



# The Global Fund Guidelines on Financial Risk Management

November 2017  
Geneva, Switzerland

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# 1 Executive summary

## 1.1 Introduction and purpose

1. The objective of the Global Fund is to achieve impact against the three diseases through investing donor funds in well managed and well performing programs. In order to achieve this objective, the Global Fund has the following 4 core principles:
  - a. Country Ownership – the countries in which funds are invested determine their own solutions to fighting the three diseases and take full responsibility for ensuring the implementation of these solutions in light of their own political, socio-cultural and epidemiological context.
  - b. Partnership – governments, civil society, and communities living with the diseases, technical partners and the private sector are involved in the decision-making process and collaborate in the implementation of programs funded by the Global Fund.
  - c. Performance-based funding – continued funding is dependent upon the demonstration of proven results.
  - d. Transparency –The Global Fund is fully committed to transparency and this is reflected in all of its work. The Global Fund is a signatory to and actively participates in the International Aid Transparency Initiative.
2. In adopting these principles, the Global Fund relies on the ability of implementers in countries to provide effective financial management policies and procedures to manage risks related to:
  - a. Flow of Funds arrangement
  - b. Internal Controls
  - c. Financial Fraud, corruption and theft
  - d. Accounting and Financial Reporting
  - e. Value for money
  - f. Auditing arrangements
3. These Financial Risk Management Guidelines should be considered together with the following Global Fund documents:
  - Risk Management Policy
  - OPN on Risk Management across the Grant Lifecycle
  - Risk and Assurance Framework
  - Operational Risk Framework
  - Operational Policy Note on Additional Safeguard Policy
  - The Global Fund accountability framework
  - Procurement Regulations and Procedures
  - The Finance Specialist Handbook
  - Guidelines for Grant Budgeting and Annual Financial Reporting
  - Guidelines for Annual Audits of Global Fund Grant Program Financial Statements
4. The Global Fund Risk Management Policy specifies that the primary responsibility for risk management for the Secretariat rests with the management and other staff of the several divisions and departments that jointly form the Country Teams. It also identifies “risk

owners” within the Secretariat, which is further defined in the Operational Policy Note (OPN) on Risk Management.

5. This Operational Policy Note states that the Risk Owners are responsible for providing technical guidance in their functional area regarding risk identification and prioritization, best practices for mitigants based on country context, and assurance planning options and follow-up actions.
6. Where risk and capacity assessments and further assurance findings suggest that risks are not effectively managed and hence that there are issues relating to the financial management of the grant then the Finance Specialist<sup>1</sup> together with the Fund Portfolio Manager from the Country Team will need to develop, appropriate risk mitigation measures. This should be done in collaboration with the implementing entity.
7. This document establishes guidance for Finance Specialists and subsequently to implementers on the Global Fund’s approach to mitigating financial risks within grants. The guidance addresses the following:
  - a. Clearer understanding of the financial risks that need to be assessed and how these assessments should drive changes in financial risk management at the implementer level;
  - b. The roles and the responsibilities of the different stakeholders involved in the financial risk management at the Global Fund by providing an accountability matrix;
  - c. Clarified policy for Finance Specialists and implementers on what financial risk identification tools and mitigation measures are available and how and when they should be used. The guidance will consider the risk mitigation measures that the Global Fund can suggest at the level of the Principal Recipient (“PR”), although implementation of the measures may also be at the Sub-Recipient (“SR”) level.
  - d. Consistent application and monitoring of financial risk mitigation measures. Ensuring that Country Teams monitor and assess regularly the impact of these measures on the financial risks of the grant together with the overall performance of the grants;
  - e. Better engagement with stakeholders on:
    - Explaining the reasons why financial risk mitigation measures are put in place;
    - Understanding of how the measures will be used and commitment to building the risk mitigation into the underlying control framework of the implementers;
    - How the effectiveness of the risk mitigation measures will be monitored and assessed.
8. The guidelines are not intended to impose any obligations, additional to those in the grant agreement or in the contract with the relevant Agent. In case of any conflict between the provisions set out in the relevant grant agreement and/or in the contract with the relevant Agent and these guidelines, the specific clauses of the grant agreement and/or in the contract with the relevant Agent shall take precedence.

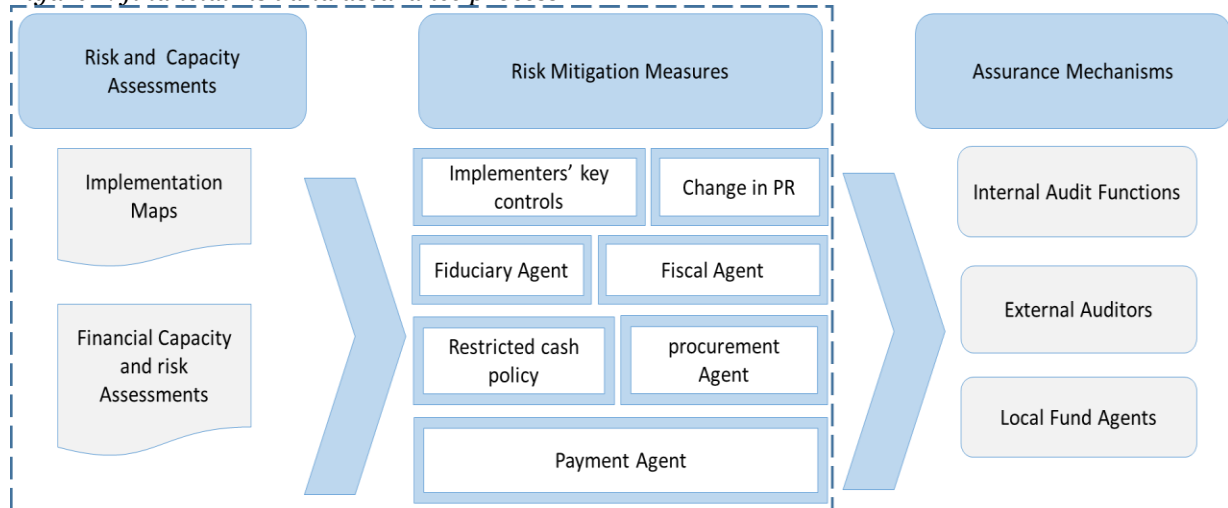
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<sup>1</sup> Throughout these guidelines, “Finance Specialist” refers to the Global Fund Finance Specialist in the country team. They include Finance Specialists in the Portfolio Services Team supporting focused portfolios.

## 1.2 Principles and Scope

- The Global Fund Financial Risk and Assurance Framework defines the general approach to managing financial and fiduciary risks and the related mitigating actions including implementers' key controls, and identifies the possible mechanisms of assurance of the grants (refer to figure 1).

Figure 1: financial risk and assurance process



- The core principle is that the Global Fund Country Teams ensure that implementers have financial control environments appropriate to the programs. Where the control environment is deficient, the country team will implement other risk management mechanisms and will ensure that ongoing assurance demonstrates the effectiveness of these financial controls/ mechanisms.
- This guideline only deals with the Risk and Capacity Assessments and the Risk Mitigating Measures. Assurance mechanisms will be developed in the Financial Assurance Guidelines and in the guidelines for financial assurance planning. The three guidelines will be subsequently consolidated in the financial risk management and assurance guidelines.
- It is worth mentioning that while some of the financial risk mitigation measures should be seen as short to mid-term measures, this will not be applicable in all cases, as exceptionally, maintenance of these risk-mitigating measures for longer periods may be justified in certain circumstances. This is especially relevant in environments where the inherent endemic risk in the country is deemed high such as in a Challenging Operating Environment (COE). The decision on whether or not to maintain a risk mitigation measure would therefore, remain a Country Team responsibility based on their assessment of the risks. The Country Team decision in determining the adequate risk mitigation measure would involve professional judgment, given that each country, implementer and grant are specific.
- The Global Fund defines the best practices in financial management in the Financial Management Handbook for Grant Implementers. This document also identifies internal control best practices. As a result, the current guidelines do not cover Implementers' controls as risk management measures. This guideline provides however, some best practice key financial controls in Annex 2.

## 2 Financial Risk and Assurance process

### 2.1 Financial and Fiduciary Risks

14. The Operational Risk Framework of the Global Fund uses the following sub-categories of financial risk to determine the overall financial risk assessment of individual grants:
  - Inadequate Flow of Funds Arrangements
  - Inadequate Internal Controls
  - Financial Fraud, Corruption and theft
  - Inadequate Accounting and Financial Reporting
  - Limited Value for Money
  - Inadequate Auditing Arrangements
15. The risk of Inadequate Flow of Funds Arrangements is defined as the possibility that funds budgeted by the Global Fund are not used by Principal Recipients (PR) or Sub-Recipients (SR) within the timelines agreed in the grant budget due to (i) inadequate implementation arrangements, (ii) bottlenecks in the flow of funds from the Principal Recipients to the SRs and other implementing partners including beneficiaries due to external factors and (iii) inadequate cash flow management by the Principal Recipient.
16. The risk of Inadequate Internal Controls is defined as the possibility that Global Fund resources are misused as a result of lack of (i) well designed and effective control at entity, process and transactional levels, (ii) compliance with policies, procedures and applicable law and (iii) safeguarding of Global Fund assets.
17. The risk of Financial Fraud, Corruption and Theft is defined as the possibility that (i) Global Fund financed assets (financial and non-financial) are misappropriated, (ii) financial statements reported to the Global Fund are intentionally misstated and (iii) Global Fund incurs financial loss as a result of engaging in corrupt practices, fraudulent practices, coercive practices, collusive practices, obstructive practices, money laundering, and financing of terrorism which is collectively referred to as “prohibited practices.”
18. The risk of Inadequate Accounting and Financial Reporting is defined as the possibility that the records maintained and the financial reports provided by the Principal Recipient and Sub Recipients in relation to Global Fund funding are incorrect<sup>2</sup>, delayed, incomplete or have inadequate supporting documents.
19. The risk of Limited Value for Money is defined as the possibility that Global Fund resources are lost because of the lack of Effectiveness and Efficiency<sup>3</sup> and implementers not choosing the most economical options.
20. The risk of Inadequate Auditing Arrangements is defined as the possibility that external and internal auditing arrangements are not effective (design and operating) or adequate to provide the Global Fund with the level of financial assurance expected on the risk management actions of the implementers<sup>4</sup>.

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<sup>2</sup> In this case, the error is not intentional. This is the main difference as compared with fraudulent financial statements.

<sup>3</sup> Attain the result with the resource available and on time

<sup>4</sup> This is regardless of whether the risk management action is requested by the country team or whether it is the implementer's own internal control system.





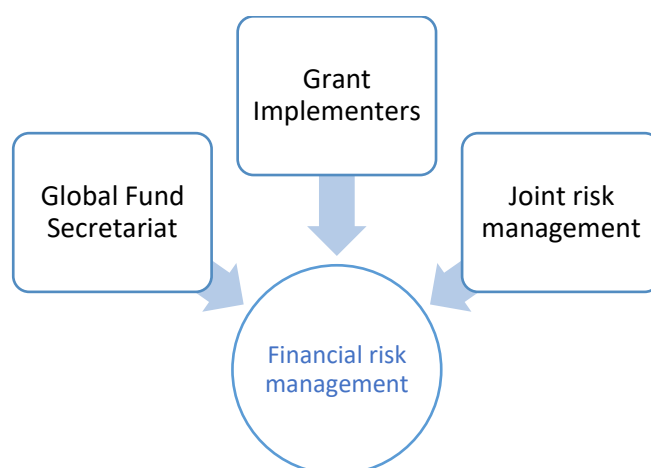
## 2.2 Financial Risk Assessment

21. The Financial Risk Assessment is the process of identifying, measuring and prioritizing the financial and fiduciary risks.
  - a. For new PRs, it starts as soon as the Principal Recipient is identified and the Capacity Assessment is undertaken. For countries deemed very high risk, where the proposed PR is known sufficiently in advance, the Capacity Assessment should be substantially completed prior to the submission of the Funding Request to the Technical Review Panel. At this stage, the assessment should look at the design of the controls, the effectiveness of the control for previous projects (whether or not funded by the Global Fund) and the capacity of the implementer regarding key financial and fiduciary processes. The outcome of the Capacity/Risk Assessment should result in an action plan for the implementer.
  - b. For continuing Principal Recipients, this should start during the Country Dialogue stage prior to the submission of the funding request. The key risks communicated to the country should include the key financial risks discussed during the country dialogue that may impact on the grants including any mitigating actions that were agreed on. The funding request should clearly specify the mitigating actions that will be implemented to address the identified risks and how it will be funded if applicable
  - c. As part of the Global Fund's continuous improvement approach, the Secretariat may request an independent assessment of the Principal Recipient's capacity when signs of ineffective financial management are detected through the review of one of the financial assurance providers or an audit of the Office of the Inspector General. Such assessment may be performed by members of the Secretariat independent from the Country Team for the specific country during grant implementation. For Finance, it is led by the Financial Risk and Assurance team.
22. As part of the capacity assessment, the Principal Recipient and/or the Local Fund Agent should ensure that they identify the key controls at entity level and activity level for each of the processes assessed. Such identified controls should be evaluated for design effectiveness and operating effectiveness.
23. A key control can be defined as "a control that, if it fails, means there is at least a reasonable likelihood that a material error in the financial statements, or material loss due to asset misappropriation or corruption would not be prevented or detected on a timely basis. In other words, a key control is one that is required to provide reasonable assurance that material errors or/and material losses will be prevented or timely detected."
24. Throughout the grant cycle, the Country Team should ensure that the controls noted at country dialogue/ grant making are operating effectively for the grant. These controls should be included in a risk and control register that maps out risks, associated controls, control owner, frequency and timing, etc. In addition, the Country Team should monitor the progress of the action plan established at grant inception. Finally, the country team should build such monitoring of the controls in their financial assurance planning.
25. The use of each of the financial risk mitigating measures described in this guideline should result from an assessment by the Country Team of the level of financial and fiduciary risk within the grant. This assessment shall demonstrate the potential impact of the financial risk as well as the probability of such risk occurring.

## 2.3 Financial Risk Management

26. Financial risk management is a continuous process. For the Global Fund, financial risk management represents the following activities:
- Financial risk management at the Secretariat of the Global Fund:* this is composed of the policies, measures and interventions available to Country Teams to influence the financial risk profile of the grant portfolio.
  - Financial risk management at implementers:* implementers should build risk management into the governance of the programs. This encompasses a sound internal control framework<sup>5</sup>, a documented control register, clear assurance frameworks, and active monitoring of recommendations from assurance providers. The *Financial Management Handbook for Implementers* further develops this aspect. The Grant Risk Assessment and Management Tool is also an optional tool available for implementers to conduct risk assessments (i.e. risk identification, mitigation etc.)
  - Joint risk management:* these are financial risks managed in conjunction with the Global Fund in-country partners. Initiatives such as joint financial risk assessments with the World Bank and health sector-wide capacity strengthening are examples under this approach. These initiatives generally have a longer-term impact.

Figure 2: Type of Financial risk management Assessment



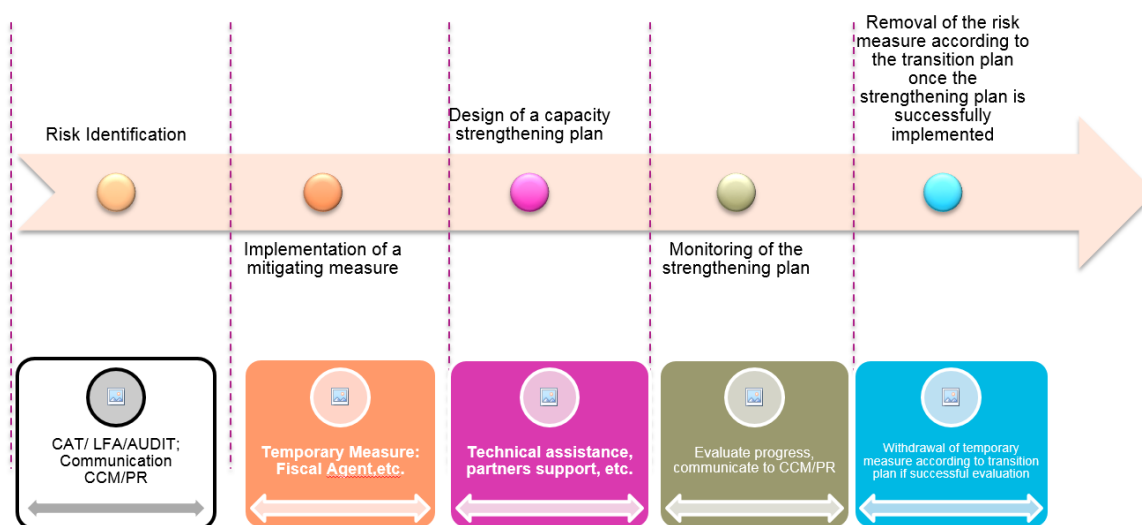
27. The interventions available to Country Teams to effect the financial risk management profile of a grant are deemed to be financial risk mitigating measures. When deciding on the measure to be adopted, the Country Team should ensure that this is reflective of the risk that is being faced and the measure put in place should not be either inadequate or over-burdensome in mitigating the risk. This will be a matter of judgment and therefore the highlighted risks and proposals to implement a financial risk mitigation measures by the Country Team should be approved by the Regional Finance Manager (RFM) in consultation with the Regional Manager/Department Head. The RFM may as well consult with the Financial Risk and Assurance team to ensure a consistency in approach across the portfolio<sup>6</sup>.

<sup>5</sup> In the absence of an internal control framework, TGF would recommend implementers to adopt the internal control framework defined by the [Committee of Sponsoring Organization \(COSO\)](#)

<sup>6</sup> The Review by the financial risk and assurance team will be mandatory for the change of PRs, Fiduciary Agents and Fiscal Agents. For any other measure, it will not be mandatory

28. The Country Team should also ensure that the proposed risk mitigating measure has appropriate visibility to the Implementer. This should ensure that the following are clear:
- The implementer understands the risk that is being managed
  - The expected timeframe of the measure
  - The actions and milestones to be measured and the expected outcome
  - The frequency of the assessment and how its conclusions are reported and to whom
  - Who should perform the assessment
29. Figure 3 below details out the steps from installation to removal expected from the Global Fund regarding the financial risk mitigating measures.

Figure 3: Engagement and communication process with stakeholders



**Step 1:** The Country Team identifies the risk through either the capacity assessment, the Office of the Inspector General report or one of the assurance providers' reports (external auditor, Local Fund Agent, etc.). The risks are subject to a prioritization exercise in which a focused set of key risks is identified while other risks are intentionally deprioritized.

**Step 2:** The existence of the deficiency implies that the Principal Recipient control is inadequate or not effective. Depending on the impact of such deficiency or/and the persistence of such deficiency, the country team may decide to use one of the financial risk management measures described in this manual or any other deemed adequate for this particular issue.

**Step 3:** Those measures are meant to be temporary solutions while the PR reinforces its internal control. In that respect, some technical assistance should be available either through the risk management mechanism (e.g. Fiscal Agent or Fiduciary Agent will propose a capacity building plan) or through a dedicated technical assistance.

**Step 4:** The building plan of the technical assistance should have clear milestones with defined measurable metrics that should be agreed with the Country Coordinating Mechanism and the Principal Recipient. The periodicity of the assessment as well as the assessment mechanism should be agreed with the Principal Recipient and the Country Coordinating Mechanism.

**Step 5:** Based on the improvement noted over time through these assessments and whether they have been fully embedded in normal operations, the Country Team in consultation with the Country Coordinating Mechanism and the Principal Recipient will decide on whether or not the risk management measure should be removed. The removal should be done according to the transition plan. At the request of the Country Team, such removal could be decided at the level of the Operational Risk Committee.

## 2.4 Roles and Responsibilities

30. **The Head of Program Finance and Controlling (HPFC)** in the Global Fund is the risk owner for the financial management of the grants and is overall accountable for the financial risk management and assurance policies.
31. At regional level, this authority is delegated to the **Regional Finance Manager (RFM)** who decides the best mechanism to put in place to reduce the financial risk to an acceptable level for all countries in his/her portfolio. In doing so, the RFM must collaborate and consult with the Regional Manager/ Department Head and the Financial Risk Management and Assurance team.
32. **The Finance Specialist (FS)** is responsible for implementing, managing and monitoring the financial risk management measures put in place for the grant. The FS should periodically assess effectiveness and compliance of the measures. The Finance Specialist must collaborate and consult with the Fund Portfolio Manager (FPM) for installation, management and removal of any of the financial risk management measures included in this guideline.
33. **The Financial Risk Management and Assurance team** leads all aspects relating to the definition of policies and procedures and ensure compliance thereof. The team has also an advisory role to the RFM and the Finance Specialists.
34. **The Risk Department** endorses the policy and processes established by the risk owners to ensure consistency with the risk management framework of the organization.
35. For all top high-risk countries as defined annually by the Risk Department the removal of a risk mitigating measure should be endorsed by the **Operational Risk Committee (ORC)**.
36. **The Ethics Officer** provides an annual written opinion to the Board on the state of ethics and integrity across the entire Global Fund and the activities it finances, including anti-corruption controls, based on available assessments of key risk areas; and advise on potential modifications to ethics-related systems and policies to close gaps and improve internal controls, and monitor effectiveness of compliance systems.
37. **The legal team** is responsible for the following:
  - a. Reviewing Agent contracts, terms of reference, scope of liability and indemnities and refund provisions
  - b. Contract negotiations including renewals, extensions and terminations
  - c. Identifying and mitigating legal and other related corporate risks
38. To clarify the role and responsibilities of all the persons involved, a RACI<sup>7</sup> matrix has been established which defines for each step of the Financial Risk Management Measures included in this guideline, who is accountable, responsible; who should be consulted and who should be informed. The matrix is included in Annex 3.

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<sup>7</sup>The RACI matrix is a responsibility assignment matrix, designed to assign tasks, activities, responsibilities, accountability, decision making, supporting to team members of a process/project and clarify expectations on the level of their participation.

### 3 Financial risk mitigating measures

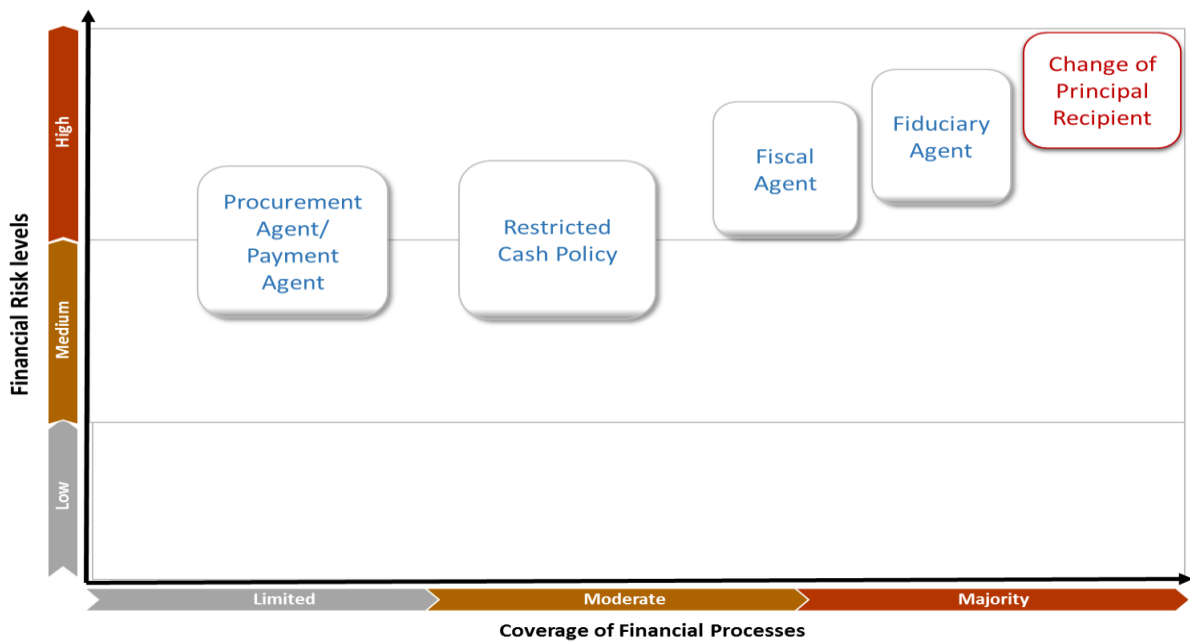
39. The Global Fund will principally rely on implementers' controls. However, when the circumstances demonstrate that these controls are inadequate or not effective, the Country Team may use some/other measures to ensure appropriate financial management of the funds used for the program's implementation.
40. Rather, the guidelines describe the most frequently used financial risk mitigating measures by the Secretariat. The objective is to ensure a common understanding of the circumstances under which they can be used, what the scope of the measure should be and how this should be managed by the Secretariat.
41. The following measures are described in the guidelines:
  - a. Change of Principal Recipient
  - b. Fiduciary Agent
  - c. Fiscal Agent
  - d. Restricted Cash Policy
  - e. Procurement Agent
  - f. Payment Agent
42. The decision to put in place one of these measures is the result of a capacity / risk assessment. The measure can be put in place either at grant start date or anytime during grant implementation. The conclusion of the assessment would indicate, at that point in time, that the Principal Recipient and/or Sub Recipient<sup>8</sup>, does not have the required minimum capacity<sup>9</sup> for the financial management of the grant or has critical/major financial management weaknesses. In addition, overcoming the financial management weaknesses identified in the short-term by other mitigation measures embedded in the selected Principal Recipient and/or Sub Recipient is unlikely.
43. The financial risk level of a grant as well as the financial processes at risk, will define which risk mitigating measure is most appropriate. Figure 4 below is a diagram linking the mitigating measures to the level of risk and the amount of processes at risk.

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<sup>8</sup> In principle, SR assessment is the responsibility of the PR. However, based on risk and materiality of funding, the Global Fund may request its assurance providers to perform SR capacity / risk assessments.

<sup>9</sup> At a minimum, the GF requires a PR to have financial management and systems that can 1) correctly record all transactions and balances, including those supported by the Global Fund, 2) can disburse funds to Sub-Recipients and suppliers in a timely, transparent and accountable manner 3) can maintain an adequate internal control system, 4) can support the preparation of regular reliable financial statements, 5) Can safeguard the PR's assets and 6) are subject to acceptable auditing arrangements.

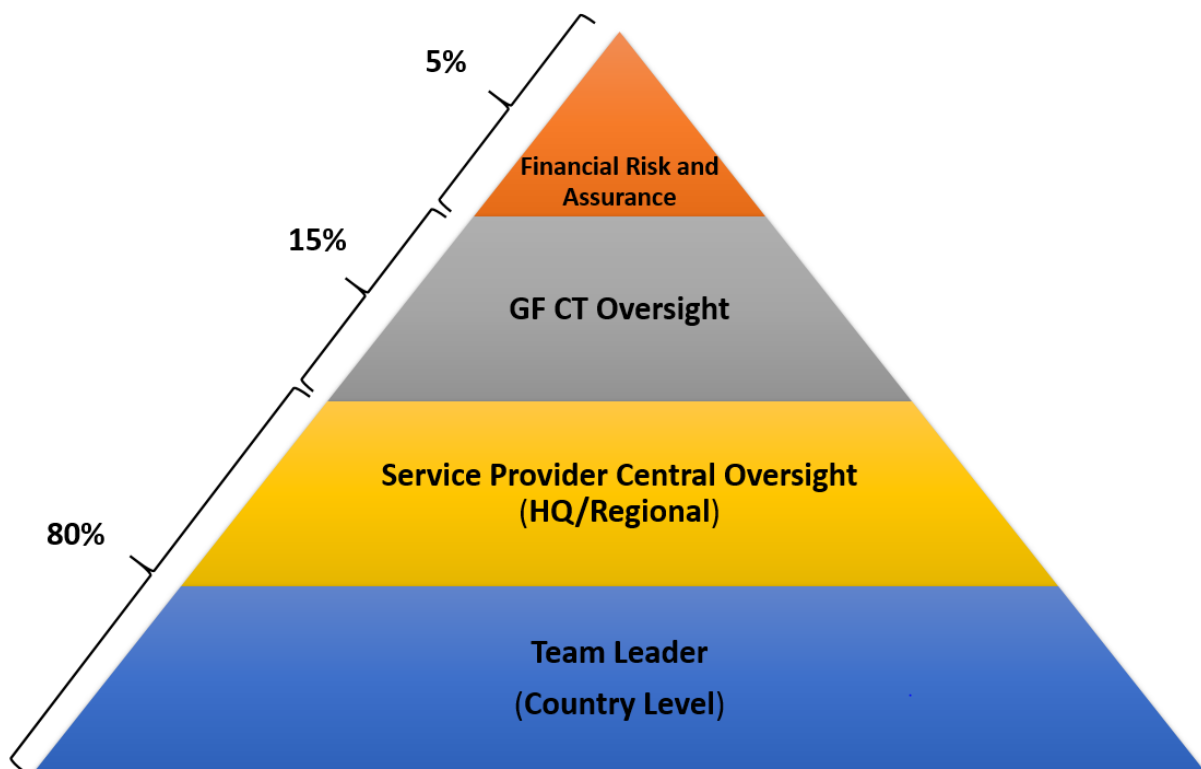
Figure 4: coverage of the financial risk mitigating measure compared to the level of financial risk



44. The introduction of too many of the above risk mitigating measures at the same time can create severe bottlenecks in grant implementation. This needs to be given due consideration to ensure that there is a right balance in terms of risk mitigating measures vis a vis attainment of program objectives to ensure minimal interruptions in grant implementation.

## 4 Quality Control Framework

Figure 5: Quality Control Framework



45. On a sample basis, the Financial Risk and Assurance Team based on the financial risk profile would review compliance of quality assurance mechanisms implemented by the various aforementioned levels of quality assurance.
46. The GF country team with support from the LFA would carry out random spot checks on compliance of defined quality assurance mechanisms.
47. The Service Provider (Fiduciary Agent, Fiscal Agent, Procurement Agent, and Payment Agent) is responsible for defining an appropriate quality assurance mechanism on the deliverables as well as on managing conflicts of interest and on consideration of ethics. Such mechanisms must include the quality assurance mechanisms in place at both Head Quarters and country operations level.
48. The Service Provider Head Quarters must ensure an effective quality control mechanism including the review of the quality of the deliverables, monitoring aspects to ensure that the tasks performed by the Service Provide are compliant with the terms of reference, the creation of appropriate tools and processes for the Service Provider team in country.
49. Similarly, the Service Provider team in country must have a quality control mechanism through which the Team Leader must review the work of his/her team members, define a Service Level Agreement and monitor compliance thereof.



## **5 Change of Principal Recipient**

### **5.1 Objectives**

50. The Additional Safeguard Policy can be invoked in full or in part whenever “the existing systems to ensure accountable use of Global Fund financing suggest that Global Fund monies could be placed in jeopardy without the use of additional measures.” The objective of this note is to clarify to the Country Team the cases where, from a financial perspective, the change of Principal Recipient, under an Additional Safeguard Policy or not, would be necessary.
51. The change of Principal Recipient during grant implementation is a Country Team-driven process and not a Program Finance decision. However, when severe lack of financial capacity is noted, the Finance Specialist in the Country Team or in the Portfolio Service Team should discuss with the Fund Portfolio Manager and the Regional Finance Manager to ensure appropriate actions are taken, in line with the Global Fund Accountability framework.

### **5.2 Principles**

#### **5.2.1 Financial Triggers for Change of Principal Recipient**

52. In assessing the severity of events when considering whether a change of Principal Recipient would be required, the following factors need to be considered:
  - a. The impact on overall grant objectives;
  - b. The materiality of any potential financial loss resulting from financial capacity issues; and
  - c. The potential for reputational damage to the Global Fund due to fraud, corruption or further inadequate financial controls.
53. Changing a Principal Recipient should only be considered where the issue has one of the above impacts and cannot be mitigated by a different risk mitigation measure (as outlined within this manual).
54. The following (non-exhaustive) examples are types of financial management issues that should result in the Country Team considering a change in the Principal Recipient:
  - Consistent low levels of absorption of funds;
  - Severe lack of financial capacity including critical gaps in financial processes, financial system and human capital capacities;
  - Repeated failure to address key financial matters leading to a material risk of loss of Global Fund financed assets (both cash and non-cash) and reputation;
  - Inadequate culture of financial discipline and controls throughout the organization, particularly culture within senior management resulting in Global Fund financed assets being at risk;
  - Consistent non-compliance of the Principal Recipient in regard to the provision of financial information to the Global Fund (e.g. Cash Balance reporting, Annual Financial Reports, etc.);

- Major findings by key financial assurance providers to the Global Fund. This could include the qualification of audits by the external auditor or major findings / non-compliance with grant agreements, highlighted from spot checks performed by Local Fund Agents or the Office of the Inspector General;
- Refusal by the Principal Recipient to accept either assurance or risk mitigation actions taken by the Global Fund to manage the financial risks on the grant in high risk environment with weak/ non-existent PR controls (e.g. refusal to engage with a Fiscal Agent); and
- Absence of willingness of the Principal Recipient to perform financial controls and to monitor control activities by senior management even if these controls are effectively designed.

### 5.2.2 Identification of Requirement to Change Principal Recipient

55. During the funding request or the grant-making stages<sup>10</sup> an initial assessment should be conducted by the Finance Specialist of the financial management capacity of the implementer and hence will be the point at which financial management control weaknesses are initially assessed, through the Principal Recipient Capacity/risk Assessment exercise. For countries deemed high risk<sup>11</sup>, where the proposed PR is known sufficiently in advance, the capacity/risk assessment should be substantially completed prior to the submission of the Funding Request to the TRP. If at any point these financial management control weaknesses are pervasive and cannot be mitigated effectively then an alternative Principal Recipient should be chosen. The approval of a Principal Recipient through grant-making is therefore a confirmation, at that point in time, that the Principal Recipient has sufficient financial management capacity to implement the grants.

56. During grant implementation, the assessment of financial management capacity can change and result in the need for a review of the ability of the Principal Recipient to implement the grants. The identification of the need to re-assess the capacity of the Principal Recipient could derive from one of the following key events:

- Poor grant implementation (illustrated by low absorption and/or poor performance against programmatic targets) highlighting the ineffectiveness of financial controls to ensure funds are used appropriately;
- Reports from assurance providers and/or OIG reports consistently identifying fraud corruption and/or misappropriation of program assets;
- Financial losses reported within the reports of the Principal Recipient or through Local Fund Agent reports as a result of poor budgetary controls, foreign exchange mismanagement, stock obsolescence or loss of other assets;
- Report from the external auditor identifying key internal financial control failures and/or the need for a qualified opinion on the annual financial report;
- An Office of the Inspector General (OIG) report showing critical financial capacity gaps and/or material losses for the Global Fund and/or severe damage to Global Fund reputation; and
- Critical financial management gaps identified by another donor working with the same Principal Recipient.

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<sup>10</sup> As soon as the Principal Recipient is identified

<sup>11</sup> Such list is established annually by the Risk department

57. The process to change PR is also detailed in the Guidelines on Implementers of Global Fund Grants and Operational Policy Note on ASP.

## ***Key take-away***



**Changing PR is the risk mitigating measure of last resort. From a financial perspective, Principal Recipients should only be changed when all other financial risk mitigating measures are deemed inadequate or are limited compared to the nature of the challenges/ risks at the PR.**

**Changing PR is not a Finance specific process. However, it is recommended to change PR when major financial issues could adversely impact the program achievements, the Global Fund reputation and/or has material financial loss.**

**The process to change PR is defined in the Guidelines on Implementers of Global Fund Grants and Operational Policy Note on ASP.**

## **6 Fiduciary Agent**

### **6.1 Definition**

58. The Fiduciary Agent (FiA) is a Service Provider, external to the Principal Recipient, contracted directly by the Global Fund Secretariat or directly contracted by the PR as part of its proposed implementation arrangements to mitigate financial risks arising from non-existent or extremely weak financial management capabilities of implementers of Global Fund grants. The role of the FiA is to manage and control the banking and financial arrangements relating to Global Fund grants as well as complying with all financial requirements of the Global Fund, to ensure appropriate use of grant funds. The FiA is the financial function of the Implementer and performs the day-to-day financial management of the Global Fund grant. Bodies like Ministry of Finance (MoF), Development Banks or accounting firms, etc. could act as FiA.
59. In contrast to the Fiscal Agent (described in the following section), the FiA conducts the full cycle of financial management of the Global Fund grants on behalf of the PR while the PR ensures programmatic implementation. Therefore, The Global Fund could disburse directly to the FiA. In this situation, the FiA is responsible for ensuring that the financial forecasting, budget reviews, accounting, banking arrangements, financial management and reporting to the Global Fund are consistent with the terms of the grant agreement. In addition, if the Fiduciary Agent is directly contracted by the Global Fund there should be dual reporting to both the Global Fund and the Principal Recipient. On the other hand, if the FiA is contracted by the Principal Recipient then there will normally be no direct reporting to the Global Fund except for the progress made on the capacity-building plan. They will have a dual reporting line only when required by the Global Fund and if such reporting is deemed necessary by the Regional Finance Manager.

### **6.2 Objectives**

60. The installation of the Fiduciary Agent specifically aims to:
- a. Mitigate the risk of fraud or misuse of grant funds and minimize ineligible expenditures on the use of grant funds;
  - b. Ensure adequate safeguard measures are implemented with respect to assets funded through Global Fund's financing;
  - c. Ensure the continuity of program implementation in high risk environments by ensuring that safeguards are in place with respect to Global Fund investments;
  - d. Ensure effective controls are in place on the use of Global Fund grant funds and that all payments are eligible, justified and adequately supported;
  - e. Ensure that financial records for all transactions are maintained accurately and on a timely basis;
  - f. Contribute towards ensuring that the Principal Recipient's reporting to the Global Fund is accurate, timely and in accordance with the Grant Agreements and any applicable policies and guidelines of the Global Fund; and
  - g. Ensure the PR's capacity is strengthened through a time bound measurable capacity building plan.

## **6.3 Principles**

### **6.3.1 Key Financial risks addressed by the Fiduciary Agent**

61. The use of a Fiduciary Agent addresses the following risks:
- Absence of an appropriate financial function within the Principal Recipient;
  - Inadequate culture of financial discipline and controls throughout the organization, particularly within senior management;
  - Risk of fraud or misuse of grant funds;
  - Inappropriate safeguard measures of the Global Fund grant assets in High Risk environments including Challenging Operating Environments (COE);
  - Inadequate/ineffective controls in the Global Fund grant processes including procurement and payments;
  - Inadequate segregation of duties in key processes;
  - Inadequate monitoring of Sub Recipients;
  - Lack of maintenance of accurate Financial records for all transaction and untimely posting of financial transactions;
  - Inaccurate and delayed financial reporting to the Global Fund; and
  - Weak capacities of financial staff at the level of the Principal Recipient and/or Sub Recipients.

### **6.3.2 When should a Fiduciary Agent be utilized?**

62. The Fiduciary Agent is required when the Principal Recipient is not in a position to immediately remedy the changes required in its Financial Management and Systems to manage the identified risks.
63. The decision to install a Fiduciary Agent can be made by the Country Team during funding request/ grant making stages (based on the conclusion of a Capacity/Risk Assessment) or during grant implementation through one of the different reports from a grant assurance provider (Local Fund Agent reviews, audit report, etc.) or the Office of Inspector General, or annual risk assessments for High Impact or Core portfolios.
64. The decision to install a FiA can be also proposed by the Principal Recipient as part of the implementation arrangements if its own assessment demonstrates the need to outsource financial functions.
65. Except for situations where the risk is deemed endemic and critical (very high corruption environment, etc.), the installation of a Fiduciary Agent is meant to be a temporary measure to ensure short term compliance whilst in parallel build financial management capacity to mitigate the impact of the financial risks that would otherwise occur.

### **6.3.3 Scope of work of the Fiduciary Agent**

66. The aspects below represent an indicative list of the scope of services that a Fiduciary Agent can provide. However, Country Teams may request different tasks that should be discussed and then agreed with the Regional Finance Manager. The Regional Finance Manager will consult with the Senior Manager, Financial Risk and Assurance. The main difference between the Fiscal Agent and the Fiduciary Agent regarding their scope of work is that the Fiduciary Agent will perform the financial and fiduciary responsibilities while the Fiscal Agent will act more as an enhanced control mechanism within the Principal Recipient.

#### 67. Review and design of procedures manual

- Review the Administrative, Financial and Accounting Procedures Manual developed by the Principal Recipient and improve them to ensure that the Procedures Manual complies with the practices described in the Financial Management Handbook for Grant Implementers. If the implementer has no procedures manual, the Fiduciary Agent will establish such manual;
- The Fiduciary Agent shall ensure that the Procedures Manual includes, without limitation, the following:
  - Procedures for financial management, accounting and reporting, including procedures for internal controls and systems of accountability;
  - Minimum requirements clearly stating what documentation is necessary to support individual transactions for, without limitation, the payment of all salaries and allowances (per diem), fuel, training courses and workshops, monitoring and evaluation visits, general overheads and the procurement of non-health products;
  - Procedures for controls over instructions that result in financial commitments, controls over the recording of transactions, reconciliations to 3rd party statements, quality reviews of internally generated reporting and the making of payments;
  - Procedure for monitoring of approved budgets against the actual expenditures within an integrated financial management system;
  - Procedures for management of human resources, payroll and the controls over the payment of allowances (i.e. per diems);
  - Procedures for fixed asset management, including process for monitoring of usage, insurance, maintenance and verification of existence;
  - Procurement procedures – controls and processes, tendering, evaluation and selection procedures, threshold amounts;
  - Procedures for management of advances and retirements with respect to SRs;
  - Procedures for identification, selection and assessment of its SRs as well as the contracting, financial oversight and supervision of those SRs; and
  - Policy on segregation of duties between the PRs and any SRs.
- Establish the PR flow of funds diagram;
- Establish the control register of the Principal Recipient; and
- Establish the PR financial assurance framework showing for each key risk, the mitigating measure in place and the assurance mechanism. The cost of risk mitigating measures and the assurance mechanism should be highlighted.

#### 68. Procurement of goods and services

- Design of Principal Recipients/Sub-Recipients procedures for acquisition of goods and services and reinforce controls where necessary;
- Set up purchase requisition and ensure it is duly signed by the persons of the relevant authority;
- Ensure the requisition is in line with the specific activity under the approved budget and work-plan and represents value for money;
- Review and approve requests for compliance with the minimum standards and applicable procurement guidelines/policies;
- Complete the tender development process in order to ensure it does not favor specific suppliers and to ensure that the process is transparent and fair.

#### 69. Budgeting/Forecast

- Improve Principal Recipients/ Sub-Recipients procedures for budgeting and forecasting including controls performed by senior management;

- Elaborate on the budget of the PR and those of some key SRs for reasonableness and value for money;
- Establish budget monitoring and analyze absorption for accuracy and relevance of the explanations;
- Support PR reprogramming requests with strong financial information (quality budget linking funds to program);
- Establish PR consolidated disbursement forecast and ensure it is reasonable.

#### 70. Books and records

- Ensure adequate procedures exist regarding the documentation necessary to support individual transactions for, without limitation, the payment of all salaries and allowances (per diem), fuel, training courses and workshops, monitoring and evaluation visits, general overheads and the procurement of non-health products;
- Selection and installation of accounting system;
- Ensure accuracy of data entry;
- Review adequacy of chart of account and mapping for Global Fund reporting purpose and improve it where necessary;
- Ensure proper secure system for archiving of all supporting documentation.

#### 71. Payment of goods or services

- Have co-signatory or signatory authority over the payment vouchers in accordance with the PR procedures;
- Comply with payment procedures (ex. ante verification);
- Authorize or Co-authorize cash transfers;
- Ensure financial transaction is in accordance with the relevant grant agreement;
- Ensure all transactions are duly supported by original documentation;
- Perform ex post verification on payment by controlling or performing themselves weekly (or monthly) bank reconciliations;
- Investigate variances on cash reconciliations and post related adjustment where necessary.

#### 72. Financial Reporting

- Support the selected Sub-Recipients to ensure the accurate and timely preparation and submission of all financial information and reports to their Principal Recipient;
- PU/DR: the FiA shall put together the historical financial information that is reported and included in this PU/DR and quality review it;
- AFR: Prepare the Annual Financial Reporting report to the Global Fund and performs the budget versus actual variance analysis and provide relevant explanations to the variance;
- The FiA is responsible for financial management oversight as well as ensuring the accuracy and financial integrity of all financial information reported to the Global Fund.
- Reconcile expenditures from different reports of the entity to ensure consistency (audited financial statement, PU/DR, AFR, etc.).

#### 73. External Audits of the Principal Recipient

- Select the financial auditor or be actively involved in the auditors' procurement/selection process;
- Discuss with the selected auditor and review the audit plan to ensure the key financial risks are taken into account;



- Support the work of the external auditors by providing the necessary information and documents in a timely manner;
- Review the quality of the audit deliverables including compliance with the terms of reference and the soundness of the opinion regarding auditing standards;
- Responds to audit findings.

74. Verification of all expenditures made using grant funds. The following are some of the procedures to be applied for high-risk expenditures:

- Human resources – salaries
  - Ensure that positions funded by the grants are paid in accordance with applicable policies for salaries and allowances;
  - Ensure that existing PR/SR staffs (staff on full time contracts rather than specific contracts relating to Global Fund grants) receiving salaries are not receiving additional salary payments from the grant without evidence of approval from Global Fund;
  - Ensure that payments from the payroll to individual employee contracts are in line with approved contracts, e.g. by checking a sample of payments against the contractual arrangement;
  - Ensure that staff receiving salary payments from the grant are performing grant related functions.
- Human resources - salary supplements
  - Establishes performance contracts for all beneficiaries;
  - Ensure that beneficiaries of performance contracts are consistent with the approved plan and budget;
  - Define performance criteria and ensure that performance is duly taken into account when calculating the salary supplement to be paid.
- Travel related costs
  - Ensure that the purpose of the trip is in accordance with the approved work plan and that there is evidence to confirm the work was performed;
  - Ensure that amounts paid are in accordance with the approved rates for allowances, or for direct reimbursement of actual expenses; confirm that the mode of transport was economical and was supported by appropriate documentation and
  - Design controls around fuel consumption and ensure fuel expenditures are supported by adequate justification.
- Training
  - Ensure that all trainings are budgeted and also in the approved training plan. If not, the FiA should have relevant documentation from the programmatic person in accordance with the non-material budgetary adjustment policy;
  - Ensure appropriate mechanism of selection of service provider for trainings at all levels is designed and effectively implemented;
  - Ensure secure mechanism of payment of participants for trainings at all levels is designed and effectively implemented;
  - Ensure that there is appropriate supporting documentation to verify that the event in fact occurred and that the relevant invoices were genuine;
  - Ensure that no fees (other than reimbursement of travel and per diem) were paid to staff receiving a salary financed through the Global Fund grant.

75. Capacity building

- Diagnose issues: within six months of FiA installation, provide the Principal Recipients and the Global Fund with a consolidated capacity report that identifies the strengths and weaknesses.
- Produce change capacity building action plans;
- Hiring of financial staff;

- Design and documentation of processes;
- Mentoring and coaching;
- Provide formal training.

#### **6.3.4 Obligations of the Fiduciary Agent**

76. The FiA should perform the agreed services in accordance with the terms and conditions of its contract (relevant Indefinite Quantity Contract and Work Order) with the Global Fund or the Principal Recipient. In particular the FiA must exercise all skills, reasonable care, prudence and diligence in the discharge of its duties and obligations as would be expected from a skilled and experienced professional undertaking similar tasks. The FiA must carry out its functions under its contract in a timely and cost-effective manner and in conformity with professionally sound technical and management practices requisite for successful provision of the relevant services and in accordance with internationally accepted accounting and financial management principles and practices. The FiA must use at least the same standard of due care in handling the Global Fund funds as it would use with its own funds.
77. The FiA will be liable for any damage loss and /or liability incurred as a result of their negligence and/or work not being done in accordance with the contract between the FiA and the Global Fund. In such cases the FA will be expected to refund the amount involved to the Global Fund.
78. In instances where the FiA as part of their work, detects cases of suspected or confirmed fraud or irregularity, such findings must be immediately reported to the Global Fund. The Global Fund will decide on follow-up measures on receipt of such information, including where appropriate, informing the Office of the Inspector General which might subsequently decide to launch an investigation

#### **6.3.5 Responsibility of Implementers (Principal Recipients/Sub Recipients)**

79. The implementer remains ultimately responsible for:
- a. Ensuring adequate support and collaboration to assist the Fiduciary Agent in performing its role in an optimal manner;
  - b. Providing access to all documentation and accounting records pertaining to the grant as requested by the Fiduciary Agent or as required in the discharge of their duties, including the provision of secured office space for the usage of the Fiduciary Agent;
  - c. Understanding and agreeing on the capacity building plan as well the milestones indicators and the evaluation of progress process;
  - d. Ensuring implementation of all the necessary actions to reduce the risks that led to the installation of the Fiduciary Agent and any other major risk identified after the installation of the Fiduciary Agent; and
  - e. Where a capacity-building plan exists, ensuring its senior management monitors progress towards successful achievement of goals.

#### **6.3.6 Communication to the implementers and monitoring**

80. Following the identification of risks and financial management weaknesses and quantification of the likelihood of occurrence and their impact on the grant, the Country

Team or the Implementer will propose the installation of a Fiduciary Agent to the PR and/or SR and the Country Coordinating Mechanism (CCM) <sup>12</sup>

81. The Country Team will also agree the terms of reference of the Fiduciary Agent with the Principal Recipient and agree on an Exit plan with the Fiduciary Agent. The Exit plan which includes a time bound capacity building plan as well as the expected timeline of the role of the Fiduciary must be approved no later than six months after the installation of the Fiduciary Agent.
82. The Country Team and the Country Coordinating Mechanism should take advantage of available Technical Assistance to assess the progress on the capacity-building plan. In the absence of such assistance, the Country Team can decide to use the LFA or any external independent mechanism to perform this evaluation. The frequency of this evaluation should be decided by the Principal Recipient and the Country Team.
83. On a quarterly basis, the Fiduciary Agent must provide a report on the progress on the capacity-building plan.
84. As part of its oversight role, the Country Coordinating Mechanism should monitor the progress of achievement of the goals in the capacity-building plan.

#### **6.3.7 Fiduciary Agent relation with the Country Coordinating Mechanism (CCM)**

85. The Country Coordinating Mechanism has an oversight function over the implementation of the Global Fund grants. As such and in order for the CCM to better assess the risks faced by the grants, the Fiduciary Agent can be a source of information.
86. Reporting: The Fiduciary Agent is part of the Principal Recipient implementation arrangement. It is required to inform the top management of the PR on issues found while performing its role. The PR and the Secretariat could agree that the Secretariat receives a copy of the FiA periodic reports. The findings of the Fiduciary Agent are reported to the CCM through the PR (indirect reporting).
87. The Secretariat can commission an assessment of the Fiduciary Agent on a regular basis (annual). This assessment could include:
  - a. Review of compliance with Fiduciary Agent agreed Terms of Reference;
  - b. Review of the conclusion of the reports of the Fiduciary Agent over the period under review;
  - c. Measurement of progress made on the capacity building plan;
  - d. Assessment of the Fiduciary Agent performance metrics.
88. Attending CCM meeting: As part of the Principal Recipient's attendees, The Fiduciary Agent can attend the CCM meeting at the request of the CCM or the Principal Recipient, when such requirement is specified in the Fiduciary Agent's terms of reference, and such attendance is in accordance with the CCM meeting procedures. Such request can be made at different stages of the Fiduciary Agent's mandate:
  - a. Initial assessment of the financial capacities of the Principal Recipient and Sub-Recipients as well as the intended corrective measures;

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<sup>12</sup> First through an email or during a country visit and further reiterated in the management letter

- b. AFR qualitative analysis
- c. At issuance of the Fiduciary Agent quarterly report to the Principal Recipient and Country Coordinating Mechanism;
- d. Comment on the audit/OIG financial findings;
- e. Status of the capacity building plan as well as the monitoring of the progress against the set targets;
- f. Upon request of the CCM to provide the information necessary for grant oversight and to eventually inform the CCM of the bottlenecks that prevent them from optimally, performing their work.

### **6.3.8 Appointment of the Fiduciary Agent**

89. If the Fiduciary Agent is requested by the Global Fund, its appointment will be performed in accordance with the applicable Global Fund Regulations and Procedures<sup>13</sup> which describe how procurements and selection decisions are to be made;
90. Unlike the case of the Fiscal Agent, the Principal Recipient can select and procure a Fiduciary Agent (example: Ministry of Finance, Finance unit of partner working at the Principal Recipient, etc.) as part of its implementation arrangements if its own assessment demonstrates the need to outsource such functions. In such case<sup>14</sup>:
- a. If the Fiduciary Agent commences before the grant starts, it will be assessed as part of the Principal Recipient Capacity Assessment.
  - b. If the Fiduciary Agent is contracted during grant implementation, the decision of such appointment should be agreed with the Country Team

#### **6.3.8.1 Request for Fiduciary Agent services**

91. When the Principal Recipient is directly contracting the Fiduciary Agent, the role of the Country Team will mainly consist of approving the term of reference and ensuring that the tendering and selection process, if applicable, has been done in a transparent and competitive manner.
92. When the Global Fund is directly contracting the Fiduciary Agent, the Country Team will complete a “Fiduciary Agent Request Form” which describes the risk identified, specifies the expected cost, explains why the Fiduciary Agent is requested and details the level where the Fiduciary Agent will operate (Principal Recipient or/and Sub-Recipients). This form should be approved by the Regional Finance Manager and endorsed by the Head of Department or Regional Manager<sup>15</sup>, taking into account the cost and the benefit of this measure.
93. The Country Team will then draft the terms of reference of the Fiduciary Agent, ensuring it addresses the risks identified in the approved “Fiduciary Agent request form.” The terms

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<sup>13</sup> Currently being developed.

<sup>14</sup>In cases where the PR will directly contract with the Fiduciary Agent, then the PR should be reminded of its obligations under the Grant Regulations (especially Article 5.1 (procurement practices), Article 6.6 (Code of Conduct for Suppliers) and Article 7 (Books and Records and Access). The Country Team Legal Counsel must be consulted if the PR is not able to comply with these obligations (e.g. the FiA will not grant access and audit rights to the Global Fund).

<sup>15</sup> Approval can be in a form of email, responding to the Country Team request to install a Fiduciary Agent. For Core countries, the approval of the Regional Manager will be necessary. For High Impact countries, the Department head will approve the request.

of reference should be approved by the Regional Finance Manager. The financial risk management and assurance team will verify that the terms of reference responds to the financial risk identified.

94. The Country Team will contact the Sourcing Team and copy the relevant Country Team Legal Counsel with the following information:

- The Fiduciary Agent Request Form agreed with the Regional Finance Manager and Grant Management Division Head of Department or Regional Manager;
- The draft terms of reference tailored to address country specific financial risk and agreed with the Financial Risk and Assurance team;
- The number of Principal Recipients that the Fiduciary Agent will cover;
- The size of grants managed by each Principal Recipient and the total current undisbursed funds on all signed grants with these Principal Recipients;
- The Country Team recommended estimate of the size of Fiduciary Agent team;
- Expected term of engagement (start/end date)
- Allocated/expected budget
- An indication of the Fiduciary Agents to be considered from the list of pre-approved Fiduciary Agents, including a rationale for the selected Fiduciary Agents;
- Expected in-country mission date to install Fiduciary Agent.

#### **6.3.8.2 Role of the Principal Recipient in the Fiduciary Agent selection process:**

95. When a Fiduciary Agent is selected by the Secretariat, the Principal Recipient can be part of the selection process of the Fiduciary Agent if deemed necessary by the Country Team. The Principal Recipient staff member to be involved in the selection process should be preferably the Head of Finance. If not, the Principal Recipient representative in the Technical Evaluation Committee (TEC) should have the required qualifications in financial management.

96. The Principal Recipient will be considered as a TEC member and perform the same evaluation as other TEC members based on defined grading criteria. The criteria should include a review of the technical proposal in the first instance and thereafter, a review of the financial proposal.

#### **6.3.8.3 Fiduciary Agent selection process:**

The selection of the Fiduciary Agent will be done as per the Global Fund procurement regulations and procedures

97. For “Focused” countries, the request for a Fiduciary Agent in a “Focused” Country might trigger a need for a reassessment of the country financial risk grading and assess whether the country should be “Focused Opt-in” in Finance<sup>16</sup>.

98. The target timeframe for installation of the Fiduciary Agent in country is expected to be around 3 months after the launch of the Request for Proposal (RFP).

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<sup>16</sup> A focused opt-in country is a country classified as focused but for which the level of financial risk necessitates a closer monitoring than other focused countries

99. The Country Team is responsible for the communication with the Country Coordinating Mechanism and the implementers regarding clarifications on the role of the Fiduciary Agent as well as the practical arrangements for office location and co-signature<sup>17</sup>.

### 6.3.9 Country Team Monitoring of Fiduciary Agent Performance

100. The Fiduciary Agent will be involved in the Principal Recipient's day-to-day operations. However, if the Global Fund selects the Fiduciary Agent, a monitoring framework has to be included in the Work Order to ensure that the Fiduciary Agent has a dual reporting line (Principal Recipient and the Global Fund Secretariat). In these cases, the Fiduciary Agent should monitor progress against the capacity building plan and report to the Global Fund.

101. **Quarterly Progress Reports:** The Fiduciary Agent shall send a report on the progress made on the capacity building plan when such plan has been agreed with the Global Fund. The Finance Specialist will review the report and respond as deemed appropriate to the Fiduciary Agent team.

102. **Annual assessment:** The Country Team will commission an annual assessment of the performance of the Fiduciary Agent. This assessment can be performed either by an independent consultant firm, the LFA or the Finance Specialist. Finance Specialists will be the primary assessor of the Fiduciary Agent. This role will be delegated to the other assurance providers only on an exceptional basis<sup>18</sup>. This assessment could include:

- i. Review of compliance with Fiduciary Agent agreed Terms of Reference;
- ii. Review of the defined performance metrics;
- iii. Measurement of progress made on the capacity building plan, if any.

103. The Fiduciary Agent shall respond to the findings of this assessment within 1 month of issuance of the comments by the Global Fund and agree with the Global Fund and the Principal Recipient on the corrective actions to be undertaken.

### 6.3.10 Renewal/Extension or Termination of the Fiduciary Agent contract

104. The Fiduciary Agent contract shall ordinarily cover the implementation period of the grant after which it will be retendered<sup>19</sup>. This will be based on the procurement policy of the holder of the contract.

105. If the Fiduciary Agent contract is between the FiA and the PR, the continuation or renewal of the FiA contract will be subject to the PR's procedures but should at least be based on performance. The same principle applies if The Global Fund holds the contract.

106. The renewal will be subject to (i) good accomplishment of the requested tasks as per the Terms of Reference (ii) demonstrated progress by the Principal Recipient in strengthening identified areas of weakness, which led to the installation of the Fiduciary Agent in the first place.

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<sup>17</sup> The co-signature is not mandatory and will be decided by the CT and the RFM based on the financial risk profile of the PR

<sup>18</sup> Such exceptions include cases where the country is a Focused Country, or when the Finance Specialist is not available due to other commitments or if there are travel restrictions

<sup>19</sup> The Country Team Legal Counsel and Sourcing Team as relevant, should be consulted in relation to any proposed amendment, renewal or interpretation of contractual terms (including TORs).

107. Following the annual assessment, the Country Team shall make a recommendation on the renewal/extension or termination of the Fiduciary Agent contract. The recommendation will be approved by the Regional Finance Manager in consultation with the/ Regional Manager or Department Head and the Financial Risk and Assurance team.
108. In cases where the FiA contract will not be renewed, the outgoing FiA will take all reasonable steps to ensure that there is an efficient transfer of services to the incoming FiA. This should include both written handing over notes detailing any pertinent issues and face-to-face meetings with the incoming FiA.

#### **6.3.11 Case of United Nations agencies and International Non-Governmental Organizations**

109. United Nations (UN) agencies and International Non-Governmental Organizations (INGOs) are expected to have strong financial management mechanisms including qualified staff, systems and processes. As a rule, the installation of a Fiduciary Agent, paid with Global Fund grant funds, at the level of an implementer that is a UN Agency or an INGO is not expected.
110. However, if there is a significant risk with potential material impact on Global Fund programs, the Country Team should request the United Nations agency and/or International Non-Governmental Organization to propose an effective solution with immediate effect on the identified financial management weaknesses.
111. Lack of oversight by a UN agency or INGO that leads to material financial risks could result in a reduction in the level of Indirect Cost Recovery (ICR) the Global Fund would be willing to pay for the services of the UN agency or INGO until risk mitigation measures are put in place.
112. Any request to have a Fiduciary Agent at a UN Agency or INGO should be validated by the Regional Finance Manager and approved by the Head of Program Finance and Controlling and reflected in the level of ICR the Global Fund is willing to pay.

#### **6.3.12 Cessation of Fiduciary Agent services**

113. The fiduciary agent service may cease in one of the following cases:
- a. Change of Principal Recipients
  - b. At the end of the grants or when the Global Fund stops funding in a country where a fiduciary agent is working
  - c. Lack of performance leading to change of the fiduciary agent
  - d. Completion of the objectives assigned to the fiduciary and therefore the financial and fiduciary risk is reduced to an acceptable level
114. In the last two cases, the cessation of the Fiduciary Agent services will depend on progress made by the Principal Recipient and/or Sub Recipients. The outcome of the annual assessment will be the trigger to phase out the Fiduciary Agent if it demonstrates that the weaknesses that led to the installation of the Fiduciary Agent have been adequately mitigated by the Principal Recipient.
115. In any case, the Fiduciary agent must be informed as soon as the decision to terminate its contract is taken or about 6 months before the end of its contract. When the cessation

is due to lack of performance, this period could be reduced to three months or less, just the time for the Global Fund to select another firm to replace the incumbent one.

116. However, it is important to note that the Country Team might decide to maintain the Fiduciary Agent in situations where the inherent endemic risks in the country is deemed high, regardless of the outcome of the annual assessment.
117. Where there is proposal to remove the Fiduciary Agent due to successful completion of its objectives (case 4 above), the CCM, PR and Country Team must be consulted and agree to the proposal. The Finance Specialist in the Country Team will be requested to complete the "Fiduciary Agent exit assessment form" which will be reviewed and validated by the Regional Finance Manager after consultation with the Regional Manager/Head of Department. The form will then be reviewed by the Financial Risk and Assurance Team who will provide a recommendation to the Head of Program Finance and Controlling. The latter has the final decision on this process<sup>20</sup>.
118. For all top High-Risk countries as defined annually by the Risk Department, the decision to remove the Fiduciary Agent should also be endorsed by the Operational Risk Committee.

### ***Key take-away***



**The Fiduciary Agent is an entity external to the Principal Recipient, contracted to conduct the full cycle of financial management of the Global Fund grants on behalf of the PR. This is different from the Fiscal Agent who supports the PR in the implementation of financial management.**

**Also, unlike the Fiscal Agent, the Fiduciary Agent could be selected and procured through the PR's own procedures.**

**The Fiduciary Agent is an independent service provider and does not act on behalf or represents the Global Fund.**

**When requested by the Global Fund, the installation of a Fiduciary Agent must be based on risk and must be documented by the Country Team before installation of the Fiduciary Agent. In this case, the Fiduciary Agent should have a dual reporting line (PR and Global Fund).**

**The Country Team should follow a five-step approach (refer to figure 3) in the management of the Fiduciary Agent and ensure good communication with the different stakeholders (PR, CCM, etc.).**

**Performance of the Fiduciary Agent must be assessed annually. The outcome of this assessment should lead to either the extension or termination of the FiA service.**

**It is not expected to have a Fiduciary Agent at an INGO or UN entity. If a request is made to have a FiA at an INGO or UN entity, the Head of Program Finance must approve the request, and the ICR should be adjusted accordingly.**

**The Regional Finance Manager is responsible for overseeing the Fiduciary Agent processes in his/her region.**

<sup>20</sup> The Country Team Legal Counsel and Sourcing Team as relevant, should be consulted in relation to any proposed amendment, renewal or interpretation of contractual terms (including TORs).





## **7 Fiscal Agent**

### **7.1 Definition**

119. The Fiscal Agent is an independent agency contracted directly by the Global Fund secretariat to mitigate financial risks arising from weak financial management capabilities of implementers of Global Fund grants. The role of the Fiscal Agent is to support the Principal Recipients (PRs) and/or Sub Recipients (SRs) in complying with all financial requirements of the Global Fund, as well as ensuring the appropriate use of grant funds. The Fiscal Agent team members do not substitute for, or perform the work of, the staff of the PRs and selected SRs, including their finance staff. However, the Fiscal Agent shall work with the staff of the designated implementer(s) on a daily basis. The PRs remain ultimately responsible for complying with all the terms of the grant agreement with the Global Fund, including all financial management requirements.
120. Compared to Fiduciary Agents, Fiscal Agents report only to the Global Fund. Depending on the risks identified at the implementer level, the work of the Fiscal Agent can differ substantially.
121. The Fiscal Agent is a financial management support function within the PR/SRs. The Fiscal Agent will therefore work with the Principal Recipients on all financial operations. Therefore, the Fiscal Agent is not an assurance provider for the PR/SRs where it operates, as it is not independent from the PR/SR's operations. However, the Fiscal Agent should have independent decision-making processes. The Fiscal Agent can disagree with the Principal Recipient/Sub-Recipient if a decision is made that is non-compliant with the applicable rules and regulations and good financial management practices.

### **7.2 Objectives**

122. The installation of the Fiscal Agent specifically aims to:
- Mitigate the risk of fraud or misuse of grant funds and minimize ineligible expenditures on the use of grant funds;
  - Ensure the continuity of program implementation in high risk environments by ensuring that safeguards are in place with respect to Global Fund investments;
  - Set up a risk and control matrix of the implementer in its portfolio and ensure effective controls are in place on the use of Global Fund grant funds and that all payments are eligible, justified and adequately supported;
  - Ensure that financial records for all transactions are maintained accurately and on a timely basis;
  - Contribute towards ensuring that the Principal Recipient's reporting to the Global Fund is accurate, timely and in accordance with the Grant Agreement and any applicable policies and guidelines of the Global Fund; and,
  - Ensure the Principal Recipient's capacity is strengthened through a time bound measurable capacity-building plan.

### **7.3 Principles**

#### **7.3.1 Key Financial risks addressed by the Fiscal Agent**

123. The decision to install a Fiscal Agent is the result of a capacity / risk assessment. The conclusion of the assessment would indicate, at that point in time, that the Principal Recipient and/or Sub Recipient, does not have the required minimum capacity for the financial management of the grant or has critical/major financial management weaknesses. In addition, overcoming the financial management weaknesses identified in the short-term by other mitigation measures embedded in the selected Principal Recipient and/or Sub Recipient is considered improbable.
124. The use of a Fiscal Agent addresses the following risks:
- Inadequate culture of financial discipline and controls throughout the organization, particularly culture within senior management;
  - Risk of fraud or misuse of grant funds;
  - Inappropriate safeguard measures of the Global Fund grant assets in High Risk environments including Challenging Operating Environments (COE);
  - Inadequate/ineffective controls in the Global Fund grant processes including procurement and payments;
  - Inadequate segregation of duties in key processes;
  - Inadequate monitoring of Sub Recipients;
  - Lack of maintenance of accurate Financial records for all transaction and untimely posting of financial transactions;
  - Inaccurate and delayed financial reporting to the Global Fund; and
  - Weak capacities of financial staff at the level of the Principal Recipient and/or Sub Recipients.

### 7.3.2 **When should a Fiscal Agent be utilized?**

125. The installation of the Fiscal Agent is subsequent to the identification, following an assessment, of one or more of the aforementioned financial risks when the likelihood of occurrence is probable and the impact on the grant is material. Demonstration of both likelihood and impact of the risk on the grant achievement is therefore a key aspect before this solution is adopted.
126. The Fiscal Agent is required when the Principal Recipient is not in a position to immediately remedy the changes required in its Financial Management and Systems to manage the identified risks.
127. The decision to install a Fiscal Agent can be made during grant making<sup>21</sup> (based on the findings of a Capacity/Risk Assessment) or during grant implementation through one of the different reports from the grant assurance providers, (Local Fund Agent reviews, Office of the Inspector General reviews, audit report, etc.), or annual risk assessments for high impact or core portfolios.
128. Except for situations where the risk is deemed endemic and critical (very high corruption environment, etc.), the installation of a Fiscal Agent is meant to be a temporary measure to ensure short term compliance whilst in parallel build financial management capacity to mitigate the impact of the financial risks that would otherwise occur.

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<sup>21</sup> The assessment should be done as soon as the Principal Recipient is identified.

129. The Fiscal Agent can operate both at the Principal Recipient and Sub-Recipient levels. Based on risk, the Country Team may decide that the Fiscal Agent should implement an extensive monitoring of Sub-Recipients (Hands-on approach) in line with the scope of work at the Principal Recipient (as described below). For other Sub-Recipients, the Country Team may adopt a lighter approach (Hands-off approach) that will be defined in the Fiscal Agent Terms of reference.

### 7.3.3 Scope of work of the Fiscal Agent

130. The following will be the standard scope of work of the fiscal agent. However, country teams may request different tasks that should be discussed and agreed with the Regional Finance Manager. The Regional Finance Manager will consult with the Financial Risk and Assurance team.
131. The Global Fund defines three main types of intervention for the Fiscal Agent services:
- The standard service: exclusively composed of financial management tasks;
  - The enhanced service: include the standard service tasks and a few add-ons such as fraud management, IT management and procurement management;
  - Premium services: could include standard, enhanced services and some programmatic tasks.
132. While the Principal Recipients and Sub-Recipients are the main entities where a Fiscal Agent will operate, when deemed necessary, they can also support the Country Coordinating Mechanism and exceptionally other third-party agents in managing Global Fund funding when financial management is deemed poor.

#### 7.3.3.1 Standard services

133. Based on risk, the Country Team will decide the tasks to be performed at the Principal Recipient and Sub recipient level (Hands-on approach and the Hands-off approach).
134. Procedures manual
- Review the Administrative, Financial and Accounting Procedures Manual developed by the PR/SRs and provide recommendations to ensure that the Procedures Manual complies with the practices described in the Financial Management Handbook for Grant Implementers.
  - The Fiscal Agent shall verify, update and support the finalization thereof and make recommendations to the Global Fund to ensure that the Procedures Manual is consistent with the Principal Recipients obligations under the Global Fund Grant Agreement (including the Grant Regulations) and the policies and guidelines of the Global Fund including, the following:
    - Procedures for financial management, accounting and reporting, including procedures for internal controls and systems of accountability;
    - Minimum requirements clearly stating what documentation is necessary to support individual transactions for, without limitation, the payment of all salaries and allowances (per diem), fuel, training courses and workshops, monitoring and evaluation visits, general overheads and the procurement of non-health products;
    - Procedures for controls over instructions that result in financial commitments, controls over the recording of transactions, reconciliations to third party statements, quality reviews of internally generated reporting and the making of payments;

- Procedures for monitoring of approved budgets against the actual expenditures within an integrated financial management system;
- Procedures for management of human resources, payroll and the controls over the payment of allowances (i.e. per diems);
- Procedures for fixed asset management, including process for monitoring of usage, insurance, maintenance and verification of existence;
- Procurement procedures – controls and processes, tendering, evaluation and selection procedures, threshold amounts;
- Procedures for identification, selection and assessment of its SRs as well as the contracting, financial oversight and supervision of those SRs; and
- Policy on segregation of duties between the PRs and any SRs.

135. Procurement of goods and services

- Perform an initial walkthrough of the key procurement controls and identify weaknesses on the process.
- Perform an oversight role to ensure key controls are effective on ongoing transactions (up to 100% sample selection based on risk and materiality).
- Ensure purchase requisition is duly signed by persons with the relevant authority.
- Ensure the requisition is in line with the specific activity under the approved budget and work-plan and represents value for money.
- Review and approve requests for compliance with the minimum standards and applicable procurement guidelines/policies.
- Observe the tender development process in order to ensure it does not favor specific suppliers and act as an observer in the tender evaluation committee in order to ensure that the process is transparent and fair.

136. Budgeting/Forecast

- Improve and/or support the Principal Recipient/Sub-Recipient in developing procedures for budgeting and forecasting including controls performed by senior management.
- Review the budget elaborated by the Principal Recipient/Sub-Recipient for reasonableness and value for money.
- Review the budget monitoring done by the Principal Recipient and absorption analysis for accuracy and relevance of the explanations.
- Support the Principal Recipient reprogramming requests with strong financial information (quality budget linking funds to program).
- Review Principal Recipient consolidated disbursement forecast for reasonableness.

137. Books and records

- Ensure that books of account are kept by the Principal Recipient for all transactions and that these transactions are appropriately coded and recorded in the accounting systems by the Principal Recipients;
- Ensure accuracy of data entry, without the requirement for the Fiscal Agent to maintain parallel accounting records;

- Review adequacy of chart of account and mapping for Global Fund reporting purposes;
- Ensure that the PR operates a proper and secure system to monitor and control (security and access) the filing and archiving of all supporting documentation for all transactions subject to this work order.

138. Payment of goods or services

- Have co-signatory authority over the payment vouchers;
- Check compliance of the payment procedures;
- Co-authorize cash transfer;
- Ensure financial and other relevant transactions are in accordance with the relevant grant agreement;
- Ensure all transactions are duly supported by original documentation;
- Perform ex post verification on payment by controlling or performing themselves weekly (or monthly) bank reconciliations;
- Check that systems are in place for investigating variances on cash reconciliations.

139. Financial Reporting

- Financial reports to the Global Fund from the PR will include the Quarterly Financial Reports (Cash, balance reporting, Expenditure reporting and Tax reporting), Annual Financial Reporting (“AFR”), Progress Update Disbursement Request (“PU/DR”) and Program financial statements (Fiscal year/Period end) prepared in accordance with applicable national accounting standards and in accordance with Global Fund policies and guidelines;
- Support the PR to ensure the accurate and timely preparation and submission of all financial information and reports to the Global Fund;
- Support the Selected SRs to ensure the accurate and timely preparation and submission of all financial information and reports to their Principal Recipient;
- PU/DR: Support the PRs in putting together the historical financial information that is reported and included in this PU/DR;
- AFR: Support the PRs in preparing the Annual Financial Reporting report to the Global Fund and performing the budget versus actual variance analysis
- The Fiscal Agent is responsible for financial management oversight as well as ensuring the accuracy and financial integrity of all financial information reported to the Global Fund
- Reconcile expenditures from different reports of the entity to ensure consistency (audited financial statement, PU/DR, AFR, etc.)
- Monitor all non-material budget adjustment made by the PR and ensure compliance with [the Global Fund Guidelines for Grant Budgeting](#) and Annual Financial Reporting.

140. External Audits of the Principal Recipient and Sub-Recipients<sup>22</sup>

- Support the Principal Recipient to understand the audit scope of work and audit planning;
- Attend the audit planning meeting, audit debriefings and audit exit meeting,
- Support the PR in responding to audit findings;
- Support the work of the external auditors, along with the selected SRs, by providing the necessary information and documents;
- The PR remains ultimately responsible for maintaining all relevant financial accounts (physical and electronic), bank statements, and associated reports to be provided as part of the audit exercise.

141. Taxes

- Monitor and report on measures taken by the Principal Recipient to ensure that Global Fund Grant Funds are not used to pay taxes, and duties in accordance with the Global Fund Grant Agreement.
- Support the Principal Recipient to ensure that systems to track tax exemptions and reimbursements are in place and that the Principal Recipient takes all necessary steps to obtain reimbursement for taxes where direct exemption is not available.

142. Verification of all expenditures using Grant Funds. The following are some of the procedures to be applied for high risk expenditures:

- Human resources – salaries
  - Verify that all positions funded by the grants are paid in accordance with applicable policies for salaries and allowances
  - Verify that existing PR/SR staffs (staff on full time contracts rather than specific contracts relating to Global Fund grants) receiving salaries are not receiving additional salary payments from the grant without evidence of approval from Global Fund
  - Verify that payments from the payroll to individual employee contracts are in line with approved contracts, e.g. by checking a sample of payments against the contractual arrangement
  - Verify that staffs receiving salary payments from the grant are performing grant related functions
- Human resources - salary supplements
  - Verify whether performance contracts exist for all beneficiaries
  - Verify that beneficiaries of performance contracts are consistent with the approved plan and budget
  - Verify that performance criteria have been defined and that performance has been duly taken into account when calculating the salary supplement to be paid
  - Verify that performance payments have been made only for the period following the approval of such salary supplements by the Global Fund in accordance with the applicable policies and guidelines of the Global Fund.
- Travel related costs

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<sup>22</sup> In principle, the audit is consolidated. However [the guidelines for annual audits of global fund grant program financial statements](#) specify that in certain conditions mainly related to risk, the Country Team may decide to undertake a Sub-recipient specific audit.

- Confirm that the purpose of the trip was in accordance with the approved work plan and that there is evidence to confirm the work was performed
- Confirm that amounts paid are in accordance with the approved rates for allowances, or for direct reimbursement of actual expenses; confirm that the mode of transport was economical and was supported by appropriate documentation
- Confirm that controls exist around fuel consumption and that fuel expenditures are supported by adequate justification
- Training
  - Confirm that there is appropriate supporting documentation to verify that the event in fact occurred and that the relevant invoices were genuine;
  - Confirm that no fees (other than reimbursement of travel and per diem) were paid to staff receiving a salary from the Global Fund grant;
  - Check the attendance of a sample of participants, and that amounts recorded as paid to these individuals for per diem and travel match the amounts that were actually paid.

143. Capacity building

Capacity building is not a mandatory requirement in the scope of work of the fiscal agent. The service will be determined by the Regional Finance Manager and the Country Team when completing the Fiscal Agent request form. Where capacity building will be required, it will include:

- Diagnosis of issues: within six months of Fiscal Agent installation, provide the Global Fund with a consolidated capacity report that identifies the strengths and weaknesses of the Principal Recipient
- Support producing change plans
- Support hiring of staff
- Support design and documentation of processes
- Help mentoring and coaching
- Provide formal training

144. The Principal Recipient and the Global Fund should be consulted in the development of this plan. The plan should also be communicated to the CCM. At a minimum, the capacity building action plan should contain the following information.

- Description of the capacity challenge, which is the issue arising from the capacity needs assessment;
- Identification of the capacity building objective
- Risk or impact rating
- Identification of the component that the issue relates to (people, process or systems)
- The functional area concerned (Institutional and oversight arrangements, Internal controls, Human Resources, Financial Management Information System – FMIS, Planning/Budgeting/Funds Flow, Procurement and Contracts Management, Invoicing/Payments/Recoding, Treasury Management, Asset and Inventory management, Documents and Records Management, Financial reporting and Audit)
- Capacity building action/activities, which are the interventions that are to be implemented to address the capacity challenge
- Timeline for implementing the activities
- Responsible entity
- Any resources (internal and external) needed to implement the capacity building activities



- Indicators of achievement, which should include clear and measurable targets and milestones to enable monitoring of achievement of the action plan objectives

Where a PR capacity building action plan has been agreed, the country team can request the Fiscal Agent to implement part of the action plan. In this case, the Regional Finance Manager is responsible for the monitoring of adequate completion of the capacity building action of the Fiscal Agent.

145. The Fiscal Agent is an enhanced control function within the Principal Recipient and hence is involved in its daily operations. The external auditor and the Local Fund Agents are the main financial assurance providers and as such cannot provide capacity building services. Conversely, the Fiscal Agent can provide capacity building services.
146. The Fiscal Agent is a financial risk mitigating measure. When the Country Team wishes to add more functions to the Fiscal Agent such as those defined in the Fiscal Agent enhanced or premium services below, the Country Team should consider whether the Principal Recipient needs to be changed (refer to the change of Principal Recipient process). The Fiscal Agent should not replace or become another Principal Recipient within the Principal Recipient. If a Principal Recipient's financial, procurement and programmatic functions are inadequate, it should be changed. Adding other non-financial functions to the financial attributes of the Fiscal Agent must be approved before contractual terms are amended<sup>23</sup>, as follows:
- For standard and Enhanced services: approved by the RFM in consultation with RM/HoD and Financial Risk and Assurance Team
  - For Premium service: validation by the RFM and Regional Manager in consultation with the Financial Risk and Assurance Team and then approval required from the Head of Program Finance and controlling and Department Head.

### **7.3.3.2 Enhanced Fiscal Agent services**

In addition to some or all the above-mentioned task of a standard Fiscal Agent service, the Fiscal Agent Enhanced services include one or more of the following tasks:

147. Finance Software, Systems and IT management
- To undertake this task, the Fiscal Agent must have an IT specialist or consultant in its team for an initial period to be determined by the country team. The IT consultant may exit earlier if the system issues are resolved. The contract with the Fiscal Agent, must allow the Global Fund to require the extension of the IT specialist's involvement based on findings identified.
  - Support the Principal Recipient in operationalizing their newly updated system including but not limited to:
    - Ensuring that the technical design actually allows automated financial reporting to the Global Fund in the required format;
    - Ensuring that the approved budgets and budgetary controls are fully integrated into the accounting system and that budget against expenditure variance by activity, intervention and cost categories also integrated into the accounting system;

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<sup>23</sup> The Country Team Legal Counsel and Sourcing Team as relevant, should be consulted in relation to any proposed amendment, renewal or interpretation of contractual terms (including TORs).

- Establishing a detailed flow chart which clearly documents the required procedures through the life cycle of the accounting and reporting process, confirms the roles and responsibilities of all parties and details the processes around the month-end closure, reconciliations, reporting and filing of supporting documents;
- Ensuring that the PR's finance staff are appropriately trained;
- Ensuring that robust internal controls are put in place around the system to safeguard the use of grant funds;
- Carry out reviews to monitor and verify the Principal Recipient's compliance with the system described in the paragraph above;
- Map the chart of accounts, improve implementers' reporting templates and ensuring access controls and backup systems in place.

#### 148. Procurement management and compliance

- To undertake this task, the Fiscal Agent must hire a procurement specialist
- Procurement management support to the PR/SR include:
  - Plan procurement actions: Forecast requirements, prepare terms of reference and specifications, and draft procurement plans;
  - Execute full-cycle procurement actions: Prepare bidding documents, manage tender processes, draft evaluation reports, draft contracts and coordinate contract negotiations;
  - Reporting: Prepare procurement implementation reports;
  - Contract administration: Advise user departments on contract interpretation, commercial practices, and address cases of bid challenges, contract claims and disputes, as required;
  - Document and address gaps within the procurement manual and discrepancies between the procurement manual and practice: The Procurement Specialist will document and implement solutions addressing these gaps and discrepancies;
  - Ensure strict adherence of procurement practice to Global Fund-approved procurement plan, PR procurement process checklists, documentation and filing requirements;
  - Observation of documentation quality and circulation requirements;
  - Highlight and address time gaps and bottlenecks in procurement and supply management processes, including delays in documentation and order approvals;
  - Ensure strict adherence to the approved procedures in respect to suppliers (up-to-date vendor roster, supplier information file and database management);
  - Maintenance of costing data to enable budget holders to have easy access to prices for budget formulation;
  - Ensure strict adherence to approved procurement advertisement procedures;
  - Set-up of workflows and systems (documentation and filing systems) where such systems are missing;
  - Review and approve the invoices presented by a Supply Chain Management service provider (independent Service Provider or Central Medical Stores) after required verifications are carried out on the claimed expenses against the service contract. The Fiscal Agent will sign on the payment vouchers for all payments in the form of a no-objection;
  - Review and approve the reasonableness of any costs associated with procurement of non-health goods and services by the PR.

#### 149. Fraud Risk Management

- The Fiscal Agent will engage the services of a Fraud and Forensics expert who will serve across the Fiscal Agent portfolio within the country.

- Fraud Risk management support to the PR/SR include:
  - Design of adequate fraud detection, prevention and response procedures and tools;
  - Evaluation of grant operations to identify risk areas for fraud and design appropriate responses including Integrity Due Diligence for vendors and staff;
  - Analysis of financial data/information and supporting documentation to detect fraud;
  - Follow up on and conduct in-depth investigations for all instances of actual and suspected fraud;
  - Create and maintain logs, records, or databases of information about fraudulent activity;
  - Ensure all instances of actual or suspected fraud are reported immediately to the Global Fund Country Team and to the highest possible authority of the affected implementer; and
  - Organize trainings and awareness programs for the organization staff on fraud detection and prevention techniques.

### **7.3.3.3 Premium Fiscal Agent services**

150. The Fiscal Agent Premium services could include standard, enhanced services and some programmatic tasks.
151. The Fiscal Agent, in exceptional circumstances, provides non-financial services. The need for such services should be strongly justified and validated by the Regional Finance Manager and the Regional Manager. These services will then need to be approved by the Department Head and the Head of Program Finance and Controlling. Non-financial services are essentially made of program management, planning and monitoring support services.
152. Program Management, Planning and Monitoring Support Services
- To perform this task, the Fiscal Agent will engage the services of an M&E/Programmatic expert
  - Program Management, Planning and Monitoring support to the PR/SR include:
    - building the PR/SR own program management systems and structures, the planning and monitoring of grant activities;
    - Collaborate with program manager of the PR and other technical assistance providers, as directed by the Global Fund;
    - Institute, if applicable and participate in regular program management meetings;
    - Support the PR in the on-going planning and monitoring of program activities as detailed in the approved work plans and budgets contained in the grant agreement. This is with a view to ensuring that the program activities are properly planned and implemented to ensure a satisfactory level of program implementation and the absorption of grant funds
153. When a Fiscal Agent is requested to provide financial and non-financial services, this could trigger an independent assessment of the PR capacity to implement the grant.

### **7.3.4 Fiscal Agent involvement with Sub-Recipients**

154. There are three levels of interaction between the Fiscal Agent and the SRs. Choosing one or the other should be based on risk and materiality of the fund managed by the Sub-Recipient. The levels of interactions are as follow:

#### **7.3.4.1 Hands-On approach**

155. This approach suits for high are generally high-risk SRs. The Fiscal Agent will engage directly and on a regular basis with the SRs.
156. The Fiscal Agent's tasks and responsibilities are as follows:
- a. Review and approve all cash transfers made by the PRs to these SRs. The Fiscal Agent will co-sign all payment vouchers or payment requests as applicable, at the PR for these SR disbursements.
  - b. The Fiscal Agent shall:
    - i. Have co-signatory authority, as designated by the SRs, over all of the SR's bank accounts. The means of payments would first be signed by the SR and then the Fiscal Agent.
    - ii. Verify and report that grant funds are not comingled with funds from other sources; and

- iii. Support the SRs in producing the original disbursement documentation, which should fulfill the minimum standards set forth below in c.
- c. The Fiscal Agent shall ensure that all requested financial transactions of the SRs meet the following minimum standards:
  - i. The financial transaction is in accordance with the approved SR submitted budget and work-plan that formed the basis for the recently made PR disbursement to the SR;
  - ii. The financial management systems and controls employed by the SR for each transaction are in compliance with the approved Financial Management Manual;
  - iii. All transactions are duly supported by original documentation;
  - iv. The requisition is prepared and signed by the person who will carry out the action or purchase or will supervise the work of others or provision of a service;
  - v. The specifications relating to the transaction are attached to the requisition, setting out the criteria for payments to be made and any measures of quality or completion that are relevant;
    - i. For transactions relating to procurement:
      - The procurement method of identifying suppliers includes the selection criteria and methods for inviting quotations in accordance with applicable procurement laws in the country and applicable guidelines of the PRs;
      - The quotations are attached (where applicable) and a description of the merits of the preferred quotations over the alternate ones is demonstrated;
      - Evidence of registration documents of suppliers, including ownership;
      - They should also take a skeptical look at the bid documents to ensure that they are from independent bidders i.e. no common spelling mistakes, no copy / paste from one document to another, etc.
- d. When the transaction is deemed satisfactory, the Fiscal Agent shall give a no objection and remit it to the SRs for signature. Following receipt of the SR's signature, and subject to the Fiscal Agent's continued confidence in the eligibility of the financial transaction, the FA shall provide its co-signature for execution of the final payment.
- e. The Fiscal Agent shall consider audit reports and other external reports in determining the extent of additional checks and verifications required for the authorization of each individual transaction.
- f. In the event the Fiscal Agent requires additional verifications it may request the Global Fund to instruct the LFA to carry out additional field checks on doubtful documents, suppliers, or transactions. The Fiscal Agent shall review and give their no objection within the timelines as stated in the SR's procedures manual.

#### **7.3.4.2 Hand-off approach**

- 157. In this approach, the Fiscal Agent will support the PRs in managing the payment of advances to the Sub-Recipients and the subsequent retirement of advances at the PR for these SRs but will not engage directly with the SRs. This is detailed as follow
- 158. Prior to the disbursement by the PR to SRs subject to Hand-off approach, the Fiscal Agent shall verify and review the SR budgets for the forecast period, taking into consideration the latest cash balance, outstanding commitments and as well as the SRs absorption rate, and propose the recommended disbursement amount for the next period.
- 159. Thereafter, for all subsequent disbursements to SRs, the Fiscal Agent shall review and verify the supporting documentation provided at a later date justifying expenditures. Once the justification has been received supporting the use of the previous advance, the Fiscal

Agent shall ensure that the advance is correctly liquidated with justified amounts transferred to expense. The Fiscal Agent shall ensure that no subsequent advances are made to any of these SRs without the full liquidation of the previous advance.

#### **7.3.4.3 Quarterly review approach**

160. This approach suits for medium to high risk Sub-Recipients. The Fiscal Agent will conduct quarterly on-site financial compliance reviews of the SRs.

161. In the detail, this approach consists of Fiscal Agent taking responsibilities in ensuring that authorized financial transactions at these SRs in the relevant quarter meet the following minimum standards:

- i. The financial transaction is in accordance with the relevant grant agreement (including, but not limited to, the approved budget, approved work-plan, PSM plan and/or M&E plan);
- ii. The financial management systems and controls employed by the SR for each transaction are in compliance with the approved Financial Management Manual;
- iii. All transactions are duly supported by original documentation. The Fiscal Agent shall carry out all reasonable steps to ensure that the documentation is authentic;
- iv. The requisition is prepared and signed by the person who will carry out the action or purchase or will supervise the work of others or provision of a service;
- v. The specifications relating to the transaction are attached to the requisition, setting out the criteria for payments to be made and any measures of quality or completion that are relevant;
- vi. For transactions relating to procurement:
  - The procurement method of identifying suppliers includes the selection criteria and methods for inviting quotations in accordance with applicable procurement laws in the country where it operates and applicable guidelines of the SRs;
  - The quotations are attached (where applicable) and a description of the merits of the preferred quotations over the alternate ones is demonstrated;

162. When the transaction is deemed satisfactory, the Fiscal Agent shall give a no objection and remit it to the SRs for signature. Following receipt of the SR's signature, and subject to the FA's continued confidence in the eligibility of the financial transaction, the FA shall provide its co-signature for execution of the final payment.

163. The Fiscal Agent shall consider audit reports and other external reports (LFA, OIG reports, etc.) in determining the extent of additional checks and verifications required for the authorization of each individual transaction.

164. In the event the Fiscal Agent requires additional verifications, it shall request the Global Fund to instruct the LFA to carry out field checks on doubtful documents, suppliers or transactions.

165. On a quarterly basis, the Fiscal Agent will ensure that all brought forward and carried forward PR/SR intercompany balances and movements reconcile (cash balances, expenditures in the period and outstanding unliquidated advances).

#### **7.3.5 Obligations of the Fiscal Agent**

166. The Fiscal Agent should perform the agreed services in accordance with the terms and conditions of its contract (relevant Indefinite Quantity Contract and Work Order) with the Global Fund. In particular the Fiscal Agent must exercise all skills, reasonable care,

prudence and diligence in the discharge of its duties and obligations as would be expected from a skilled and experienced professional undertaking similar tasks. The Fiscal Agent must carry out its functions under its contract in a timely and cost-effective manner and in conformity with professionally sound technical and management practices requisite for successful provision of the relevant services and in accordance with internationally accepted accounting and financial management principles and practices. The Fiscal Agent must use at least the same standard of due care in handling the Global Fund funds as it would with its own funds.

167. The FA will be liable for any damage loss and /or liability incurred as a result of their negligence and/or work not being performed according to the terms of the contract between the Fiscal Agent and the Global Fund. In such cases the Fiscal Agent will be expected to refund the amount involved to the Global Fund.

168. In instances where the FA as part of their work, detects cases of suspected or confirmed fraud or irregularity, such findings must be immediately reported to the Global Fund. The Global Fund will decide on follow-up measures on receipt of such information, including where appropriate, informing the Office of the Inspector General which might subsequently decide to launch an investigation

#### **7.3.6 Responsibility of Implementers (Principal Recipients/Sub Recipients)**

169. The implementer remains ultimately responsible for:

- a. Ensuring adequate support and collaboration to assist the Fiscal Agent in performing its role in an optimal manner;
- b. Providing access to all documentation and accounting records pertaining to the grant as requested by the Fiscal Agent or as required in the discharge of their duties, including the provision of secured office space for the usage of the Fiscal Agent;
- c. Understanding and agreeing on the capacity strengthening plan as well the milestones indicators and the evaluation of progress process;
- d. Ensuring it implements all the necessary actions to reduce the risks that led to the installation of the Fiscal Agent and any other major risk identified after the installation of the Fiscal Agent;
- e. Where a capacity-building plan exists, ensuring the implementer's top management monitors progress towards successful achievement of goals.

#### **7.3.7 Communication to the implementers and monitoring**

170. Following the identification of risks and financial management weaknesses and quantification of the likelihood of occurrence and their impact on the grant, the Country Team will propose the installation of a Fiscal Agent to the PR and/or SR and the Country Coordinating Mechanism (CCM).<sup>24</sup>

171. The Country Team will also agree the terms of reference of the Fiscal Agent<sup>25</sup> with the Principal Recipient and agree on an engagement plan with the Fiscal Agent. The engagement plan which includes the time bound capacity building plan as well as the expected timeline of presence of the Fiscal Agent has to be approved no later than three months after the installation of the Fiscal Agent.

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<sup>24</sup> First during a country visit or a call and further reiterated in writing

<sup>25</sup> The Country Team Legal Counsel and Sourcing Team must be consulted in relation to the development of TORs, and any amendment or interpretation of contractual terms (including TORs).

172. The Country Team and the CCM should take advantage of available Technical Assistance to assess the progress on the capacity-building plan. In the absence of such assistance, the Country Team can decide to use the LFA or any external independent mechanism to perform this evaluation. The frequency this evaluation should be decided by the Country Team in agreement with the CCM.
173. The quarterly progress report from the Fiscal Agent must include a section on the progress of achievement of the goals in the capacity-building plan.
174. As part of its oversight role, the CCM should monitor the progress of achievement of the goals in the capacity-building plan.

### **7.3.8 Fiscal Agent relationship with the Local Fund Agent**

175. The Fiscal Agent is part of the overall financial management framework of the Principal Recipient/ Sub-Recipient. It is therefore expected that there is strong collaboration between the Fiscal Agent and the LFA during Local Fund Agent review at different stages of grant implementation.
176. The Local Fund Agent is an assurance provider for the Global fund. As such the LFA engage with the Fiscal Agent, understand their scope of work. At the installation of the Fiscal Agent in a given country, the Country Team should organize a meeting between the Local Fund Agent and the Fiscal Agent. During this meeting, it is expected that the Local Fund Agent shares with the Fiscal Agent, its understanding of the main financial risks faced by the implementer and the areas on which they think the Fiscal Agent should focus more.
177. There should be regular and systematic collaboration between the LFA and the Fiscal Agent. The Fiscal Agent and the LFA should ideally meet every month or otherwise minimum every quarter to share information and experiences. The Fiscal Agent should keep minutes to ensure all parties are aligned in their approach and have similar risk profiling for all affected implementers.
178. The Fiscal Agent should work hand in hand with the implementer. As part of the reviews carried out by the LFA at an implementer, the FA should:
- Meet with the LFA at inception of their assessment to provide an overview of the financial challenges faced by the principal recipient during the period under review as well as the actions implemented
  - Provide the necessary support to the Local Fund Agent in performing their review ensuring that adequate financial documentation is available when requested

### **7.3.9 Fiscal Agent relationship with the Country Coordinating Mechanism (CCM)**

179. The CCM has an oversight function over the implementation of the grants. As such and in order for the CCM to better assess the risks faced by the grants, the Fiscal Agent can be a source of information.
180. Reporting: The Fiscal Agent is required to inform the Global Fund Secretariat of the issues found while performing its duty. It is not expected that the Fiscal Agent will report directly to the CCM nor is it expected that the CCM will assign specific tasks/work to the Fiscal Agent. The findings of the Fiscal Agent are reported to the CCM through the



Principal Recipient or the Global Fund (indirect reporting) to avoid exposing the Fiscal Agent in performing objectively its independent role.

181. Attending CCM meeting: As part of the CCM oversight, the Fiscal Agent will cooperate with CCM at different stages of its mandate:
- a. Initial assessment of the financial capacities of the PR and SRs as well as the intended corrective measures;
  - b. Development of the capacity building plan as well as the monitoring of the progress against the set targets;
  - c. Upon request of the CCM to provide them the information necessary for grants oversight and to eventually inform the CCM on the issues to strengthen performance of the CCM's functions and responsibilities.

### 7.3.10 Appointment of the Fiscal Agent

182. **Fiscal Agent Pre-qualification:** The Global Fund, through a competitive selection process, appoints the Fiscal Agent. On a 5-year basis, the Global Fund will select a list of preferred suppliers of Fiscal Agent services following a competitive selection process. These service providers will benefit from an Indefinite Quantity Contract (IQC) and compete for appointment anytime a Country Team needs the services of a Fiscal Agent. In the preselection process, the bidders will be required to provide the following information:
- a. Technical approach consisting in:
    - Understanding of the objective and scope of work: The extent to which the proposal demonstrates responsiveness to the nature and scope of the work being undertaken as well as the environment in which the work must be performed;
    - Methodology and tools: The appropriateness and relevance of the proposed methodology, such as root cause analysis;
    - Quality review process: description of the applicant quality review process and Headquarter support to in-country teams.
  - b. Past experience and capabilities:
    - The extent to which the applicant can demonstrate having experience in similar contexts;
    - The extent to which the applicant has the necessary practical experience to complete the assigned functions.
183. The Fiscal Agent pre-qualification and appointment will be performed in accordance with Global Fund Regulations and Procedures<sup>26</sup> for procurements.

#### 7.3.10.1 Request for Fiscal Agent services

184. Once the need for a Fiscal Agent is identified, the Country Team will complete a "Fiscal Agent Request Form" which describes the risks identified, specifies the expected costs for the Fiscal Agent, explains why the Fiscal Agent is requested and the level where the Fiscal Agent will operate. This form should be approved by the Regional Finance Manager and by the Head of Department or Regional Manager<sup>27</sup>, taking into account the cost and the benefit of this measure.

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<sup>26</sup> Currently being developed.

<sup>27</sup> Approval can be in a form of email, responding to the Country Team request to install a Fiscal Agent

185. The Country Team will then draft the terms of reference of the fiscal agent, ensuring it addresses the risks identified in the approved “Fiscal Agent request form.” The terms of reference should be approved by the Regional Finance Manager. The Financial Risk Management and Assurance Team will verify that the terms of reference responds to the financial risk identified.
186. The Country Team will contact the Sourcing Team and copy the relevant Country Team Legal Counsel with the following information:
- The Fiscal Agent Request Form
  - Draft terms of reference tailored to address country specific risk;
  - The number of entities (Principal Recipients, Sub Recipients, CCM and other third parties) that the Fiscal Agent will cover;
  - The size of grants managed by each Principal Recipient and the total current undisbursed funds on all signed grants with these PRs;
  - The Country Team recommended estimate of the size of Fiscal Agent team;
  - Expected term of engagement (start/end date);
  - Allocated/expected budget;
  - An indication of the Fiscal Agents to be considered from the list of pre-approved Fiscal Agent, including a rationale for the selected Fiscal Agents;
  - Expected in-country mission start date to install Fiscal Agent.

#### **7.3.10.2 Appointment of Fiscal Agent**

187. Based on the information provided by the Country Team, the Sourcing Team will request the following information from the preferred suppliers:
- a. Team structure and proposed key experts describing the extent to which the applicant has demonstrated to have sufficient human capacity to undertake the project with the necessary education, training and technical knowledge. Key Experts for the RFP include those individuals whose performance is critical to the effective performance of tasks/services
  - b. Specific experience in the country: the applicant must demonstrate its experience in similar services in the country where the Fiscal Agent service is required. Three examples will be required.
  - c. Cost proposal: The cost component must cover all the services requested in the scope of work outlined in the terms of reference and must be in US Dollars. The cost tables and accompanying notes must show the composition of all cost elements. A specific template will be provided for the cost proposal.

188. The combination of these selection criteria will inform the decision to appoint one supplier for the country.

#### **7.3.10.3 Role of the Principal Recipient in the Fiscal Agent selection process**

189. The Principal Recipient can be part of the selection process of the Fiscal Agent if deemed appropriate and necessary by the Country Team. The PR staff member to be involved in the selection process should be preferably the Head of Finance. Otherwise, the PR staff member should have the required seniority and qualifications in financial management.

190. In such circumstances, the Principal Recipient will be considered as a TEC member and perform the same evaluation as other TEC members based on defined grading criteria. These criteria would include a review of the technical proposal in the first instance and thereafter, a review of the financial proposal.

#### **7.3.10.4 Fiscal Agent selection process**

The selection of the Fiscal Agent will be done as per the Global Fund procurement regulations and procedures

191. For “Focused” countries, the request for a Fiscal Agent in a “Focused” Country might trigger a need for a reassessment of the country financial risk grading and assess whether the country should be “Focused Opt In” in Finance
192. The target timeframe for installation of the Fiscal Agent in country is expected to be around 3 months after the launch of the Request for Proposal (RFP).
193. The Country Team is responsible for the communication with the CCM and implementers regarding the clarifications on the role of the Fiscal Agent as well as the practical arrangements on office location and co-signature.

#### **7.3.11 Conflict of Interest Management Process**

194. Under Article 14 of the Fiscal Agent Indefinite Quantity Contract with the Global Fund, a Conflict of Interest is defined as follows: “Conflict of Interest” means a situation in which the Contractor (including its personnel, agents, employees or consultants) or an affiliates, or a sub-contractor (including its personnel, agents, employees or consultants) has interests (financial, organizational, personal, reputational, or otherwise) or it is reasonable to foresee that such an interest would arise that would or may appear to make it difficult to fulfill its obligations in providing the services to the Global Fund in an objective, independent and professional manner.
195. Conflicts of interest are reviewed on a case by case basis; however, a Conflict of Interest may arise in the following circumstances, which are not exhaustive:
  - The contractor, an affiliate or sub-contractor has been, or is involved in the design of a proposal or request for funding that has been, or will be submitted to the Global Fund<sup>28</sup>
  - The contractor, an affiliate or sub-contractor has submitted an expression of interest, tender, bid or otherwise indicated interest in providing services of any nature to a Principal Recipient or a Sub-Recipient that remains valid at the time of, and for the duration of the term of the relevant Work Order.
  - The contractor, an affiliate or sub-contractor has been, or is involved in the provision of auditing services to a Principal Recipient and/or a Sub-Recipient;
  - The contractor, Affiliate or sub-contractor has been, intends to or is currently serving as the Local Fund Agent of the Global Fund.
196. A contractor uses its position or information obtained in connection with the issuance of a work order or services performed to seek a financial or other advantage for itself or one of its affiliates or sub-contractors.

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<sup>28</sup> The contractor could however help the implementer in the elaboration of the budget once the program has been designed.

197. Conflict of Interest must be assessed at different stages of the relation of the Fiscal Agent with the Global Fund:

- a. **Request for proposal stage<sup>29</sup>:** Bidders who have identified a risk of an actual, potential or perceived conflict of interest must provide complete and relevant information by answering the pre-defined conflict of interest form and questions contained within the Request for Proposal/Request for Information documents, including any other relevant information, and send these to the Global Fund Sourcing team as part of the tender documents and as per the Request for Proposal/Request for Information submission guidelines. This is to be done for each country where the bidder submits a proposal or and for the selection of suppliers for the Global Fund Indefinite Quantity Contract (IQC).
- b. **During the term of the contract**
  - i) **Annual declaration of absence of CoI:** Fiscal Agents are required to submit an Annual Declaration of the Absence of Conflict of Interest (see Annex 4). In the year when the Global Fund signs the IQC with the Fiscal Agent no separate annual declaration is required, since a declaration is already included in the Contract
  - ii) **Approval of a key Fiscal Agent expert:** Anytime a key expert at the contractor leaves and needs to be replaced by a new expert, the contractor is required to submit a declaration of absence of conflict of interest for each new key expert proposed (see Annex 5).
  - iii) **Upon trigger of CoI:** During the term of the contract, immediately upon becoming aware of a risk of a perceived, potential or actual conflict of interest, Fiscal Agents must submit complete and relevant information to the Global Fund Financial Risk Management and Assurance Team by answering the following questions:
    - (1) Who is the contractor (FA)/person potentially conflicted?
    - (2) Describe in detail the situation of the identified conflict of interest including the following where relevant:
      - (a) Contractual relationships that may cause the conflict (e.g. with whom, materiality of contract, reporting lines, etc.),
      - (b) Nature and Scope of the work or the situation that may cause a conflict (e.g. does it affect or relate to the Global Fund grants, what is the scope, is there a risk of self-review, etc.),
      - (c) Timing and duration (what period was covered e.g. in an audit assignment; when was the work undertaken; for how long, etc.)
      - (d) Any other information that can be helpful for understanding the declared perceived, potential or actual CoI
    - (3) The contractor's assessment of the situation: does the contractor (FA) think that there is a conflict? Why/why not?
    - (4) If there appears to be a conflict, does the contractor think it can be mitigated? If so, please set out a mitigation plan for consideration by the Global Fund.

The information should be attached in **Word format** or included in the **body of an email**.

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<sup>29</sup> For the selection of the list of preferred suppliers or/and for an appointment in a country

198. All conflict of interest declarations or clearance requests during the term of the contract should be addressed to [FinancialRisk\\_Assurance@theglobalfund.org](mailto:FinancialRisk_Assurance@theglobalfund.org).
199. As part of disclosing a conflict of interest situation, and based on the facts of the situation:
- The Fiscal Agent must clearly provide its assessment of the conflict of interest situation.
  - Where a conflict of interest situation is identified, the Fiscal Agent may propose realistic and effective mitigating measures based on a careful evaluation of the risk and/or the scope of the conflict of interest.
200. Please note that not all conflicts of interest can be mitigated. Upon receipt of a Fiscal Agent conflict of interest clearance request, the Global Fund will:
- Consider each conflict of interest clearance request including the information provided by the FA and any proposed mitigating measures, on a case-by-case basis.
  - As soon as the Global Fund has reached a final conclusion on the conflict of interest situation, the Financial Risk Management and Assurance Team informs the Fiscal Agent of the decision.
  - If there is an actual, potential or perceived conflict of interest, possible courses of action may include:
    - The Fiscal Agent takes measures agreed with the Global Fund to mitigate the conflict; or
    - The Fiscal Agent relinquishes the work causing the conflict; or
    - The Fiscal Agent may choose to relinquish their Fiscal Agent role; or
    - In case of an unresolved conflict of interest, the Global Fund may terminate the Fiscal Agent contract for the country in question and select an alternative Fiscal Agent.

### 7.3.12 Fiscal Agent Performance Evaluation

201. The Fiscal Agent performance evaluation system complements and renders more effective the day-to-day interaction between Fiscal Agents and the Global Fund Country Teams. The evaluation results provide rigorous and constructive feedback to Fiscal Agents in order for them to respond better to Global Fund requirements and improve their performance, as needed. The results also assist the Global Fund in making decisions to continue or terminate the Fiscal Agent contract for each country.
202. The objective of the Fiscal Agent performance evaluation system is to ensure that Fiscal Agents deliver consistent, high-quality, timely and best-value services that are tailored to risk, in line with the Global Fund's expectations and requirements and that the Fiscal Agents have complied with all the requirements of their terms of reference.
203. The performance evaluation enables the Global Fund to:
- Provide regular feedback to Fiscal Agents on their performance;
  - Identify good performance and capacity/performance gaps;
  - Rectify under-performance; and
  - Renew the contract with the Fiscal Agents.
204. The Fiscal Agent performance evaluation system is composed of the following interlinked components:

- a. Ongoing performance feedback through regular Country Team – Fiscal Agent interaction;
  - b. Fiscal Agent performance evaluation tool<sup>30</sup>, used by Local Fund Agent or the Finance Specialist to document the assessment of the quality of Fiscal Agent services and deliverables; and
  - c. Proactive management of persistent performance issues through formal performance notices and reviews to Fiscal Agent Headquarter.
205. Fiscal Agent performance management needs to be a continuous process to be effective. It should be based on regular feedback. This ongoing feedback can be provided through informal avenues. These can take the form of teleconferences, email exchanges, in person discussions. It is advisable to keep a record of the issues raised during such exchanges and actions agreed using emails or meeting minutes. These can be helpful in further performance evaluation.
206. In addition, a formal feedback takes place through the periodic (annual) Fiscal Agent Performance Evaluation. The Performance Evaluation tool is a management tool for providing regular structured and meaningful feedback to Fiscal Agents on their performance in delivering on their mandate.
207. The evaluation is annual, although on some circumstances particularly at the start of their mandate, the evaluation could be done after 6 months. The evaluation covers the Fiscal Agent service delivery as stated in the Work Order and Work Plan against pre-defined quality criteria delivered in the period under evaluation. This allows for a holistic and balanced evaluation of the services delivered.
208. The Local Fund Agent will perform the annual independent evaluation of the Fiscal Agent performance. The Finance Specialist and the Regional Finance Manager will ensure that such service is budgeted in the annual LFA work plan. Optionally, the Finance specialist in the country team will perform the assessment with the approval of the Regional Finance Manager. In this case, the assessment will be conducted by the Local Fund Agent at least once every two years.
209. Where previous performance feedback has not resulted in adequate improvements, additional steps are recommended to manage persistent performance issues.
- a. **Performance discussions**  
Performance discussion will take place during and at the end of the evaluation process. It would involve the Regional Finance Manager, the Finance Specialist within the Country Team, the Fund Portfolio Manager and the Fiscal Agent team. The purpose of this discussion is to go through the questions in the evaluation tool and clarify what is working and what is not working, identify key concerns, clarify expectations, discuss possible corrective actions and agree next steps.  
A record of the discussion should be shared with the Fiscal Agent, either in the form of minutes of the meeting or a performance letter.
  - b. **Performance Letter**  
A performance letter is a formal action to put the Fiscal Agent on performance notice in cases of persistent and serious performance concerns. This letter is signed by the Regional Finance Manager and would outline the key concerns resulting from the

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<sup>30</sup> The Performance Evaluation tool currently in operation is excel-based. The Global Fund will implement an automated process in the near future

evaluation, including issues from performance feedback previously communicated to the Fiscal Agent (e.g. through evaluations, e-mails, teleconferences etc.)

**c. Improvement Plan**

This is a plan submitted by the Fiscal Agent following the issuance of a performance letter. It should address the key concerns expressed in the performance letter and include clear time-bound actions to rectify the underperformance. The Country Team should carefully review the plan and inform the Fiscal Agent in case the proposed improvement steps are considered insufficient or inadequate to address the performance concerns. The Improvement Plan is approved by the Regional Finance Manager.

**d. Retendering of Fiscal Agent services**

Before a retender of the Fiscal Agent contract due to performance issues is considered, it is recommended that all other avenues of a well-documented performance management process have been exhausted. This is the decision of the Regional Finance Manager in consultation with the CT, the Regional Manager/Department Head. In considering whether to retender, the additional costs and time associated with the tender process and introducing a new Fiscal Agent should be taken into account. The Fiscal Agent retendering process is led by the Global Fund Sourcing Team in coordination with the Country Team, the Regional Finance Manager, Legal Counsel and the Financial Risk and Assurance team.

### **7.3.12.1 Performance Evaluation criteria**

210. The performance indicators may include, but not limited to, the following:
- Timeliness and quality of reporting by the Principal Recipient and the Sub-Recipient <sup>31</sup>to the Global Fund;
  - Timeliness and quality of reporting by the Fiscal Agent to the Global Fund;
  - Quality of support provided to the Principal Recipient, and the Sub Recipients by the Fiscal Agent;
  - Fiscal Agent interactions and cooperation with the Principal recipient, the CCM and the Sub Recipients
  - Level of responsiveness of the Fiscal Agent to the Global Fund and the Local Fund Agent;
  - Reduction in the issues reported by various assurance providers (the Local Fund Agent and external auditors), the OIG and other external stakeholders
211. A list of potential performance metrics has been included in Annex 6 to assist the Finance Specialist in agreeing on the scope of work of the Fiscal Agent and the metrics by which their performance would be measured<sup>32</sup>.

### **7.3.12.2 Performance ratings and feedback**

212. The rating scale used throughout the performance evaluation is as follows:

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<sup>31</sup> As well as the CCM if included in the scope of work of the Fiscal Agent

<sup>32</sup> List developed using the Financial Management Handbook for Grant Implementers which provides clear guidance and expectations regarding the Global Fund's financial management requirements, the Fiscal Agent terms of reference, feedback from Fiscal Agents and best practices relating to the COSO Internal Control Framework in 2012.



Performance Rating Key	
<b>4 Exceeds Expectations</b>	Fiscal Agent <b>exceeded expectations</b> of the Country Team and has done something beyond what would be ordinarily expected
<b>3 Meets Expectations</b>	Fiscal Agent consistently met expectations in providing high quality and timely services and the Country Team <b>is satisfied</b> with the Fiscal Agent performance
<b>2 Needs Improvement</b>	Fiscal Agent displayed <b>some issues</b> with their performance
<b>1 Unacceptable</b>	Fiscal Agent displayed <b>unacceptable performance</b>

213. It is important for the feedback to be meaningful and constructive, to assist the Fiscal Agent in developing an action plan to address the issue raised. **Where a rating of 1, 2, or 4 is given, it is mandatory to insert an explanatory comment to substantiate the rating.**

214. On a periodic basis, the Financial Risk and Assurance team would perform quality assurance compliance checks on the performance evaluations process and documentation and provide feedback to the Finance Specialist and the Regional Finance Manager.

### 7.3.13 Monitoring of Fiscal Agent Performance

215. **Telephone calls:** The Fiscal Agent and Global Fund Finance Specialist shall have conference calls to discuss the progress on the achievement of agreed milestones as a minimum, on a quarterly basis on receipt of the quarterly progress report. The Fiscal Agent shall send a written summary of the key discussion points. On a regular and proactive basis, the Global Fund Finance Specialist will escalate any issues that need to be resolved to the Regional Finance Manager.

216. **In Country Missions:** The Finance Specialist should also ensure that the mission TORs adequately and regular include time to address Fiscal Agent issues with all parties.

217. **Quarterly Progress Reports:** The Fiscal Agent shall send quarterly progress reports, which will cover the progress made against defined goals and highlight any key challenges for the attention of the Country Team. The Finance Specialist will review the report and respond as deemed appropriate to the Fiscal Agent team.

218. **Monitoring of Improvement Plan:** It is critical to monitor the Fiscal Agent's progress in implementing its improvement plan and addressing the performance concerns. This should be done monthly or at least through the quarterly report of the Fiscal agent. The Regional Finance Manager is ultimately responsible of the overall performance of the Fiscal Agent and must take the necessary actions to ensure effectiveness of the Fiscal Agent. The Financial Risk and Assurance team will be informed of the agreed actions/improvement plans and on whether the identified concerns are being addressed effectively by the Fiscal Agent.

219. **Corporate monitoring:** On an annual basis, the Financial Risk and Assurance team will provide a consolidated feedback to the Fiscal Agent headquarter. This is to ensure each Fiscal Agent firm has a global view of their performance. The consolidated report will trigger a corporate meeting and actions from Fiscal Agent firm at a global level.

### 7.3.14 **Fiscal Agent team and skillset**

220. The Fiscal Agent team is composed of two main parts:

- The project management team located in the field with the implementers they are supporting. This team will be composed of permanent staff and temporary staff.
- Permanent staff are the professionals requested in the proposal and that will permanently be present at the Principal Recipient or the Sub-Recipients (In the case of Hands-on SRs) to support the PR in dealing with the financial management of the grant. Depending on the work of the Fiscal Agent, the permanent staff are generally composed of an overall team leader, senior finance management specialist and finance management specialists.
- The temporary staff are those professionals requested in the proposal to have some specific role at certain point in time of the mandate of the Fiscal Agent. They are generally the procurement specialist, the IT specialist, the fraud specialist, the program management specialist and the specialist in capacity building. While these are temporary staff, Country Team may request, based off the nature of the issue they are facing in the implementation of the grant, to have these professionals as permanent staff. This has to be considered either at the initial assessment or to address some risks identified during the implementation of the FA contract.
  
- The Headquarters support team or central management team: this team is the management team of the Fiscal Agent, which ensures adequate performance of the project management team. The team should:
  - be highly experience in management of such project and provide technical support to the project management team;
  - contract compliance and quality assurance;
  - Maintain contact with the Global Fund for performance feedbacks;
  - Ensure appropriate team mobilization. The team should also propose the CT additional resources if necessary to accomplish their duty;
  - Travel to country when necessary including on short notice to address significant problems and for the installation of the Fiscal Agent or any other reason deemed necessary.

221. The minimum requirement for Fiscal Agent key experts is described in the Annex 7 to this guideline.

### 7.3.15 **Renewal/Extension or Termination of the Fiscal Agent contract**

222. The Fiscal Agent contract shall ordinarily cover the implementation period of the grant provided it is within the period of the Indefinite Quantity Contract.

223. The renewal will be subject to (i) good accomplishment of the requested tasks as per the ToR (ii) demonstrated progress by the Principal Recipient in strengthening identified areas of weakness, which led to the installation of the Fiscal Agent in the first place. Following the annual assessment, the Country Team shall make a recommendation on the renewal/extension or termination of the Fiscal Agent contract. The recommendation will be approved by the Regional Finance Manager in consultation with the Regional Manager or Department Head.

224. In cases where the Fiscal Agent contract will not be renewed, the outgoing Fiscal Agent will take all reasonable steps to ensure that there is an efficient transfer of services to the incoming Fiscal Agent. This should include both written handing over notes detailing out any pertinent issues and face to face meetings with the incoming Fiscal Agent.

### **7.3.16 Case of United Nations agencies and International Non-Governmental Organizations**

225. United Nations (UN) agencies and International Non-Governmental Organizations (INGOs) are expected to have strong financial management mechanism including qualified staff, systems and processes. Generally, the installation of a Fiscal Agent paid with Global Fund program funds at the level of an implementer who is a UN Agency or an INGO is not to be expected.
226. The Global Fund can therefore usually rely on their policies and robust financial mechanism. In case of occurrence of risk with potential material impact on Global Fund programs, the Country Team will request UN agencies and/or INGOs to propose an effective solution with immediate effect on the identified financial management weaknesses.
227. Lack of oversight by a UN agency or INGO that leads to material financial risks could result in a reduction in the level of ICR the Global Fund would be willing to pay for the services of the UN agency or INGO until appropriate risk mitigation measures are put in place.
228. Any request to have a Fiscal Agent at a UN Agency or INGO should be validated by the Regional Finance Manager and approved by the Head of Program Finance and Controlling and reflected in the level of ICR the Global Fund is willing to pay.

### **7.3.17 Cessation of Fiscal Agent services**

229. The cessation of the Fiscal Agent services will depend on progress made by the Principal Recipient and/or Sub Recipients. The outcome of the annual assessment will be the trigger to phase out the Fiscal Agent if it demonstrates that the weaknesses that led to the installation of the Fiscal Agent are mitigated adequately by the Principal Recipient;
230. Generally, the Fiscal Agent will also cease activities when there is a change in PR. In this case, when the CT does not expect to continue with the Fiscal Agent, they should notify the Fiscal Agent as soon as the decision is made to change PR.
231. However, it is important to note that the Country Team might decide to maintain the Fiscal Agent in situations where the inherent endemic risks in the country are deemed high, regardless of the outcome of the annual assessment.
232. Where there is a proposal to remove the Fiscal Agent (agreement CCM, PR and Country team), the Finance Specialist in the Country Team will be requested to complete the "Fiscal Agent exit assessment form" which will be reviewed and validated by the Regional Finance Manager and endorsed by the Regional Manager/Head of Department. The form will be then reviewed by the Financial Risk and Assurance team and approved by the Head of Program Finance and Controlling.
233. For all top high-risk countries as defined annually by the Risk Department, the decision to remove the Fiscal Agent should also be endorsed by the Portfolio Performance Committee.

## ***Key take-away***



**The Fiscal Agent provides financial management support to the Principal Recipient, the Sub-Recipients or/and the Country Coordinating Mechanism. This is different from the Fiduciary Agent who is contracted to conduct the full cycle of financial management of the Global Fund grants on behalf of the PR.**

**As such, the Fiscal Agent is not an assurance provider and contributes to build the PR/SR/CCM financial management capacity.**

**The Fiscal Agent is however completely independent in his decision making and does not act on behalf or represents the Global Fund.**

**The Fiscal Agent reports only to the Global Fund.**

**The process of installing a Fiscal Agent should be triggered by risks resulting from a risk assessment or from a financial assurance provider or from the OIG.**

**The country team should follow a five steps approach (refer to figure 3) in the management of the Fiscal Agent and ensure good communication with the different stakeholders (PR, CCM, etc.).**

**Performance of the Fiscal Agent must be assessed annually by the finance specialist or a financial assurance provider based on clear performance metrics agreed with the Country Team. The outcome of this assessment should lead to either an extension or termination of the Fiscal Agent service.**

**It is not expected to have a Fiscal Agent at an INGO or UN entity. If a request is made to have a Fiscal Agent at an INGO or UN entity, the Head of Program Finance and Controlling has to approve the appointment and the ICR should be appropriately adjusted.**

**The Regional Finance Manager is responsible for overseeing the Fiscal Agent processes in his/her region.**

## 8 Restricted Cash Policy

### 8.1 Objectives

234. The Restricted Cash Policy is a risk mitigating measure aimed at reducing the risk of misuse of funds. The objective of this measure is to limit or reduce the amount of cash in the hands of implementers- while continuing grant implementation- through direct payment to the vendors/beneficiaries or limited disbursement to cover the activities of a shorter period. The policy is implemented at sub recipient level (or level below) whereby the higher level restricts the use of funds to the level below.

### 8.2 Variants of Restricted Cash Policy

235. We note the following different types of Restricted Cash Policy:

- Reimbursement basis: the beneficiary pays for the activity and is reimbursed only after proof of eligibility of the expenditure is provided;
- Zero cash policy: all operations are performed by the Sub-Recipients but funds are directly paid by the Principal Recipient to the vendor/service provider. In this model, the Sub-Recipients do not handle any cash even its own fixed costs. The zero-cash policy may also be implemented when the secretariat invokes the Additional Safeguard Policy for a given country (refer to the Operational Policy Note on Additional Safeguard Policy);
- Limited funding policy: fixed cost budget transferred to the Sub-Recipient and variable cost paid directly by the PR to the vendor/service provider for a shorter period (month or bi-monthly or quarter). The subsequent disbursement are dependent on the validation by the PR of the previous disbursement. In this model where funds are advanced, the Implementer should consider the good balance between risk and absorption and use its own financial procedures relating to cash advance. The Global Fund encourages implementers to:
  - Factor a buffer period of one month (or less) to allow continuation of activities while the Sub-Recipient justified the previous cash advance;
  - To renew the advance considering each sub recipient justification<sup>33</sup> ;
- Combination of two or more of the above variants.

236. The Principal Recipient can have a differentiated restricted cash policy for its Sub-Recipients. This should be based on its risk assessment at each of the Sub-Recipients.

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<sup>33</sup> E.g.: if the Principal Recipient makes an advance of \$100,000 for a period (say, the month): \$40,000 to SR1 and \$60,000 for SR2. If according to the PR procedures, SR1 has provided satisfactory evidence of the use of its advance and SR2 is yet to complete the justification of its expenditures, the PR should release the funds of the next period to SR1. The PR should not be blocking the disbursement for both SRs because one of them is yet to justify how the funds have been used

## **8.3 Principles**

### **8.3.1 Key Risks addressed by the Restricted Cash Policy**

237. Transfers of funds between implementers, in low control environments, have facilitated diversion of funds in the past. The Global Fund has therefore introduced the “Restricted Cash Policy” to limit the following risk (indicative but not exhaustive list) at sub-grantee level:

- Financial funds lost due to fraud, corruption or theft at Sub-Recipient and levels below;
- Inadequate culture of financial discipline and controls throughout the organization, particularly culture within senior management
- Lack of adequate quality Standard Operating Policies(SOPs) for procure to pay process with clear alignment of segregation of duties principles
- Poor/ineffective controls around bank and cash management at Sub-Recipient level;
- Inappropriate/ lack of justification of expenditures at Sub-Recipients and levels below (SSRs)
- Inappropriate Sub-Recipient management in high/ Medium risk environment
- Inadequate staff capabilities and qualification at sub-grantees’ levels especially around cash management
- Excess of cash manipulation in weak control environment
- Risk of misuse of Global Fund’s funds as a result of difficult socio/political environment

### **8.3.2 When should the Restricted Cash Policy be utilized?**

238. The Restricted Cash Policy is implemented at Sub-Recipient level when it is assessed by the Country Team or the Principal Recipient that one or more of the aforementioned risks is identified and could have a material impact on the grant;

239. It can be decided during grant making based on the results of the Capacity /Risk Assessment or during grant implementation through one of the different assurance reports (Local Fund Agent review, Office of the Inspector General reviews, Audit report, PR own assurance report, etc.);

240. Throughout implementation, the restricted cash policy can evolve from a very stringent to a less stringent variant. Such evolution must be linked to improvements in the implementer’s financial risk management;

241. At the installation of a Fiscal Agent or a Fiduciary Agent as a measure to limit one or more of the aforementioned risks and have a better control on the use of funds;

242. The Restricted Cash Policy is intended to be a temporary measure. However, in endemic risk environments, the Country Team or the Principal Recipient might decide to keep this measure for a medium or long term using one or a combination of the different variants.

### **8.3.3 Restricted Cash Policy framework**

243. The framework aims at providing guidance to Country Teams and Principal Recipients on the conditions under which the different variants of the Restricted Cash Policy could be implemented as well as the indicative criteria to use to lighten the Restricted Cash Policy.

It links the financial risk level to the nature of the type of Restricted Cash Policy to implement at the sub-grantee.

Risk level		Extreme <sup>34</sup>	High	Medium	
Amount at stake in percentage of total budget (whichever is the lower)		> 75%	75%<X<30% 200,000\$	50%<X<25% 100,000\$	25%<X<5% or 50,000\$
Fixed Costs	<i>Examples:</i> - Rent - Utilities - Salaries - ...	Reimbursement Basis	Direct Payment to Suppliers & Beneficiaries	Monthly or bi-monthly	Quarterly Advances
	Variable Costs	Procurements (Non-health)	Reimbursement Basis	Direct Payment to Suppliers & Beneficiaries	Direct Payment to Suppliers & Beneficiaries and/or Monthly/ bi-monthly Advances
<i>Examples:</i> - Venues - Consultants - Vehicles - Studies/survey - Com. Materials - Equipment - Infrastructure - ...					
	Other Costs	Reimbursement Basis	Use of Payment agent and/or Mobile Money <sup>35</sup>	Monthly Advances and/or Mobile Money	Quarterly Advances and/or Mobile Money
	<i>Examples:</i> - Petty purchases - Per diems - Travel Costs - ...				

244. The reimbursement basis variant assumes that the Sub-Recipient has enough cash to implement before being reimbursed. This is not always the case. In cases where the risk is high at the Sub-Recipient level but the Sub-Recipient is unable to operate under a reimbursement basis regimen, the direct payment regimen should be implemented.

245. The amounts at stake are indicative. Based on risk, the Finance Specialist of the Country Team<sup>36</sup> or the Principal Recipient<sup>37</sup> will have to exercise prudent judgment to determine the adequate variant of Restricted Cash Policy needed for a particular Sub-Recipient. The model should be dynamic in line with the improvement of the control environment at the Sub-Recipients and mix the best combination for fixed and variable cost that reduces the risk identified.

246. If after the Restricted Cash Policy is lightened, the Finance Specialist in the Country Team or the Principal Recipient considers that the Sub-Recipient controls are weaker, immediate action must be taken. This could be in form of strengthening the Restricted Cash Policy implemented at that particular Sub-Recipient.

<sup>34</sup> Extreme will be implemented where the implementer or the country has the financial capacity to do so. Otherwise the scenario of High risk will apply

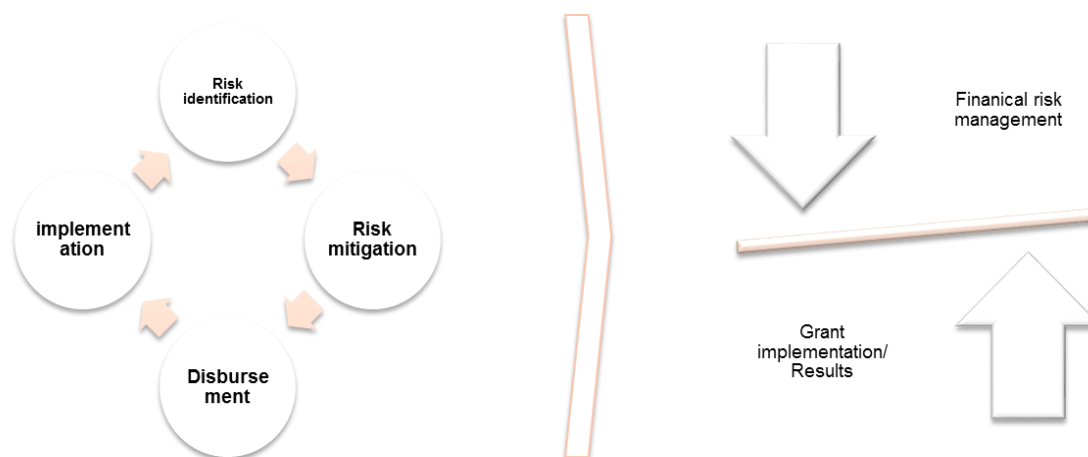
<sup>35</sup> Mechanism by which funds are transferred to a beneficiary via the service of telecom operator

<sup>36</sup> When the measure has been requested by the Country Team

<sup>37</sup> When the measure has been put in place by the Principal Recipient

247. The implementation of the Restricted Cash Policy is firstly a financial risk mitigating measure. However, it is important that the Finance Specialist in the Country Team and the Principal Recipient ensures a balanced cohabitation of this measure and the attainment of the program objectives (see figure 6). The effectiveness of the Restricted Cash Policy should be assessed on a regular basis.

Figure 6: financial risk management and implementation



When the financial risk is high and can lead to severe loss or reputational damage for the Global Fund, the introduction of a financial risk mitigation measure allows grant continuation by unlocking disbursement and therefore implementation.

#### 8.3.4 Responsibility of Implementers (Principal Recipients/Sub Recipients)

248. The Principal Recipient is responsible for managing the Restricted Cash Policy arrangement regardless of whether the policy is requested by the Global Fund or by the Principal Recipient;

249. When possible, the Principal Recipient is responsible for setting up an action plan to reinforce the Sub-Recipients' capacities to manage the issues that led to the implementation of the Restricted Cash Policy;

250. The Sub- recipient should make all necessary actions to reduce the risks that led to the installation of the restricted cash policy and any other major risk identified after the implementation of that policy;

251. When the Sub-Recipient is a key implementer and drives materially the grant objective and absorption, the Principal Recipient could request for Technical Assistance support. However, if this technical assistance takes time, it is the responsibility of the Principal Recipient to consider alternative solutions if a Sub-Recipient does not adequately perform (example change of Sub-Recipient).

#### 8.3.5 Communication to the implementers and monitoring

252. When a Country Team requests the implementation of the Restricted Cash Policy, it will inform the Principal Recipients and the Country Coordinating Mechanism of its



decision to implement this policy<sup>38</sup> and agree with them on the proposed modalities (type of restricted cash policy);

253. Once the issues/deficiencies are communicated, the Principal Recipient should assess whether there is a need for capacity building measures in relation to its ability to manage the risks at a Sub-grantee level. When a capacity building plan is recommended by the Principal Recipient, this plan can be partially or completely funded by the Partners, Technical Assistance (Bilateral, Multilateral, Global Fund, and Private Sector). When no financial support is obtained outside the grant to fund the action plan, the grant budget may include the cost of the plan<sup>39</sup>;
254. The management of the action plan is the responsibility of the Principal Recipient and as such, the Principal Recipient should determine the mechanism of monitoring and criteria of progress of the plan;
255. As part of its oversight role, the CCM should request periodic feedback on the progress of the capacity building plan especially when the Sub Recipient is key i.e. and drives materially the grant objective and absorption

### **8.3.6 Case of United Nations agencies and International Non-Governmental Organizations**

256. United Nations Agencies and International Non-Governmental Organizations should ideally have strong financial mechanism including qualified staff, systems and processes. The Global Fund would therefore rely on their policies and controls where there is no indication of weak cash management and monitoring.
257. In case of risks with potential material impact, United Nations agencies and/or International Non-Governmental Organizations can use the Restricted Cash Policy for its Sub-Recipients. Subject to the terms of the relevant Grant Agreement, the Global Fund may request or require United Nations agencies and International Non-Governmental Organizations to implement a Restricted Cash Policy if significant risks are not sufficiently mitigated.

### **8.3.7 End of the Restricted Cash Policy**

258. The Restricted Cash Policy is meant to be a temporary measure. The removal of this measure will depend on the progress made by the Sub-Recipient to improve its financial management capabilities.
259. Where the implementation of the policy has been decided by the Principal Recipient, it will reassess the controls and process and inform the Global Fund Country Team. The Country Team must be consulted and should provide its consent before lifting the Restricted Cash Policy measures. When Restricted Cash Policy measures has been requested by the Global Fund, lifting of the measures would require a re-evaluation of the controls and processes by the Local Fund Agent or any other external assurance provider.
260. However, it is important to note that the Restricted Cash Policy might be maintained if the Country Team deems the inherent endemic risk in the country is high and when no other solution has been found to mitigate the risk.

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<sup>38</sup> First through an email or during a country visit and further reiterated in the management letter

<sup>39</sup> Approval of Country Team will be systematically requested in this circumstance

261. For all top high impact and risk countries as defined annually by the Risk Department, the decision to lift the restricted cash policy should also be endorsed by the Operational Risk Committee.

## ***Key take-away***



**The Restricted Cash policy is a temporary risk management measure to limit the amount of cash in the hands of a Sub-Recipient deemed risky.**

**Four variants of Restricted Cash Policy exist which are all linked to the financial risk level of the Sub-Recipient to which this measure is applied.**

**The process of installing a Restricted Cash Policy should be triggered by risks resulting from capacity/risk assessment or from a financial assurance provider's report or from OIG reports.**

**The Finance Specialist should ensure that the Restricted Cash Policy is balanced to ensure that grant activities are implemented to reach impact and the financial risks are appropriately managed.**

**The Regional Finance Manager is the holder of this process in consultation with the Regional Manager/Department Head.**

## 9 Procurement Agent

### 9.1 Objectives

262. The Procurement Agent (PA) is a service provider, independent of the Principal Recipient, contracted directly by the Global Fund Secretariat or directly contracted by the PR as part of its proposed implementation arrangement, to mitigate the financial risks arising from non-existent or extremely weak procurement capabilities of implementers of Global Fund grants. In this guideline, we will consider the Procurement Agent only in the non-health procurement area.

263. The role of the Procurement Agent is to support the Principal Recipients and/or Sub-Recipients<sup>40</sup> to meet all Global Fund and other applicable procurement procedures and requirements. It is also to ensure the efficient, effective and economic (value for money) use of grant funds as well as avoiding all other financial risks attached to non-health procurement to occur.

264. The non-Health Product items include the following:

- Motorized and non-motorized vehicles (Vehicles, forklift, Motorcycles and bicycles, etc.)
- Office equipment (Computers, Printers, photocopiers, etc.)
- Other equipment (warehouse equipment, solar panels, generators, etc.)
- Civil works (renovation, refurbishment, etc.)
- Services (maintenance, consultancy, audit, etc.)
- Other goods (Food for Nutritional support, school kits, etc.)
- Any other goods and services

265. The role of the Procurement Agent supports the procurement function at the Principal Recipient for the specific services and carry out work which otherwise should have been undertaken by the Principal Recipient. However, the Principal Recipient remains ultimately responsible for complying with all the terms of the Global Fund Grant Agreement, including the relevant applicable national or international procurement procedures. Outsourcing procurement functions to a Procurement Agent allows implementers to benefit immediately from experienced procurement specialists support and expertise.

### 9.2 Principles

#### 9.2.1 Key Financial Risks addressed by the Procurement Agent?

266. The use of the Procurement Agent aims at mitigating some or part of the following risks (indicative but not exhaustive list):

- Poor procurement practices and purchasing controls over non-health product expenditure,
- Inadequate culture of financial discipline and controls throughout the organisation, particularly culture within senior management,
- Non transparent and non competitive procurement practices,
- Risk of errors and irregularities in procurement procedures,
- Risk of fraud or payment of 'kickback' with grant funds,

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<sup>40</sup> Depending on the scope of work of the Procurement Agent

- Lack of adequate quality Standard operating procedures for procure to pay process with clear alignment of segregation of duties principles procuring the inappropriate goods or services
- Delays in procurement impacting grant implementation
- Lack of or inadequate procurement capacity

### 9.2.2 **When should a Procurement Agent be utilized?**

267. The decision to outsource procurement functions to a Procurement Agent is subsequent to the identification, following an assessment, of one or more of the aforementioned risks and when the likelihood of occurrence is probable and the impact on the grant is material.

268. The decision to use a Procurement Agent can be during grant making (based on the conclusion of a Capacity/Risk Assessment), or during grant implementation through the consistent identification of procurement irregularities in one or more of the different reports from the grant assurance providers (Local Fund Agent review, Audit reports, Other partner's assessment reports, procurement reviews' etc.), the Office of the Inspector General or annual risk assessment for High Impact or Core countries. It can be part of the Principal Recipient implementation arrangement if its own assessment demonstrates the need to outsource the procurement function.

### 9.2.3 **Scope of work of the Procurement Agent**

269. The aspects below represent an indicative list of the scope of services that a Procurement Agent can provide. However, Country Teams may request different tasks that should be discussed and then agreed with the Regional Finance Manager. The Regional Finance Manager will consult with the Senior Manager Financial Risk and Assurance.

- Manage, execute, and administer tasks related to the procurement of goods, works, consulting, and non-consulting services, including review of technical specifications, preparation of tender documents, bid evaluation reports, contract negotiations and awards, and overall contract management services.
- Plan, schedule, and prioritize the procurement functions, including plans for the efficient procurement of goods, works, and services.
- Ensure all procurements are conducted in compliance with the principles, rules, and procedures set out in bidding documents Procurement Guidelines, the grant, and any Supplemental Agreements.
- Establish and implement a Contract Administration system.
- Provide training on bid evaluations, contract administration, and the procurement operations manual;
- Respond promptly and fairly to bid challenges regarding procurement activity;
- Protect the procurement activity from fraud, waste, and abuse;
- Assume other operational, functional, and contractual obligations and responsibilities customarily performed by a Procurement Agent.

#### 9.2.4 Obligations of the Procurement Agent

270. The Procurement Agent should perform the agreed services in accordance with the terms and conditions of its contract with the Global Fund or the Principal Recipient. In particular the Procurement Agent must exercise all skills, reasonable care, prudence and diligence in the discharge of its duties and obligations as would be expected from a skilled and experienced professional undertaking similar tasks. The Procurement Agent must carry out its functions under its contract in a timely and cost-effective manner and in conformity with professionally sound technical and management practices requisite for successful provision of the relevant services and in accordance with internationally accepted accounting and financial management principles and practices. The Procurement Agent must use at least the same standard of due care in handling the Global Fund funds as it would with its own funds.
271. The Procurement Agent will be liable for any damage loss and /or liability incurred as a result of their negligence and/or performance in accordance with the terms of the contract between the Procurement Agent and the Global Fund. In such cases the Procurement Agent will be expected to refund the amount involved to the Global Fund.

#### 9.2.5 Responsibility of Implementers (Principal Recipients/Sub Recipients)

272. The relevant implementer<sup>41</sup> remains ultimately responsible for:
- Ensuring adequate support and collaboration to assist the Procurement Agent in performing its role in an optimal manner;
  - Providing access to all documentation pertaining to the grants as requested by the Procurement Agent or as required in the discharge of their duties;
  - Understanding and agreeing on a capacity building action plan (the action plan) to take over the procurement function within an acceptable period of time<sup>42</sup>;
  - Understanding and agreeing on clear milestones to monitor the action plan progress and ensuring that its senior management monitors progress towards successful achievement of goals;
  - Ensuring it implements all the necessary actions to reduce the risks that led to the outsourcing of the procurement function and other risks identified thereafter.

#### 9.2.6 Communication to the implementers and monitoring

273. Following the identification of risks and procurement management weaknesses and quantification of the likelihood of occurrence and their impact on the grant, the Country Team will propose the use of a Procurement Agent to the PRs and the CCM<sup>43</sup>.
274. The Country Team will also develop the terms of reference with the Procurement Agent and the Principal Recipient and set an exit plan for the Procurement Agent. The exit plan, which includes the time bound capacity building plan as well as the expected timeline of presence of the Procurement Agent. Such exit plan and capacity building plan should be factored in the contract with the Procurement Agent;
275. If the Procurement Agent cannot build the procurement capacities<sup>44</sup> plan of the implementer, technical assistance may be sought to cover the gap. The Country Team and

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<sup>41</sup> In this case, the entity where the procurement agent works

<sup>42</sup> The capacity-building plan is not mandatory in the case of the Procurement Agent. It will depend of the weaknesses identified on the strategic vision of the country team for the particular PR

<sup>43</sup> First through an email or during a country visit and further reiterated in the management letter

<sup>44</sup> Might be the case when the procurement agency is a UN agency

the Country Coordinating Mechanism should also take advantage of available Technical Assistance to assess the progress on the capacity-building plan.

276. The progress made on the capacity-building plan would be reviewed by the Country Team on an annual basis in order to evaluate the progress made. The Country Team may request the Local Fund Agent to perform this review;
277. During grant making, and when no financial support is obtained outside the grant to fund the action plan, the grant budget should include the cost of the plan. During grant implementation, and when no financial support is obtained outside the grant to fund the action plan, the savings identified by the Country Team could be used to fund, partially or totally, the action plan.

#### **9.2.7 Appointment of the Procurement Agent**

278. The Principal Recipient can appoint a Procurement Agent as part of its implementation arrangements if its own assessment demonstrates the need to outsource such functions. In such case:
- a. If the Procurement Agent operates before the grant starts, it will be assessed as part of the Principal Recipient Capacity Assessment
  - b. If it is contracted during grant implementation, the decision of such appointment should be agreed with the Country Team.

#### **9.2.8 Request for Procurement Agent services**

279. When the Principal Recipient is directly contracting the procurement Agent, the role of the Country Team will mainly consist of approving the term of reference and ensuring that the tendering and selection process, if applicable, has been done in a transparent and competitive manner.
280. When the Global Fund is directly contracting the procurement Agent the Country Team will complete the “Procurement Agent request form” which describes the risks identified why the Procurement Agent is requested. This form should be approved by the Regional Finance Manager and endorsed by the Department Head/Regional Manager.
281. The Country Team will then draft the terms of reference of the Procurement Agent, ensuring it addresses the risks identified in the approved “Procurement Agent request form.” The terms of reference should be approved by the Regional Finance Manager. The Financial Risk Management and Assurance Team will verify that the terms of reference responds to the financial risk identified.
282. The Country Team will then contact the Sourcing Team in the Global Fund providing them with the necessary information (with a copy to Legal Counsel).
- The Procurement Agent Request Form
  - Draft terms of reference tailored to address country specific risk;
  - The number of entities (Principal Recipients, Sun Recipients, CCM and other third parties) that the Procurement Agent will cover;
  - The size of grants managed by each Principal Recipient and the total current undisbursed funds on all signed grants with these PRs;
  - Expected term of engagement (start/end date);
  - Allocated/expected budget;

- The Country Team recommended estimate of the size of the Procurement Agent team;
- Expected in-country mission start date to install the Procurement Agent.

283. In some cases, the Global Fund may have a Memorandum of Understanding (MOU) with a particular entity to provide specific Procurement Agent Services. In this case, the Implementer may utilize the services of that entity. The Country Team will facilitate the process by putting the Principal Recipient in contact with the Sourcing Department at the Global Fund.

#### 9.2.9 Country Team monitoring of the Procurement Agent Performance

284. The Procurement Agent will form part of the Principal Recipient's operations. However, when the Global Fund selects the Procurement Agent, a monitoring framework has to be included in the Work Order to ensure they have a dual reporting line (Principal Recipient and the Global Fund Secretariat). So that the Global Fund can monitor progress against the capacity-building plan.

285. **Quarterly Progress Reports:** The Procurement Agent shall send a report on the progress made on the capacity-building plan when such plan has been agreed with the Global Fund. The Finance Specialist will review the report and respond as deemed appropriate to the Procurement Agent team.

286. **Annual assessment:** The Country Team will commission an annual assessment of the performance of the Procurement Agent. This assessment can be performed either by an independent consultant firm, the LFA or the Finance Specialist. Finance Specialists will be the primary assessor of the Procurement Agent. This role will be delegated to the other assurance providers only on exceptional basis<sup>45</sup>.

287. The Procurement Agent shall respond to the findings of this assessment within 1 month of issuance of the comments by the Global Fund and agree with the Global Fund and the Principal Recipient on the corrective actions.

#### 9.2.10 Renewal/Extension or Termination of the Procurement Agent Contract

288. The Procurement Agent contract<sup>46</sup> shall ordinarily cover the implementation period of the grant, after which, the contract will be retendered. In some cases, the Procurement Agent may be needed for a one off specific activity. In that case, the contract should just cover that specific period.

289. The renewal will be subject to (i) good accomplishment of the requested tasks as per the ToR (ii) demonstrated progress by the Principal Recipient in strengthening identified areas of weakness, which led to the installation of the Procurement Agent in the first place. Following the annual assessment, the Country Team shall make a recommendation on the renewal/extension or termination of the Procurement Agent contract. The recommendation will be approved by the Regional Finance Manager in consultation with the Regional Manager or Department Head and the Senior Manager, Financial Risk and Assurance.

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<sup>45</sup> Such exceptions include cases where the country is a Focused country, or when the FO is not available due to other commitments or to impossibility to travel to this country

<sup>46</sup> The Country Team Legal Counsel and Sourcing Team as relevant, should be consulted in relation to any proposed amendment, renewal or interpretation of contractual terms (including TORs).



290. In cases where the Procurement Agent contract will not be renewed, the outgoing Procurement Agent will take all reasonable steps to ensure that there is an efficient transfer of services to the incoming Procurement Agent. This should include both written handing over notes detailing out any pertinent issues and face to face meetings with the incoming Procurement Agent.
291. Renewal of the contract of the Procurement Agent after the implementation period or installing a new Procurement Agent as result of poor performance must be done through a competitive process<sup>47</sup>.

#### **9.2.11 United Nations agencies and International Non-Governmental Organizations**

292. UN agencies and INGOs are expected to have strong procurement mechanisms including qualified staff, systems and processes. Generally, the use of a Procurement Agent paid with Global Fund program funds, at the level of an implementer who is a UN agency or an INGO is not to be expected.
293. The Global Fund can therefore usually rely on their policies and robust procurement mechanisms. In the case of occurrence of risk with potential material impact on Global Fund Programs, the CT will request UN agencies and/or INGOs to propose an effective solution with immediate effect on the identified procurement management weakness.
294. Lack of oversight by a UN agency or INGO that leads to material financial risks could result in a reduction in the level of ICR the Global Fund would be willing to pay for the services of the UN agency or INGO until appropriate risk mitigation measures are put in place.
295. Any request to have a Procurement Agent (for non-health procurement) at a UN Agency or INGO should be validated by the Regional Finance Manager and approved by the Head of Program Finance and Controlling and reflected in the level of ICR the Global Fund is willing to pay.

#### **9.2.12 Cessation of Procurement Agent services**

296. The cessation of the Procurement Agent services will depend on progress made by the Principal Recipient and/or Sub Recipients. The outcome of the annual assessment will be the trigger to phase out the Procurement Agent if it demonstrates that the weaknesses that led to the installation of the Procurement Agent in the first place are mitigated adequately by the principal recipient.
297. Where the implementation of the measure has been decided by the PR, it will reassess the controls and processes and inform the Country Team, who has to agree with the decision, before lifting the measure;
298. If a fiscal agent using the “enhanced approach” operates at the PR’s, the form will be then shared with the Financial Risk Management and Assurance team for review mainly to check whether any duplication exist.

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<sup>47</sup> Unless the sourcing team at the Global Fund has an agreement/ MoU with an entity that can perform the procurement agent service and for which no competition is required

299. However, it is important to note that the Country team might decide to maintain the Procurement Agent in situations where the inherent endemic risk in the country is deemed high and when no other solution has been found to mitigate the risk.

300. Where there is an agreement to remove the Procurement Agent (agreement CCM, PR and Country team), the finance specialist in the country team will be requested to complete the “Procurement Agent exit assessment form” which will be reviewed and validated by the Regional Finance Manager after consultation with the Regional Manager/Head of Department. The form will be then be shared with the Financial Risk and Assurance team for review and recommendation to the Head of Program Finance and Controlling. The latter has the final decision on this process.

### ***Key take-away***



**The Procurement Agent provides non-health procurement functions to the grant implementers. Its primary responsibility is to ensure the Principal Recipient meets the Global Fund’s acceptable procurement procedures.**

**The installation of the procurement agent is subsequent to risk identification in the area of non-health procurement especially when controls are weak or inexistent, when staff are not competent and when the procurement procedures are inadequately designed. Procurement agents should be assessed regularly for compliance with the terms of reference and effectiveness.**

**The Procurement Agent is an independent service provider and does not act on behalf or represents the Global Fund.**

**For UN entities and INGO, it is not expected to install a procurement agent. Doing so requires the approval of the Head of program finance and should be reflected in the level of ICR paid to the UN/INGO.**

**The Regional Finance manager is the holder of the procurement agent management process in his/her region in consultation with Regional Manager/ Department head and the sourcing team where necessary.**

## **10 Payment Agent**

### **10.1 Objectives**

301. The payment agent is a service provider separate from the Principal Recipient that makes payment of physical cash to the intended beneficiaries in areas of high risk and limited banking services.
302. The role of the Payment Agent supports the physical cash payment functions at the Principal Recipient and with its subsequent financial intermediaries (i.e. commercial banks, central banks etc.). As a result, the PR remains responsible for complying with the terms of the Global Fund Grant Agreement and ensuring appropriate management of risk in relation to the payment of material amounts of physical cash to individuals or entities. The relevant terms of the Grant Agreement should be reflected in the contract between the Payment Agent and the Implementer.
303. The service can be tailored for several recurring physical cash payments activities or for one important activity requesting a material amount of physical cash to be paid (during a net mass campaign for instance) and for which no other payment method is deemed appropriate by the country team and the Principal Recipient

### **10.2 Principles**

#### **10.2.1 Why request the services of a Payment Agent?**

304. The use of a Payment Agent aims at mitigating some or part of the following risks (indicative but not exhaustive list):
- Lack of banking controls and supervision / monitoring of cash and advances within the implementer (PR or/and SR);
  - A high level of cash transactions requiring appropriate security and controls over the management of the cash;
  - insufficient coverage of the banking system within the country or any other payment mechanism<sup>48</sup> in areas where high volume of payments would take place;
  - Weak procedures on payment to individuals or vendors at peripheral levels or on sizable activities including appropriate identification of the beneficiaries, effective payment, adequacy of supporting documentation, reporting and segregation of duty
  - Inappropriate/ lack of justification of payment done to individuals/ suppliers at peripheral levels;
  - Inadequate staff capabilities and qualification at sub-grantees' levels especially around cash management;
  - Cash misuse in weak control environment;
  - Risk of abuse of Global Fund's funds as a result of difficult socio/political environment.

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<sup>48</sup> The main payment mechanism: bank transfer, checks withdrawal, money transfer companies, mobile money

### **10.2.2 When is a Payment Agent needed?**

305. The use of a Payment Agent is subsequent to the identification, following an assessment of one or more of the aforementioned risks when their likelihood of occurrence is probable and impact on the grant are material;
306. It can be decided at grant making (based on the result of a capacity/risk assessment of the Principal Recipient) or during grant implementation through the consistent identification of payment irregularities in one or more of the following reports: LFA review, OIG reviews, Audit reports, other partner's assessment reports, procurement reviews, etc.
307. The use of the Payment Agent in areas where other payment methods are available, should be subsequent to a cost benefit analysis.

### **10.2.3 Payment Agent Capabilities**

308. The company should be registered as a financial institution and must abide by all applicable anti-money laundering and anti-terrorism legislation. A thorough assessment should be conducted to ensure that bankruptcy risks are minimal and that the company has the capacity to act as a Payment Agent.
309. The company must have the demonstrated ability to act as a Payment Agent and to provide the needed logistical support.
310. There should be adequate levels of cash flow and/or the capacity to make large cash transfers as indicated by the companies audited financial statements. In the absence of audited financial statement, a cash guarantee or bond could suffice.

### **10.2.4 Payment Agent Responsibility**

311. The Payment Agent is responsible for:
- Obtaining funds from the Implementer and having the amounts available for each beneficiary;
  - Ensuring secured conveyance of funds from the bank where they cash the money out to the final beneficiaries including security during the payment of the cash to the beneficiaries;
  - Indemnifying the Implementer against any claims in regard to cash loss including taxation from local authorities, robbery that may arise during the transfer, transport and/or distribution of the cash and assume full liability for lost and stolen cash;
  - Providing appropriate controls to ensure that the final beneficiary is the agreed recipient with the Implementer;
  - Returning the funds if the final beneficiary is not present at the distribution point; and
  - Providing the Principal Recipient with a full reconciliation of cash received and cash distributed (with appropriate supporting documentation) within a stipulated timeframe.



### 10.2.5 Obligations of the Payment Agent

312. The Payment Agent should perform the agreed services in accordance with the terms and conditions of its contract with the Principal Recipient. In particular the Payment Agent must exercise all skills, reasonable care, prudence and diligence in the discharge of its duties and obligations as would be expected from a skilled and experienced professional undertaking similar tasks. The Payment Agent must carry out its functions under its contract in a timely and cost-effective manner and in conformity with professionally sound technical and management practices requisite for successful provision of the relevant services. The Payment Agent must use at least the same standard of due care in handling the Global Fund funds as it would with its own funds.
313. The Payment Agent will be liable for any damage loss and /or liability incurred as a result of their negligence and/or performance in accordance with the terms of the contract between the Payment Agent and the Global Fund. In such cases the Payment Agent will be expected to refund the amount involved to the Global Fund.

### 10.2.6 Responsibility of Implementers (Principal Recipients/Sub Recipients)

314. The implementer<sup>49</sup> is ultimately responsible for:
- Procuring the services of the payment agent unless otherwise agreed with the Global fund.
  - Ensuring adequate support and collaboration to help the Payment Agent perform its role in an optimal manner;
  - Ensuring funds are transferred on a timely and complete basis to the Payment Agent to allow distribution to recipients;
  - Providing the list of beneficiaries including full names, contact details, details of identification document (ID), amount to be paid to each beneficiary and the date of payment. Where identification documents might not be feasible the implementer should ensure that there is a focal point at each payment station to identify the individual being paid;
  - Complying with the terms of the contract signed with the Payment Agent
  - Establish a cartography of the payment method per geographical area and use it to determine the areas of intervention of the Payment Agent and if there is even a need for a Payment Agent.

### 10.2.7 Communication to the implementers and monitoring

315. Following the identification of risks and/or deficiencies and quantification of the likelihood of occurrence and their impact on the grant, the Country Team will propose the use of the services of a Payment Agent to the PR and/or SR and the Country Coordinating Mechanism<sup>50</sup>.
316. The request can also come directly from the implementer if they assess that the current payment methods available in the area of implementation of the activities do not sufficiently cover the payment related risks identified. In this case the Country Team will have to do the necessary reviews in order to determine whether the use of a Payment Agent would indeed mitigate the risks.

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<sup>49</sup> In this case, the entity contracting the payment

<sup>50</sup> First through an email or during a country visit and further reiterated in the management letter.

317. The Country Team will also agree on the Terms of Reference of the Payment Agent with the Principal Recipient and agree on an exit plan.
318. Where an action plan is needed to reinforce the capacity of the financial function regarding payment controls and reporting, it could be factored in the Terms of reference of the Payment Agent if the Payment Agent can indeed strengthen the capacity of the implementer
319. The Payment Agent may not have the capacity to strengthen an implementer, as it is not the primary function of a Payment Agent. A technical assistance could be used in this case to reinforce the implementer procedures. If no financial support is obtained outside the grant to fund the action plan, the grant budget should include the cost of the plan.

#### **10.2.8 Appointment of the Payment Agent**

320. Once the need of a Payment Agent is identified, the Country Team will review and validate the Terms of Reference prepared by the implementer ensuring it addresses the risks identified at the Implementer. The final Terms of Reference will need to be approved by the Regional Finance Manager in consultation the Regional Manager/Department Head<sup>51</sup>.
321. The implementer will procure the services of a Payment Agent using acceptable procurement methods. In case the implementer procurement methods are not deemed satisfactory, the country team will have to liaise with the sourcing team within the Global fund to procure the service directly from the Global fund.
322. When the implementer procures the services of a Payment Agent, the selection of the Payment Agent will be reviewed by the Country Team with the assistance of the LFA where needed to ensure that the process has been transparent.
323. In all cases, the country team needs to document the rationale for appointing a Payment Agent through the “Payment Agent request form.” The form should be completed by the country team and approved by the Regional Finance Manager and endorsed by the Regional Manager or the Department Head.
324. Where a cost benefit analysis was necessary, both this analysis and the “Payment Agent request form” should be shared with financial risk management and assurance team for review. Similarly, if a fiduciary agent/ fiscal agent operates at the PR, the “Payment Agent request form” should also be shared with the financial risk management and assurance team for review.

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<sup>51</sup> The Country Team Legal Counsel and Sourcing Team as relevant, should be consulted in relation to any proposed amendment, renewal or interpretation of contractual terms (including TORs).

### 10.2.9 **Renewal/Extension of the Payment Agent contract**

325. The Payment Agent contract shall ordinarily cover the implementation period of the grant after which the contract will be retendered. In some cases, the Payment Agent may be needed for a one off specific activity. In that case, the contract should just cover that specific period.
326. The renewal will be subject to (i) good accomplishment of the requested tasks as per the ToR (ii) demonstrated progress by the Principal Recipient in strengthening identified areas of weakness, which led to the installation of the Payment Agent in the first place. Following the annual assessment, the Country Team shall make a recommendation on the renewal/extension or termination of the Payment Agent contract. The recommendation will be approved by the Regional Finance Manager in consultation with the Regional Manager or Department Head and Financial Risk and Assurance team.

### 10.2.10 **Case of the UN agencies and International Non-Governmental Organizations**

327. United Nations (UN) agencies and International Non-Governmental Organizations (INGOs) are expected to have strong financial mechanism including qualified staff, systems and processes. As a rule, the use of a Payment Agent, paid with Global Fund program funds, at the level of an implementer who is a UN Agency or an INGO is not to be expected.
328. The Global Fund can therefore usually rely on their policies and robust financial mechanisms. In case of occurrence of risk with potential material impact, the CT will request UN agencies or INGOs to propose an effective solution with immediate effect on the identified weakness.
329. However, a Payment Agent may be used for UN entities and INGOs when it is demonstrated that it is the best way to manage the financial risk in some COEs countries and in countries where banking services or fund transfers services are lacking.<sup>52</sup>
330. Lack of oversight by a UN Agency or INGO that leads to material financial risks could result in a reduction in the level of ICR the Global Fund would be willing to pay for the services of the UN Agency or INGO until risk mitigation measures are put in place.
331. Any request to have a Payment Agent at a UN Agency or INGO should be validated by the Regional Finance Manager and approved by the Head of Program Finance and Controlling and reflected in the level of ICR the Global Fund is willing to pay.

### 10.2.11 **Cessation of the use of the Payment Agent**

332. The cessation of the Payment Agent services will depend on progress made by the PRs/SRs. The outcome of the annual assessment will be the trigger to phase out the Payment Agent if it demonstrates that the weaknesses that led to the installation of the Payment Agent in the first place are mitigated adequately by the Principal Recipient. as a risk mitigating measure is meant to be a temporary measure. The removal of this measure will depend on the progress made by the implementer to improve its payment capacities.

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<sup>52</sup> Lack of banking infrastructures in a country, particularly in COE countries, could justify the use of a payment agent at UN or INGOs



333. Where the implementation of the measure has been decided by the PR, it will reassess the controls and processes and inform the Country Team, who has to agree with the decision, before lifting the measure;
334. However, it is important to note that using a Payment Agent may be maintained by the CT in situations where the inherent endemic risk in the country is deemed high and when no other solution has been found to reduce the risks.
335. Where there is an agreement to remove the Payment Agent (agreement CCM, PR and Country team), the finance specialist in the country team will be requested to complete the “Payment Agent exit assessment form” which will be reviewed and approved by the Regional Finance Manager and endorsed by the Regional Manager/Head of Department.

### Key take-away



**The Payment Agent is a service provider separate from the Principal Recipient that makes payment of physical cash to the intended beneficiaries in areas of high risk and limited banking services.**

**The service can be tailored for several recurring physical cash payments activities or for one important activity requesting a material amount of physical cash to be paid.**

**Payment Agents must be a registered financial institution and have the accreditation to act as such.**

**The Payment Agent is an independent service provider and does not act on behalf or represents the Global Fund.**

**The use of a Payment Agent should be subsequent to the identification a material risk regarding payments as well as a cost benefit analysis demonstrating the Payment Agent is the best option.**

**Payment Agents could be contracted by UN entities and INGOs especially in countries with limited banking and money transfer services.**

## Annex 1: Financial Risk Management Matrix

### Matrix per ORM risk classification

ORM Financial risks	Risk factors	Risk level			Risk mitigating measures					
		High	Medium	Low	Change of Principal Recipient	Fiduciary Agent	Fiscal Agent	Restricted Cash Policy	Procurement Agent	Payment Agent
<b>Inadequate Flow of Funds Arrangements</b>	Inadequate fund flow arrangement	X	X		✓	✓	✓	✓		✓
	Weak country fund transfer system	X	X		✓	✓	✓			✓
	Inadequate PR/SR cash flow management	X	X		✓	✓	✓	✓		✓
<b>Inadequate Internal Controls</b>	Inadequate control environment	X	X		✓	✓	✓	✓		
	Inadequate controls over key financial processes	X	X		✓	✓	✓	✓	✓	
	Inadequate risk assessment	X	X		✓	✓	✓			
	Inadequate monitoring of control	X	X		✓	✓	✓			
<b>Fraud, Corruption and Theft</b>	Inadequate culture of financial discipline and controls throughout the organisation, particularly culture within senior management	X	X		✓	✓	✓	✓		
	Weak accounting processes and systems, including lack of an effective ERP	X	X		✓	✓	✓			
	Lack of adequate quality SOPs for procure to pay process with clear alignment of segregation of duties principles	X	X		✓	✓	✓	✓	✓	✓
	Lack of banking controls and supervision, in particular a high level of cash transactions	X	X		✓	✓	✓	✓		✓
	Inadequate management of fixed assets and stock through regular inspections and monitoring	X	X		✓	✓	✓			

ORM Financial risks	Risk factors	Risk level			Risk mitigating measures					
<b>Inadequate Accounting and Financial Reporting</b>	-Inadequate accounting systems resulting in underlying records being inaccurate or incomplete	X	X		✓	✓	✓			
	Incapable finance staff with poor qualifications and experience of accounting and reporting	X	X		✓	✓	✓	✓	✓	
	Poor accounting processes, including the lack of regular reconciliation work between general ledger, underlying sub-ledgers and bank statement	X	X		✓	✓	✓			✓
	Poor reporting systems with manual translation of numbers within the ledgers into a financial reporting template.	X	X		✓	✓	✓			
<b>Limited Value for Money</b>	Inadequate budgetary control	X	X		✓	✓	✓			
	Poor procurement practices and purchasing controls over health and non-health product expenditure	X	X		✓	✓	✓		✓	
	Inadequate financial reporting and analysis of expenditure vs. budget	X	X		✓	✓	✓			
	Lack of appropriately qualified financial staff with little experience in financial monitoring and supervision.	X	X		✓	✓	✓			✓
<b>Inadequate auditing arrangements</b>	Inadequate internal audit function	X	X		✓		✓			
	Inadequate external audit arrangement	X	X		✓	✓	✓			

## Matrix per Financial process classification

Finance Processes	Risk	Risk level			Risk mitigating measures					
		High	Medium	Low	Change of Principal Recipient	Fiduciary Agent	Fiscal Agent	Restricted Cash Policy	Procurement Agent	Payment Agent
<b>Control environment and budgeting (including SR management)</b>	Inadequate budget monitoring including budget-variance analysis, forecasting of expenditures	X	X		✓	✓	✓			✓
	Inadequate culture of financial discipline and controls throughout the organisation, particularly culture within senior management	X	X		✓	✓	✓			
	Inadequate SR monitoring systems and reporting triggers at PR level to ensure timely use of funds	X	X		✓	✓	✓	✓		
	Lack of appropriately qualified financial staff with little experience in financial monitoring and supervision.	X	X		✓	✓	✓	✓		✓
<b>Procurement</b>	Lack of appropriately qualified financial staff with little experience in procurement management	X	X		✓	✓	✓		✓	
	Lack of adequate quality SOPs for procure to pay process with clear alignment of segregation of duties principles	X	X		✓	✓	✓	✓	✓	
	Poor procurement practices and purchasing controls over health and non-health product expenditure	X	X		✓	✓	✓		✓	
<b>Fixed Assets</b>	Incomprehensive and inadequate fixed assets management	X	X		✓	✓	✓			
	Inadequate management of fixed assets and stock through regular inspections and monitoring	X	X		✓	✓	✓			✓
	Weak accounting processes and systems, including lack of an effective ERP	X	X		✓	✓	✓	✓		✓
<b>Cash and Payment management</b>	Lack of banking controls and supervision, in particular a high level of cash transactions	X	X		✓	✓	✓	✓		
	Weak banking environment resulting in high level of cash transactions at peripheral level	X	X		✓	✓	✓	✓		

Finance Processes	Risk	Risk level			Risk mitigating measures					
		High	Medium	Low	Change of Principal Recipient	Fiduciary Agent	Fiscal Agent	Restricted Cash Policy	Procurement Agent	Payment Agent
<b>Financial Reporting</b>	Incapable finance staff with poor qualifications and experience of accounting and reporting	X	X		✓	✓	✓		✓	✓
	Inadequate accounting systems resulting in underlying records being inaccurate or incomplete	X	X		✓	✓	✓			✓
	Poor reporting systems with manual translation of numbers within the ledgers into a financial reporting template.	X	X		✓	✓	✓			✓
	Poor accounting processes, including the lack of regular reconciliation work between general ledger, underlying sub-ledgers and bank statement	X	X		✓	✓	✓			✓
<b>Other</b>	Socio political unrest and pressure	X			✓	✓	✓	✓		

## Annex 2: Example of financial key controls

Finance section	Example of financial Key controls
<b>Cash and Bank</b>	<ul style="list-style-type: none"> <li>• Segregation of duties:               <ul style="list-style-type: none"> <li>○ Payment: Separate preparation, authorisation and signature.</li> <li>○ Recording: Separate book keeping and cash custody</li> </ul> </li> <li>• Reconcile payment document with original of supporting documents</li> <li>• Institute double signatures on bank account</li> <li>• Perform petty cash reconciliation and Perform bank reconciliation periodically (at least monthly) by independent people (not custodian of petty cash / bank) including resolution of discrepancies and explanations for significant and unusual reconciling items and signed management review</li> </ul>
<b>Assets Management</b>	<ul style="list-style-type: none"> <li>• Keep an up-to-date asset register based on periodic (preferably annual) physical count of the fixed assets. All assets should be tagged with a unique identification number</li> <li>• Reconcile the asset register with the general ledger and investigate difference for adjustment</li> <li>• All vehicle should have a logbook including data on distance travelled and fuel consumption.               <ul style="list-style-type: none"> <li>○ On a periodic basis (weekly or monthly), compare average fuel consumption of the period with average fuel consumption of past period and explain variance.</li> <li>○ Check, on a sample basis, occurrence of individual trips in the logbook and verify reasonableness of the distance travelled with the mileage meter of the vehicle.</li> </ul> </li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>• Ensure procurement procedures is open and transparent;</li> <li>• Procurement evaluation should include a conflict of interest declaration process that all evaluators should complete</li> <li>• Segregation of duties: ensure those performing procurement procedures are different from those authorising the contract with a supplier;</li> <li>• Ensure that:               <ul style="list-style-type: none"> <li>○ The minutes of the selection process is signed by all evaluators,</li> <li>○ The contract aligns with the winning proposal/minutes of the evaluation. All difference should be signed off by the person that has such authority in the organisation;</li> </ul> </li> <li>• At delivery of the goods (or the service), verify that the goods/service tally with the purchase order in term of quantity and specification. This control must be materialised</li> </ul>
<b>Financial Reporting</b>	<ul style="list-style-type: none"> <li>• Check that financial report agrees with underlying accounting report at both the PR and the Sub-Recipients;</li> <li>• Ensure there is a proper trail from the accounting records to the supporting documents;</li> <li>• Perform monthly budget monitoring and explain variance;</li> <li>• The accounting manager must ensure that there is a proper trail from accounting records to original of supporting documentation;</li> <li>• The CFO must sign off the financial reports sent to the Global Fund.</li> </ul>

Finance section	Example of financial Key controls
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Timesheet must be approved by the person's supervisor on a monthly basis. Ensure timesheets are reviewed by a responsible individual within the project (e.g. the team leader or the head of project support unit);</li> <li>• On a monthly basis, compare the level of payroll with the level of the previous month and explain any variance. This control must be documented;</li> <li>• Ensure that there is adequate segregation of duties between preparation and payment of payroll;</li> <li>• Ensure that each new staff has a proper working contract;</li> <li>• Check accuracy and completeness of the monthly payroll amount;</li> <li>• On a monthly basis, ensure that the total paid amount tally to the approved payroll amount.</li> </ul>
<b>Sub-Recipient monitoring</b>	<ul style="list-style-type: none"> <li>• Compare SR funding request with the approved budget and ensure reasonableness based on absorption capacity</li> <li>• Compute quarterly absorption rate per SR and take action to improve absorption</li> <li>• On a quarterly basis, check percentage of ineligible expenditure and take action on the root causes thereof</li> <li>• Review monthly the aging balance of advances to Sub-Recipient</li> <li>• Ensure regular site visits to the SRs followed up by a report to be discussed and shared with the SR with recommendations and follow up actions</li> <li>• Ensure that a physical inventory of fixed assets at SR level is done at least once a year. Any discrepancies should be communicated to the SR and followed up to ensure that remedial action is taken by the SR</li> <li>• Perform annually a review on the internal control of the key Sub-Recipients by the internal audit/ external audit. Internal control weaknesses should be communicated to the SR and followed up to ensure that remedial action is taken by the SR</li> <li>• On a quarterly basis check a sample of expenses related to training/community activities carried out at SR level to ensure that they are reasonable and in line with common practices.</li> </ul>
<b>Stock management</b>	<ul style="list-style-type: none"> <li>• Complete at least annually a stock count and reconcile the result thereof with the general ledger. All differences should be investigated;</li> <li>• Segregation of duties between: <ul style="list-style-type: none"> <li>○ custody of stocks and verification tasks such as reconciliation</li> <li>○ management of stocks and authorisation of stock movements</li> <li>○ management of stock and accounting of stock movement in the system</li> </ul> </li> <li>• At reception of the drugs, ensure that the purchase order matches the good(s) received in quantity and specification</li> <li>• Compute monthly the level of stock expired or scrapped and design an action to reduce them</li> </ul>

Finance section	Example of financial Key controls
<b>Entity - level controls</b>	<p>On a monthly basis (could also be quarterly depending on the periodicity), the top management could receive the following information and ensure appropriate actions are taken:</p> <ul style="list-style-type: none"> <li>• Absorption rate for the period and in aggregate of the program</li> <li>• accuracy of disbursement forecast</li> <li>• cash balance level at PR and Sub-Recipients and comparison with previous periods</li> <li>• Percentage of completion of management actions (TGF/ Audit/ OIG, etc.)</li> <li>• Aging balance of advances to SRs and staff not liquidated</li> <li>• percentage of stock (in value) that is scrapped or expired</li> <li>• Number of fraud event detected, amount at stake and measure taken</li> </ul>



### Annex 3: RACI of Financial Risk Mitigation Measures (FRMM)

- **Responsible:** The function, person, or entity that is assigned the role type 'Responsible' is the one who performs the work. In other words, he/she is the 'doer' of the task or activity. The person who is 'Responsible' need not be accountable for that task, even though in some cases the same person can be 'Responsible' and 'Accountable'. The degree of 'Responsibility' can vary and multiple roles can share the responsibility of a single task. Also, the responsibility can be delegated by the role to another role. Using the RACI matrix, we can see if a role has too many or too few responsibilities and try to adjust the work load.
- **Accountable:** is the person or role who has the final authority and accountability to a given task. For any given task, there is only one role/person accountable. This accountability can't be delegated to other roles or individuals or entities
- **Consulted:** are the people/roles who are consulted and taken advice from before and during performing the task. When there are many people who are assigned as 'Consulted' roles, the time take to accomplish the task increases. On the other hand, too few or no 'Consulted' roles assigned to a task means that task has the risk of being under performed
- **Informed:** are the people/roles who are informed **after** the task is completed.

As a general rule, this matrix does not apply for the change of Principal Recipient. The process of the change in Principal Recipient is included in the Guidelines on Implementers of Global Fund Grants and Operational Policy Note on Additional Safeguard Policy.

#	Activity	Finance Lead	EGMC/ORC	Head of PFC	Financial Risk & Assurance	Regional Finance Manager	Finance Specialist	GMD Directorate	GMD CT/FPM	Legal	Sourcing	Risk	Ethics	Nature/Comments
1	Guidelines	FRMAT	I	A	R	C	C	C	C	C	C	C	C	Guidelines are completed after consultation process with all major stakeholders
1.a	Selection of list of preferred suppliers (if applicable)	FRMAT		A	R	I	I	I	I	I	C	I	I	
1.b	Needs assessment	FS		N/A	I	A	R	N/A	R	N/A	N/A	N/A	N/A	
1.c	Request for Financial Risk Mitigation Measures (FRMM)	FS		N/A	C	A	R	C	C	N/A	I	N/A	N/A	Primary responsibility of the request of a FRMM lies with the Finance Specialist.

#	Activity	Finance Lead	EGMC/ORC	Head of PFC	Financial Risk & Assurance	Regional Finance Manager	Finance Specialist	GMD Directorate	GMD CT/FPM	Legal	Sourcing	Risk	Ethics	Nature/Comments
1.d	Approval of the Request and Scope of Work (SoW)	RFM		N/A	C	A	I	R	I	C	I	N/A	N/A	The HoD also approved when some programmatic tasks are associated to the financial ones
1.e	Appointment of FRMM	<b>RFM</b>		I	I	A	R	C	R	C	C	N/A	N/A	RFM makes the decision for the FRMM appointment after consulting RM/HoD
1.f	Installation of FRMM	<b>FS</b>		I	I	A	R	I	R	N/A	I	I	I	
1.g	FRMM Management	<b>RFM</b>		N/A	I	A	R	I	C	N/A	N/A	N/A	N/A	
1.h	FRMM HQ Relation management (if applicable)	<b>FRMAT</b>		A	R	C	I	C	I	N/A	N/A	N/A	N/A	All cross-cutting matters are dealt with by the Financial Risk and Assurance Team
1.i	Annual Performance assessment	<b>FS</b>		N/A	I	A	R	N/A	I	N/A	I	N/A	N/A	
1.j	Validation of annual performance assessment	<b>RFM</b>		N/A	I	A	N/A	I	I	N/A	N/A	N/A	N/A	
1.k	Sample-based Quality Review of the annual assessment	<b>FRMAT</b>		A	R	C	C	I	I	N/A	N/A	N/A	N/A	
1.l	Overall performance management	<b>FRMAT</b>		A	R	C	I	C	I	N/A	N/A	I	I	

#	Activity	Finance Lead	EGMC/ORC	Head of PFC	Financial Risk & Assurance	Regional Finance Manager	Finance Specialist	GMD Directorate	GMD CT/FPM	Legal	Sourcing	Risk	Ethics	Nature/Comments
1.m	FRMM exit request/assessment	<b>FS</b>		I	C	A	R	C	C	N/A	N/A	N/A	N/A	
1.n	FRMM phase-out Decision	<b>RFM</b>	C	A	C	R	I	C	I	N/A	N/A	I	I	This process should be reviewed independently from the CT and the RFM to ensure balance decision. It should be based on the exit assessment above.
1.o	FRMM phase-out monitoring	<b>RFM</b>		I	I	A	R	I	I	N/A	N/A	N/A	N/A	

## Annex 4: Annual Declaration of the Absence of Conflict of Interest

[Name of contractor]

**Fiscal Agent** in [name of country]

As a duly authorized officer of the Contractor stated below, I confirm, acknowledge, and agree on behalf of the organization, that:

1. I have read and understood, and the Contractor complies with, the conflict of interest rules set forth in the IQC (The contract) between the Contractor and the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"),
2. All cases of potential, perceived, and/or actual conflicts of interest have been fully declared to the Global Fund since the submission of the Contractor's previous Annual Declaration of the Absence of Conflict of Interest.
3. The Contractor commits to ongoing rigorous screening and reporting of any potential, perceived, or actual conflict of interest cases to the Global Fund.
4. For the Contractor and the individuals described in **Box 1** below, the information checked in **Box 2 and Box 3** below is true and correct:

**Box 1** – include the complete list of all Local Fund Agent team members for the country listed above (including key experts and junior experts)

Name(s) of expert(s)	Role of Expert(s)

### Box 2

<input type="checkbox"/>	The conflict of interest rules and responsibilities set forth in the Contract between the Contractor and the Global Fund are understood and complied with by the Contractor, any of the Fiscal Agent team members listed in Box 1, or any affiliate or sub-contractor of the Contractor
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**Box 3**

<input type="checkbox"/>	No perceived, potential and/or actual conflict of interest exists on the part of the Contractor, any of the Fiscal Agent team members listed in Box 1, or any affiliate or sub-contractor of the Contractor with respect to the work performed or to be performed in the country listed above.
<input type="checkbox"/>	One or more perceived, potential and/or actual conflicts of interest were identified since the previous Annual Declaration of the Absence of Conflict of Interest on the part of the Contractor, one or more Fiscal Agent team members listed in Box 1, an Affiliate, and/or a Sub-Contractor of the Contractor with respect to the work performed or to be performed in the country listed above and the Contractor has declared/disclosed that conflict of interest to the Global Fund pursuant to the procedures set forth in the provision for Conflict of interest in the IQC.
<input type="checkbox"/>	<p>A perceived, potential and/or actual conflict of interest has been identified since the previous Annual Declaration of the Absence of Conflict of Interest on the part of the Contractor, one or more Fiscal Agent team members listed in Box 1, an affiliate, and/or a sub-contractor of the Contractor with respect to the work performed or to be performed in the country listed above and</p> <p>The Contractor has not previously declared/disclosed the conflict of interest to the Global Fund pursuant to the provision of conflict of interest set forth in the IQC.</p> <p>Accompanying this declaration, the Contractor is submitting an attachment declaring/disclosing such conflict of interest and providing answers to the appropriate conflict of interest questions i.e.:</p> <ol style="list-style-type: none"><li>1) Who is the entity/ person potentially conflicted?</li><li>2) Describe in detail the situation of the identified conflict of interest</li><li>3) Provide the contractor own conclusion of his assessment of the situation based on its CoI policy</li></ol>

## Annex 5: Pro forma Declaration of the Absence of Conflict of Interest

### Fiscal Agent Conflict of Interest Declaration Relating to Expert Assignment

On behalf of the Contractor listed below, I hereby declare that:

1. The Contractor has read and understood the Fiscal Agent Conflict of Interest provisions in the IQC between the Contractor and the Global Fund to Fight AIDS, Tuberculosis and Malaria, namely: a situation in which the Contractor (including its personnel, agents, employees or consultants) or an affiliate, or a sub-contractor (including its personnel, agents, employees or consultants) has interests (financial, organizational, personal, reputational, or otherwise) or it is reasonable to foresee that such an interest would arise that would or may appear to make it difficult to fulfil its obligations in providing the services to the Global Fund in an objective, independent and professional manner.

2. For the arrangement described in Box 1 below, the information checked in Box 2 below is true and correct:

#### Box 1

Names of Expert (s)	
Role(s) of Expert(s)	
Country/ Countries	

#### Box 2

<input type="checkbox"/>	No Conflict of Interest exists on the part of the Contractor or any affiliate or sub-contractor of the Contractor for the arrangement described in Box 1
<input type="checkbox"/>	A Conflict of Interest exists on the part of the Contractor, an affiliate, and/ or a subcontractor of the Contractor for the arrangement described in Box 1 and The Contractor has declared and disclosed that Conflict of Interest to the Global Fund pursuant to the provision of Conflict of Interest set forth in the IQC between the contractor and the Global Fund

CONTRACTOR:

Signed : \_\_\_\_\_

Name : \_\_\_\_\_

Title : \_\_\_\_\_

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

## Annex 6: Fiscal Agent performance metrics

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
<b>1. Institutional and Oversight Arrangement</b>	- FA to support Implementer in ensuring tax exemption status is duly formalized (application, monitoring) in accordance with the applicable laws and donor requirements	- Documentary evidence of Fiscal Agent support - In case of yearly exemption, evidence of FA tracking of tax exemption status - FA tracking of government-issued tax exemption certificates to be given to suppliers on payment of invoices	- Successful obtention of tax exemption	- FA Quarterly Report
	- FA to support PR in developing and defining functional level roles and responsibilities and communicating to personnel to ensure a mechanism for proper accountability at all level	- FA sign-off on Procedures Manual and/or Human Resources Management Policies and Procedures - Evidence of Implementer Management communication to personnel		
<b>2. Internal Controls</b>	- FA to support Implementer in defining and documenting an internal control framework (COSO, COCO, ISO etc.) consistent with international standards - FA to support establishment of a comprehensive Procedures Manual which is aligned to the provisions of the internal control framework selected above.	- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund which includes the Implementer's selected Internal Control Framework - Evidence of training of Implementer staff on provisions of the Procedures Manual by FA or by Management with support from FA.		- FA Quarterly Report
	- FA to support establishment of a comprehensive Procedures Manual which is aligned to the provisions of the internal control framework selected above.	- Comprehensive Procedures Manual reviewed by Fiscal Agent and approved by Global Fund - Evidence of training of Implementer staff on provisions of the Procedures Manual by FA or by Management with support from FA.		
	- FA to support Implementer in putting into place job descriptions for all staff, including ensuring roles and responsibilities are clearly defined to ensure a proper segregation of duties. The roles and responsibilities should be documented and communicated to respective staff	- FA sign-off on Procedures Manual and/or Human Resources Management Policies and Procedures showing job descriptions with clearly defined roles and responsibilities for each employee available. - Evidence of FA review of employee files, including job descriptions, with evidence of copy handed to employee.	- # of new management issues (external audit, internal audit, OIG, LFA reviews) link to job descriptions/ roles and responsibilities	- FA Quarterly Report to Global Fund - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support Implementer in setting up controls to ensure that Initiation, authorization and approval of transactions and custody of related asset is performed by different units or individuals as appropriate</p>	<p>- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund which includes provisions of segregation of duties</p>	<p>- # of new management issues (external audit, internal audit, OIG, LFA reviews) link to segregation of duties</p>	<p>- FA Quarterly Report to Global Fund - Procedures Manual - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports</p>
	<p>- FA to review the internal control to determine whether the Implementer's procedures incorporate a formal risk assessment process to identify, assess, manage and control critical risk on timely basis. The policy should include, as a minimum, the following: (i) Implementer management's responsibility to carry out the assessment and frequency (performance/update) of assessment; (ii) Every risk identified is assessed for its probability of occurrence and potential effect and ranked accordingly; (iii) Risk responses including control activities based on outcome of risk analysis and prioritization.</p>	<p>- Evidence of FA review of latest Risk assessment framework/policy - Evidence of FA review of periodic reporting - FA review of Risk mapping document, showing identification and analysis of risk associated with achievement of operational, financial reporting and compliances goals and objectives</p>	<p>- # of new Major Issues relating to Financial Management raised by assurance providers (external audit, internal audit, OIG, LFA reviews etc.)</p>	<p>- FA Quarterly Report to Global Fund - Procedures Manual - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports - Documentary evidence of review of risk assessment documentation</p>
	<p>- FA to review the key procedures of the Implementer and the related controls, resulting in the creation of a Key Controls Matrix. Key controls should include, but not limited to, the following: Segregation of duties, control of assets, approval of a transaction, approval authority (Scheme of Delegation/ Authority Grid), reconciliations, management review and physical inventory</p>	<p>- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund - Periodic review by the FA of the Key Controls matrix.</p>		<p>- Samples of reconciliations, analysis reports, sample of vouchers, plans etc.</p>
	<p>- FA to support the Implementer to put in place adequate procedures and controls to ensure that proper and accurate documentation is available and that the documentation is duly filed in accordance with robust document management procedures</p>	<p>- FA periodic review of Implementer's filing and archiving, including update on filing and archiving index codes</p>	<p>- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from lack of proper and accurate documentation and filing</p>	<p>- FA Quarterly Report to Global Fund - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports</p>
	<p>- FA to support the Implementer in putting in place adequate procedures and controls relating to the management of advance payment to Sub Recipients and the subsequent liquidation of the advances</p>	<p>- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund, capturing procedures for the management of advance payment to Sub Recipients that is consistently applied by Implementer - FA periodic review of Implementer's compliance with Sub Recipient advances management procedures</p>	<p>- % of Unliquidated Sub Recipient advances from previous periods (quarter, semester, annual) resulting from adequate Principal Recipient Oversight and Monitoring</p>	<p>- FA Quarterly Report to Global Fund showing aged analysis of SR advances</p>



Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support the Implementer to put in place internal control mechanisms that are monitored regularly to assess effectiveness and adjusted as appropriate to take into account changes in the context and operating environment when necessary. Controls include but not limited to, the following:</p> <ul style="list-style-type: none"> <li>(i) Regular Implementer management review of management reports generated from the system, with available documentation of actions taken to resolve issues.</li> <li>(ii) Periodic self-assessments by Implementer on key financial controls/processes, evidenced by an assessment report showing issues identified, a time-bound action plan with clear milestones and responsible parties to resolve issues identified;</li> <li>(iii) Regular peer reviews by Implementer employees on key financial controls/processes, with available documentation of actions taken to resolve issues identified;</li> <li>(iv) Documented procedure to evidence management response and actions resulting from internal/external audit report findings.</li> </ul>	<ul style="list-style-type: none"> <li>- Periodic reporting by FA of the design and operating effectiveness of the Implementer's system of internal control</li> <li>- Quarterly FA reporting to the GF on status of implementation of the risk mitigation action plan resulting from assurance reports (internal/ external audit reports, LFA reviews, OIG etc.).</li> </ul>	<ul style="list-style-type: none"> <li>- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from lack management review of internal controls</li> <li>- # of management issues closed (external audit, internal audit, OIG, LFA reviews etc.) resulting from lack management review of internal controls</li> </ul>	<ul style="list-style-type: none"> <li>- FA Quarterly Report to Global Fund</li> <li>- Reports on peer reviews, self-evaluations, assessments</li> <li>- Checklists</li> </ul>
<p><b>3. Human Resources</b></p>	<p>- FA to support the Implementer in setting up an adequate human resource structure and ensuring qualified staff are in place to perform the human resources management function. This includes ensures HR processes and procedures include but not limited to, the following:</p> <ul style="list-style-type: none"> <li>(i) Detailed provisions on recruitment, development/training as well as retention of appropriate staff, with required the qualifications, skills, experience, knowledge of donor-funded programs;</li> <li>(ii) Standardized tools (forms, templates etc.) for HR requirements.</li> </ul> <p>- FA to support the Implementer in ensuring that human resource policies and procedures laid down are based on applicable laws and regulation including donors' requirement, aimed at governing the human resources activities, including policies and procedures around recruitment, benefits, Compensation and Leave Policy, staff accountability and performance evaluation, staff retention and employee turnover, and payroll processing</p>	<ul style="list-style-type: none"> <li>- Human Resources Management Policies and Procedure reviewed by Fiscal Agent and approved by Global Fund</li> <li>- FA review and sign off of Organization Charts (general and departmental) which are updated periodically</li> <li>- Tools readily available and consistently used by staff</li> </ul> <p>- FA sign-off on Procedures Manual and/or Human Resources Management Policies and Procedures, with documentary evidence</p>		<ul style="list-style-type: none"> <li>- FA Quarterly Report</li> </ul>

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
<b>4. Financial Management Information System (FMIS)</b>	- FA to support the Implementer in setting up a robust and reliable FMIS with appropriate safeguards to ensure the accessibility, confidentiality, integrity and availability of the financial management system and data. FMIS to include but not limited to, the following: <u><b>Mandatory/Core modules</b></u> <u><b>Optional/Additional modules</b></u> (a) General Ledger (g) HR Management (b) Budget management (h) Procurement Management (c) Account Receivables and Account Payables (i) Business Intelligence (d) Asset and Inventory Management (j) Documents Management (e) Cash Management (k) Project Management (f) Reporting	- FA review and sign off of FMIS - Periodic review by the FA of outputs from the FMIS system for accuracy, completeness integrity of content - FA review of training plan, with suggestions for improvement - FA periodic review on Implementer reporting/allocation of access rights	- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from inadequately designed FMIS	- Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports
	- FA to support the Implementer in setting up a formal policy and procedures for carrying out regular back-ups (kept off the premises)	- Formal policy on back up of FMIS reviewed by Fiscal Agent and approved by Global Fund. - FA periodic review of compliance with defined back up procedures	- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting inadequate back up procedures	
<b>5. Accounting Principles and Policies</b>	- FA to support the Implementer in putting in place an adequate finance structure and staff, possessing appropriate skills and experience to perform the accounting and finance function of the organization	- FA assessment of quality of Implementer finance staff	- # of new external audit and LFA review adjustments resulting inadequate accounting	- Assurance provider reports (external audit, LFA, internal audit, partner reports)
	- FA to support the Implementer in putting in place an accounting and reporting framework in accordance with Generally Accepted Accounting Principles or other international standards. The accounting framework should include at least the accounting principles, policies and basis. Only authorized persons can alter or establish a new accounting principles, policies and procedures	- FA review and sign off of Finance and Accounting manual - FA review of training plan, with suggestions for improvement - FA periodic review on Implementer reporting/allocation of access rights - FA periodic review on Implementer reporting/allocation of access rights		

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support the Implementer in putting in place a formal chart of accounts, duly approved by competent authority, that accurately reflects categories of income, expenditures, assets and liabilities exists at Implementer level. Furthermore, the chart of accounts is flexible enough to accommodate additional requirements for the creation of new codes (if required)</p>	<p>- Formal (documented and approved) Chart of Accounts reviewed by Fiscal agent and approved by Principal Recipient Senior Finance Management  - FA periodic review of Chart of Accounts for adequacy to changing context</p>		
<p><b>6. Planning and Budget Management</b></p>	<p>- FA to support the Implementer in putting in place formal guidelines setting out the planning and budgeting cycle and processes</p>	<p>- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund</p>	<p>- Budget Variance Analysis:  (i) No difference between Budget Variance reported figures by PR versus LFA/CT figures (Budget for reporting period, Cumulative budget)  - Absorption Analysis:  (ii) Percentage budget absorption rate as a percentage of the total budget as at reporting period end date and Cumulatively.  - Level of cash balances:  (iii) Quarterly Cash Balance Report used in calculating In-country cash balance as a percentage of the approved budget for the subsequent quarter.</p>	<p>- Procedures Manual  - Minutes of meetings</p>
	<p>- FA to support Implementer in developing controls that ensure that designated individual(s) are responsible for preparation and approval of plans/budgets.</p>	<p>- FA periodic review of compliance with budget preparation and approval</p>		<p>- Procedures Manual  - Internal memos and Circulars</p>
	<p>- FA to support Implementer in developing controls that ensure that operational activities are adequately planned and coordinated amongst all implementing partners/function to ensure that programs are implemented in an efficient and coordinated manner</p>	<p>- FA review and sign off of Finance and Accounting manual  - Evidence of FA participation on planning activities</p>		<p>- Procedures Manual  - Minutes of meetings  - Internal memos and Circulars  - Emails</p>
	<p>- FA to support Implementer in putting in close controls ensuring a formal budget monitoring process is in place.</p>	<p>- Budget tracking tool, developed/ reviewed by Fiscal Agent that monitors the approved budget against actual expenditures.  - Evidence that significant variances are escalated to management/ Global Fund on a timely basis  - Quarterly FA reporting includes information on budget versus actual variances analysis, with reasons for variances clearly explained, identifying appropriate remedial actions.</p>		<p>- FA Quarterly Report to Global Fund</p>
<p><b>7. Procurement and Contract Management</b></p>	<p>- FA to support the Implementer in putting in place an adequate structure and staff possessing appropriate skills and experience should be in place to manage the procurement management function.</p>	<p>- FA assessment of quality of Implementer finance staff</p>	<p>- % of new management points (external audit, internal audit, OIG, LFA reviews etc.) resulting from inadequate procurement and contract</p>	<p>- CV and performance appraisal</p>

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support the Implementer in ensuring comprehensive procurement policies exists and that the procedures provide guidelines for procurement of goods, works and services.</p>	<p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p>	<p>management as compared to previous management letter (annual)</p>	<p>- FA Quarterly Report to Global Fund  - Procedures Manual  - Assurance provider reports (external audit, LFA, internal audit, partner reports)  - OIG reports</p>
	<p>- FA to support the Implementer in ensuring that procurement policies and procedures are in line with applicable laws &amp; regulations including donors' requirement and include clearly defined roles and responsibilities of personnel involved.</p>	<p>- FA review and sign-off of the Procurement plan</p>		
	<p>- FA to support the Implementer in ensuring that procurement policies and procedures adequately provide various procurement methods and processes that may be used in view of different types of procurement to be made in an open and transparent manner.</p>	<p>- FA production of checklists and standard tools in collaboration with the Implementer  - FA review of standardized tender documentation has been developed and used by the Implementers</p>		
	<p>- FA to support the Implementer in ensuring that adequate controls, internal audit systems and independent procurement oversight committee are in place to ensure that procurement transactions are undertaken in accordance with the procurement policies and procedures. This should ensure that any variations are timely and accurately identified and reported with adequate remedial response by the management of the entity.</p>	<p>- FA periodic review of compliance with policies and procedures  - FA periodic reporting on independence of procurement committee</p>		
	<p>- FA to support the Implementer in ensuring that need assessment and estimation of procurement costs are periodically carried out in order to ensure that financial resources are effectively utilized to ensure value for money.</p>	<p>- FA periodic review of compliance by Implementer</p>		
	<p>- FA to support the Implementer in ensuring that a mechanism is established to provide detailed guidelines for contract administration. The mechanism should ensure that a regular review of compliance with contract terms and conditions is carried out by the personnel with appropriate authority and competence to timely identify any inconsistencies which might result in loss of resources.</p>	<p>- FA production of checklists and standard tools in collaboration with the Implementer  - FA review of standardized tender documentation (contracts, terms of reference etc.) have been developed and used by the Implementers</p>		

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	- FA to support the Implementer in ensuring that an adequate dispute resolution mechanism is developed.	- FA periodic review of compliance by Implementer		
	- FA to support the Implementer in ensuring that effective anti-corruption regulations are employed to ensure adequate accountability and control over procurement transactions.	- FA periodic review of compliance by Implementer		
<b>8. Invoices, Payment and Recording</b>	- FA to support the Implementer ensuring that adequate policies, procedures and systems are developed and implemented to ensure an efficient, transparent, and effective control and accountability over payment processes.	- Procedures Manual reviewed by Fiscal Agent and approved by Global Fund - Periodic review by the FA of the Implementer payment processes		- FA Quarterly Report to Global Fund - Procedures Manual - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports
	- FA to support the Implementer in establishing a delegation/authority matrix, which has to be approved by the competent authority	- FA periodic review of compliance by Implementer with authority matrix		
	- FA to support the Implementer in establishing controls to ensure that the following functional responsibilities are performed by different units or individuals: - Authorization to execute a transaction; - Recording of the transaction; and - Custody of assets involved in the transaction	- FA production of flow charts of the transactions in collaboration with the Implementer - FA periodic review of compliance by Implementer		
	- FA to support the Implementer in putting in place controls that ensure that the functions of ordering, receiving, accounting for and paying for goods and services are appropriately segregated.	- FA production of flow charts of the transactions in collaboration with the Implementer - FA periodic review of compliance by Implementer		
	- FA to support the Implementer in ensuring that adequate controls are in place to ensure that payments are reasonable and allowable against budgetary allocations and payments are made based on sufficient and adequate supporting documentation	- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund - FA periodic review of compliance by Implementer		
	- FA to support the Implementer in establishing controls to ensure that financial transactions are recorded in the accounting system from source documents on timely basis	- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund - FA periodic review of compliance by Implementer		

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
<b>9. Treasury Management</b>	- FA to support the Implementer in ensuring comprehensive policies and procedures are in place, based on applicable laws and regulation including donor's requirement, to provide guidelines for treasury management	- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund	- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from Treasury management by Implementer compared to previous management letter (annual)	- FA Quarterly Report to Global Fund - Procedures Manual - Assurance provider reports (external audit, LFA, internal audit, partner reports) - OIG reports
	- FA to support the Implementer in establishing controls to ensure that there is a formal policy for the opening and closing of a bank account. There should be at least two bank signatories and specific limits for cash and bank payment	- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund		
	- FA to support the Implementer in establishing controls to ensure the following: (i) Bank and cash reconciliations are regularly performed and approved by the appropriate staff. (ii) Reconciliation must be conducted at least monthly for each bank account. (iii) Bank statements are received at least once a month from the financial institution. (iv) Each reconciliation must be checked and approved by one of the authorized signatories of the bank account or the head of accounting and finance function of the organization (or its equivalent). (v) Reconciliation and supporting documents must be retained for management control and audit purposes. (vi) The reconciliation must reconcile the ledger account /cashbook closing balance to the bank statement closing balance at the end of the month. (vii) 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 investigate and action taken to resolve the treatment of the differences. (viii) Unknown transactions on the bank statement are immediately reported to the bank for explanations and/or correction.	- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund - FA periodic review of compliance by Implementer		

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support the Implementer in establishing adequate controls over petty cash management to mitigate risk of embezzlement:</p> <ul style="list-style-type: none"> <li>(i) Standard approved forms must be used for petty cash use and management</li> <li>(ii) Petty cash advances must be regularly reconciled with the petty cash account and balance (at least once a month)</li> <li>(iii) Petty cash advances must be liquidated within a specified period of time. This period of time should be set by the head of accounting and finance function (or its equivalent)</li> <li>(iv) Segregation of duties is needed between the approver of the petty cash payments and the receiver of the advances</li> <li>(v) Petty cash held by employees is counted by a person independent of the holder on a monthly basis.</li> <li>(vi) Regular unannounced spot checks of the petty cash balance must be carried out by a finance representative and documented</li> </ul>	<ul style="list-style-type: none"> <li>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</li> <li>- FA periodic review of compliance by Implementer</li> </ul>		
	<p>- FA to support the Implementer in putting in place controls that ensure that disbursements are made only after review of invoices/ supporting documents by the authorized personnel</p>	<p>- Checklist of supporting documentation necessary for each transaction has been developed and implemented by FA in collaboration with the Implementer</p>		
	<p>- FA to support the Implementer in establishing controls to ensure that there is a formal policy and procedures for management of foreign currency exchange risks</p>	<p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p>		
<p><b>10. Assets &amp; Inventory Management</b></p>	<p>- FA to support the Implementer in ensuring comprehensive policies and procedures are in place based on applicable laws and regulation including donor's requirement to provide guidelines for asset and inventory management</p>	<p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p>	<p>- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from inadequate asset and inventory management (annual)</p>	<p>- FA Quarterly Report to Global Fund</p> <p>- Procedures Manual</p> <p>- Assurance provider reports (external audit, LFA, internal audit, partner reports)</p> <p>- OIG reports</p>
	<p>- FA to support the Implementer in ensuring that the policies and procedures specify the criteria for classification of revenue and capital expenditure, as well as for the addition and disposal of assets</p>	<p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p>		

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- FA to support the Implementer in ensuring that a fixed asset register is designed and maintained in accordance with the defined policies and procedures</p> <p>- FA to support the Implementer in establishing controls to ensure that all assets are recorded in the asset register along with their location and unique identification number</p> <p>- FA to support the Implementer in establishing controls to ensure that a physical verification exercise for the asset is carried out at least once a year to determine the actual existence of the asset and its condition</p> <p>- FA to support the Implementer in ensuring all assets of the entity are adequately insured to avoid any losses due to theft and damage</p> <p>- FA to support the Implementer in establishing controls to ensure that the general ledger is periodically reconciled against the actual quantities in the asset register</p>	<p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p> <p>- FA periodic review of Fixed asset register for verify completeness and accuracy.</p> <p>- Comprehensive Procedures manual reviewed by Fiscal Agent and approved by Global Fund</p> <p>- A periodic review of compliance by Implementer</p> <p>- FA periodic review of compliance by Implementer</p> <p>- FA periodic review of compliance by Implementer</p>		
<b>11. Document and record management</b>	<p>- FA to support the Implementer in ensuring comprehensive policies and procedures on retention of documents and records are in place based on applicable laws and regulations</p> <p>- FA to support the Implementer in ensuring that all relevant documents such as contracts, financial reports, bank documents, business registration and licenses must be kept in a safe place</p>	<p>- Archiving system has been developed and implemented. FA review and sign off</p> <p>- FA periodic spot checks</p>	<p>- # of new findings (external audit, internal audit, OIG, LFA reviews etc.) resulting from inadequate documentation and record management by Implementer compared to previous management letter (annual)</p>	<p>- FA Quarterly Report to Global Fund</p> <p>- Procedures Manual</p> <p>- Assurance provider reports (external audit, LFA, internal audit, partner reports)</p> <p>- OIG reports</p>
<b>12. Financial Reporting (Statutory Reporting, Management Reporting, Donor Reporting, Ad-hoc Reporting)</b>	<p>- FA to support the Implementer in establishing controls to ensure that a formal financial reporting mechanism is in place. The mechanism should specify the nature, content, review, approval and responsible staff for each type of financial report.</p>	<p>- FA review and sign off of financial reports at time of submission</p> <p>- FA feedback on quality of report at submission</p>	<p>- Reporting Timelines:</p> <p>(i) PUDR submitted on or before the due date</p> <p>(ii) Quarterly cash balance report submitted on or before the due date</p> <p>(iii) Quarterly expenditure report submitted on or before the due date</p> <p>(iv) Grant Program Financial</p>	<p>- PUDRs</p> <p>- QFRS</p> <p>- Cash balance reporting</p> <p>- US Tax reporting</p>



Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<p>- The reporting mechanism should have the capacity to link the financial information with the programmatic progress.</p>	<p>- FA review and feedback on financial reports at time of submission - FA reporting on compliance with this requirement</p>	<p>Statement (GPFS) submitted on or before the due date to the external auditors (v) Tax Report submitted on or before due date</p>	
	<p>- Financial reports should be system generated or based on source documents.</p>	<p>- FA review and feedback on financial reports at time of submission</p>	<p>- Accuracy in reported financial information: (i) % difference in absolute value between reported figures by PR versus LFA/CT figures in the PUDR, AFR, QFR, QCBR  (ii) Financial information in financial reports (PUDR, AFR, QFR, QCBR, GPSF, tax report) submitted to the Global Fund is reconciled and this information can be reconciled back to Principal Recipient accounting records.</p>	
<b>13. Internal Audit</b>	<p>- FA to work with Implementer to define the appropriate reporting line of the Internal Auditor regardless the type of the organization, as well as quality and objectivity of internal audit</p>	<p>- FA review and feedback on independence and objectivity of internal audit function  - FA review and feedback on quality of Internal Auditor staff</p>	<p>- % new management points (issues) raised as compared to previous management letter</p>	<p>- CV and the Internal Auditor performance appraisal - Quality of Internal Audit tools developed</p>
	<p>- FA to work with Implementer's internal auditor to develop the Internal Audit working documents/tools (Internal audit chart, Manual, Internal audit plan, etc.)</p>	<p>- FA review and sign off on Internal audit tools (Internal audit chart with reporting line, risks mapping, manual, etc.)</p>		
	<p>- FA to work with Implementer to ensure the Internal Audit plan is approved by competent authority and that the plan is executed appropriately</p>	<p>- FA feedback on execution of Internal Audit plan</p>		
	<p>FA to work with Implementer to develop a tool to monitor the implementation of the internal audit findings and recommendations</p>	<p>- FA feedback on monitoring of implementation of Internal audit findings and recommendations</p>		
<b>14. External Audit</b>	<p>- FA to support the PR in the auditor selection process</p>	<p>- Effective communication with external audits throughout audit process</p>	<p>- # of qualified audit reports (subject to reasons for qualification).</p>	

Logic of Intervention	Activities (Services Provided by FA)	Performance Indicators	Impact Indicators	Sources of Verification
	<ul style="list-style-type: none"> <li>- FA to support the Implementer in the audit planning, during the field work and ensure the availability of the documentation requested by the auditor</li> <li>- FA to support the Implementer in responding to the draft of the report</li> <li>- FA to support the Implementer in coordinating management's implementation of the audit's recommendation</li> </ul>	<ul style="list-style-type: none"> <li>- No delays in documentation requests by external auditor</li> </ul>	<ul style="list-style-type: none"> <li>- % new management points (issues) raised as compared to previous management letter</li> <li>- External Audit report submitted on or before due date</li> </ul>	<ul style="list-style-type: none"> <li>- Audit report conclusions</li> <li>- LFA reports</li> <li>- OIG reports</li> </ul>
<b>15. Capacity Building</b>	<ul style="list-style-type: none"> <li>- FA, in consultation with the Global Fund, and the CCM, to support the Implementer in developing and/or implementing a capacity building action plan</li> </ul>	<ul style="list-style-type: none"> <li>- FA periodic feedback on achievement of milestones and targets/goals included in the capacity building plan</li> </ul>	<ul style="list-style-type: none"> <li>- # of new major issues raised by assurance providers (LFA, External audit, internal audit, OIG audit &amp; Investigations) related to action plan items</li> </ul>	<ul style="list-style-type: none"> <li>- Audit report conclusions</li> <li>- LFA reports</li> <li>- OIG reports</li> </ul>
<b>16. Non-compliant expenditures</b>	<ul style="list-style-type: none"> <li>- FA to design and discharge their duties with due professional care and diligence, in line with their terms of reference by supporting the Principal Recipients and/or Sub-recipients in complying with the financial requirements of the Global Fund as well as ensuring the appropriate use of grant funds.</li> </ul>	<ul style="list-style-type: none"> <li>- FA HQ quality assurance review and feedback on financial reports at time of submission.</li> <li>- FA reporting on compliance with this requirement</li> </ul>	<ul style="list-style-type: none"> <li>- % reduction or absence of non-compliant expenditures identified by assurance providers (LFA, External audit, internal audit, OIG audit &amp; Investigations) related to action plan items</li> </ul>	<ul style="list-style-type: none"> <li>- Audit report conclusions</li> <li>- LFA reports</li> <li>- OIG reports</li> </ul>

## Annex 7: Fiscal Agent key staff skillset

Role	Professional experience	Qualifications	Language skills
<b>HQ Supervisor / Home office Project Manager</b>	<p>A minimum of 15 years of experience preferably in the health, social or financial sector, with:</p> <ul style="list-style-type: none"> <li>(i) strong project management and team management skills, ability to prioritize tasks and meet multiple deadlines in complex environment</li> <li>(ii) an in-depth experience of issues relating to project management in developing countries, particularly in challenging operating environment</li> <li>(iii) strong interpersonal skills, diplomacy and tact to effectively communicate with senior-level officials, multiple stakeholders and professionals from diverse cultural and professional backgrounds</li> <li>(iv) strong professional oral communication, writing and analytical skills, including the development of reports, oral presentations, and technical/persuasive documents</li> <li>(v) Ability to mobilise in a short period quality staff of various background needed in the frame of the Fiscal Agent assignment</li> </ul>	<p>A Graduate Degree, or a degree followed by membership in an industry-recognised professional body (e.g. ACCA, CPA etc.), in:</p> <ul style="list-style-type: none"> <li>• Public Health;</li> <li>• Finance/Accounting;</li> <li>• Public Administration;</li> <li>• Business Administration;</li> <li>• Social Science; or</li> <li>• Other relevant discipline.</li> </ul>	<p>Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work.</p>
<b>Team Leader (TL)</b>	<p>10 years of management experience, preferably in the health, social or financial sector, with:</p> <ul style="list-style-type: none"> <li>(i) strong project management and team management skills, ability to prioritize tasks and meet multiple deadlines in complex environment</li> <li>(ii) an in-depth knowledge of issues relating to project management in developing countries</li> <li>(iii) strong technical skills covering the key objectives that are included in the Terms of Reference</li> <li>(iv) strong interpersonal skills, diplomacy and tact to effectively communicate with senior-level officials, multiple stakeholders and professionals from diverse cultural and professional backgrounds</li> <li>(v) strong professional oral communication, writing and analytical skills, including the development of reports, oral presentations, and technical/persuasive documents</li> </ul>	<p>A Graduate Degree, or a degree followed by membership in an industry-recognised professional body (e.g. ACCA, CPA etc.), in:</p> <ul style="list-style-type: none"> <li>• Public Health;</li> <li>• Finance/Accounting;</li> <li>• Public Administration;</li> <li>• Business Administration;</li> <li>• Social Science; or</li> <li>• Other relevant discipline.</li> </ul>	<p>Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work.</p>
<b>Coordinator/ Senior Financial management specialist</b>	<p>A <b>minimum</b> of 8 years of relevant experience working in a financial/ control/ auditing role, preferably with at least 5 years of post-qualification experience related to:</p> <ul style="list-style-type: none"> <li>(i) financial accounting, with the ability to review and analyse accounting transactions</li> <li>(ii) financial management systems, with the ability to set-up, review and/or assess internal controls and financial processes and procedures and provide recommendations for improvement</li> <li>(iii) controlling/ auditing</li> </ul>	<p>It is preferable to have an internationally recognised professional finance or accounting qualification – e.g. Institute of Certified Management Accountants (ICMA), Certified Public Accountant (CPA), Chartered Management Accountant (CMA), Chartered Accountant Certification, Chartered</p>	<p>Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work.</p>

Role	Professional experience	Qualifications	Language skills
	(iv) writing financial procedures manual including process mapping and design of risk and control matrix (v) strong interpersonal skills, diplomacy and tact to effectively communicate with senior-level officials, multiple stakeholders and professionals from diverse cultural and professional backgrounds	Financial Analyst or Fédération des Experts-Comptables Européens etc.	
<b>Fraud expert</b>	10 years of experience in fraud management in donor funded programs or public/private sector with: <ul style="list-style-type: none"> <li>• strong experience in designing fraud prevention management systems (anti-fraud and anti- corruption procedures) including due diligence procedures for vendors, employees and Sub-Recipients</li> <li>• good knowledge and extensive practice of fraud preventive and detective controls including due diligence procedures for vendors, employees and Sub-Recipients</li> <li>• extensive experience in designing and implementing successful response to fraud and corruption related issued</li> <li>• strong experience in fraud investigations and documentation of work and results</li> <li>• strong interpersonal skills, diplomacy and tact to effectively communicate with senior-level officials, multiple stakeholders and professionals from diverse cultural and professional backgrounds</li> </ul>	Recognized Fraud management qualification (i.e. Certified Fraud Examiner)	Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work
<b>Procurement and Supply Management (PSM) Expert</b>	A minimum of 8 years relevant experience in managing or advising on the procurement, supply and use of health products, particularly in developing countries with: <ul style="list-style-type: none"> <li>(i) experience/expertise in assessing policies, systems and structures in the public and/or private health sector relevant for managing effective and efficient access to pharmaceuticals and other health products, particularly for AIDS, TB and malaria</li> <li>(ii) experience/expertise in the procurement of health products including regulations and tendering process</li> <li>(iii) experience/expertise in supply chain/logistics management systems;</li> <li>(iv) experience in quantification and forecasting of health product needs in public health programs</li> <li>(v) a good understanding of AIDS, TB, malaria market dynamics and existing global supply challenges as well as international health products procurement and supply management practices, applicable national and international laws and recognised standards</li> <li>(vi) good writing and analytical skills</li> </ul>	<b>Required</b> A Graduate Degree (MSc. equivalent) in: <ul style="list-style-type: none"> <li>• Public Health;</li> <li>• Pharmacy;</li> <li>• Medicine; or</li> <li>• Other related discipline.</li> </ul> <b>Desirable</b> <ul style="list-style-type: none"> <li>• Professional training in procurement and supply management (PSM) of health products, logistics and/or public health.</li> </ul>	Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work

Role	Professional experience	Qualifications	Language skills
<b>Program management specialist</b>	<p>A minimum of 8 years in relevant experience in managing or advising a program particularly in health sector in developing countries with:</p> <ul style="list-style-type: none"> <li>• experience in planning the activities of the program in order to achieve the programmatic targets</li> <li>• strong ability in coordinating work effort of different teams</li> <li>• a thorough knowledge of epidemiology and programmatic interventions related to at least one of the three diseases (HIV, TB, or malaria)</li> <li>• understanding of the dimensions of health service quality and familiarity with reviewing and interpreting national service delivery guidelines</li> <li>• strong interpersonal skills, diplomacy and tact to effectively communicate with senior-level officials, multiple stakeholders and professionals from diverse cultural and professional backgrounds</li> </ul>	<p>A Graduate Degree in:</p> <ul style="list-style-type: none"> <li>• Public Health;</li> <li>• Public Administration;</li> <li>• Business Administration;</li> <li>• Social Science; or</li> <li>• Other relevant discipline.</li> </ul>	<p>Must have good written and spoken English and a good working knowledge of the official language(s) spoken in the country or countries in which the individual has been assigned to work.</p>

## **Annex 8: Abbreviations and acronyms**

AFR:	Annual Financial Reporting
ASP:	Additional Safeguard Procedures
CCM:	Country Coordinating Mechanism
CT:	Country Team
FA:	Fiscal Agent
FiA:	Fiduciary Agent
FPM:	Fund Portfolio Manager
FRMAT:	Financial Risk Management and Assurance Team
FRMM:	Financial Risk Mitigation Measure
FS:	Finance Specialist
HoD:	Head of Department in Grant Management Division
ICR	Indirect Cost Recovery
INGO:	International Non-Governmental Organizations
LFA:	Local Fund Agent
M&E:	Monitoring and Evaluation
MoU:	Memorandum of Understanding
NGO:	Non-Governmental Organization
OIG:	Office of the Inspector General
ORM:	Operational Risk Management
PR:	Principal Recipient
PSM:	Procurement Supply Management
PU/DR:	Progress Updates/ Disbursement Request
RFM:	Regional Finance Manager
RM:	Regional Manager in Grant Management Division
SFS:	Senior Finance Specialists
SR:	Sub-Recipient
SSR:	Sub-Sub Recipient
TEC:	Technical Evaluation Committee
TGF:	The Global Fund
ToR:	Terms of Reference
UN:	United Nations