



# Grant Financial Reporting

LFA TRAINING WORKSHOP  
GENEVA, OCT, NOV 2019 + JAN 2020

# Agenda

**01** Presentation of Facilitators and Module Objectives

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**02** Importance of Grant Financial Reporting for decision making

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**03** Challenges and Quality Improvement opportunities

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# Objectives of this module

- Provide an overview of the key grant financial reporting requirements and relevant LFA assurance
- Discuss the linkage of financial and programmatic information for decision making
- Highlight challenges and quality improvement opportunities in LFA services
- Create a forum for feedback on improving GF/LFA collaboration and delivering on the Global Fund Strategy



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# Recap on why financial information is needed for reporting on critical financial KPIs linked to the Global Fund Strategy?

Strategic Targets	Strategic Targets			
	1 Performance against impact targets		2 Performance against service delivery targets	
Strategic Objectives	Maximize Impact Against HIV, TB and malaria	Build resilient & sustainable systems for health	Promote and protect human rights & gender equality	Mobilize increased resources
Strategic KPIs	3 Alignment of investment & need	6 Strengthen systems for health a) Procurement b) Supply chain: OSA c) Financial management d) HMIS coverage e) Results disaggregation f) NSP alignment	8 Gender & age equality	10 Resource mobilization
	4 Investment efficiency		9 Human rights	11 Domestic investments
	5 Service coverage for key populations	7 Fund utilization		12 Availability of affordable health technologies
Operational KPIs	a Grant level service delivery performance		e Gender programming	g Commodity procurement under management
	b Transition preparedness		f CCM Key Population engagement	h PPM OTIF delivery
	c Funding access			i Roll out of innovative products (triggered KPI)
	d Forecast accuracy: Grant expense, Commodity demand, Grant expense			

  Grant making / Budgeting    
   Grant fin. reporting    
   Risk / Capacity (CO-link)

# Importance of Implementer Financial Reporting

A minimum set of reliable financial information regarding the implementation of grants is important for the Global Fund to:

- Demonstrate the **efficiency of investments**
- Enhance **transparency and accurate reporting** on the **use of funds** to stakeholders
- **Link financial** information to **programmatic** performance
- Enhance the **ability to make** informed **decisions**
- **Track absorption** and the associated **bottlenecks**
- **Analyze the financial risks** across the portfolio



# Key data required for decision making

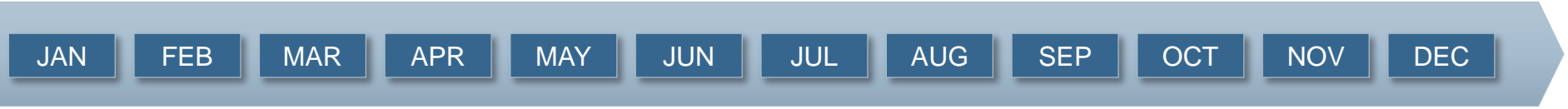


There are **4 key financial reports** required by implementers for decision making

<b>Progress Update (PUDR)</b>	Required to report on grant performance, use of grant funds, absorption, reporting on KPIs, cash balances and forecast to inform annual funding decision, and non-compliant expenditure (recoveries)
<b>External Audit Report</b>	Required for accountability on use of funds, validating expenditure, <b>internal controls</b> and non-compliant expenditure (recoveries)
<b>Tax Report</b>	Required for reporting to donor on funds subject to taxation and track <b>PR ability to recoup VAT and other taxes paid</b> from grant funds
<b>Financial Closure (FCR)</b>	Required to validate <b>final expenditure</b> , allocation cut off, grant absorption level, <b>establishing final closing cash balance</b> for refund or transfer to next IP as well as final recoverable non-compliant expenditure



# Financial Reporting Timelines based on country classification



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
High Impact	Cash Bal.	PU/DR*		Cash Bal.		Audit	Cash Bal. Tax	PU FCR		Cash Bal.		
Core	Cash Bal.	PU/DR		Cash Bal.		Audit	Cash Bal. Tax	PU FCR		Cash Bal.		
Focused		PU/DR				Audit	Tax	PU FCR				

LFA reviewed

- PU / DR
- Audit
- FCR

Tax

Cash Balance Reporting based on PR needs

*PU/DR\* Indicative for grants with a reporting cycle of January to December. Other cycles report PUDR based on the relevant cycle.*

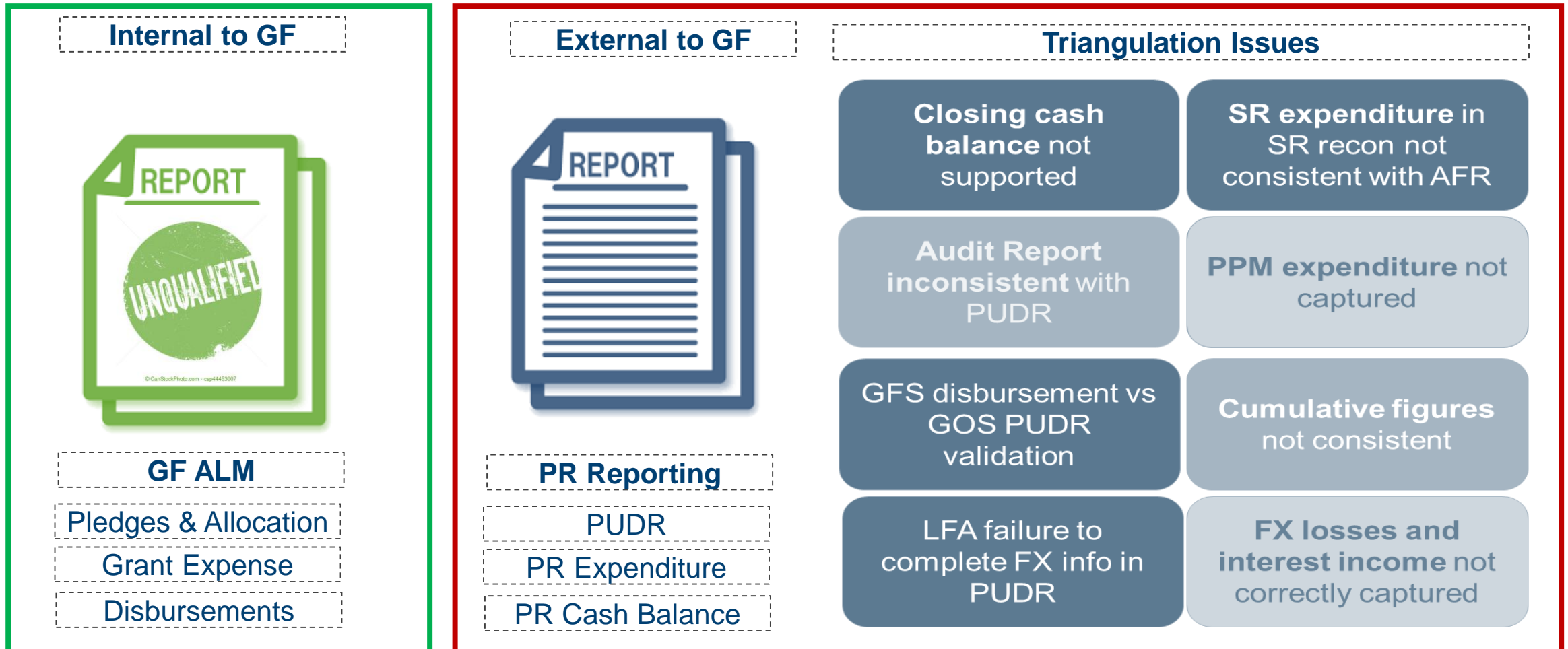
# PUDR & FCR – Key considerations

- ☑ Evidence trial balance to expenditure
- ☑ Reconcile disbursements to GFS
- ☑ Trace bank statements and reconciliation
- ☑ Evidence Wambo / PPM statements to expenditure
- ☑ Evidence SR quarterly statements & advance acquittal
- ☑ Evidence audited expenditure and cash balance
- ☑ Test commitments and obligations
- ☑ Complete triangulation
- ☑ Do we understand how storage fees are invoiced?
- ⚠ **Consistency in GOS and excel templates**
- ⚠ **Performance letter, demand letter and PO reduction (FCR)**

Implementing Entity	Budget for Reporting Period	Actual Expenditure	Budget Vs Actual Variance	Description	Explanation of Variance (Unaudited for all percentages)	Cumulative Budget	Cumulative Actual Expenditure	Cumulative Budget Vs Actual Variance	Accuracy Rate
2ABC	\$1,498,000	\$1,498,000	\$0	...	...	\$1,498,000	\$1,498,000	\$0	100%
2E	\$1,200,000	\$1,200,000	\$0	...	...	\$1,200,000	\$1,200,000	\$0	100%
7A,B	\$1,200,000	\$1,200,000	\$0	...	...	\$1,200,000	\$1,200,000	\$0	100%
8A	\$1,200,000	\$1,200,000	\$0	...	...	\$1,200,000	\$1,200,000	\$0	100%
<b>Grand Total</b>	<b>\$4,100,000</b>	<b>\$4,100,000</b>	<b>\$0</b>			<b>\$4,100,000</b>	<b>\$4,100,000</b>	<b>\$0</b>	<b>100%</b>

- 2ABC\_PR cash reconciliation
- 2E\_SR cash reconciliation
- 7A,B\_PR expenditure
- 8A\_PR forecast

# Importance of Triangulation (in PUDR & FCR)



# INTERNAL: Sample Peer Review of PUDR

RFM and Senior Specialists introduced a six step peer review process:

- Step 1: Verify **opening cash balance** reconciles to FCR closure
- Step 2: Verify **grant income** reconciles to GFS disbursements
- Step 3: Verify **grant expenditure** reconciles to pooled procurement statements (PPM) and Trial balance
- Step 4: Verify **closing cash balance** reconciles to bank reconciliation (including commingled accounts where applicable)
- Step 5: **Triangulation** table is complete by LFA or Finance Specialist
- Step 6: **Audit (external)** report reconciles to AFR and cash balances (if available)

## Guiding Principles

**Embed triangulation from start of new allocation**

**Evidence improvements in PR reporting systems**

(e.g. Co-Link initiatives and extracting trial balance)

**Validate PR internal controls**

(e.g. timely bank reconciliations and evidence of cash in country)

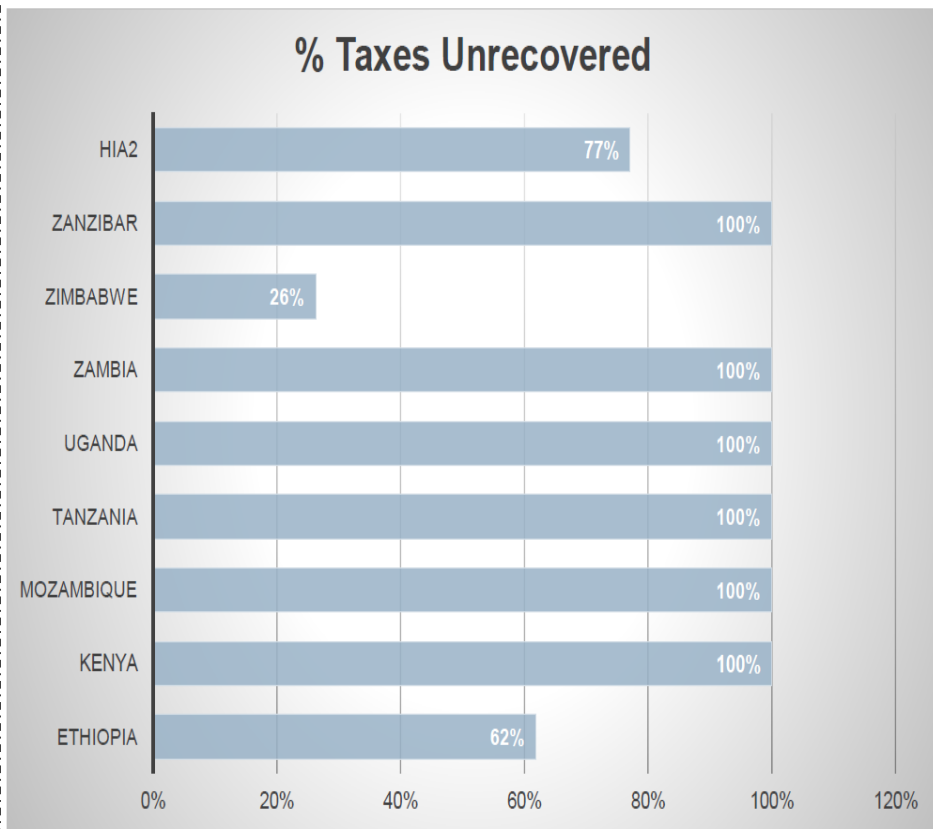
**Adapt engagement with LFA**

(e.g. examining quality of assurance, evidencing working papers)

**Standardize review processes with PFC**

(e.g. Finance Officer peer reviews)

# Tax Reports – Key considerations



- ❑ Critical to compliance with P&I. **6 countries** showing no recoveries at 100% un-recovered.
- ❑ **Kenya and Uganda** related to **NGO PRs** which are not exempt, hence **normal**.
- ❑ **Tanzania, Zambia and Mozambique** relate to government PRs which should be **flagged** for Country team engagement

Graph 1: Sample analysis from 2017 Tax Reports



- Consistency of expenditure with AFR?
- Consistency of taxes recovered with other income in PR Cash reconciliation tab?
- Tax exemption and recovery consistent with P&I arrangements?

# External Audit Report – Key considerations



Key Checks: >> Audited expenditure versus PUDR

>> Audited cash balance versus PUDR

>> Audit Opinion consistent with management letter

>> How does PR report audit adjustments in subsequent PUDR?

>> PR tracking execution of recommendations (KPI – 80%)

## ***Discussion point:***

1. LFA is increasingly being encouraged to engage with external auditors (e.g. entry and exit meeting is a critical part of due diligence)
2. Please share brief experiences on audit engagement on your portfolios.



# NEW: Validation of Co-Financing Compliance



- Budget execution from MoF
- National Health Accounts (NHA, N<sup>+2</sup>)
- Mid term expenditure framework (MTEF)
- Evidence of government tender/procurement of health products such as ARV / LLIN
- Evidence of earmarked tax budgeted for Health

## ***Discussion point:***

1. Have you provided such support to any of your country portfolios in the past 12 months?
2. Share your experience.



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# Role of LFA

The role of LFA remains critical to the Global Fund model as our **'eyes and ears'** to validate **accuracy of implementer information** and to provide **real time intelligence on risks and opportunities** for implementation.

## **'...our eyes and ears'**

LFA is expected to articulate risks and opportunities identified during standard reviews and as part of real time intelligence gathering (e.g. forex fluctuation, partner funding duplicated, major fiscal policy with impact on GF grants)

## **Due diligence and accuracy of reporting**

While LFA reviews are not audits, they are a mechanism for assurance. Accuracy, debriefing implementers and retaining working papers is important as hired professionals

## **Report Content**

LFA Reports must be succinct with clear executive summaries and well articulated findings and root cause analysis. Findings should be categorized per GF risk categories with financial incidence flagged (i.e. value of non compliant expenditure)

# Similarity in roles of LFA and Finance Specialist

## *Discussion point:*

How do we help meet the needs of the Global Fund?

What comes to mind when we consider the terms 'assurance' and 'due diligence'?



## *Guidance:*

### **We do!**

- ✓ **Conduct due diligence using professional skills and care** to meet the objectives of our role
- ✓ **Review the accuracy of data** for accountability, decision making and feedback (to providers of information)
- ✓ **Provide approval, sign-off and validation** among others.

### **We do not!**

- ✓ **Prepare** implementer Financial Reports
- ✓ Provide **audit** assurance
- ✓ Highlight risks / challenges **and fail to pursue solutions**

# Challenges and Quality Improvement Opportunities in LFA assurance

## CHALLENGES

- PUDR submissions delayed
- LFA corrections triggered by CT request for clarifications
- Reconciliation (triangulation) of disbursements, expenditure and cash balance not completed or variances not adequately explained
- Evidencing bank balances to support report cash balance not well done
- LoE charged does not respect the approved LFA workplan
- Treatment of commitments in expenditure not well done
- Cumulative expenditure balances not consistent with prior periods
- Findings and recommendations do not fully address root cause or require extensive rewording by Country Teams
- Need more linkage of programmatic and financial performance (examples to follow in next segment)
- Focus on risks and recommendations that align with GF strategy of building resilient and sustainable health systems (e.g. countries moving to use of country (PFM) systems, use of Supreme Audit Institutions (SAIs))
- Evidencing non-compliant expenditure in PUDR is critical
- Consider timing of spot checks as an entry point in PUDR recommendations

## OPPORTUNITIES

- Consider new assurance needs such as validation of co-financing
- Successful replenishment will not be business as usual, hence opportunity for LFA to adapt
- LFA can support capacity building (RSSH) initiatives by assessing PR progress of implementation (e.g. progress in adopting new ERP/financial reporting systems and similar, review of IT controls) red professionals
- Rethink the current quality control mechanism before sharing reports