

ANNEX TO ([Guide for Local Fund Agent Finance-related Scope of Work and Deliverables for Focused Countries \(March 2017\)](#))

Changes to Financial Management and Assurance Approach for Focused Portfolios

Issued on: 21 February 2020

Purpose: To provide guidance to Principal Recipients and Local Fund Agents (LFAs) on critical changes that have been made to the financial management and assurance approach for Global Fund grants in focused portfolios.

INTRODUCTION

In summary, changes introduced are:

1. **Budget revisions.** Definitions, thresholds and timing for budget revisions have changed.
2. **Disbursements.** The Global Fund may make one disbursement that includes the budget for Year 1 and the budget for Quarter 1 of Year 2. LFAs undertake expenditure verification during their review of PUDRs.
3. **Audit ToRs** will normally be approved by the Global Fund for an entire Implementation Period. The PR can use the approved ToRs for each annual audit without requesting Global Fund approval on an annual basis, subject to exceptions; and
4. The **auditor selection process** will be systematically reviewed by the LFA.

1. BUDGET REVISIONS

Definitions. New definitions of “material” and “non-material” budget revisions have been established for focused portfolios, which differ from standard thresholds defined in the Global Fund’s Budgeting Guidelines¹.

New thresholds. The new thresholds applicable to non-material budget revisions, which do not require prior written approval from the Global Fund, are detailed below.

Description	Budget revision for any standard intervention	Budget revision for any discretionary cost category	Is Global Fund prior written approval required?
Non-material budget revision	Less than 30% change to the total budget for any	Less than 10% increase to the total discretionary cost category (except for HR). For	No

¹ Paragraph 173 of the Global Fund Guidelines for Grant Budgeting (2019).

	intervention (either an increase or decrease)	HR less than 5% increase to the total budget of any discretionary cost category	
Material budget revision	(i) Any budget revision above the non-material budget revision thresholds defined above. (ii) Any budget revision that introduces new modules and/or interventions.		Yes
	The default definition (per budgetary adjustments of the Budgeting Guidelines) of a discretionary cost category includes: human resources, vehicles, travel-related costs (per diems) and indirect costs/overheads.		

These new definitions are effective as of the date of this communication.

Timing. Material budget revision requests can currently be submitted only once annually, as part of the Progress Update & Disbursement Request (PU/DR) submission. Under the revised approach, at the discretion of the Global Fund, exceptional material budget revision requests may be considered for Global Fund approval at any time during the year.

See the PowerPoint presentation 'Financial management and assurance in focused portfolios (February 2020)' for an illustration of budget revisions.



Financial
management_assure

2. ANNUAL FUNDING DECISIONS AND DISBURSEMENT SCHEDULE

Effective immediately, the Global Fund may disburse the first year and the first quarter of the second year of the grant budget to the Principal Recipient as part of the first annual funding decision, in one installment.

For the subsequent two years of the Implementation Period, the Global Fund may decide to disburse the annual budget amount in one installment for Principal Recipients performing well in financial management and programmatic performance.

The decision will be based on the annual approved budget or the Principal Recipient's forecast, if lower than the annual budget.

To be eligible, the Principal Recipient should meet the following four conditions:

1. Cumulative absorption rate of 80 percent or more;
2. Unqualified audit report for the prior year;
3. Timely and accurate submission of the required PU/DRs; and
4. No major finance issues reported in the PU/Annual Financial Reports as validated by the Global Fund.

Effective immediately, Local Fund Agents are requested to undertake expenditure verifications during their review of PUDRs for focused countries. As part of the review, they should consider the above conditions when recommending a request for disbursement.

3. AUDIT TERMS OF REFERENCE

The Global Fund will approve relevant audit ToRs once per Implementation Period after the LFA's review. Exceptional reassessment and review of audit ToRs may be required by the Global Fund at any time, in case of, without limitation:

- material changes in implementation arrangements;
- heightened risks identified as part of the capacity assessment;
- completion of the Integrated Risk Management tool;
- other risks identified from routine oversight or monitoring of key deliverables (such as audit reports, Progress Updates/Disbursement Requests (PU/DRs), or OIG reports), and
- changes in scope of the audits as required in the Auditing Guidelines.

4. AUDITOR SELECTION PROCESS AND APPROVAL

Effective immediately, Global Fund Local Fund Agents (LFAs) are to conduct reviews of auditor selection processes as a matter of standard procedure, whenever the PR conducts the auditor selection or recruitment. The auditor will be selected for an entire Implementation Period unless there is any evidence that the auditor is not performing its duties in a fully independent and professional way. The CT may request for a retender in this case.