
- whether it is supported by sufficient and adequate supporting documentation.

252. The following sample payment process should be used while devising an effective payment process:

Payment Steps	Description
Initiation	A payment request ( <i>refer to Appendix 19</i> ), reviewed and authorized by the budget-holder to initiate the payment process. The payment request should be supported by and reconciled with supporting documents, such as the invoice(s), completion report, purchase order, goods received note, etc.  After receiving the payment request, the finance function should prepare a payment voucher ( <i>refer to Appendices 24-28</i> ) and submit it for review and authorization with all the supporting documents <sup>43</sup> .
Review/Authorization	The payment request and voucher, including supporting documents (for details refer to sub-section below), should be reviewed by the authorized staff (as per the scheme of delegation/ authority matrix) and submitted for approval.
Approval	The payment voucher should be approved by a competent authority (as per the scheme of delegation/ authority matrix).  To ensure efficiency in the implementation of the program, the government's Principal Recipient may request some exceptions from the government's policies and practices in terms of level of approval for disbursements to sub-recipients or services providers (particularly where additional control i.e. Fiscal Agent are in place).
Payment	The payment is executed based on the approved payment voucher.
Classification and Recording	Expenditure should be classified in accordance with the implementer's Chart of Accounts and accounted for under the correct activities and cost categories of the project/program.  Transactions should be recorded <sup>44</sup> (preferably in the Financial Management Information System) on timely basis in accordance with the applicable accounting standards (as discussed above), to ensure that accounting records are up to date.

253. Please refer to *Appendix 19* for a "sample flow chart – payment process" that should be used as a guidance while developing payment process flow chart.

<sup>43</sup> Supporting documents include but are not limited to: invoices, copy of contracts, purchase orders, goods receipt notes, bill of lading, completion reports/survey reports and attendance sheets, etc.

<sup>44</sup> In case implementer system does not allow for automatic workflow process, the transaction should be recorded on regular basis (at least daily basis).

### 5.5.3 Key Supporting Documents

254. Payments for goods and/or services should only be made based on sufficient and adequate supporting documentation. The supporting documents include both internally generated documents (as discussed in section 5.4.1 above) and externally generated documents by customers and suppliers. The relevant documents (both internal and external) should be reconciled with each other before processing related payments. Following are the key externally generated documents:

Key Documents	Description
Invoice	An invoice or bill document used by a supplier or contractor to charge the client for the provision of goods and/or services specifying the nature of goods/services, quantity and prices. The invoice should be based on the payment terms outlined in the respective contract.
Progress or Completion Report	Invoices may be accompanied by a specific deliverable and a completion certificate or report. A progress or completion report should provide progress/achievement against specified targets/milestones and a related description. It should also include key challenges and lessons learned.
Inspection Report	The inspection report is the first step toward the final report. It translates the term of reference or work plan into clear milestones, ensuring mutual understanding of the contractor's plan of action and a timeline for discharging the obligation outlined in the contract.
Delivery Note or Bill of Lading	A delivery note refers to a document listing the description and quantity of goods accompanying a shipment of goods. It is used for the domestic delivery of goods. A bill of lading is a legal document detailing the type, description, quantity and destination of the goods being ship. It is used to oversee the delivery of goods.
Letter of Credit	A letter of credit is a type of bank guarantee that ensures payment will be made on time and for the correct amount of goods delivered.



## 5.5.4 Specific Considerations for the Global Fund

255. The following considerations should be given to the specific payments made for a Global Fund grant:

Description	Recommended Accounting Treatment
<b>Direct Payment Made to a Third Party by the Global Fund</b>	
<p>In some instances, the Global Fund will, in accordance with the Grant Agreement, make a direct payment to a supplier on behalf of the implementers (Pooled Procurement Mechanism, Green Light Committee, Fiscal Agent, Technical Assistance Provider, etc.). The implementer is notified via a disbursement notification letter of the disbursement(s) made for a particular grant to the third party.</p> <p>Upon receipt of this disbursement notification letter indicating the amount paid to the third party, the Principal Recipient needs to recognize this transaction in its accounting records either as a prepayment (i.e. payment to supplier) or as expenditure incurred, depending on the shipment delivery status/completion of the services, through a journal entry. In both instances, it is imperative for the Principal Recipient to reconcile deliveries received to purchase orders and/or quarterly financial reports (or the equivalent such as statements of account) received from the Procurement Service Agent or supplier, as the case may be. Any inconsistencies noted should be raised with the Procurement Service Agent and the Global Fund.</p>	<p><b><u>As a prepayment:</u></b></p> <p>Under the accruals accounting principles and in recognition of the control benefits that this accords an organization, the implementer should record the disbursement notification amount as funds received with the corresponding asset taken to a prepayment account.</p> <p>DR. PREPAYMENT ACCOUNT (PPM CLEARING ACCOUNT) CR. REVENUE (DONOR FUND)</p> <p>(With the disbursement notification amount communicated by the Global Fund)</p> <p>Upon the actual receipt of the goods and following a process of verification of delivered items, the implementer then recognizes the corresponding expenditure in its records. The implementer may elect to recognize the expenditure upon receipt of the quarterly financial report or a statement of accounts from the Procurement Service Agent or supplier instead of waiting for actual delivery.</p> <p>DR. STOCK EXPENSE ACCOUNT (RELEVANT BUGDET EXPENSE LINE) CR. PREPAYMENT ACCOUNT</p> <p>(The entry should include the value of health products and medicines, or other goods and services actually delivered, from relevant source documents such as delivery notes, bills of lading)</p> <p><b><u>As a expense:</u></b></p> <p>In cases where the disbursement notification is received at the same time or after the delivery of goods and services (including stock/commodities for PPM), the implementer should treat this transaction as an actual expenditure incurred on the grant while at the same time recognizing the same amount as income received.</p> <p>DR. STOCK EXPENSE ACCOUNT (RELEVANT BUGDET EXPENSE LINE) CR. REVENUE (DONOR FUND)</p> <p>(With the disbursement notification amount communicated by the Global Fund)</p> <p><i>For further detail on “Proposed Accounting Treatment and Reporting of Procurement, Quality Assurance, Storage and Distribution costs” please refer to <a href="#">Appendix 29</a></i></p>



Description	Recommended Accounting Treatment
<b>Payment of Advances</b>	
<p>The Global Fund strongly discourages the payment of any type of advance to a third party. However, in certain situations the payment of advances is unavoidable, i.e.:</p> <ul style="list-style-type: none"> <li>✓ advance to sub-contractors including sub-recipients;</li> <li>✓ advances to staff for training/workshops; and;</li> <li>✓ advances to vendors (as required by the contract), etc.</li> </ul> <p>In such cases, the implementers should put in place extra controls to monitor such advances. For example, advances to the staff should not be given more than 10 days before the start of a training or workshop, etc.</p> <p>For detailed policies and procedures on travel advances, please refer to the section below.</p>	<p>When advances are made, these are recorded as:</p> <p>DR. ADVANCES ACCOUNT (SUB-RECIPIENT) (ACTIVITY BASED CONTRACTOR) (SUPPLIER/VENDOR) (STAFF ADVANCES)</p> <p>CR. BANK ACCOUNT</p> <p>(With the amount actually paid or transferred by the bank.)</p>

Description	Recommended Accounting Treatment
<b>Liquidation/Retirement of Advances</b>	
Liquidation of sub-recipient advances	<p>Sub-recipient advances should only be retired upon the receipt and verification of respective expenditure reports, including the necessary supporting documents. The accounting entry would be:</p> <p>DR. EXPENSE ACCOUNT (RELEVANT BUDGET LINES)</p> <p>CR. ADVANCE ACCOUNT (SUB-RECIPIENT)</p> <p>(With the amount reported by sub-recipients and verified by the Principal Recipient.)</p> <p><b>Note:</b> No further advances should be given until the liquidation of 80% of existing/previous advances.</p>
Liquidation of supplier/vendor advances	<p>Upon the receipt of invoices and goods/services:</p> <p>DR. EXPENSE ACCOUNT (RELEVANT BUDGET LINES)</p> <p>CR. ADVANCE ACCOUNT (SUPPLIER/VENDOR)</p> <p>(With amount invoiced/ Good Receipts Note, etc.)</p>
<p>Liquidation of staff advances</p> <p>Advances to staff should be liquidated within 10 working days from the end of related activities (training or workshop)</p>	<p>Upon the receipt of supporting documents (invoices, receipt acknowledgement and attendance sheets etc.)</p> <p>DR. EXPENSE ACCOUNT (RELEVANT BUDGET LINES) CR. ADVANCE ACCOUNT (STAFF ADVANCES)</p> <p>(With the amount actually paid as per supporting documents.)</p>

Description	Recommended Accounting Treatment
<b>Recording and Payment of Liabilities</b>	
<p>When the contract is signed with a service provider, implementers should record commitments in the procurement module financial management information system. The contract should include payment terms for various stages of completion of the project. The service provider should submit the invoices with the payment terms along with the progress report/certificate of completion for specific activities.</p>	<p>When an invoice (along with a progress and completion report) is received from a service provider, the double entry should be:</p> <p>DR. EXPENSE ACCOUNT (RELEVANT BUDGET LINES)</p> <p>CR. ACCOUNTS PAYABLE (SUPPLIER'S ACCOUNT)</p> <p>(With amount actually invoiced.)</p> <p>When the invoice is honored/paid, the accounting entry is:</p> <p>DR. ACCOUNTS PAYABLE (SUPPLIER'S ACCOUNT)</p> <p>CR. BANK ACCOUNT</p>

### 5.5.5 Advance Payments

256. Each implementer should establish a formal advance payment policy respecting the necessary controls, accountability and compliance with applicable country laws and Global Fund requirements to improve administrative efficiency. The following are the key Global Fund requirements regarding advance payments.

#### **The Global Fund's Requirements Relating to Advance Payment**

Advance payments to staff and third parties (excluding disbursement to sub-recipients) should be limited to the extent possible and should only be issued for activities such as travel, meetings, trainings and workshops etc.

Advance payments made under the grant should be in line with underlying government regulations and agreed with the Global Fund (when the Principal Recipient is a government agency) and in line with Principal Recipient's existing policies as agreed with the Global Fund (if the Principal Recipient is an organization other than a government agency or a United Nations organization).

**Advance Payment Limits:** implementers should specify minimum and maximum advance payment limits considering the local circumstances and agree on those guidelines with the Global Fund Country Team. However, implementers should **NOT** provide cash advances for airfare and should establish an arrangement whereby direct payments should be made to preapproved hotels and centrally booked meeting venues, etc.

**Advance Payment Procedures – Initiation and Approvals:** The person(s) who need(s) advance payment for eligible activities (as specified above) should be required to fill a predefined “Advance Request Form” (*refer to Appendix 20*). The form should include at minimum the description of activity/activities, the reason and estimated cost of activity/activities and should be authorized and approved by the competent authority.

If an advance payment request also includes travel, it should be accompanied by the “Travel Authorization Form” (*refer to Appendix 21*) with all pertinent information and relevant approval. Travel-related advances should depend on the travel distance and standard per-diems, which should have been described in the applicable policy. The form should then be forwarded to the relevant official for further arrangements. To get the maximum savings on airfares, the employee should complete the above-mentioned form as soon as possible unless an emergency trip is required. The authorized person, designated by the Principal Recipient manager, approves business trips of the traveler by issuing the order. Upon the issuance of the order, the responsible official provides the traveler with a travel certificate.

## The Global Fund's Requirements Relating to Advance Payment

**Advance Payment Procedures – Payments:** In cases where advance payment is inevitable, the advance payment should always be made through bank transfer or checks. Cash advances should be issued in very rare and exceptional circumstances when a bank transfer is not possible. Issuance of cash advances should be limited to the extent possible when employees and other travel-advance beneficiaries cannot withdraw money in advance from ATMs/commercial banks. In all other cases, travel advances should be transferred to the beneficiaries' bank accounts or corporate cards. Domestic travel payments should be made in local currency whereas international travel payments should be made in the grant currency account in US\$/EURO as applicable.

**Expense report preparation:** All business travel and official entertainment expenditures incurred by travelers are liquidated/reimbursed through the use of the "Travel and Miscellaneous Expense Report Form" (refer to Appendix 22) and "Official Entertainment and Business Gift Expense Reports" (refer to Appendix 23). Employees should complete and return expense reports within the working days specified below upon return or after the incurrence of such expenses.

Employees should complete and summarize expenditures in expense report forms and submit them to the relevant manager for approval. Every expense reported submitted for liquidation/reimbursement should be supported by sufficient and appropriate supporting documents, such as receipts, cash distribution logs, transaction justifications and other supporting documents.

In the case of travel, the transportation and lodging expenses are covered based on the actual cost incurred during the trip, but should not exceed travel-expense rates envisaged by local legislation. The traveler should provide documents confirming the expenses incurred during the trip. Those documents usually include hotel receipts with clearly stated amounts, traveler's name and the date and the cost of accommodation. The taxes for accommodation are eligible for reimbursement (financing), but tips for hotel housekeeping services and porters are not eligible for reimbursement. Per-diem accommodation costs and other reasonable travel costs should be calculated in accordance with the applicable policy. The per-diem rates for business trips are paid out in accordance with local legislation. Travel expenses are not allowed to surpass the cost of economy class. The date of departure and return must appear in the travel report.

However, in cases where it will be difficult to obtain supporting documents (i.e. receipts for taxi fare, etc.), the implementer should establish specific policies for relevant expenditure and agree with the Global Fund. For instance, in cases in which the staff cannot obtain receipts for the taxi fare, the implementer should develop a policy by determining the average cost per kilometer in a specific location based on past experience or the experience of other government departments or UN agencies, etc.

After approval, the expense report is submitted to the finance function for the processing and liquidation/reimbursement. To expedite the reimbursement/liquidation, the employee should ensure that the report is completed properly, the required documents are attached, proper authorization is obtained, and any unusual items are properly explained and documented. The organization should reimburse/liquidate the authorized expense reports normally within two to three weeks after receipt by the financial specialist.

**Liquidation/Retirement of Advances:** For non-sponsored travel, employees should be responsible for submitting receipts accounting to cash advances within 20 working days of the conclusion of travel. For sponsored travel, travelers should submit receipts within 10 working days of the conclusion of travel or before the end of the grant (whichever is less). Also, any unspent cash advance funds must be returned to the organization within the above timelines.

**Noncompliance:** If expenditures are not properly substantiated or any unspent monies are not returned within the specified working days' time limit, approvers may choose to deny all or any portion of the expenses submitted and request that the cash advance be paid back to the organization or deducted from the future salary of the employee. In these cases, the employee and Disbursement/Accounting Services will then establish a payment plan under which the amount owed is deducted from the employee's paycheck(s) when necessary. If for any reason a payment plan cannot be established (e.g., terminated employee), the amount(s) in question can be recorded as taxable income to the individual or refunded following court decision.

## 5.6 Treasury Management

257. Treasury management is the management of an organization's financial holdings, with the goal of managing the organization's liquidity and mitigating its operational and financial risks. Treasury management is implemented through the creation and governance of policies and procedures that ensure the company manages financial risk successfully. A primary function of Treasury management is to manage banking relationships, monitor payments, and manage cash and cash equivalents so that an organization can meet its financial obligations on time. As a result, Treasury management is sometimes simply referred to as bank and cash management.

- Effective Treasury management processes and systems ensure the timely availability of sufficient funds and the effective utilization of funds, which ensure efficient program implementation;
- Conversely, minimizing cash balances allows for the optimization of working capital and reduces financial risk;
- Cash management is therefore a balancing exercise, maintaining sufficient but not excessive cash reserves. A cash forecast, supported by strong financial, budgetary and program management, is essential to good cash management.

Key Features/Components - Treasury Management		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>• An adequate structure and staff possessing the appropriate skills and experience are in place to perform the treasury management function of an organization.</li> <li>• Adequate controls are in place over petty-cash management to mitigate the risk of embezzlement.</li> <li>• There are at least two bank signatories and there are specific limits for cash and bank payments (where more secure and more efficient means of payment are available, petty cash should be avoided)</li> <li>• Disbursements/payments are made after a review of invoices/supporting documents by the authorized personnel.</li> </ul>	<ul style="list-style-type: none"> <li>• A formal policy is established for the opening, managing and closing of a bank account.</li> <li>• Bank and cash reconciliations are regularly performed and approved by the appropriate staff, maintaining a segregation of duty principle to avoid that the same individual executes and validates transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive policies and procedures are in place, based on applicable laws and regulations including donor requirements, to provide guidelines for Treasury Management.</li> <li>• There is a formal policy and procedures for the management of foreign currency exchange risks</li> </ul>

258. This section provides guidance on the following key components of Treasury Management, helping implementers to establish an effective Treasury management system:

- Bank account management;
- Petty cash management;
- Mobile money; and
- Foreign currency risk management.

### 5.6.1 Bank Account Management

259. Section 3.4 of the Grant Regulations deals with the management of grant funds. In particular, section 3.4(1) sets out the requirements for setting up a bank account and includes such requirements as at all times, the grant funds should not be co-mingled with other funds unless agreed in writing by the Global Fund.

260. Additionally, the bank account(s) must be opened in the name of the implementing organization or the government (where applicable).

261. Bank account(s) must only be established at financial institutions that are acceptable to the Global Fund<sup>45</sup>. The Global Fund will use the list of the World Bank eligible commercial banks, however, where such a list is not available in a given country, the implementers' selection of bank will be subject to a Global Fund internal due diligence process. The due diligence will consider but not limited to the following criteria:

- most important, shows financial solidity, as evidenced by a credit rating, formal guarantees from a rated organization or other structured analyses of credit quality;
- complies fully with all applicable local and international banking standards and regulations, including, but not limited to, capital adequacy requirements;
- able to handle volumes and types of transactions envisaged by the implementers;
- able to execute foreign-exchange and local-currency transactions, as applicable;
- provides interest on the account(s) at a reasonable commercial rate available in the relevant host country, provided this does not lead to the selection of an institution of low credit quality;
- able to provide electronic reporting platforms (e-banking) and reliable and timely bank statements on a monthly basis or on a more frequent basis, where required, and on request;
- offers physical location (agencies) in the implementer's location;
- passes the Global Fund's internal due-diligence process.

262. Accounts should be maintained in the currencies in which the implementer will receive or make payments. In practice, this will often be the currency in which funds are received from the Global Fund, and the local currency (i.e. holding accounts in grant currency and thereafter the local currency account). In principle, transfers should only be made from the grant currency account to the local currency account when funds are needed. The Global Fund will engage with key Principal Recipients to support them in managing their foreign currency risk (for details please refer to below section on foreign currencies).

263. The following steps should be followed when opening a bank account:

Steps	Description
Identify a need	Identify why the account is needed. For instance the Global Fund requires a separate bank account for each of its grants (unless communicated otherwise), or accounts in several currencies are required.
Selecting a bank	<p>Evaluate banking arrangements available in-country and select the best available option that meet an organization's need or requirements. Thorough due diligence must be performed and documented. The following should be systematically checked ahead of the selection of a bank:</p> <ul style="list-style-type: none"> <li>✓ is the bank rated internationally or locally (ask for the bank's short-term and long-term rating)? Is this rating appropriate?</li> <li>✓ is the bank part owned by a larger, stronger shareholder (i.e. international group or government in the case of a public bank)? Is its parent able and willing to support it in case of financial difficulty?</li> <li>✓ is the institution regulated? Do deposits at the bank enjoy the implicit or explicit guarantee of the state, regulator or deposit-insurance scheme?</li> <li>✓ how does the bank's ratios and capitalization compare to other banks in the country?</li> <li>✓ are there any warning signs? Negative news coverage on a given bank, past credit events, delays in the receipt of payments, etc. can be signs of insufficient credit quality.</li> </ul> <p>In addition to the prerequisite of financial stability, the following factors should be considered during the selection of a bank:</p> <ul style="list-style-type: none"> <li>✓ cost of service and services offered by the bank</li> <li>✓ coverage of the bank (number of and location of branches)</li> <li>✓ accessibility to cash</li> <li>✓ credibility of the bank (used by local community and partner organizations)</li> </ul> <p>The implementer should remain alert to any changes to the bank's credit quality. In the case of a crisis or sudden deterioration in the credit quality of a bank, implementers should take immediate steps to mitigate the resulting credit risk, such as keeping bank</p>

<sup>45</sup> The Global Fund may use the list of World Bank eligible commercial banks (if such a list is available in the given country).



Steps	Description
	balances to a minimum, opening an account at a more solid bank or, in extreme cases and with the approval of the Global Fund, even temporarily returning funds to the Global Fund's accounts.
Bank signatories	<p>There should be two type of signatories for each bank account:</p> <ul style="list-style-type: none"> <li>✓ a competent authority<sup>46</sup> authorized to appoint and approve bank signatory; and</li> <li>✓ at least two individuals authorized to sign checks and bank transfers.</li> </ul> <p>Any amendments to the authorized signatory/signatories can only be made with the approval of the authorized signatory (a person authorized to approve who can be a bank signatory) and any changes must be communicated to the bank in writing.</p>
Opening a bank account	<p>Authorization should be obtained from the competent authority to proceed with opening an account, using a standard bank account opening request form (<a href="#">refer to Appendix 30</a>). The form should include at least:</p> <ul style="list-style-type: none"> <li>✓ reason for the account opening</li> <li>✓ bank details (name, address, telephone/ fax number, etc.)</li> </ul> <p>After the authorization, the bank account(s) should be opened with the bank through a formal agreement clearly stipulating the respective roles and responsibilities and terms and condition of the services.</p>
Bank reconciliation	<p>Bank reconciliation (<a href="#">refer to Appendix 31</a>) involves reconciling the accounting record balance of a bank account as recorded in the accounting system to the balance of the bank account as shown on the bank statements provided by the financial institution.</p> <p>The quality of the financial information for the program depends on the accuracy of the data held in the general ledger. This in turn relies upon the accurate capture and entry of data into the general ledger. The reconciliation of bank accounts is one the most important internal controls used to guarantee the accuracy of the data captured in the general ledger and to safeguard the funds.</p> <p>Bank and cash reconciliations should be regularly performed and approved by the appropriate staff and take into consideration the following:</p> <ul style="list-style-type: none"> <li>✓ reconciliation must be conducted at least monthly for each bank account;</li> <li>✓ bank reconciliations should be performed by an employee or official who does not have custody or access to cash and who does not record cash receipt, cash disbursement or journal-entry transactions;</li> <li>✓ bank statements should be received at least once a month from the financial institution;</li> <li>✓ each reconciliation must be checked and approved by one of the authorized signatories of the bank account or the head of the accounting and finance department of the organization (or its equivalent);</li> <li>✓ reconciliation and supporting documents must be retained for control processes and audit purposes;</li> <li>✓ the reconciliation must reconcile the ledger account/cashbook closing balance to the bank statement closing balance at the end of the month;</li> <li>✓ all transactions shown on the bank statement must be traced back to the relevant cash transactions in the accounting system. Any differences between the two must be investigated and action taken to resolve the treatment of the differences;</li> <li>✓ unknown transactions on the bank statement should be immediately reported to the bank for explanations and/or correction.</li> </ul>
Closing of a bank account	<p>Authorization should be obtained from the competent authority to proceed with the closing of a bank account using a standard bank account closing request form. The form should include at least:</p> <ul style="list-style-type: none"> <li>✓ reason for the account closing;</li> <li>✓ account detail; and</li> <li>✓ bank details (name, address, telephone/ fax number, etc.).</li> </ul>

<sup>46</sup> Competent authority could be the governing body (board of directors/board of trustees) or head of organization or head office of international nongovernmental organizations, etc.

Steps	Description
	<p>After the approval of the bank account closing by the competent authority, the following activities should be carried out before formally closing the bank account:</p> <ul style="list-style-type: none"> <li>✓ all outstanding checks must have cleared;</li> <li>✓ all pending transactions must be treated and recorded by the bank;</li> <li>✓ any final balance must be transferred to another account or refunded to the Global Fund.</li> <li>✓ a final bank statement showing zero balance must be provided by the bank; and</li> <li>✓ the account must be made inactive in the finance system.</li> </ul>
Documentation	<p>The following standard information should be filed in the bank account file:</p> <ul style="list-style-type: none"> <li>✓ approval to open account and bank agreement;</li> <li>✓ authorized signatory/signatories list and all correspondence and authorizations related to changes in signatory/signatories;</li> <li>✓ monthly bank statements and bank reconciliation statements;</li> <li>✓ for closed accounts, date of closure and a copy of the bank's confirmation of account closure.</li> </ul>

*Bank account details are required to be submitted to the Global Fund, using the [Principal Recipient Bank Information Template](#), before any Grant Agreement can be signed. Any changes to the authorized bank account must be communicated to the Global Fund, and a new [Principal Recipient Bank Information Template](#) submitted, with the relevant approvals.*

## 5.6.2 Petty Cash Management

264. Before setting up a petty-cash fund, the organization should identify why a cash holding is needed and how it will be used, and put in place procedures for petty-cash management (identifying the custodians of the petty cash and their roles and responsibilities, the payment process, the replenishment, etc.). It should be made clear why more secure means of payments are not being used, and whether the use of petty cash is of a temporary or permanent nature.

265. An approval should be provided by the competent authority on a predefined petty cash opening request form, which should at least include the following:

- reason for the cash holding request;
- currency to be used;
- the maximum and minimum level of cash holding; and
- individuals who will have access to the safe.

266. Petty cash must only be used for minor expenditures incurred as part of the grant implementation. The use of petty cash generally includes:

- travel advances (refer to section 5.5.5 above);
- training workshops and minor expenses for conferences;
- small office supplies and repairs; and
- other miscellaneous small-cash expenses.



267. Following is a summary of how to set up and manage petty cash:

Steps	Description												
Setting up a petty cash fund	<p>A petty-cash fund should only be set up after being approved by the competent authority. The petty cash must be kept in a safe in a separate lockable room. The safe must have double keys.</p> <p>A petty-cash book must be maintained by the petty-cash custodian and all transactions should be recorded in the petty-cash book when they occur.</p>												
Replenishment of petty cash	<p>The following key steps and procedures should be followed in the replenishment of petty cash:</p> <table border="1"> <thead> <tr> <th>Step</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Replenishment request</td> <td>A petty cash replenishment request should be prepared by the cashier when the balance falls to a predetermined level. The request must be supported by an up-to-date cash reconciliation and submitted to the competent authority for approval in accordance with the scheme of delegation.</td> </tr> <tr> <td>Review and authorization</td> <td> <p>The competent authority should only sign the request after ensuring that:</p> <ul style="list-style-type: none"> <li>✓ cash reconciliation is checked and reviewed by an independent person;</li> <li>✓ the reconciliation is supported by appropriate documentation;</li> <li>✓ the request is within the agreed maximum and minimum limits (cash in the safe plus the replenishment request);</li> <li>✓ replenishment request seems reasonable considering the expected level of operational activity.</li> </ul> </td> </tr> <tr> <td>Payment authorization</td> <td>Based on approval, checks should be prepared and submitted to the bank signatories. Bank signatories should sign the checks after reviewing supporting documents and details on the checks.</td> </tr> <tr> <td>Receipt of cash into petty cash and recording</td> <td>Cash should be withdrawn by the relevant staff using usual procedures and cash should be put in the safe and recorded on the cash replenishment request.</td> </tr> <tr> <td>Filing</td> <td>Replenishment request and supporting documentation is filed and in numerical order for audit purposes.</td> </tr> </tbody> </table>	Step	Description	Replenishment request	A petty cash replenishment request should be prepared by the cashier when the balance falls to a predetermined level. The request must be supported by an up-to-date cash reconciliation and submitted to the competent authority for approval in accordance with the scheme of delegation.	Review and authorization	<p>The competent authority should only sign the request after ensuring that:</p> <ul style="list-style-type: none"> <li>✓ cash reconciliation is checked and reviewed by an independent person;</li> <li>✓ the reconciliation is supported by appropriate documentation;</li> <li>✓ the request is within the agreed maximum and minimum limits (cash in the safe plus the replenishment request);</li> <li>✓ replenishment request seems reasonable considering the expected level of operational activity.</li> </ul>	Payment authorization	Based on approval, checks should be prepared and submitted to the bank signatories. Bank signatories should sign the checks after reviewing supporting documents and details on the checks.	Receipt of cash into petty cash and recording	Cash should be withdrawn by the relevant staff using usual procedures and cash should be put in the safe and recorded on the cash replenishment request.	Filing	Replenishment request and supporting documentation is filed and in numerical order for audit purposes.
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Replenishment request	A petty cash replenishment request should be prepared by the cashier when the balance falls to a predetermined level. The request must be supported by an up-to-date cash reconciliation and submitted to the competent authority for approval in accordance with the scheme of delegation.												
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Payment authorization	Based on approval, checks should be prepared and submitted to the bank signatories. Bank signatories should sign the checks after reviewing supporting documents and details on the checks.												
Receipt of cash into petty cash and recording	Cash should be withdrawn by the relevant staff using usual procedures and cash should be put in the safe and recorded on the cash replenishment request.												
Filing	Replenishment request and supporting documentation is filed and in numerical order for audit purposes.												
Payment from petty cash	All standard payment procedures (initiation, authorization, approval, payment and recording based on scheme of delegation) must be followed for petty cash payments.												
Reconciliation of petty cash	A cash reconciliation/cash count (checking that the amount of physical cash in the safe agrees with the value recorded in the cashbook) should be carried out on a daily basis. The counting of cash funds must be reviewed and authorized by a member of staff who is not involved with the issuing or recording of cash, so that a segregation of duties is maintained ( <i>refer to Appendix 32 for sample of cash count form</i> ).												
Closure of petty cash account	When a petty cash account is no longer needed, the petty cash account should be closed based on approval of the competent authority. In this case, the account must be reconciled, all the expenditures posted and the balance of funds deposited into the appropriate bank account.												

### 5.6.3 Mobile Money

268. Mobile money refers to the receipt and payment of cash using mobile technology. Mobile money is a service for those without bank accounts to make and receive payments using mobile phones. Following are the key benefits of mobile money:

- improved cost-savings and efficiency;
- increased transparency, accountability and reporting;
- reduced fraud and a lengthy distribution cascade;
- reduced security risks to program staff when transporting cash;
- improved cash management for the Principal Recipients and sub-recipients with secure and modern technology;
- improved traceability as it allows for reporting on the use of funds; and
- Improved assurance through biometric/GEO-tracking data, photographic evidence.

269. To access and use mobile money services, customers rely on two distinct channels. The first is the network of physical-access points where they can typically deposit cash into, or take cash out of their mobile money accounts – these access points are primary agent outlets. The second is the technical access channel – the interface that customers use to initiate transfers and payments directly via their mobile phones. Today, a majority of mobile money services are available through two or more interfaces: usually USSD, and the more modern applications.

270. Grant implementers in various countries are already using mobile money services<sup>47</sup> to a different scale and degree. However there are many implementers that continue to use the conventional physical cash distribution model to pay for certain works and services, while having the potential to use mobile money as an alternative to physical cash distribution.

271. The Global Fund may help grant implementers gain access to mobile money services in-country by leveraging its corporate relationship with the providers like banks and Mobile Network Operators (MNOs).

*Implementers that wish to implement mobile money can discuss with their respective Global Fund Country Team, which will put them in touch with the Global Fund Treasury team.*

#### 5.6.4 Foreign Currency Risk Management

272. Budgets of Global Fund grants are either signed in U.S. dollars or euros, depending on the allocation currency, taking into account the payment currency for each budget line. As parts of the grant, expenditures may be incurred in local currency or non-grant currency, and the grant could be exposed to significant currency risks that have to be managed and mitigated under approved budgets and during disbursement or grant monitoring. The use of different currencies exposes the implementer to foreign currency risk, which can adversely affect the budget and related expenditure. Therefore, the implementer should develop and implement formal policies to manage foreign currency risks in accordance with the applicable laws and regulations and donor requirements including the Global Fund.

273. **Actual expenditures** incurred in a currency other than the grant currency should ideally be translated into the grant currency using the **spot rate applicable on the day of each transaction**. If the use of daily rates is not practical, the **average exchange rate (monthly or quarterly)** for the reporting period should be used. The source and actual exchange rates used in the calculations should be disclosed. The exchange rates should be used from a credible source and can be obtained or calculated from the country's central/national bank or other official sources (e.g. the International Monetary Fund or other international financial institutions). Exchange gain or loss should be recorded separately and reported to the Global Fund accordingly. Further, formal banking channels should be used for currency conversion (if needed) and funds should not be converted from grant currency to non-grant currency and vice versa through any other means i.e. money exchangers etc.

274. **Foreign exchange costs** arise in one of two forms:

- Explicit foreign-exchange fees: many banks do not apply such fees. When such fees exist, they are often a fixed amount or a small percentage of the transaction; and
- Foreign-exchange spread: this is the difference between the rates at which the bank sells local currency to its clients and the rate at which it obtains this currency on the market (the interbank rate). The spread can be as high as 3 percent and above of each transaction, and represents the major (hidden) cost for foreign-exchange transactions. The foreign exchange spread can be estimated as the difference between the bank rate and the interbank rate (when the interbank rate is known), or as half of the difference between the “buy” and “sell” rates offered by the bank (assuming the interbank rate is roughly between both rates).

275. **Foreign exchange risk**, which arises as a direct or indirect effect of currency fluctuations, is one of the major financial risks to which grants are exposed. The timing and amounts of foreign exchange transactions

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<sup>47</sup> Mobile money is now available in 61 percent of developing markets. Sub-Saharan Africa has the highest proportion of mobile money registered accounts: 23 percent of mobile phone connections in Sub-Saharan Africa were linked to a mobile-money account.

should be made with an aim to mitigate foreign-exchange risk. Adequate measures to mitigate foreign exchange risk will depend significantly on grant characteristics (the currency composition of the grant budget, including a forecast of cash requirements by currency) and external factors (the macroeconomic context of the country, the history of exchange-rate devaluations, central bank policy, country regulatory requirements and the political situation). Foreign exchange costs should be minimized by:

- trading at the best rate available to implementers and keeping track of the different quotations that banks offered (important for audit purposes). Implementers should always negotiate exchange rates with their bank, even when it already seems to provide a good rate. Many banks provide preferential rates to larger clients, or give bankers some flexibility to provide preferential rates (most often they will only provide preferential rates to clients who actively negotiate);
- comparing the rate offered between different providers, benchmarking against other sources of foreign-exchange (FX) rates (central bank, other providers of FX-rate data);
- including the competitiveness of FX rates as a factor when selecting a bank;
- preparing budget in local currency taking into account the foreign exchange fluctuation;
- using two bank accounts (one for local currency and one for foreign currency); and
- only convert the grant currency into non-grant currency when the related activities are ready to be implemented.

276. The Global Fund is developing policies, processes, systems and access to financial markets to help implementers manage foreign-exchange risk, in particular risk arising from the volatility of the local currency or from the procurement currency to the grant currency.

277. Where significant foreign-exchange risks exist, the Global Fund will engage with Principal Recipients to ensure these risks are being managed. Alternatively, the Global Fund will ensure these Principal Recipients are paid grant funds in local currency as well as grant currency, depending on the foreign-exchange need.

*Foreign exchange risk management tools and arrangements can be discussed with relevant the Country Team, which will liaise with the Global Fund treasury team.*

## 5.7 Assets and Inventory Management

278. Asset and inventory management is another key component of an organization’s financial management system. Asset and inventory management refers to the activities around purchase/acquisition, addition, disposal, depreciation and revaluation of noncurrent (fixed) assets and inventory. It also encompasses those policies and procedures put in place to ensure the safeguarding of all assets and inventory and ensures that the activities of an organization are carried out in an orderly and efficient manner, helping to fulfill its mandate. Throughout this section, the term “asset” refers to noncurrent assets.

Key Features/Components - Assets and Inventory Management		
Foundational	Intermediate	Optimal
<ul style="list-style-type: none"> <li>An adequate structure and staff possessing the appropriate skills and experience are in place to perform the assets and inventory management functions of an organization.</li> </ul>	<ul style="list-style-type: none"> <li>The fixed-asset register is designed and maintained in accordance with the defined policies and procedures and is sufficiently detailed to allow easy identification of assets, including location.</li> <li>All assets are recorded in the asset register along with their location and unique identification number.</li> <li>Vehicles are equipped with logs duly filled out to track movement and consumption. Logs are analyzed on a periodic basis to optimize the use of the vehicles.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive policies and procedures are in place based on applicable laws and regulations, including donor requirements, to provide guidelines for asset and inventory management.</li> <li>A physical verification of the asset listed is carried out at least once a year to determine the actual existence of the asset and its condition, the result thereof is reconciled with the books and any difference investigated.</li> <li>The general ledger is periodically reconciled against the actual quantities in the asset register</li> </ul>

279. This section provides guidance to implementers on developing and implementing effective asset and inventory management policies based on best practices.

## 5.7.1 Assets and Inventory Management Policy

280. Each implementer should develop and implement an asset and inventory management policy based on the best practices, applicable laws and regulations and donors requirements. Assets and inventory management policy should include but not be limited to the following key areas:

Key Areas	Description
Acquisition of Assets and Inventory	<p>The assets and inventory management policy should clearly define the criteria for classifying assets or inventory in accordance with the applicable accounting principles and policies (i.e. IAS 2 Inventory and IAS 16 Property Plant and Equipment provides detailed guidance and requirements for the recognition, measurement and reporting of inventory and assets respectively).</p> <p>Further, the asset and inventory management policy should clearly specify the criteria for classification of capital<sup>48</sup> expenditures and revenue<sup>49</sup> expenditures. Accordingly, items should be classified and accounted for as a capital expenditure or revenue expenditure upon acquisition or purchase.</p> <p>However, for reporting purposes the Global Fund requires that assets acquired or purchased using the grant fund should be considered an expenditure irrespective of the accounting basis being used.</p>
Assets and Inventory Registers	<p>All assets and inventory should be recorded in an asset and inventory register (<i>refer to Appendix 33</i>) respectively (irrespective of whether capitalized or expensed).</p> <p>The asset and inventory registers must be kept up-to-date for all acquisitions, additions, disposals, revaluation or other changes. Role and responsibilities for the maintenance and review of the asset register should be established. Physical verification of assets should be carried out on a regular basis at least annually and reconciled with the asset register and the general ledger (<i>refer to Appendix 34 for details</i>) and the differences should be investigated for correction/ adjustments.</p>
Depreciation and Revaluation (If Any)	<p>The asset and inventory management policy should prescribe the depreciation<sup>50</sup> and revaluation policy for each major class of asset and inventory.</p> <p>However, the Global Fund requires that assets acquired or purchased using grant funds should be expensed immediately, therefore depreciation is not applicable for the Global Fund assets. In addition, based on the accounting policy of the implementer, such as the use of IFRS standards, annual impairment reviews should be conducted and asset adjustments made accordingly.</p> <p>Implementers can however maintain separately a statement with the net value of the assets acquired with Global Fund monies to include the residual value of the assets. This is important for renewing or disposing of assets.</p>
Disposal of Asset	<p>There should be a formal policy and procedures for the disposal of fixed assets in accordance with the applicable standards and donor requirements, if any. An asset should be removed from the record upon disposal or when it is withdrawn from use and no future economic benefits are expected from its use/disposal.</p> <p>For disposal/transfer of a Global Fund asset, please refer to the guidelines in <i>Operational Policy Manual, section 3: Grant Closure</i>.</p>

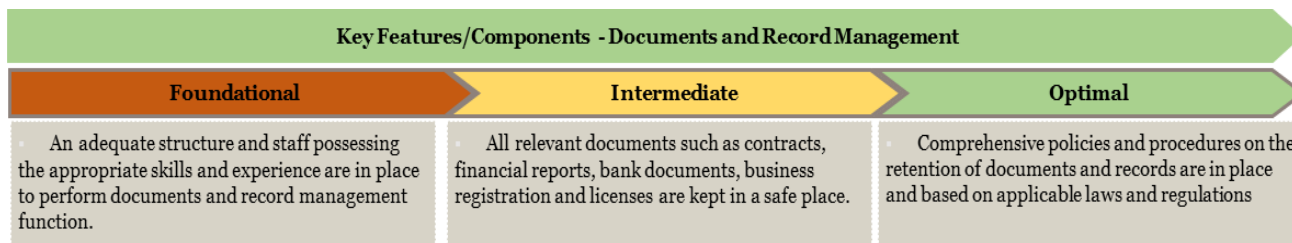
<sup>48</sup> Expenditures incurred on long-term assets that are expected to be used by the organization for more than one accounting period or an expenditure that enhances the value or efficiency of an existing asset.

<sup>49</sup> Any expenditure other than a capital expenditure is classified as a revenue expenditure.

<sup>50</sup> Depreciation is the systematic allocation of a depreciable amount (cost minus residual value) of an asset over its useful lifetime.

## 5.8 Documents and Records Management

281. Document management involves the day-to-day capture, storage, modification and sharing of physical and/or digital files within an organization. Documentation may exist in contracts, memos, paper files, electronic files, reports, emails or database records. Records management is the practice of maintaining records including classifying, storing, securing and destroying or archival preservation, which protects fragile historical archives and assures that permanent records are accessible and readable for years into the future. Paper records may be stored in physical boxes on-premises or at a storage facility. Digital records may be stored on storage media in-house or off-site.



### 5.8.1 Documents and Records Management Policy

282. Each implementer should clearly define the documents and records management policy either as a part of accounting and finance policies and procedures or as a separate document. The record management policy should be based on best practices (as listed in following paragraphs) and applicable laws and regulations and duly approved by competent the authority.

283. Generally, records must be created, shared and stored in the simplest way possible while preserving their authenticity, reliability, integrity, usability, information classification and record trail.

284. A clear codification system should be established whereby all recorded transactions are easily cross-referenced to their original supporting documentation. Document archiving needs include a secure location and restricted/controlled access to documents. The Global Fund treats this idea of archiving very seriously given that lost/misplaced documents may result in non-compliant expenditures and political exposure for the Global Fund.

285. Record-management policies, including a minimum retention period (ideally five to seven years after the date of conclusion of the transaction or the time specified by the local laws or donor policies, whichever is higher) should be defined in accordance with the applicable national/local laws and specific donor requirements. Global Fund's Grant Regulations require retaining grant documents for at least seven years from the date of the last disbursement or for such longer period as may be required by the Global Fund.

286. All relevant original legal documents including business registration/licenses, contracts, financial reports, vouchers including supporting documents and bank documents must be kept in a safe place. All computer systems (including the accounting software) need to be regularly (daily if possible) backed up and procedures established to restore data and/or software following any operational disruption.

287. The financial transactions are recorded in the accounting system from source documents. These documents should be standard and should allow for proper control, such as the initiation, authorization and approval of transactions. The main source documents for the accounting system are:

- Official Receipt: used to document the receipt of cash and checks;
- Bank Receipt Voucher: used to document the receipt of funds directly deposited to the bank account;
- Payment Voucher: used to record payment transactions where the mode of payment is a checks/withdrawal slip;
- Petty Cash Payment Voucher: used to record the payment of transactions from petty cash funds;
- Purchase Order: used to record official orders of goods to suppliers or contractors.



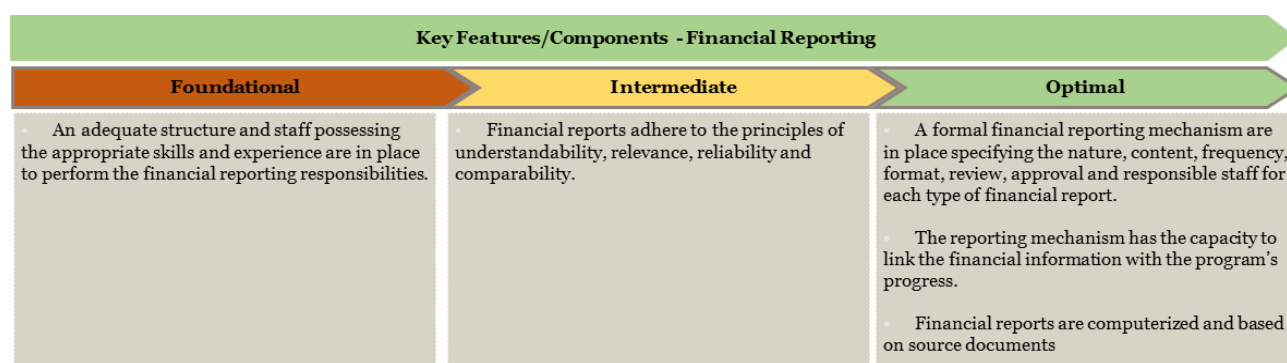
## 6 Financial Reporting and Audit

### 6.1 Overview

288. Financial reporting and related audits are the key components of the overall financial management system. The purpose of financial reporting is to provide timely and accurate financial information to the relevant stakeholders on the program, while the purpose of audits is to provide assurance on the reported financial information and on internal controls. This section will provide guidance to implementers for financial reporting, internal audits and external audits, and outline the Global Fund requirements.

### 6.2 Financial Reporting

289. Financial reporting includes a broad spectrum of reports that provide financial information for processing transactions, budgeting and making management decisions. The reports provide important information to the implementers and to the external stakeholders on the program's progress and financial status. The role of financial reporting in stewardship accounting and accountability cannot be over-emphasized because an organization is required to account for the use of funds to a broad range of stakeholders.



290. When properly designed, reports serve an invaluable management function. They allow managers to make well-informed and timely decisions that help achieve organizational and program targets and objectives. Although no ready-made system exists for every application, an efficient and effective management reporting system can be developed for each organization. Such a reporting system should provide a network for the flow of information and be designed to meet the needs of the particular organization. The following principles or procedures should be used for reporting:

- the reports should be system-generated and based on source documents;
- the reports should be reviewed and reconciled with source documents;
- the reports should be reconciled with other related reports to ensure consistency; and
- the reports should be authorized and approved by the competent authority before dissemination.

291. The reporting system must be continuously maintained, updated, evaluated and controlled like any other major functional area of an organization. There should be formal mechanisms for the preparation and dissemination of management reports, statutory reports, donor-specific reports and ad-hoc reports for the effective monitoring of the grant's financial position and to support sound decision-making by management.

292. These key reports will be used to monitor the financial performance of the program and to identify issues that require management action. The annual financial statements also provide assurance that the financial resources are being properly used and managed in compliance with the Grant Agreement.



## 6.2.1 Management Reports

293. The following reports should be prepared every month and shared with program management (more reports can be produced if needed):

- Monthly Trial Balance;
- Budget Monitoring/Budget versus Actual Reports (budget, expenditures, disbursements made, etc.);
- Cash and Bank Reconciliation Statements and Petty Cash Account Reconciliation;
- Cash Forecast based on agreed periods – say one quarter in advance;
- List of outstanding advances (not yet liquidated);
- List of commitments and liabilities.

294. Annual budgets are based on the grant approved budget that includes procurement plans. The regular management reports must be prepared showing actual financial performance compared to budget as well as any variation from the budget with a necessary explanation thereof.

295. An analysis of variance should include the reasons for deviations, the implications and the forecast of the expenditure based on the actual financial performance to date.

296. Variations to the work plan must be analyzed and reported to enable management to monitor the progress of the implementation and the related issues that need to be addressed.

## 6.2.2 Statutory Reporting

297. The type, nature, key content and frequency of statutory reporting should comply with all applicable laws and regulations. The statutory reporting can include but is not limited to:

- Audited financial statements;
- Reporting to Parliament or parliamentary oversight committee;
- Reporting to the relevant ministry, department or agency (MDA), such as the Ministry of Finance or Ministry of Economy; and
- Reporting to the Auditor General/Supreme Audit Institution.

## 6.2.3 Donor Reporting

298. In addition to meeting statutory reporting requirements, consideration should be paid to the type, nature, key content and frequency of donor specific reporting requirements. These should be specified based on the contractual arrangement with the respective donors.

299. The Global Fund needs a minimum set of reliable financial information regarding the implementation of grants. This financial reporting information is important to:

- Assist in grant management: Having financial breakdowns and variance analysis, and being able to link financial information to programmatic performance, strengthens the ability to make informed funding and investment decisions (e.g., allocations, annual funding decisions and disbursements)
- Pinpoint areas of financial risk: Tracking expenditures against budgets enables an analysis of variances that helps to identify root causes contributing to financial risks across the grant portfolio. For example, where is the largest proportion of funds being allocated and used or not used? Are the funds being spent in the planned areas? Are there any financial bottlenecks evident through huge cash balances resulting into low absorption such as procurement delays? In addition, analysis of financial results could also indicate areas where controls need strengthening. For example, ageing analysis showing long outstanding advances, lack of correlation between financial outcome and programmatic results may indicate possibility of fraud risk etc.
- For external reporting and resource mobilization: Being able to demonstrate the efficiency of Global Fund investments and clearly demonstrate that funding is spent in line with the approved Global Fund Grant Agreement to achieve maximum impact in the disease program is critical for external reporting and resource mobilization; and

- **Transparency and accountability:** Being able to accurately report on the use of funds to donors, the general public and to other stakeholders in an efficient and timely manner is one of the core principles of the Global Fund.

To that effect, a number of programmatic and financial reports need to be submitted periodically to the Global Fund. The financial reports fall under the following categories (*For detailed Global Fund reporting requirements, please refer to the [Principal Recipient Progress Update/Disbursement Request \(PU/DR\) Guidelines](#)*):

- Cash information
- Expenditure information
- Forecast
- Tax information

#### **6.2.4 Ad-hoc Reporting**

300. The nature, content and frequency of ad-hoc reports vary from case to case, however, the procedures should be defined and should include the responsible personnel and the validation and approval process.

### **6.3 Audit**

301. The financial management system (including policies and procedures) is not effective if it is not implemented and complied with in letter and spirit. Accordingly, each implementer should have an appropriate assurance arrangement to ensure that the financial management system is implemented and complied with effectively. This section covers two key assurance services, i.e. the internal audit and the external audit.

#### **6.3.1 Internal Audit**

302. An internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes (the Institute of Internal Auditors).

303. An internal audit provides independent assurance that an organization's risk management, governance and internal-control processes are designed effectively and operate effectively. While the primary focus of the internal auditor would be financial, unlike external auditors who normally have statutory audit duties to execute, internal auditors may look beyond pure financial risks and financial statements to consider wider issues such as operational efficiency.

304. The presence of an effective and adequate internal audit (properly sourced headcount and budget in a grant) ensures organizations that they have the coverage required – oversight of both the Principal Recipient as well as the sub-recipients. The internal audit function should provide management with a level of comfort that risks are being addressed and should in turn provide the Global Fund with these same assurances.

305. The Global Fund strongly recommends that all implementers managing significant funds (budget)<sup>51</sup> have an internal audit function or are able to justify why this function is not necessary or available. For smaller organizations wishing to expand their level of funds under management, a plan should be in place to develop an internal audit function over a period of time. Organizations lacking the current capability may also discuss outsourcing the internal audit to a qualified service provider with a remit that also includes building up capacity of this function to ensure sustainability.

306. The internal audit function should follow standards mirroring those prescribed by international standard-setting bodies for the internal audit profession, like the [Institute of Internal Auditors](#). The Global

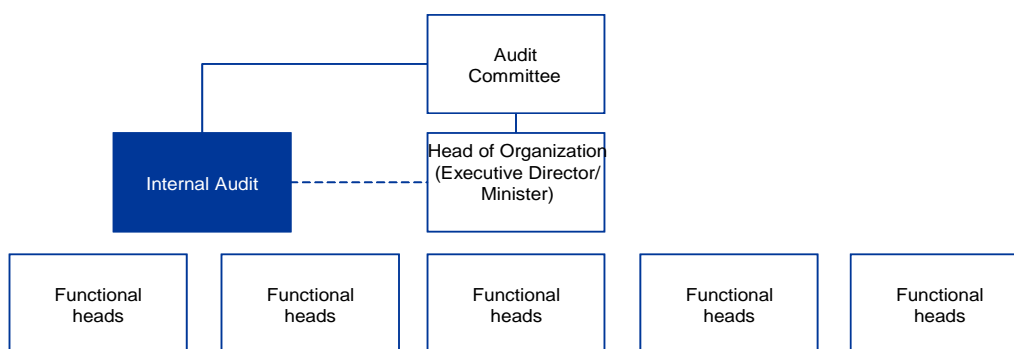
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<sup>51</sup> The significance of the funds/budget shall be determined by the Global Fund Country Team on a case-by-case basis and taking into consideration other related risk factors.

Fund does not prescribe any one set of standards but recognizes the importance of quality and standardization in the work. It is therefore expected that an internal audit function would follow a recognized set of standards.

307. The internal audit activity must be independent, and internal auditors must be objective in performing their work. To ensure the **independence** and **objectivity** of the internal audit function:

- the Chief Audit Executive should report to the board of directors (and/or other governance oversight bodies such as an Audit Committee). He should also have direct and unrestricted access to the board;
- the Chief Audit Executive should report administratively to the Chief Executive Officer or similar head of the organization or to some other organizational level so long as the internal audit activity determines the scope of work, performs the work, and reports the results without interference;
- the internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest;
- an organization must ensure that the function is adequately resourced, including having appropriately qualified and experienced staff.



Functional Reporting	Administrative Reporting
<p>Examples of activities that demonstrate functional reporting to the board/Audit Committee or involves the board/Audit Committee:</p> <ul style="list-style-type: none"> <li>✓ approving internal audit charter;</li> <li>✓ approving risk based internal audit plan;</li> <li>✓ approving internal audit budget and resources plan;</li> <li>✓ receiving communication or reports from the Chief Audit Executive on internal audit activity's performance relative to its plans and other matters;</li> <li>✓ approving decisions regarding the appointment and the removal of the Chief Audit Executive;</li> <li>✓ approving the remuneration of the Chief Audit Executive; and</li> <li>✓ asking management and the chief audit executive to determine whether there are any scope or resource limitations.</li> </ul>	<p>This refers to the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit function, including:</p> <ul style="list-style-type: none"> <li>✓ budgeting and management accounting;</li> <li>✓ human resource administration, including personnel evaluation and compensation;</li> <li>✓ internal communication and information flow; and</li> <li>✓ administration of internal audit's policies and procedures.</li> </ul>

308. The internal audit staff should have and should maintain their professional knowledge and skills at a level required to ensure that the organization receives competent professional services based on current developments in practice, legislation and techniques.

309. The internal audit function's responsibility is to provide the organization with assurance and consulting services and to improve the organization's operation and processes. Specifically, the internal audit must evaluate and improve the effectiveness of the organization's governance, risk management and control processes. The key responsibilities of the Chief Audit Executive include:

- communicating the plan of engagement;
- reporting significant audit issues;
- communicating key performance indicators to the board/Audit Committee on a regular basis;
- discussing the areas of significant risks;
- supporting the board in risk assessment across the organization;
- monitoring compliance with the code of conduct/business practices;

- reporting on the effectiveness of the internal control framework;
- assessing the ethical climate of the board and the organization;
- conducting follow up and reporting on management’s responses to the regulatory body’s reviews;
- conducting follow up and reporting on management’s responses to the external audit;
- assessing the adequacy of the performance-measurement system and the achievement of organizational objectives;
- supporting a culture that roots out fraud and encourages the reporting of improprieties.

310. The work of the internal audit function would normally be split between routine (assurance services) and no routine elements (for example, internal-control training, business-process mapping and benchmarking, system-development reviews and the design of a performance-measurement system, etc.).

311. The key assurance engagements carried out by internal audit are:

Type of Assurance Engagement	Description
Financial Audit	Financial audit refers to the review of the economic activity of an organization as measured and reported by accounting methods. It aims to determine whether financial information is properly recorded, adequately documented and whether financial-statement assertions about past performance are fair, accurate and reliable.
Operational Audit	Operational audit refers to the review of a function or process to assess the efficiency and economy of operations and the effectiveness with which those functions achieve their objectives.
Compliance Audit	Compliance audit refers to the review of financial and operating controls to assess conformance with established laws, standards, regulations, plans, procedures, contracts, donors and other requirements.

312. The approach and methodology of an internal audit should broadly include the following two levels:

- Planning:** This should include strategic analysis, enterprise-risk assessment, and the development of an internal audit plan; and
- Execution:** This should include a plan to execute an internal audit, reporting and tracking the resolution of issues.

313. **Project management** is performed throughout both levels and includes activities around the project’s initiation, planning, coordination and closure.

314. The following key steps should be followed in conducting an internal audit:

Key Steps	Description
Develop and Approve the Internal Audit Charter	The internal audit charter should be endorsed by the Audit Committee and/or board and formally set the purpose, scope, authority and responsibilities of the internal audit function. The internal audit charter should include the following: <ul style="list-style-type: none"> <li>✓ internal audit vision, mission, and core values;</li> <li>✓ role and scope of work;</li> <li>✓ operating principles and responsibility (authority, accountability);</li> <li>✓ reporting relationships and rights to access entire operations of the organization.</li> </ul>
Perform Strategic Analysis	Strategic analysis provides an initial understanding of functional areas from a top-down perspective. The activities performed in strategic analysis are: <ul style="list-style-type: none"> <li>✓ conducting interviews with key management staff;</li> <li>✓ identifying business objectives, strategies and processes;</li> <li>✓ documenting the understanding of an area of business;</li> <li>✓ confirming that understanding with key management staff;</li> <li>✓ periodically updating the strategic analysis.</li> </ul>

Key Steps	Description
Perform “Enterprise Risk Management”	Identify strategic risks related to the above-mentioned business objectives, strategies and processes. The activities that should be part of an enterprise risk assessment include: <ul style="list-style-type: none"> <li>✓ establishing and agreeing on criteria for rating strategic risk;</li> <li>✓ identifying enterprise risks;</li> <li>✓ agreeing on approach to risk assessments and facilitating discussions;</li> <li>✓ assessing enterprise risks;</li> <li>✓ establishing risk categories and categorizing strategic risks;</li> <li>✓ identifying key business processes;</li> <li>✓ performing a review of control measures;</li> <li>✓ documenting issues and validating them with key management.</li> </ul>
Develop Internal Audit Plan	The internal audit plan sets out the scope of work to be undertaken by the internal audit function. This encompasses: <ul style="list-style-type: none"> <li>✓ determining and prioritizing the areas and business processes to be reviewed;</li> <li>✓ identifying the number and types of audit projects to be performed along with associated resource requirements;</li> <li>✓ obtaining the input and approval of senior management and the board/audit committee; and</li> <li>✓ establishing a process to continually evaluate, update, and maintain the plan.</li> </ul>
Execute Internal Audit Plan	Executing the internal audit, including the development of the audit program, is performed after approval of the Internal Audit Plan. During the internal audit execution process, the following activities are conducted: <ul style="list-style-type: none"> <li>✓ business process analysis;</li> <li>✓ creating an internal audit program;</li> <li>✓ executing the program (including internal-control testing and ICOFR- related testing);</li> <li>✓ documenting evidence and reporting issues.</li> </ul>

315. Implementers should fully understand the role of the internal audit and its importance for an organization. They should promote an organizational culture that is eager for risk and control weaknesses to be identified with a view toward improving those areas to ensure that grant objectives are met.

316. Implementers’ management should establish an environment that allows the internal audit to function independently and they should have a clear and positive relationship with the internal audit team that allows auditors to communicate openly and confidently without fear of repercussions.

317. Implementers should ensure that the internal audit function has the required resources to do its work, and that it has unrestricted access to all the information it requires, including access to personnel at all levels.

318. Where deemed competent, the Global Fund may use the Principal Recipient internal audit as an assurance provider. Where the Global Fund intends to rely on the work of the internal audit of a Principal Recipient, it may review the internal audit work plan directly with the internal audit team and request that internal auditors cover certain areas of concern. In addition, as part of effective grant financial management, the Global Fund may request the submission of periodic internal audit reports for grant implementers to enable the Global Fund to make informed grant-management decisions.

319. In order for the Global Fund to be confident in the work of the internal audit function, it is necessary for this work to be assessed. The Global Fund conducts such assessments using a high-level questionnaire and interviews with managers in charge of the internal audit or may choose to conduct further in-depth work, which may include reviewing and testing aspects like the administrative and operational management of the department, staff profiles, audit systems, tools and manuals. It may also review audit documentation including working-paper files.

320. The assessment will require confidential access to internal audit reports to assess their quality. The Global Fund may outsource the assessment to the Local Fund Agent or another external service provider. Standard assessment tools may be provided to implementers to prepare for such assessments.

321. Where the internal audit function is weak, the Global Fund may outsource the internal audit function and provide some assistance to build up an internal audit capacity over the long term, with a view toward sustaining the gains from Global Fund investments.

322. Implementers should also ensure that capacity-building and the ongoing professional development of staff within the internal audit unit is factored into the grants, especially if there is an Resilient and Strong Systems for Health component<sup>52</sup>. The capacity-building efforts need to be justified as part of a coherent plan with clear improvement targets.

### **6.3.2 External Audit**

323. Annual audits are an important part of the process assuring the proper use of Global Fund grants and act as an important source of information for decision-making on the disbursement of those funds. They are also an important part of the process for renewing grants within the framework of the Global Fund's performance-based funding principles. In addition, the external audit forms an important part of the Global Fund's risk management framework for grants.

324. These audits are primarily intended to provide the Global Fund with assurance that disbursed funds were used for the intended purposes in accordance with the Grant Agreement, including the approved budget and the performance framework. They also ensure that financial statements fairly represent the financial transactions and balances of the grant and that internal controls are sufficient to manage the funds. Further, an audit aims to independently review internal controls that relate to key processes and to report on these controls (including an assessment of weaknesses) to management so that the quality and reliability of financial reports is assured.

325. Each Global Fund program needs to have its annual financial audits of program revenues and expenditures conducted by one or more independent auditors in accordance with the requirements of the "[Guidelines for Annual Audits of Global Fund Grant Program Financial Statements](#)" (per section 7.2 of the Grant Regulations).<sup>53</sup>

326. External auditors are independent of the implementer and are engaged by the organization or on its behalf (by the Global Fund) to provide a level of professionalism and objectivity in the review of internal controls and financial statements. The work of external auditors is regulated by standards and regulatory authorities.

327. It is the responsibility of the implementer to prepare accurate financial statements for the purposes of conducting an audit, and the organization should have policies and procedures in place to ensure the reliability and appropriateness of its financial statements, including an efficient auditing process carried out within the stipulated deadline as set out in the Grant Agreement.

328. Choosing an external auditor is a critical aspect of managing the external-audit process. If the implementer is responsible for the selection of the auditor, it needs to ensure that the most appropriate auditor is selected (one that meets "satisfactorily" the quality-control criteria of its licensing or regulatory body). Further, the Global Fund may wish to exercise a no-objection with certain key Principal Recipients (especially in high-impact areas). Unless a different approach is mandated, the Global Fund strongly recommends that a single external auditor be selected for all implementers within a country. This should allow synergies and facilitate the negotiation of deliverables, costs and terms etc.

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<sup>52</sup> This is to be discussed and agreed with the Global Fund only when the internal audit function is deemed independent and competent by the Global Fund.

<sup>53</sup> Except for organizations that have an agreement with the Global Fund on the audit approach.



329. The assurance services of an external auditor, Local Fund Agents, fiscal agents (where applicable) and an internal audit of the Principal Recipient should be coordinated to obtain value for money and to ensure a consistent risk-based audit approach.

330. The implementer has to ensure that there is an effective communication system in place with external auditors. This is crucial in all of the following stages of the audit process and should be given priority:

- request for documentation
- audit planning, particularly the validation of the audit plan by the implementer
- entrance meeting
- field work
- responding to the draft report
- exit meeting

331. Implementers should ensure that external auditors have unrestricted access to all the information they require, including access to personnel at all levels. This is set out in detail at section 7.6 of the Grant Regulations. Also, implementers need to be transparent and thorough with external auditors and should ensure that management and staff provide clear and concise answers to any clarifications that might be needed.

332. Issues should be resolved quickly and requested documents provided in the shortest possible delay. When there is an unavoidable delay in getting requested documents or providing clarification, implementers should ensure that the auditors are informed and a timeline is given on when the information will be provided.

333. Implementers should have the confidence to have their financial statements and internal controls routinely examined by the external auditors. The organization should foster a culture that wants to identify risks and control weaknesses with a view to improving on those areas to ensure that grant objectives are met.

334. The Global Fund expects Principal Recipients to implement recommendations in a timely and effective manner and will engage with Principal Recipients to highlight recommendations that should be prioritized. Principal Recipients should ensure that a follow-up mechanism is put in place to regularly review and address in a timely manner the issues and recommendations of the auditors as outlined in the Management Letter. The Audit Committee ([see section 4.3.2](#)), if it exists, should ensure that the issues and recommendations from the Management Letter are given appropriate attention by the staff and the management.

335. For each Global Fund program, the Global Fund reserves the right, on its own or through an agent (utilizing grant funds or other resources available for this purpose) to perform the audits required under the relevant Grant Agreement and/or to conduct a financial review, forensic audit or evaluation, or to take any other actions that it deems necessary to ensure the accountability of the Principal Recipient and sub-recipients for grant funds. The Global Fund will also monitor the Principal Recipient's compliance with the terms of the relevant Grant Agreement (see section 7.5 of the Grant Regulations).

336. In cases where the Global Fund performs an assessment of the audit arrangements or the expected quality prior to the commencement of the audit process and finds these noncompliant or unsatisfactory, three options are available to the Global Fund:

- a) Accepting the arrangements with assurances that the issues will be suitably addressed – this is only likely when issues are minor;
- b) Requesting a change to the arrangements, but allowing the implementer to propose revisions; and
- c) Taking charge of the audit arrangements – this would be exceptional and only likely when the assessment shows serious compliance or quality issues. In this case, the Global Fund will directly source the external auditor through its internal procurement mechanism.

337. In the same way, the Global Fund would have the following three options at its disposal in cases where, upon completion of the audit engagement, the audit report is considered to be unsatisfactory:

- a) Accepts the report after correcting the issues raised;
- b) Advises the implementer to arrange for the audit to be redone, whether by the same auditor or another; and
- c) Takes charge of the audit arrangements and organizes a redo of the audit directly.



## **Glossary and Appendices**

# Glossary

<b>Applicable Accounting Standards</b>	Applicable accounting standards are the accounting standards applicable to an organization
<b>Average rate</b>	Average exchange rate for specific period i.e. weekly, monthly, quarterly or yearly etc.
<b>Budgeting and Reporting guidelines</b>	The guidelines provide guidance to all stakeholders involved in the development, review and implementation of disease program budgets and specific grant budgets funded by the Global Fund.
<b>Competent Authority</b>	A competent authority refers to any person or group of persons that has the legally delegated authority, capacity, and power to perform a designated responsibility.
<b>Funding Request</b>	Means a written proposal prepared for a Program or, as the case may be, Programs in accordance with the requirements of the Global Fund. An applicant submits a funding request to the Secretariat reflective of the indicative funding allocation (as determined by the Secretariat), its national strategy, and the outputs of an extensive multi-sectorial country dialogue process between the applicant, technical partners, donors (including the Secretariat) and civil-society organizations.
<b>Country Coordinating Mechanisms</b>	Country Coordinating Mechanisms (CCMs) are country-level public-private partnerships which (a) coordinate the development of grant proposals to the Global Fund based on priority needs at the national level; and (b) oversee the implementation of program activities.
<b>Financial Management Information System</b>	The Financial Management Information System (FMIS) focuses on the management of information systems to provide efficiency and effectiveness of strategic decision making.
<b>Framework Agreement</b>	Means a Framework Agreement entered into by the Global Fund with a Grantee, in which the Grant Regulations are incorporated by reference and under which the Grantee and the Global Fund anticipate entering into one or more Grant Confirmations, for the purposes of implementing Programs.
<b>Grant Agreement</b>	In respect of a Program, means collectively the Framework Agreement, the Grant Confirmation, and any and all amendments to the Framework Agreement and/or the Grant Confirmation.
<b>Grant Approval Committee</b>	The Grant Approvals Committee (GAC) provides oversight and governance mechanisms on renewals, Secretariat funding review, investment proposals and recommends grants for Board approval through key elements of the NFM.
<b>Grant Funds</b>	These are the funds specified in a Grant Confirmation, which the Global Fund, subject to the terms and conditions set out in the Grant Agreement, agrees to make available to the Grantee (or to its Principal Recipient designated in the Grant Confirmation) in the form of a grant for the implementation of the relevant Program.
<b>Grant Confirmation</b>	The Grant Confirmation is a written confirmation that contains a detailed implementation plan and budget for a Program and is prepared, issued and duly executed by the Global Fund and the Grantee (acting directly or

through its relevant Principal Recipient) pursuant to the terms and conditions of the Framework Agreement.

<b>Grant Making</b>	The purpose of grant-making is to translate the funding request reviewed and assessed by the TRP and GAC into disbursement-ready grants for Board approval and signature.
<b>IFRS</b>	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). This Board sets accounting standards globally for the private sector and upon its creation in 2001, it adopted all International Accounting Standards (IASs) which had been previously issued by its predecessor body, the International Accounting Standards Committee (IASC).
<b>Implementer</b>	Implementer refers to the entity which is responsible for the implementation of the Global Fund grant. Implementers include Principal Recipients (PRs), Sub-Recipients (SRs) and Sub-Sub-Recipient (SSRs).
<b>IPSAS</b>	International Public Sector Accounting Standards. These are standards of accounting applicable to public sector/government entities. They are issued by the International Public Sector Accounting Standards Board of IFAC (the International Federation of Accountants).
<b>ISAs</b>	International Standards on Auditing (ISAs) are developed by the International Auditing and Assurance Standards Board (IAASB) and contain basic principles and essential procedures together with related guidance in the form of explanatory and other material.
<b>Management Letter</b>	A document prepared by the auditor for the management of an audited entity highlighting all findings as a direct consequence of the audit work performed to form an opinion on the financial statements. It also sets out findings (e.g. weaknesses in internal controls, inter-alia), implications and recommendations and solicits the response of the audited entity's management to the audit findings and recommendations.
<b>Operational Policy Manual</b>	The Operational Policy Manual ("the Manual") describes how the Global Fund manages different activities and steps of the grant cycle. It captures both Board-approved policies as well as approaches to implementing those policies that have been endorsed at the Secretariat level.
<b>Operational Policy Notes</b>	OPNs explain how a particular step in the grant cycle must be managed. They integrate Board-approved policies and Secretariat decisions on how these policies will be operationalized into a single document.
<b>Principal Recipient</b>	In respect of a Program, a Principal Recipient (PR) is an entity nominated by the relevant CCM to implement the Program in accordance with the relevant Grant Agreement; for each Grant Confirmation executed and delivered pursuant to the Framework Agreement.
<b>Program</b>	The Program is designed to utilize the Grant Funds to fight against the diseases of HIV/AIDS, tuberculosis and/or malaria, including strengthening of related health systems, in a Host Country or Host Countries.
<b>Spot rate</b>	The prevailing exchange rate on the date or time of transaction.

**Sub-Recipients and Sub-sub Recipients**

A Sub-recipient receives grant funds directly or indirectly from the Principal Recipient in order to complete certain activities under the grant program. The Principal Recipient signs an agreement with a Sub-recipient to formalize the legal terms and conditions of the sub-grant arrangement. A Sub-sub recipient would be a recipient of grant funds from a Sub-recipient under similar arrangements.

**Technical Review Panel**

The TRP is an independent, impartial team of experts appointed by the Board to guarantee the integrity and consistency of an open and transparent proposal review process. The TRP reviews applications submitted by applicants and makes recommendations to the Board for financing technically sound proposals.

# Appendices

## Appendix- 1: Various types of implementation arrangements with Governmental Principal Recipient

Implementation Arrangement with the Governmental Principal Recipients			
Type	Description	Key Advantages	Key Disadvantages
<b>Full or Partial Integration into National System</b>	<ul style="list-style-type: none"> <li>The existing staff (public/civil servants) are responsible for implementation.</li> <li>Performance based incentives may be provided to the existing staff responsible for implementation of Global Fund's grants (for detail on incentives please refer to budgeting guidelines).</li> <li>Existing staff may be supported by short and long-term technical support.</li> </ul>	<ul style="list-style-type: none"> <li>Promotes country ownership.</li> <li>Promotes sustainability.</li> <li>Capacity building of national staff.</li> <li>Economies of scale.</li> <li>Does not create inequities within public sector.</li> </ul>	<ul style="list-style-type: none"> <li>Possible delays in program implementation due to inadequate capacity, inefficiency in the processes and procedures.</li> <li>Non-conformance with the donor's requirement.</li> </ul>
<b>Shared Services Approach</b>	<ul style="list-style-type: none"> <li>A unit dedicated to the implementation of a disease or resilient and sustainable systems for health program is created and shared by various donors.</li> <li>Implemented by newly hired highly competent staff.</li> <li>The unit is embedded within an existing government entity and is partially integrated into its key control and assurance processes.</li> <li>The unit is for developing capacities of people, processes and systems with the vision of eventual transition of these capacities to the wider national structure.</li> </ul>	<ul style="list-style-type: none"> <li>Coordination among various donors to create impact from joint investment</li> <li>Efficiency and economies of scale</li> <li>Uniform policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>Risk of poor transfer of capacities to support country ownership and sustainability.</li> </ul>
<b>Program Management Unit (PMU)</b>	<ul style="list-style-type: none"> <li>A dedicated program management unit is established for the implementation of the Global Fund grants.</li> <li>Implemented partially by existing government staff and dedicated new staff or consultants</li> <li>The unit is embedded within an existing government entity, it is</li> </ul>	<ul style="list-style-type: none"> <li>Efficient implementation of grants.</li> <li>Lower financial management risks.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of country ownership and sustainability.</li> <li>Lack of effectiveness and economies of scale.</li> <li>Lack of coordination amongst donors to create impact.</li> </ul>

	<p>partially integrated therefore relies on parallel controls and assurance processes.</p> <ul style="list-style-type: none"> <li>• Ideally one PMU for implementation of several Global Fund's disease components.</li> <li>• The PMU should be tasked with developing the capacity of public servants to eventually transition the responsibility of grant implementation to the public servant.</li> </ul>		<ul style="list-style-type: none"> <li>• Creates inequities within public sector.</li> </ul>
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## Appendix- 2: Key Phases in Payment for Result type of contracts

Key Phases in Payment for Result	
Phase	Description
<b>Contracting</b>	<ul style="list-style-type: none"> <li>• The activity based contractor must be selected through an appropriate procurement process in an open and transparent manner.</li> <li>• The technical and financial capacity of activity based contractors must be assessed using the 70% and 30% rule (70% technical &amp; financial capacity and 30% financial proposal).</li> <li>• While assessing the technical and financial capacity of proposed activity based contractors, the implementers must consider (but not be limited to) the following factors: <ul style="list-style-type: none"> <li>✓ relevant experience and track record of contractor (at least 3-5 years);</li> <li>✓ methodology and approach to deliver required services or goods;</li> <li>✓ contractor capacity, management structure and qualification of key personnel;</li> <li>✓ the activities to be implemented and the inherent risks (level of cash payments and are outputs verifiable)</li> <li>✓ technical quality assurance review mechanism (oversight and compliance procedures) of contractor;</li> <li>✓ risk mitigation measures;</li> <li>✓ reporting and monitoring; and</li> <li>✓ financial capacity (audited financial statements for at least 2 years and annual turnover of at least US\$ 1 million).</li> </ul> </li> <li>• The contract should be signed with the contractor providing best value (highest score for technical proposal and comparative lower price) for delivery of specific goods or services and/or specific programmatic outcomes.</li> <li>• The contract must include but not be limited to: <ul style="list-style-type: none"> <li>✓ implementation schedules with clear milestones and outputs;</li> <li>✓ general conditions for professional services;</li> <li>✓ the Terms of Reference of the services or specification in case of goods/commodities;</li> <li>✓ the Price Schedule;</li> <li>✓ the acceptance and approval procedures including agreed basis for which the output or delivery of service will be independently confirmed; and</li> <li>✓ the contractor's technical proposal.</li> </ul> </li> <li>• In addition to the above, the implementer must establish and agree with the activity based contractor an assurance plan (the plan should be approved by the Country Team or Principal Recipient in case of Principal Recipient and sub-recipient respectively) for appropriate oversight and supervision of services to be provided under activity based contract, this must include one or more of the following: <ul style="list-style-type: none"> <li>✓ monitoring and supervision visits;</li> <li>✓ internal audit;</li> <li>✓ external audit; and /or</li> <li>✓ final evaluation of work/outputs etc.</li> </ul> </li> </ul>

<b>Execution</b>	<ul style="list-style-type: none"> <li>• The contractor must provide the detailed implementation schedule and inception report with actual delivery dates within 1-month (30 days) of the assignment.</li> <li>• The contractor must perform and complete the services agreed with due diligence, quality and efficiency in accordance with the contract</li> <li>• The contractor should ensure that the key personnel assigned in the Technical Proposal will remain responsible for the contract implementation. Any replacement of the key staff throughout the contract life should be justified by the contractor and agreed with the Principal Recipient. The replacement staff should be of the comparable (or higher) professional competence as the resigned one.</li> <li>• The contractor must be responsible for the professional and technical competence of its staff and will select reliable individuals who will perform effectively and conform to a high standard of moral and ethical conduct.</li> <li>• The implementer must perform the assurance of service being provided as per agreed assurance plan.</li> </ul>
<b>Payment</b>	<ul style="list-style-type: none"> <li>• The contractor must submit contract based invoices<sup>54</sup> for the services performed against every milestone agreed.</li> <li>• Payments must be made to the contractor after acceptance of the invoices submitted, upon achievement of the corresponding milestones.</li> <li>• In special circumstances, taking into account the cash-flow situation and capacity of the contractor, an advance payment of no more than 30% can be authorized. For contracts with advance payment mechanism, the contractor must provide a guarantor (Government, INGO, UN Agencies, or reputable local bank).</li> </ul>
<b>Closure</b>	<ul style="list-style-type: none"> <li>• A certificate of completion must be submitted to the implementers by the activity based contractor after the completion of all milestones/output agreed in the contract.</li> <li>• Final payments must be made after acceptance of the certificate of completion and the invoices submitted, together with whatever supporting documentation of the actual costs incurred and milestones achieved.</li> </ul>

### Payment for Result (Activity Based Contractors)

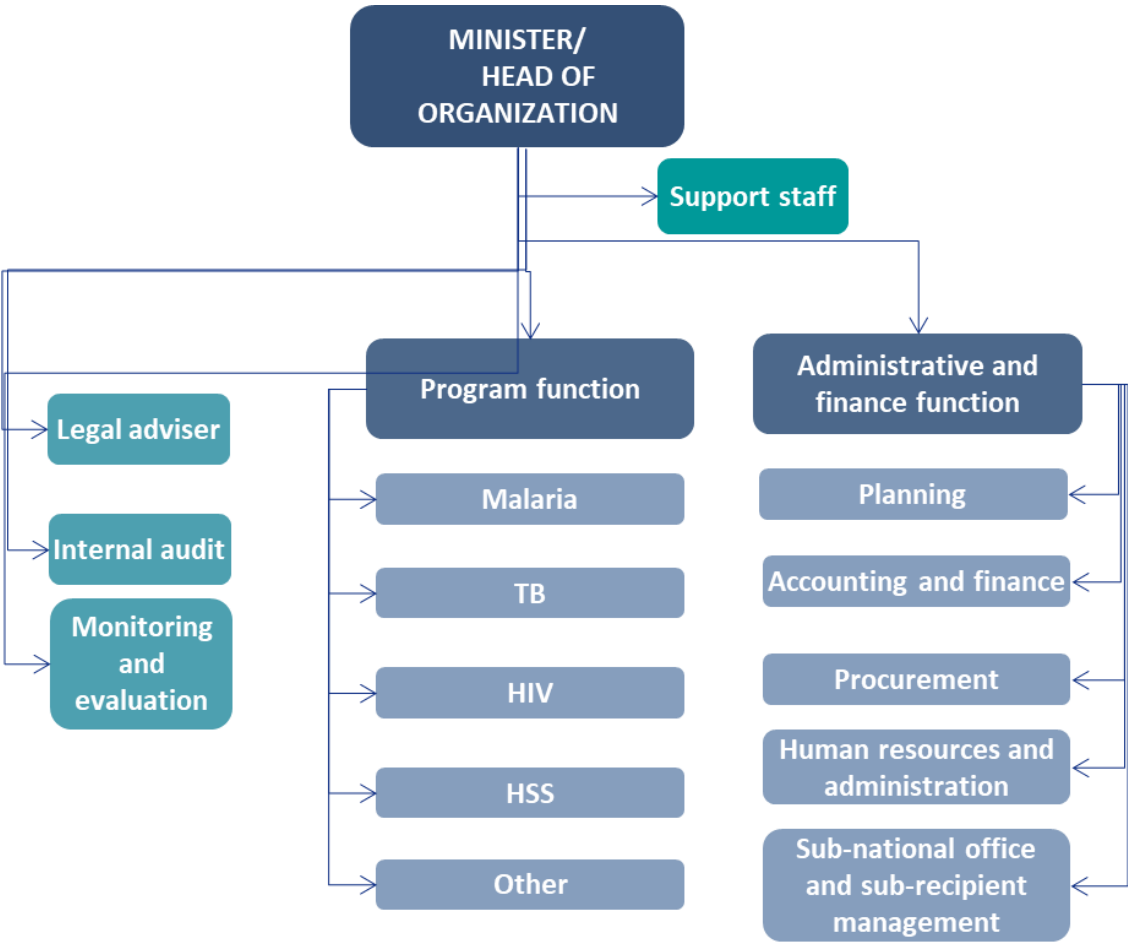
Type	Preconditions	Key Advantages	Key Activities
<b>Verifiable Service Delivery</b>	<ul style="list-style-type: none"> <li>• Funding is exclusively linked to units of service delivered, based on a pre-determined unit cost.</li> <li>• Unit cost can be reliably measured</li> <li>• Cost of verification is reasonable</li> </ul>	<ul style="list-style-type: none"> <li>• Shift in focus of service providers from input management to output management (i.e. demonstration of result)</li> <li>• Improve country/ PR/ SR / M&amp;E and surveillance systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Trainings</li> <li>• Procurement of (health products and non-health products)</li> <li>• Distribution of health products (i.e. LLINs/ITNs etc.)</li> </ul>
<b>Conditional Cash Transfers</b>	<ul style="list-style-type: none"> <li>• Make payments to individuals for specific achievements such as staying in school till a later age, remaining free from STIs etc.</li> <li>• The achievement can be measured reliably.</li> <li>• Cost of verification is reasonable</li> </ul>	<ul style="list-style-type: none"> <li>• Rapidly scaling up individual-level behavior change.</li> <li>• Engaging private sector.</li> <li>• Empowering beneficiaries to choose where they seek services.</li> </ul>	<ul style="list-style-type: none"> <li>• Living support to client/target population (i.e. OVC support, cash incentive to patients/counsellors/mediators etc.)</li> </ul>
<b>Facility Level Financing</b>	<ul style="list-style-type: none"> <li>• Funding is exclusively linked to facility-level outputs</li> <li>• Output and unit cost of output can be measured reliably.</li> <li>• Visibility of the Global Funds grant investment.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase facility-level efficiency and effectiveness.</li> <li>• Re-investment in health facility strengthens system.</li> </ul>	<ul style="list-style-type: none"> <li>• Key indicators include: <ul style="list-style-type: none"> <li>✓ % of women attending antenatal care;</li> <li>✓ % of births attended by skilled health professional;</li> <li>✓ Annual blood examination - Malaria (number and rate per 100 population)</li> </ul> </li> </ul>

<sup>54</sup> This includes an invoice with the statement of work performed under the contract and does not include specific receipts that the contractor keep for their own book of records.



			<ul style="list-style-type: none"> <li>✓ Percentage of all forms of TB cases (i.e. bacteriologically confirmed plus clinically diagnosed) successfully treated (cured plus treatment completed)</li> <li>✓ % of people living with HIV in care (including PMTCT) who are screened for TB in HIV care or treatment settings.</li> <li>✓ Procurement of (health products and non-health products)</li> </ul>
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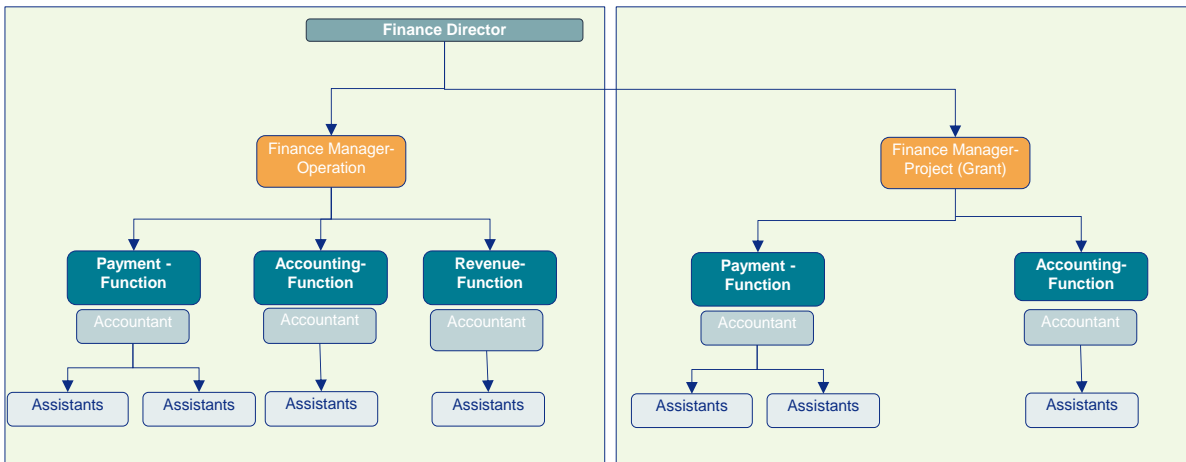
Appendix- 3: Sample of “Overall Organization Structure”



Appendix- 3: Sample of “Accounting and Finance Function’s Organogram”

Structure of Finance Function – Permanent Staff

Structure of Finance Function – Project Staff



**Note:** The idea is to embed the finance function of donor funded projects (including the Global Fund’s grant) into overall organization’s finance function. The ultimate authority, accountability and responsibility should rest with the head of finance function of the organization.

## Appendix- 4: Guidance on Delineation of Responsibilities between the Program Team and Financial Management Team

<b>Program Staff Responsibilities</b>	
<b>Grant Coordinator/Head of PMU's / Senior (Program Managers)/Responsibilities</b>	<ul style="list-style-type: none"> <li>• Liaise with the Global Fund over on all matters to do with the Grant.</li> <li>• Manage the Grant using a work plan agreed upon with the Global Fund and be in charge of the monitoring, reporting and evaluation of Grant progress and results.</li> <li>• Implement the work plan to the agreed standards and deadlines.</li> <li>• Manage and monitor the budgets for specific grants or modules</li> <li>• Provide for the transparency of Grants activities, increase visibility of Grant processes and results.</li> <li>• Approve and clear all requests for payment to contractors and suppliers for work performed and goods &amp; consulting services provided.</li> <li>• Ensure the effective preparation and delivery of all Grant events and meetings, and production of all necessary documentation.</li> <li>• Take responsibility for the effective flow of information between team members, stakeholders and the Global Fund.</li> <li>• Take responsibility for the ongoing evaluation of Grant activity and reporting on Grant progress to the Global Fund and relevant national authorities.</li> <li>• Responsible for the submission of regular monitoring and evaluation reports to the Global Fund.</li> <li>• Review financial reports and give input to higher level management.</li> <li>• Sign and submit financial reports and disbursement requests.</li> <li>• Prepare cash flow projections and forecasts for disbursement requests and budget reprogramming requests with input from Finance staff.</li> <li>• Participate in meetings and represent the Grant.</li> </ul>
<b>Program Staff</b>	<ul style="list-style-type: none"> <li>• Develop grant budgets based on work plans and programmatic targets set in the Grant Agreement and performance framework to ensure that all costs are included</li> <li>• Control budgets to ensure money is spent as agreed and work with finance staff to ensure policies and procedures are followed, expenditures are coded and reported accurately</li> <li>• Work with appropriate staff to ensure that procurements are best value for money</li> </ul>
<b>Grant FM Staff Responsibilities</b>	
<ul style="list-style-type: none"> <li>• Develop, analyze, interpret and provide internal distribution of financial information needed to appraise Grant performance.</li> <li>• Provide internal audit services in order to ensure controls are being followed.</li> <li>• Work closely with the Grant team to prepare financial reports.</li> <li>• Initiate and prepare all requests for payment to contractors and suppliers for work performed and ensure that all supporting documents have been attached.</li> <li>• Maintain and regularly update the Grant fixed assets register.</li> <li>• Maintain all Grant financial records.</li> <li>• Make payments to contractors and suppliers after due approval by the Grant Coordinator/Head of PMU/Head of Department.</li> <li>• Determine that all committed costs are identified and proper releases are provided prior to payment being made.</li> <li>• Maintain accurate and timely cash flow data, both current and forecasted.</li> <li>• Liaise with the Grant's external auditors.</li> <li>• Maintain up to date and accurate records in order to track Grant expenditure.</li> <li>• Manage all Grant accounting databases to ensure timely upkeep, security and control.</li> <li>• Provide direct financial communication with all required parties including submission of financial reports to the Global Fund.</li> <li>• Assume other special activities and responsibilities under the direction of the Grant Coordinator/Head of PMU/Head of Department.</li> <li>• Prepare financial documents and financial reports.</li> <li>• Participate in meetings.</li> </ul>	



## Appendix- 6: Standard Recruitment Process

Recruitment Steps	Description
Identify the need	When a new vacancy arises, it should first be evaluated to assess the need for the position. A recruitment request ( <i>refer to Appendix 7</i> ) should be submitted to the human resource function for review and approval.
Check budget availability	The accounting and finance function should be requested to verify budget availability, if the budget is not available, then donor approval (no-objection letter) should be obtained.
Approve the vacancy	If the budget is available or a no-objection notification/letter is provided by the donor, a request (recruitment requisition form duly signed by the hiring manager, head of the human resources function and head of accounting and finance function) should be forwarded to the competent authority for approval of the position.
Develop job description	For each position a job description ( <i>refer to Appendix 8 for sample of job description for key staff</i> ) should be developed by the hiring manager/function in close collaboration with the human resource function. Job descriptions should be carefully developed for each position to ensure specific requirements and accountabilities for the position are clearly defined and most efficient utilization of human resources is achieved.
Advertise the position	All positions should be advertised by the human resources function using a standard form of advertisement ( <i>please refer to Appendix 9 for details</i> ).
Receive and record the job applications	After receipt of applications by the human resources function, a record of the candidates who applied should be maintained (including at least the names of all applicants and the date of receipt of each application etc.) in accordance with the applicable record retention policy or rules.
Shortlist the candidates	Candidates should be shortlisted by the human resources function based on the minimum criteria specified in the job description. Also, a written test should be conducted, if required ( <i>Please refer to Appendix 10 for details</i> ).
Designate an interview panel	An interview panel should be designated for each vacancy being filled. The panel should at least be comprised of representatives from the requesting function (usually hiring manager), a member representing the human resources function (usually HR recruiter), a neutral party and a staff member with technical expertise (if the hiring manager does not possess such expertise) etc.
Conduct interview	Interviews should be conducted for shortlisted candidates. Panel members are required to independently score the candidates based on their answers. Following areas should be considered: introduction of candidate and previous job, personal qualities and motivations, performance and achievements, program or project planning, program or project implementation, communication and conflicts management; and aspiration.
Select the candidates and issue an offer letter	Suitable candidate(s) should be selected, based on the recommendation (s) of interview panel ( <i>please refer to Appendix 11 for details</i> ), and a formal offer letter should be issued. The offer letter should set out clear terms and conditions of employment to the successful candidate. The letter should also include a formal welcome note as well as relevant on-boarding details.
Check the references and background	After issuance of the offer letter, reference/background checks should be conducted by the human resources function. If the reference/background

	checks result in a clearance, the competent authority should give final approval for the hiring, after which a formal contract should be issued to the candidate.
Personnel file	A personnel file should be maintained for each employee the file should include, but not be limited to the following: employment contract, copy of resume, job description/specification and education documents, result of written test and interview, report of panel interview, documentation relating to reference and background checks, and a no-objection letter from the previous employer, if applicable. Any other documents related to the employment history of the employee and any change in personal/family data will also be kept in this file.

Appendix-7: Recruitment Request Form

**RECRUITMENT REQUEST FORM**

(Note: Attach draft job description & job specification and submit to HR Function)

POSITION DETAILS	
<b>Position/Job Title</b>	[Accountant]
<b>Function and Location</b>	[Function i.e. Finance] [Location i.e. Geneva]
<b>Number of Positions</b>	[Two]
<b>Job Category or Contract Type:</b> {Permanent, fixed term, short time (less than 12 months), casual, volunteer, intern, consultant}	[Fixed Term]
<b>Funding</b>	[The Global Fund grant]
<b>Grade Level/Salary Scale</b>	[Grade level C]
<b>Supervisor</b>	[Finance Manager]
<b>Anticipated contract duration</b>	[One year (renewable)]
<b>Anticipated start date</b>	[01 January 2017]
<b>New position or replacement</b>	[New or replacement of Mr. ABC]
<b>If replacement – please state reason for leaving of previous employee</b>	[Mr. ABC has been promoted to the position of Finance Manager]
<b>Suggested internal candidates</b>	[If any, attach list]
APPROVALS	
<b>Requesting Supervisor</b>	Name: _____ Signature and date: _____
<b>Head of Human Resources</b>	Name: _____ Signature and date: _____
<b>HR/Admin Manager</b>	Name: _____ Signature and date: _____
<b>Finance Manager (In case the proposed position is for functions other than accounting and finance)</b>	Name: _____ Signature and date: _____
<b>Competent Authority/Authorizing Officer (Head of Organization)</b>	Name: _____ Signature and date: _____



## Appendix- 8: Sample “Terms of Reference (ToRs)” for Management/Staff

<b>Program Staff Responsibilities</b>	
<b>Minister of Government (e.g. Finance or Health) or Board of Trustees of an NGO)/ Steering Committee</b>	<ul style="list-style-type: none"> <li>• Provide oversight to the PR during implementation as the main policy decision-making body for the Grant.</li> <li>• Facilitate coordination between the different executing agencies and other stakeholders.</li> <li>• Set up sub-committees as appropriate including the Finance &amp; Audit Committee.</li> <li>• Review and approve annual budgets</li> <li>• Oversee financial controls and ensure accountability.</li> <li>• Approve financial policies, including delegation authority.</li> <li>• Review and approve financial reports and audited financial statements.</li> </ul>
<b>Grant Coordinator/Head of PMU/Head of Department</b>	<ul style="list-style-type: none"> <li>• Lead and supervise the overall implementation of the Grant to ensure that yearly work plans are achieved.</li> <li>• Lead the development of yearly work programs, procurement plans, and financial budget for the Grant.</li> <li>• Liaise and collaborate with the sub-implementers’ management teams and desk officers to ensure that they prepare and implement action plans based on the Grant.</li> <li>• Provide technical guidance to the Board and its committees.</li> <li>• Take responsibility for preparation and submission of PUDRs and other reports on the implementation of the Grant to the Global Fund and other relevant national government authorities.</li> <li>• Keep superiors informed of key Grant issues.</li> <li>• Monitor and evaluate Grant activities.</li> <li>• Report periodically to the Global Fund, Board and its committees and relevant national government authorities and advise the Committee on strategies that will accelerate and enhance Grant implementation.</li> <li>• Supervises the staff assigned to perform Grant related activities, if relevant;</li> <li>• Be familiar with problem solving tools and give advice on solutions to Grant implementation challenges.</li> <li>• Establish a Grant Monitoring and Evaluation team to monitor Grant activities.</li> <li>• Be the responsible officer of the Grant, and sign off on the financial reports and audit reports.</li> </ul>
<b>Head of Grant Financial Management, (supported by relevantly qualified accounting officers)</b>	<ul style="list-style-type: none"> <li>• Maintain adequate financial management arrangements to support the deployment of Grant resources in an economic, efficient and effective manner to achieve the desired objective.</li> <li>• Establish and enhance, when necessary, systems of internal controls.</li> <li>• Determine and develop financial strategy.</li> <li>• Ensure compliance with Global Fund’s financial management requirements and relevant government regulations.</li> <li>• Coordinate periodic report in the agreed formats.</li> <li>• Provide leadership in the area of preparation of annual budgets and work plans together with the PR program staff.</li> <li>• Follow up on prompt release of funds once approved to beneficiaries and contractors.</li> <li>• Ensure relevant books and records are maintained for each Grant.</li> <li>• Review and approve monthly reconciliation statements for all Global Fund accounts.</li> <li>• Together with the PR management, maintain, develop and update the Financial Procedures Manual on a regular basis.</li> <li>• Liaise with the internal and external auditors and follow up any audit queries and issues in management letters.</li> <li>• Be a signatory to the Global Fund accounts of each Grant.</li> <li>• Supervise all financial management functions and staff of the Finance and Accounts Unit, and ensure that service standards continue to be satisfactory.</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure timely submission of relevant monthly, quarterly and annual reports on Grant implementation to all stakeholders.</li> </ul>
<b>Grant Treasurer / Grant Finance Officer</b>	<ul style="list-style-type: none"> <li>• Lead the Grant in areas of financial reporting and treasury management, and ensure compliance with procedures.</li> <li>• Develop and implement business processes improvement, install financial and treasury procedures, and enhance systems.</li> <li>• Manage budget and vigorously control Grant costs.</li> <li>• Ensure that all accounting records and Global Fund accounts are up-to-date.</li> <li>• Develop standardized reporting formats for use by sub-PR grantees.</li> <li>• Prepare monthly Global Fund reconciliations for all Global Fund accounts.</li> <li>• Develop and maintain Financial Procedures Manual within an agreed time.</li> <li>• Establish and enhance, when necessary, systems of internal control (goods, consulting services, fixed assets)</li> <li>• Preparing cash flow/budget forecasts in consultation with the Grant Coordinator/Head of PR.</li> <li>• Prepare PUDRs and annual financial statements for the Grant.</li> <li>• Liaise with the internal and external auditors and follow up on any audit queries and issues in management letters.</li> <li>• Monitor the financial management aspects of procurement of goods and services in accordance with the established guidelines, in conjunction with the Procurement Officer and the Financial Management Committee.</li> <li>• Implement sound staff development and capacity building programs for Grant staff.</li> <li>• Monitor performance against agreed financial performance indicators.</li> </ul>
<b>Grant Accountant</b>	<ul style="list-style-type: none"> <li>• Ensure that all accounting records and Global Fund accounts are up-to-date.</li> <li>• Review and authorize monthly Global Fund reconciliations for all Global Fund accounts.</li> <li>• Maintain the Grant's financial procedures and systems.</li> <li>• Ensure that all accounting records are maintained in line with approved accounting standards and in line with the Global Fund's requirements and government regulations.</li> <li>• Provide periodic reports, (monthly, quarterly or annually) in the formats approved by the Global Funds and relevant government authorities.</li> <li>• Participate in preparation of the annual budgets and work plans together with the program staff of the PR, Procurement Specialist and other members of the financial team.</li> <li>• Ensure relevant books and records are maintained for each Grant.</li> <li>• Ensure that all accounting records are updated promptly.</li> <li>• Ensure that monthly Global Fund reconciliation statements are prepared for all Global Fund accounts.</li> <li>• Together with other players ensure strict adherence to installed internal control systems for all areas of Grant operation.</li> <li>• Liaise with the internal and external auditors and follow up any audit queries or issues in the management letters.</li> <li>• Engage in other duties or special assignments as may be directed by the Head of Grant Financial Management.</li> </ul>
<b>Internal Auditor</b>	<ul style="list-style-type: none"> <li>• Develop and monitor the implementation of annual internal audit plans covering the Grant activities.</li> <li>• Establish timetable, objective, scope and procedures for the internal audit assignment, and ensure that these are adhered to or modified, as appropriate, to ensure effective and efficient use of internal audit resources.</li> <li>• Conduct financial, compliance, technical and management internal audit of Grant activities in accordance with established work guidelines, and evaluate the adequacy and effectiveness of internal controls. Perform specific audit procedures and prepare working papers documenting the audit procedures performed.</li> <li>• Draft internal audit reports and discuss findings and recommendations with the appropriate level of management.</li> <li>• Undertake scheduled review of the internal control structure.</li> </ul>

- Coordinate annual audit work programs with emphasis on the identified Grant risk areas.
- Supervise the internal audit function of all activities of the Grant and provide quality assurance reviews.
- Develop and monitor audit programs and procedures to cover all financial operations of the PR.
- Provide necessary direction and guidance to the Grant internal audit staff as well as on the job training.
- In conjunction with the Head of Grant Financial Management, liaise with external auditors and ensure that external auditors' and Global Fund staff's recommendations are implemented without delay. Provide assistance to external auditors as requested.
- Review and evaluate the adequacy of the internal control structure, as well as record and report with a view to appropriately recommending improvements to the systems.
- Evaluate audit findings; prepare and present the results of audit work and recommendations to the Committee and Management. Prepare comprehensive written audit reports on the basis of the work implemented
- Regularly (and on ad-hoc basis) audit the accounts, records, assets and stores of the Grant.
- Follow-up to determine adequacy of corrective actions.
- Investigate the needs of Grant management.

Appendix-9: Advertisement Form (including Terms of Reference)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Job Vacancy Advertisement Form**

**General Information**

<b>Vacancy code</b>	
<b>Position title</b>	
<b>Function/department</b>	
<b>Location/duty station</b>	
<b>Contract type</b>	
<b>Duration of contract</b>	
<b>Remuneration and benefits</b>	
<b>Application period</b>	

**Background Information – Organization**

*[Please insert the organization background including: vision, mission, goals, key program, coverage areas, operating principles and core values]*

**Background Information – Project/Program**

*[Please insert the project/program background including: goals and objectives, key initiatives/activities, coverage areas, start date, end date and estimated funding etc.]*

**Job Description**

*[Please inset detailed job description which should include all the key activities and responsibilities of position and consistent with the organization’s strategies, structure and resources. A realistic job description is a full explanation of what the job involves including it negative aspects to reduce or eliminate the expectation gaps]*

**Job specification**

*[Please insert key requirement of the job position including qualification, experience and training etc.]*

**Other considerations or requirements**

*[Please insert additional requirement including language and preferences etc.]*

Appendix-10: Shortlisting Form

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Shortlisting Form**

**Position:** .....

Reference No: .....

**Screened by:** .....

**Date:** .....

Sr. No	Name	Gender	Nationality	Contact #	Minimum requirements as per job specification				Ranking
					1	2	3	4	
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									

**Remarks/comments**

**Reviewed and approved by:** .....

**Date:** .....

Appendix-11: Candidate Evaluation Form

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Candidate Evaluation Form**

**Position:** .....

**Prepared by:** .....

**Date:** .....

Sr. No	Name	Initial Screening	Test/Initial Interview	Panel Interview				Ranking
				Criteria I	Criteria II	Criteria III	Criteria IV	
1								
2								
3								
4								
5								

**Remarks/comments**

---

**Reviewed and approved by:** .....

**Date:** .....

## Appendix-12: Performance Evaluation Form

Performance evaluation steps	Description
Determine performance objectives	Before the commencement of each project/program and fiscal year, clear performance objectives <sup>55</sup> and related deliverables, as well as key performance indicators should be defined for each project/program and individual respectively. The performance objectives and the key performance indicators should be discussed and agreed in writing with the individual and project team A performance manager (supervisor or line manager) should be designated for each staff member.
Develop performance appraisal mechanism	A performance appraisal form should be developed by the human resources function which should include at least two sections: one should be completed by each staff member and a second section should be completed by the performance manager.
Frequency of performance appraisal	Performance appraisals should be conducted at least annually and if possible on a half yearly basis.
Staff self-assessment	The performance appraisal form should be completed by each staff member to demonstrate progress made against the set objectives and should be shared with the performance manager before a face to face meeting.
Review and discuss the performance appraisal	The performance manager should review the performance appraisal form completed by the staff member during the staff self-assessment step. The performance manager can also choose to review the appraisal with his or her manager for comments and ratings prior to meeting with the employee.
Conduct performance appraisal interview	A "face to face" meeting should be conducted between the performance manager and the respective staff to discuss the performance against set objectives.
Finalize performance appraisal form	After the performance appraisal meeting, the performance manager completes the second section of the performance appraisal form, signs the form and sharing with staff member before sending the original to the human resources function for the employee's personnel file.
Outcome of performance appraisal	The following should be the outcome of a performance appraisal process: <ul style="list-style-type: none"> <li>a) <u>Training and development plan</u>: Development areas should be identified and an annual training plan should be drawn up, duly identifying resources and timelines for the required trainings. Trainings included in the plan should be in accordance with the organizational and donor's policy and should contribute towards the achievement of the organization's goals.</li> <li>b) <u>Salary increments and incentives</u>: Salary increment and incentive should be based on the performance of staff and be within the budget allocated for salary increases and incentives.</li> </ul>

<sup>55</sup> Objectives should be SMART that is specific, measurable, achievable, and relevant and time bound.



## Appendix – 13: Staff Retention Policy

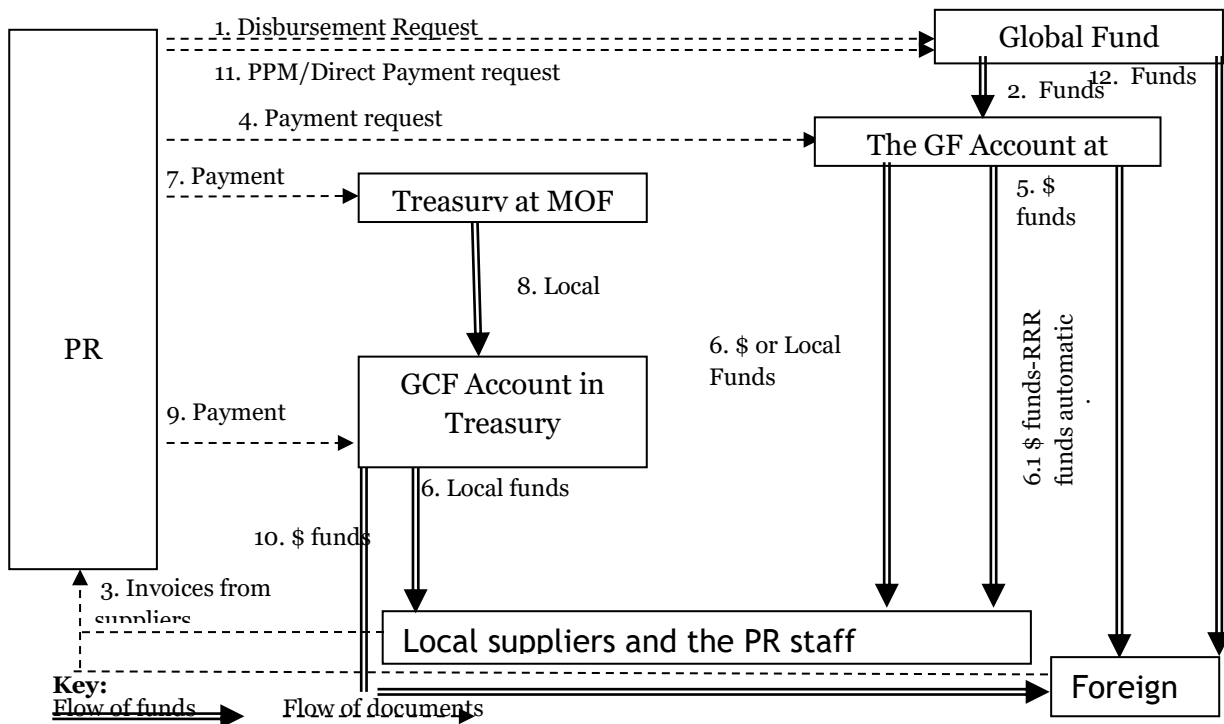
Key Components	Description
Competitive salary and benefits package	Competitive salary and benefits package helps an organization to attract and retain staff with required competencies. Further, salary scale categorization could help as part as an effective staff retention.
Performance based increment & incentive	Performance-based incentives and increments constitutes another key factor to retain key staff.
Professional development and growth plan	When an employee develops professionally and in terms of his/her career within an organization, it is more likely that the employee will continue to work with organization for a longer period.
Defined promotion tracks or career paths	Clearly defined promotion track and career path are likely encourage an employees to plan long-term careers within an organization.
Employment bonds	An organization may sign an employment bond with an employee at the time of recruitment to ensure employee will stay with organization for at least a specified period of time (subject to applicable laws and regulations).

## Appendix – 14: Case Study Solution – Basis of Accounting

Description	Case Study - Solution						Remarks
	Cash Reconciliation	Budget Variance	AFR	Cash Reconciliation	Budget Variance	AFR	
	Accrual Basis of Accounting						
	Year 2014 - Current			Year 2014 - Cumulative			
Reported Expenditure	350,000	350,000	350,000	350,000	350,000	350,000	Based on accrual basis of accounting liability of US\$ 50,000 should be reported as a expenditure therefore total reported expenditure of XYZ as per financial statement should be US\$ 350,000.
<b>Adjustments:</b>							
Liabilities relating to renovation of Health Center	50,000	50,000	-	50,000	50,000	-	If implementer use accrual basis of accounting then liabilities should be adjusted for reported cash reconciliation and budget variance reports.
Commitment	-	-	-	-	-	-	Commitment should not be reported either in implementers financial reports or reports to the Global Fund, however, these should be properly documented and included as a part of cash forecast.
<b>Net Reported Expenditure</b>	<b>300,000</b>	<b>300,000</b>	<b>350,000</b>	<b>300,000</b>	<b>300,000</b>	<b>350,000</b>	
	Year 2015 - Current			Year 2015 - Cumulative			
Reported Expenditure	230,000	230,000	230,000	580,000	580,000	580,000	Based on accrual basis of accounting the reported expenditure for 2015 should be US\$ 230,000 (Cash payment of US\$ 200,000 minus payment relating to previous year expenditure and plus current period payable).
<b>Adjustments</b>							
Liabilities (payable)	80,000	80,000	-	80,000	80,000	-	If implementer use accrual basis of accounting then liabilities should be adjusted for reported cash reconciliation and budget variance reports.
About-to-signed Contract	-	-	-	-	-	-	
Payment relating to last year liabilities	50,000	50,000	-	-	-	-	
<b>Net Reported Expenditure</b>	<b>200,000</b>	<b>200,000</b>	<b>230,000</b>	<b>500,000</b>	<b>500,000</b>	<b>580,000</b>	
	Year 2016 - Current			Year 2016 - Cumulative			
Reported Expenditure	307,600	307,600	307,600	887,600	887,600	887,600	If implementer use accrual basis of accounting then financial management system of implementer should be US\$ 387,600 including: a) Cash payment of US\$ 320,000; b) Less: cost of vehicle of US\$ 36,000 and payment in respect of last year expenditure c) add: US\$ 3600 (cost of asset capitalized and depreciation is charged as an expense); d) Add: Payable of US\$ 70,000 and accrued expense of US\$ 30,000
<b>Adjustments</b>							
Procurement of Vehicle	36,000	36,000	36,000	36,000	36,000	36,000	For cash reconciliation and budget variance the reported expenditure should be adjusted for non-cash items and payables and accrued expenditure.
Depreciation of Vehicle	3,600	3,600	3,600	3,600	3,600	3,600	
Payables	70,000	70,000	-	70,000	70,000	-	
Accrued Expenses	30,000	30,000	-	30,000	30,000	-	For AFR the reported expenditure should be adjusted for capitalized expenditure and non-cash items.
Payment relating to previous year expenditure	80,000	80,000	-	-	-	-	
Signed Contract	-	-	-	-	-	-	
<b>Net Reported Expenditure</b>	<b>320,000</b>	<b>320,000</b>	<b>340,000</b>	<b>820,000</b>	<b>820,000</b>	<b>920,000</b>	

Description	Case Study - Solution						Remarks
	Cash Reconciliation	Budget Variance	AFR	Cash Reconciliation	Budget Variance	AFR	
	Cash Basis of Accounting						
	Year 2014 - Current			Year 2014 - Cumulative			
Reported Expenditure	300,000	300,000	300,000	300,000	300,000	300,000	Only cash payment of US\$ 300,000 should be reported by the Financial Management System of Implementer using cash basis of accounting.
<b>Adjustments:</b>							
Liabilities relating to renovation of Health Center	-	-	50,000	-	-	50,000	The expenditure reported in AFR should be adjusted for US\$ 50,000 relating to liabilities.
Commitment	-	-	-	-	-	-	
<b>Net Reported Expenditure</b>	<b>300,000</b>	<b>300,000</b>	<b>350,000</b>	<b>300,000</b>	<b>300,000</b>	<b>350,000</b>	
	Year 2015 - Current			Year 2015 - Cumulative			
Reported Expenditure	200,000	200,000	200,000	500,000	500,000	500,000	Only cash payment of US\$ 200,000 should be reported by the Financial Management System of Implementer using cash basis of accounting.
<b>Adjustments</b>	-	-	-	-	-	-	
Liabilities (payable)	-	-	80,000	-	-	80,000	
About-to-signed Contract	-	-	-	-	-	-	
Payment relating to last year liabilities	-	-	50,000	-	-	-	
<b>Net Reported Expenditure</b>	<b>200,000</b>	<b>200,000</b>	<b>230,000</b>	<b>500,000</b>	<b>500,000</b>	<b>580,000</b>	
	Year 2016 - Current			Year 2016 - Cumulative			
Reported Expenditure	320,000	320,000	320,000	820,000	820,000	820,000	Only cash payment of US\$ 320,000 should be reported by the Financial Management System of Implementer using cash basis of accounting.
<b>Adjustments</b>							
Procurement of Vehicle	-	-	-				The expenditure reported in AFR should be adjusted for US\$ 70,000 and US\$ 30,000 relating to liabilities and accrued expenditure respectively. Further, US\$ 80,000 relating to previous year should be adjusted.
Depreciation of Vehicle	-	-	-				
Payables	-	-	70,000			70,000	
Accrued Expenses	-	-	30,000			30,000	
Payment relating to previous year liabilities			80,000				
Signed Contract	-	-	-	-	-	-	
<b>Net Reported Expenditure</b>	<b>320,000</b>	<b>320,000</b>	<b>340,000</b>	<b>820,000</b>	<b>820,000</b>	<b>920,000</b>	

Appendix – 15: Sequence and Flow of Documents and Funds



Step	Description
1-2	<p>Replenishment of Account.</p> <p>Global Funds approves the Principal Recipient disbursement request and send the instruction to the commercial bank in Switzerland to transfer the approved amount to the MoF US Account at the Treasury or local commercial bank.</p>
3-10	<p>Payments to contractors, suppliers, etc.</p> <p>Payments will be effected in two ways, depending upon the source of financing: (i) from Global Fund funds – a Treasury/Commercial bank payment order from the GF Account is prepared and funds are transferred from the Global Fund Account to the foreign suppliers (in USD) or to the local suppliers (in local currency after conversion directly from the Global Fund Account and immediate transfer); and (ii) from Gov funds – payment orders are prepared and presented to Treasury for payment, and funds flow from the Treasury account.</p>
11-12	<p>Pooled Procurement Mechanism/Direct Payments.</p> <p>Direct Payment requests are sent from the Principal Recipient to Global Fund when required. The payment request will be prepared and authorized by the Global Fund. The Global Fund than processes Direct Payments to suppliers.</p> <p>The Principal Recipient decides on its participation to the Pooled Procurement Mechanism. Once registered, the Principal Recipients collaborate with the Procurement Services Agents for health products procurement (procurement request submission, review of price quotations, etc.). The Procurement Services Agent negotiates than the procurement of health products at the request of the Principal Recipient. The Global Fund than processes the purchase of Pooled Procurement Mechanism.</p>

## Appendix – 16: Contract Management Checklist

CONTRACT MANAGEMENT CHECKLIST				
Questions	Yes	No	DP	Comments
<b>General</b>				
The company standard template has been used as the basis for the contractual agreement.				
A complete and validated Project Plan was attached to the Agreement.				
The contract clauses are understood by Management and the Project Team.				
There are procedures for problem escalation and resolution in case of disagreement.				
There are defined processes for authorizing work, handling contract changes and change orders, and obtaining written authorization from all parties to changes.				
There is a resolution mechanism for determining if changes are within the scope of the contract.				
There is a resolution mechanism for closure of detailed acceptance issues.				
There are procedures to resolve other frequently occurring issues, such as: elapsed time delays; staffing and turnover problems; productivity problems; contingency budgets (release); management and oversight needs; ongoing education and support needs.				
There is recourse for delays caused by the customer.				
All contractual obligations with sub-contractors and suppliers have been reflected in the contracts and are properly synchronized (e.g., delivery dates, extensions, warranty periods, licences).				
The proprietary information of both parties has been adequately protected.				
The contract has been reviewed and approved by Corporate Legal Counsel, where necessary.				
The contract has the required sign-offs as defined in the Quality System.				
The original signed contract is filed in Accounting/ Contract Management files, and a copy is filed in the Project Book.				
Updated Financial Plan information has been given to Accounting.				
If work on the project commenced without a formal contract, either a contract equivalent was in place or an exception was granted in accordance with the procedures in the Quality System.				
<b>Statement of Work</b>				
The Statement of Work, including specifications and due dates, are consistent with the proposal as modified by the negotiation.				
There is a clear definition of scope.				
There are clear and precisely defined acceptance procedures.				
The quality and acceptance criteria specified are sufficient to guide completion and acceptance of all deliverables and release of all payments.				
Every opportunity has been taken to reduce risk (and this has been portrayed as reducing the risk to the customer).				
There is a detailed list of specific assumptions.				
<b>Licences</b>				
The terms and conditions for hardware and software licences are precisely specified.				
The terms and conditions for hardware and software licences are adequate (especially, for example, in international situations).				
<b>Contract Duration</b>				
There are provisions for keeping the contract current.				
There are provisions for contract time frame extensions, if necessary.				
The time required to terminate is defined.				
<b>Customer Responsibilities</b>				
Customer days-off and closures are identified.				
There are provisions to ensure no hiring of our staff.				
If the customer is furnishing any property, the schedules and quantities for that property are adequate.				
Provision has been made for such things as beepers, pagers, cellular phones, remote dial-up capabilities (e.g., lines from home or other locations).				
Provision has been made for workstations: PCs, SME tools, software, etc.				
Provision has been made for facilities including administrative and word processing support.				
<b>Pricing, Billing and Payment Terms</b>				
Rates are based on a pricing model that is visible to management and appropriate for the market place.				
The number of working hours have been defined if daily rates are quoted.				
There is an overtime agreement defined.				
We are able to charge the customer directly for overtime.				
Rate schedules are attached.				
Rates for specialist resources are included.				
Rates for administrative support are included if we supply word processing.				
The expiration date of current rates is indicated.				
There is provision for overtime for on call support.				
Travel time to customer sites is included in charges.				
Travel and living charges are defined and refundable.				
We are able to charge the customer directly for long distance telephone.				
We are able to charge the customer directly for extraordinary amounts of photocopying (e.g., more than 10 pages).				
We are able to charge the customer directly for taxi and/or mileage and parking expense related to visits to customer sites.				
We are able to charge the customer directly for facility costs if we are housing customer personnel on our premises.				
We are able to charge the customer premiums for use of special expertise.				
We are able to charge the customer interoffice premiums for use of non-local resources.				
We are able to charge the customer for travel and living by non-local resources.				
We are able to charge the customer for interest charges resulting from failure to either collect cash from the customer in a timely manner, or to receive interest on overdue accounts.				
We are able to charge the customer directly for use of functional expertise in areas such as Finance, Contracts, Human Resources, Marketing and Executives.				
The payment terms allow for promotions of our staff and increases in rate (e.g., promotion notification).				
There is provision for annual increases of rates or of fixed price indexed to the Consumer Price Index.				
If there are penalties or liquidated damages, their financial impact is understood by Management and the Project Team.				
If there are penalties or liquidated damages, we have done everything possible to avoid having to pay them (or at least to put off the date when they would start to apply).				
If there is an incentive plan, it is properly structured.				

CONTRACT MANAGEMENT CHECKLIST - CONTID.....				
Questions	Yes	No	DP	Comments
<b>Method of Payment</b>				
The invoicing procedures are specified (PO number, name, frequency).				
The payment terms are defined.				
Taxes are extra.				
Interest is applicable for late payment.				
<b>Key Clauses</b>				
The limitation of liability clause is acceptable as per standard contracting policy.				
Any warranty provisions are acceptable as per standard contracting policy.				
The provisions to protect our rightful intellectual property are adequate as per standard contracting policy.				
There is a standard notice on the cover page of each document to protect company confidential or proprietary information such as that contained in proposals, statements of work, costing, pricing or rate data, and items generated by us using our proprietary methodologies.				
There is a standard legend on each page which contains information to the effect that use is subject to the restriction on the cover page.				
<b>Sub-contracting</b>				
A single deliverer has been identified for each sub-contract.				
A single identified Acceptor has been identified for each sub-contract. The Acceptor is one of the Project Manager, the Application Architect, the Technical Architect or the Quality Assurance Officer.				
Clear provisions have been set for sub-contractor default.				
We have recourse for delays caused by the sub-contractor.				
The scope, deliverables and responsibilities have been clearly defined for each sub-contract.				
The sub-contract was finalized before the proposal/ contract was submitted to our customer.				
The sub-contractor's Project Plan is similar in content to our standard template.				
The dates in the sub-contract are reflected consistently in the proposal/contract submitted to our customer.				
The Responsibilities section of the sub-contractor's Project Plan reflects all requirements of our customer (e.g., meeting or testing time).				
Our Project Plan includes sufficient time for managing the sub-contractors.				
A Contingency Plan for each sub-contractor is in place.				
Procedures equivalent to those in our Quality System are being followed by the sub-contractor for life cycle activities, quality assurance, and project control.				
Change Request and Decision Request disciplines are followed with each sub-contractor.				
There are provisions for keeping the agreements current.				
All sub-contracted components have been acceptance tested and signed off using Personal Acceptance Documents.				
Transfer of title and transfer of risk is consistent for the prime and subcontracts.				
<b>Assessment of Supplier Quality</b>				
(not required for suppliers who have ISO 9000 certification, or are our strategic partners, or who contribute less than 1 percent of contract value, or are resources participating as project team members)				
Suppliers have been provided with the Supplier Quality Principles defined in the Quality System.				
Suppliers have been provided with clear specifications of our expectations for the product or service being purchased.				
Suppliers have responded to the Supplier Quality Questions defined in the Quality System, and their responses have been rated.				
On-site assessments of suppliers' quality practices have been conducted for applicable sub-contracts (as defined in the Quality System).				
Suppliers have been selected based on:				
Ability to meet specifications,				
Price competitiveness,				
Supplier Quality rating,				
Commitment to quality demonstrated in an on-site visit.				
Partnerships and alliances have been approved in accordance with company policy if the partner or technology will be used on more than one project.				
Payment approaches have been reviewed with each supplier, and the most appropriate method for the service or product has been determined.				
<b>Hardware/Software Purchasing</b>				
Purchase Order Requisitions have been prepared for all hardware/software acquisitions.				
Purchase Order Requisitions and Capital Expenditure Requests have the required approvals documented in the Quality System.				
A Capital Expenditure Request has accompanied each Purchase Order Requisition for non-recoverable acquisition items greater than the threshold defined in the Quality System.				
<b>Monthly Invoicing</b>				
Backup information for invoices for physical inventory items have been produced from the Integration Tracking System (ITS) or an equivalent system and submitted to Accounting each month.				
All Expense Reports have been submitted to Accounting at each month end.				
Each month Customer invoices have been prepared, approved, delivered to the Customer, and filed in Accounting.				
<b>Additional Considerations for Software Asset Management Contracts</b>				
There is a clear definition of coverage requirements, service levels, response times, performance guarantees.				
There is an amending formula if the system grows larger through change (software asset maintenance costs do not go down if the system is growing).				
There are threshold limits for size of change requests by person days (e.g., 20).				
There are minimum hours chargeable per call-out.				
There is a surcharge for change requests classified as urgent to discourage the over-use of this class and the stress associated with operating in continual emergency mode.				
<b>Deficiency Evaluation (to be completed by Project Reviewer)</b>				
<b>Demerit Points Description (DP)</b>				
Not applicable (the statement does not apply to the project being reviewed) or no deficiency (the letter and the spirit of the statement is completely true).				
1 Minor deficiency (the statement is mostly true).				
3 Major deficiency (the statement is partially true).				
5 Serious deficiency (the statement is largely not true).				
10 Critical deficiency (the statement is not true) or the statement cannot be evaluated at this time (which is given a demerit point rating of 20 because of the risk(s) which could be associated with the review item and to encourage the review process to evaluate all statements of compliance).				
Maximum possible demerit points (A)				1010
Total demerit points assigned (B)				
Rating (1-B/A)				

Appendix – 17: Purchase Order (PO)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Purchase Order**

Reference No: .....

Date: .....

**Vendor:**

Name: .....

Address: .....

.....

Contact: .....

**Ship to:**

Name: .....

Address: .....

.....

Contact: .....

Sr. #	Item Description	Account code	Project code	Donor code	Quantity	Unit	Unit	Total
					#	Measure	US\$	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
							Sub-total	
							Tax	
							<b>Total</b>	

Requested by:

.....

.....

Checked by:

.....

.....

Reviewed by:

.....

.....

Approved by:

.....

.....

**Remarks:**



Appendix – 18: Goods Receipt Note (GRN)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Goods Receipt Note (GRN)**

GRN No: .....

Date: .....

PO Reference: .....

**Vendor:**

Name: .....

Address: .....

Contact: .....

**Shipment detail:**

Delivery Location: .....

Sr. #	Item Description	PO Reference	Unit	Order Quantity	Delivered Quantity	Damaged Items	Item Accepted	Remarks
			Measure	Numbers				
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

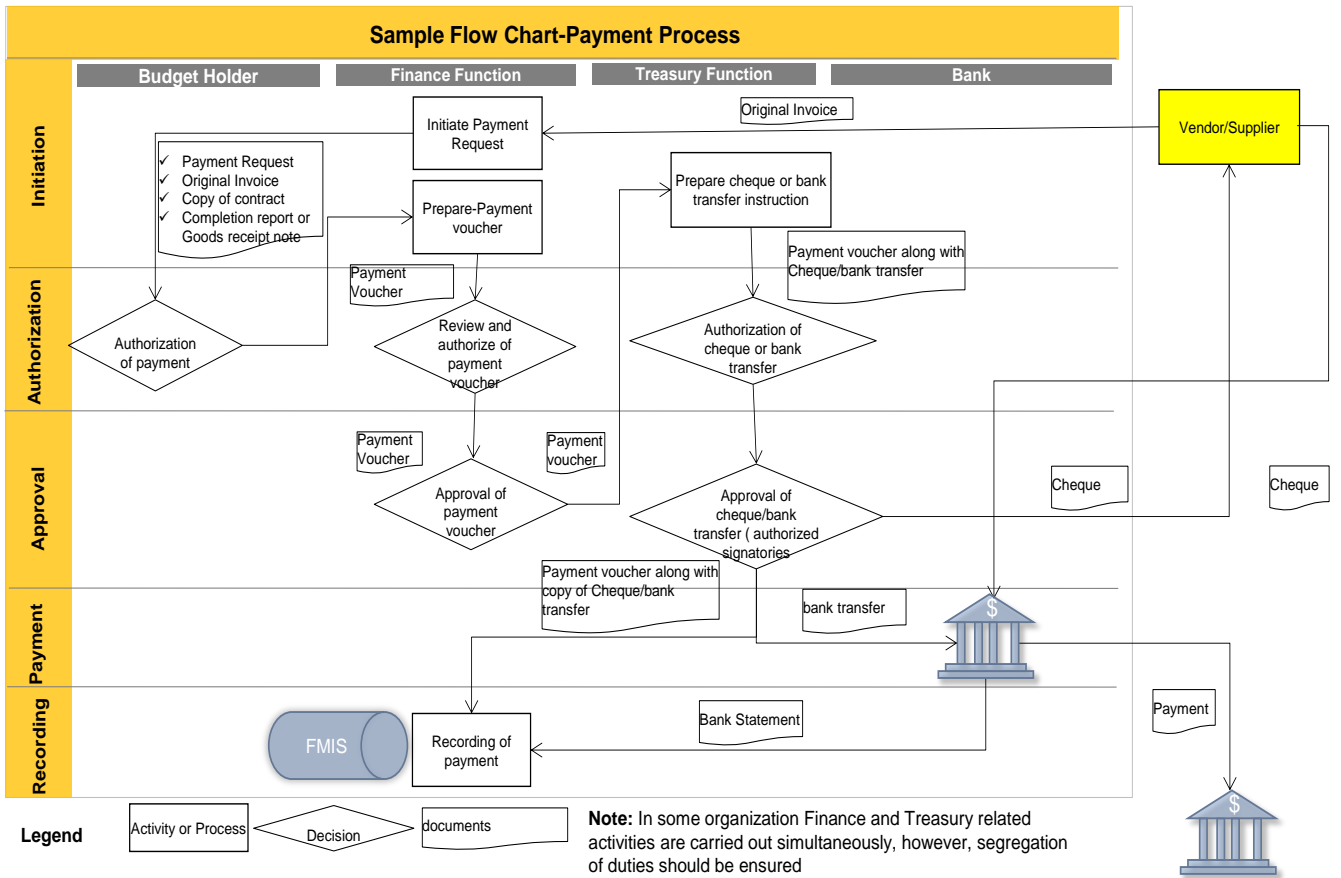
Received by: ..... Verified by: ..... Approved by: .....

**Remarks:**

**Note:** GRN should be in triplicate

- i. Supplier copy
- ii. Store copy
- iii. Finance function copy

Appendix – 19: Sample of Flow Chart – Payment Process



Appendix – 19a: Payment Request

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Payment Request**

Location: .....

Date: .....

Function: .....

Reference No: .....

Budget Holder: .....

Applicant: .....

Sr. #	Description	Payee	Invoice/PO Reference	Account code	Project code	Donor code	Amount <US\$>	Remarks
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	Total							

Requested by: ..... Checked by: ..... Reviewed by: ..... Approved by: .....

**Remarks:**

Appendix – 20: Advance Payment Request Form

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Advance Payment Request Form**

Location: .....

Date: .....

Function: .....

Reference No: .....

Budget Holder: .....

Applicant: .....

Sr. #	Description	Payee	Reasons	Account code	Project code	Donor code	Amount <US\$>	Remarks
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	Total							

Requested by: ..... Checked by: ..... Reviewed by: ..... Approved by: .....

**Remarks:**



Appendix – 22: Sample of “Travel and Miscellaneous Expense Report”

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Travel and Miscellaneous Expense Report**

Location: .....

Date: .....

Function: .....

Reference No: .....

Budget Holder: .....

Applicant: .....

Purpose of Trip:-----

Dates and Details of Trip:-----

TRAVEL COSTS						LODGING		MEALS		SUPPLIES (Describe Below)	TOTALS
Date	No. of miles	Mileage Reimburse.	Parking	Air Travel	Ground (Car/Taxi)	Hotel	Telephone	No.	Amo unts		
Totals											

Gross Amount \_\_\_\_\_

Less Advance \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ Gross Amount \_\_\_\_\_

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_ Less Advances \_\_\_\_\_

Received by: \_\_\_\_\_ Date: \_\_\_\_\_ Net Amount Due \_\_\_\_\_

\_\_\_\_\_  
Attach Primary Documents Employee

Appendix – 23: Sample of “Official Entertainment and Business Gift Expense Report”

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Official Entertainment and Business Gift Expense Report**

Location: .....

Date: .....

Function: .....

Reference No: .....

Budget Holder: .....

Applicant: .....

Date	Place (Name & Location)	Description or type of Entertainment or Gift	Business Purpose / Discussion	Individual / Company (Name, title, etc.)	Amount
Totals					

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Gross Amount: \_\_

Approved by: \_\_\_\_\_

Date: \_\_\_\_\_

Less Advances: \_\_

Received by: \_\_\_\_\_

Date: \_\_\_\_\_

Net Amount Due: \_

\_\_\_\_\_ Employee



Appendix – 24: Bank Payment Voucher (BPV)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Bank Payment Voucher (BPV)**

BPV No: .....

**Invoice detail:**

Invoice No: .....

Date: .....

Supplier: .....

**PO detail:**

PO No: .....

Date: .....

**Payment detail:**

Cheque No: .....

Date: .....

Sr. #	Description	Account code	Activity Code	Funding Code	Implementer Code	Debit	Credit	Remarks
						US\$		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

Prepared by: .....

Signature: .....

Date: .....

Reviewed/ Verified by: .....

Signature: .....

Date: .....

Approved by: .....

Signature: .....

Date: .....

**Remarks:**

Appendix – 25: Bank Receipt Voucher (BRV)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Bank Receipt Voucher (BRV)**

BRV No: .....

**Invoice detail:**

Invoice No: .....

Date: .....

Customer: .....

**Receipt detail:**

Cheque No: .....

Date: .....

Sr. #	Description	Account code	Activity Code	Funding Code	Implementer Code	Debit	Credit	Remarks
						US\$		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

Prepared by: .....

Signature: .....

Date: .....

Reviewed/ Verified by: .....

Signature: .....

Date: .....

Approved by: .....

Signature: .....

Date: .....

**Remarks:**

Appendix – 26: Cash Payment Voucher (CPV)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Cash Payment Voucher (CPV)**

CPV No: .....

**Invoice details:**

Invoice No: .....

Date: .....

Supplier: .....

**PO details:**

PO No: .....

Date: .....

Sr. #	Description	Account code	Activity Code	Funding Code	Implementer Code	Debit	Credit	Remarks
						US\$		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

Prepared by: .....

Signature: .....

Date: .....

Reviewed/ Verified by: .....

Signature: .....

Date: .....

Approved by: .....

Signature: .....

Date: .....

**Remarks:**

Appendix – 27: Cash Receipt Voucher (CRV)

**Name and Logo of Organization**

Organization Address (Registered)  
 Line 1.....  
 Line 2.....

Contact: Phone: .....  
 Fax: .....  
 Email: .....

**Cash Receipt Voucher (CRV)**

CRV No: .....

**Invoice details:**

Invoice No: .....  
 Date: .....  
 Customer: .....

**Receipt details:**

Receipt Acknowledgment Ref.: .....  
 Date: .....

Sr. #	Description	Account code	Activity Code	Funding Code	Implementer Code	Debit	Credit	Remarks
						US\$		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

Prepared by: .....  
 Signature: .....  
 Date: .....

Reviewed/ Verified by: .....  
 Signature: .....  
 Date: .....

Approved by: .....  
 Signature: .....  
 Date: .....

**Remarks:**

Appendix – 28: Journal Voucher (JV)

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Journal Voucher (JV)**

JV No: .....

Date: .....

**Purpose:**

Sr. #	Description	Account code	Activity Code	Funding Code	Implementer Code	Debit	Credit	Remarks
						US\$		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	<b>Total</b>							

Prepared by: .....

Signature: .....

Date: .....

Reviewed/ Verified by: .....

Signature: .....

Date: .....

Approved by: .....

Signature: .....

Date: .....

**Remarks:**

## Appendix – 29: Proposed Accounting Treatment and Reporting of PSM Cost

Process Stage	Proposed Entry
Order placement	<b>DR.</b> Goods In Transit <b>CR.</b> PPM Current Acct or Supplier Acct in case of direct procurement <b>CR.</b> Procurement. Savings Acct
Import permit/quality assurance requested – as applicable	<b>DR.</b> Expenditure (Q&A fee) <b>CR.</b> PPM Current Acct or Supplier Acct in case of direct procurement
Order Receipt (at Central Warehouse)	<b>DR.</b> Expenditure (commodity cost) <b>CR.</b> Goods In Transit Acct  <b>DR.</b> Expenditure (warehouse fee) <b>CR.</b> Bank Acct
Commodity Dispatched (to Health Facilities)	<b>DR.</b> Expenditure (distribution fee) <b>CR.</b> Bank Acct
Disbursement by GF to PR	<b>DR.</b> Bank Acct <b>CR.</b> Income Acct
PR transfers funds to Procurement Agent or Supplier	<b>DR.</b> Procurement Agent or Supplier Acct <b>CR.</b> Bank Acct
Direct disbursement by GF to PPM Agent or Supplier	<b>DR.</b> PPM Current Acct or Supplier <b>CR.</b> Income Acct
Post-delivery / PPM or Supplier closing of PQ/PE	<b>DR.</b> Expenditure (other PSM costs charged by PPM agent or Supplier) <b>CR.</b> PPM Current Acct or Supplier Acct

Appendix – 30: Bank Account Opening Form

<b><u>Name and Logo of Organization</u></b>	
Address of Organization (Registered) Line 1..... Line 2.....	Contact: Phone: ..... Fax: ..... Email: .....
-----	
<b><u>Bank Account Opening Form</u></b>	
Dear Concern,	Reference No: ..... Date: .....
-----	



Appendix – 31: Bank Reconciliation Statement

**Name and Logo of Organization**

Address of Organization (Registered)  
 Line 1.....  
 Line 2.....

Contact: Phone: .....  
 Fax: .....  
 Email: .....

**Bank Reconciliation Statement**  
As of DD/MM/YY

Account Number: .....  
 Bank Name: .....  
 Date: .....

Description	Amount		Comments
	US\$		
<b>Balance as per Cash Book</b>		<b>XXXX</b>	
<b>Add:</b>			
Unpresented Checks (AB xxx)	XXX		
Unpresented Checks (BB xxx)	XXX		
Unpresented Checks (CB xxx)	XXX		
Direct Credit/Standing Oder (if any)	XXX		
Other Adjustments (If any)	XXX	XXXX	
<b>Less:</b>			
Uncredited Checks (DB xxx)	XXX		
Uncredited Checks (EB xxx)	XXX		
Bank Charges (Not yet charged)	XXX		
Direct Debit/Standing Order (if any)	XXX		
Other Adjustment (if any)	XXX	XXXX	
<b>Balance as per Bank Statement</b>		<b>XXXX</b>	

**Attachments:**

- ✓ Copy of bank statement
- ✓ Copy of cashbook (GL)

Prepared by: .....  
 Signature: .....  
 Date: .....

Reviewed/ Verified by: .....  
 Signature: .....  
 Date: .....

Approved by: .....  
 Signature: .....  
 Date: .....

**Remarks:**

Appendix – 32: Physical Cash Count Form

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Physical Cash Count Form**

Location: .....

Date: .....

Function: .....

Reference No: .....

Description	Currency	Denomination	Unit	Total	Remarks
Notes	US\$	XXX	XX	XXX	
Notes	US\$	XX	XXX	XXX	
Notes	US\$	X	XX	XX	
Notes/Coins					
Notes/Coins					
Coins					
Coins					
<b>Total</b>				XXXX	
Cash book balance				XXXX	
<b>Difference</b>				XX	

**Explanation:**

Prepared by: .....

Reviewed/Verified by: .....

Approved by: .....

Signature: .....

Signature: .....

Signature: .....

Date: .....

Date: .....

Date: .....

Appendix – 33: Asset Register

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Asset Register**

Location: .....

Date: .....

Function: .....

Reference No: .....

Sr. #	Asset Description	Asset Code	Date of Purchase	Location	Classification	Total Cost	Estimated Useful life	Book Value	Remarks
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									

Prepared by: .....

Reviewed/Verified by: .....

Approved by: .....

Signature: .....

Signature: .....

Signature: .....

Date: .....

Date: .....

Date: .....

**Remarks:**

Appendix – 34: Physical Asset Count Form

**Name and Logo of Organization**

Address of Organization (Registered)

Line 1.....

Line 2.....

Contact: Phone: .....

Fax: .....

Email: .....

**Physical Asset Verification Form**

Location: .....

Date: .....

Function: .....

Reference No: .....

Sr. #	Items Description	Asset Code	Date of Purchase	Location	Classification	Physical Quantity	Stock Card Quantity	Difference	Remarks
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									

Prepared by: .....

Reviewed/Verified by: .....

Approved by: .....

Signature: .....

Signature: .....

Signature: .....

Date: .....

Date: .....

Date: .....

**Remarks:**