



For Global Fund Grants

Guidelines for Financial Assurance Planning

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Geneva, Switzerland

The financial assurance plan provides improvements to the way the Global Fund obtains financial assurance on its grants. It is part of the Global Fund initiative to strengthen overall assurance methods and approaches across the portfolio.

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I. Objectives of Financial Assurance

1. For financial assurance, the improvements are aimed at ensuring that each grant has effective and efficient assurance mechanisms to provide sufficient assurance that the key financial risks are managed appropriately during the implementation of the grant. In achieving this, the assurance approach will need to ensure that:

- The Global Fund country team has an ability to adapt the assurance approach to the individual risks of the grant and hence there is no “one-size-fits-all” approach to how and what should be assured.
- There are no critical gaps in the assurance approach and no areas of duplication of assurance exist.
- The assurance methods and responsibilities of the implementers are considered and opportunities are exploited to build local internal and external assurance capabilities – a broader focus on sustainability.

II. Background and Context of “Assurance”

2. The risk and assurance initiative follows concerns raised by senior management and the Office of the Inspector General about the way in which assurance over grant outcomes is obtained. A proposed new approach was presented at the November 2014 Board Meeting, requiring the Global Fund to implement a pilot phase in 2015 with the Global Fund Risk department overseeing.

3. The implementation of the financial component of the new combined risk and assurance framework was one of Program Finance’s top priorities in 2015.

4. A key change involves the concept of the Global Fund risk owners - being technical “owners” of the different risk areas: financial, procurement, programmatic – who will provide technical leadership in their areas of expertise and set standards and a “second line of review” in assessing the adequacy of Country Team’s overall assurance plans.

5. The new approach formalizes the need for Country Teams to develop assurance plans that demonstrate how the overall assurance mechanisms work and hence how they meet the requirements stated above. In the pilot phase these assurance plans have been reviewed by each of the risk owners and by the Risk department to ensure consistency and quality of the approach.

III. Financial Assurance Planning

6. Throughout these guidelines, reference will be made to “the Finance Specialist or the Local Fund Agent”. In high-impact and core countries, the Finance Specialist will be responsible for the preparation of the financial assurance plan in collaboration with the Fund Portfolio Manager. In focused countries¹, the Local Fund Agent will assist the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team with the development of the financial assurance plan.

7. Separate financial assurance plans shall be prepared for each grant.

8. Throughout these guidelines reference will be made to the Capacity Assessment Tool and to the Qualitative Risk Assessment Tool (QUART). Currently, risk information is collected through the Capacity Assessment Tool and QUART and hence they are the main sources of information as of present. These tools might change in the future, in which case the new risk assessment tool should be used. In focused countries

¹ Focused countries refer to all countries managed by the Portfolio Service Team. In these countries, the Local Fund Agent will assist the Country Team in the preparation of the assurance plan.

where the QUART is not completed risk assessments should be based on other available information, such as management letters and findings from assurance providers.

9. The financial assurance plan will provide a work plan for the Country Team and Finance Specialist that states when financial assurance findings are expected and from whom.
10. The plan should identify:
 - Where the key financial risks of the grant reside and hence where the evidence of effective financial control and oversight will be most important to the ongoing success of the grant.
 - Who the most appropriate financial assurance provider for the risks will be, both from an efficiency and an effectiveness perspective; and
 - When the assurance providers will be expected to provide their reports and what they are expected to report on.

01 Risk assessment or risk analysis

11. The precursor to planning financial assurance is to understand the nature of the financial risks within grant implementation. These risks shall be assessed based on the following information:
 - a. The grant implementation mapping
 - b. The Capacity Assessment Tool
 - c. The QUART
 - d. The Local Fund Agent findings documented in the Local Fund Agent review of the PU/DR and formalized in the Country Team management letter to the Principal Recipient
 - e. The external audit findings detailed in the audit report and in the management letter
 - f. Unresolved financial weaknesses from the last Inspector General audit/investigation reports
 - g. Reports available from partners and/or other development agencies within the country.
 - h. Financial issues deriving from any assurance provider of the Principal Recipient and available for sharing at the Principal Recipient
12. No separate risk assessment will be required to prepare the financial assurance plans as the Country Team, Finance Specialist or the Local Fund Agent should base their work on the intelligence already available in the reports mentioned above as well as other information they may possess.
13. The financial assurance plan shall ensure that controls and risk mitigating activities on the key financial risks of the grant are independently reviewed and tested. Key financial risks are defined as the financial risks that could have a material impact on the grant objectives and on the Global Fund's reputation (refer to Annex 1).
14. Key risks will be classified based on the Global Fund's operational risk management categories. Annex 1 provides for reference the definition of Global Fund financial risks as well as the related risks and contributing factors.

02 Risk mitigation

15. *Definition:* It is the response to risks held outside of tolerance to mitigate any potential impact on the delivery of grant outcomes. The risk mitigation activity is critical to ensure ongoing improvements in grant outcomes.

16. The Finance Specialist at the Global Fund or the Local Fund Agent should be aware of the financial risk mitigating measures initiated by the Global Fund Country Team. If such information has not been made available to the Local Fund Agent, the Fund Portfolio Manager should ensure the relevant documents are shared with them. The financial controls of the Principal Recipient² are identified during the Capacity Assessment Tool³ validation or subsequent assurance work and should be tested as part of the regular assurance work performed on the grant. The frequency of such testing is to be determined by the Country Team in agreement with the Regional Finance Manager/Portfolio Service Team. The following documents can be used to identify the key financial controls implemented at the Principal Recipient level to reduce the effects of the identified key risks:

- a. The Capacity Assessment Tool
- b. The QUART
- c. Principal Recipient response to Country Team management letter to the Principal Recipient
- d. Principal Recipient response to the external auditors findings detailed in the audit report and in the management letter
- e. Secretariat response to Inspector General reports
- f. Financial assessment performed by other partners at that implementer

17. If the information is not available in any of the documents mentioned in the previous paragraph, the Finance Specialist at the Global Fund or the Local Fund Agent (where commissioned to perform the financial assurance planning) should work with the Principal Recipient management to get the necessary information.

18. The financial risk mitigation measures are tools used by the Global Fund to ensure that the main financial risks are reduced to an acceptable level. The level of financial risk mitigation measures required is determined by the design and effectiveness of the key financial controls at the implementer.

- a. Examples of key controls at implementer:
 - i. Principal Recipient management receives a monthly report on the budget monitoring and investigates systematically all variances above 5% for corrective measure and budget reallocation;
 - ii. On a quarterly basis, the implementer's finance team reviews all expenditures incurred by the sub-recipients and issues a report of exception that is reviewed by management.
- b. Examples of financial risk mitigating measures:
 - i. Change in Principal Recipient
 - ii. Installation of a fiscal agent
 - iii. Installation of the fiduciary agent
 - iv. The restricted cash policy (also called limited funding policy)
 - v. Appointment of procurement agent
 - vi. Use of the Global Fund Pooled Procurement Mechanism
 - vii. Etc.

19. The Local Fund Agent should not be considered as a "financial risk mitigating measure" in any of the Principal Recipient operations but can be used as an assurance provider.

20. Both the risk assessment and the risk mitigation will form the basis of the financial risk management work plan.

² If the Principal Recipient is a pass-through Principal Recipient, then this work needs to be done at the level of key implementer.

³ If the Capacity Assessment Tool is changed, the new tool for risk identification should be used.

03 Financial Assurance

Definition: The objective and independent review of grant activities by internal and external assurance providers⁴ with the ultimate goal of ensuring the achievement of each grant's objectives. The Global Fund uses a combined assurance approach to ensure it uses assurance resources efficiently and effectively in validating grant outcomes

Implementer Assurance

21. The Finance Specialist at the Global Fund and/or the Local Fund Agent (if requested by the Country Team) will need to assess the capacity, independence and scope of the Principal Recipient's own assurance mechanisms (e.g. internal audit/compliance teams). This assessment will play a key role in understanding what external assurance will be required and how to tailor the scope of their work.
22. The information on the capacity of the Principal Recipient's internal assurance mechanism may be available in the following documents:
 - a. The Capacity Assessment Tool
 - b. The QUART
23. Where this information is not available, the Finance Specialist at the Global Fund or the Local Fund Agent (if requested by the Country Team) should work with the Principal Recipient management and the Principal Recipient internal auditor (where available) to make further assessments.
24. The assessor (Finance Specialist at the Global Fund or Local Fund Agent) should not simply list the assurance mechanism but assess whether the quality, independence and scope of the assurance provider is sufficient to be relied upon. This assessment should determine the level of additional assurance required from external assurance providers.
25. The analysis should consider where the Global Fund's funds flow and consider internal assurance mechanisms at each of the levels (national, regional, and district/peripheral), as applicable.
26. The assessors should consider the following factors before concluding on the reliance of implementers' internal assurance mechanism:
 - a. Their own knowledge of the quality of internal assurance providers;
 - b. Independence of the assurance provider⁵;
 - c. Competence and skills of the key staff providing assurance;
 - d. Objectivity of recommendations and enforcement of their recommendations;
 - e. Transparency of internal assurance provider reports/documentation of work done.
27. In circumstances where information is not readily available to make an assessment of the internal assurance provider, assessors should explore the following assessment methods:
 - a. **Observation:** consists of looking at a process or procedure being performed by others, e.g. observation of an inventory count by the entity personnel or of the performance of control activity;
 - b. **Inquiry:** consists of seeking the information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity;
 - c. **Examination/Inspection:** involves examining records or documents, whether internal or external, in paper form, electronic form or media, or physical examination of an asset;

⁴ In this document, internal assurance providers are all assurance mechanism established at the Principal Recipient and which can be used to get assurance on the grants' risks e.g. internal audit and compliance teams, etc. External assurance providers are external parties that are independent to the Principal Recipients that perform different types of checks on Principal Recipient's operations/activities e.g. external audit, Local Fund Agent, etc.

⁵ For instance, an internal audit function shall report to the Board (or any entity independent of management) and not to management. This shall be a mandatory criteria.

- d. Re-performance: involves the assessor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

28. The assessment will be on the same elements noted in paragraph 26:

- a. Independence of assurance providers: this will be assessed based on organigram and formal reporting lines. Conflict of interest needs to be carefully considered.
- b. Competence and skills: assessor shall use curriculum vitae of the key staff of the assurance providers (audit head and senior staff). Degree/qualification, experience and past track record in the organization should be the main drivers of the assessment.
- c. Recommendation enforcement/transparency: use two past reports and assess the relevance of the findings along with the recommendation. Check whether the status of the recommendations is reported to the audit committee on a regular basis and if specific actions are taken where the recommendations are not implemented.

29. Where reliance will be placed on internal assurance providers, it is essential that the Finance Specialist or the Local Fund Agent be involved in the review of the ongoing internal audit planning and have full access to key assurance findings. The findings from the initial risk assessment should serve as a basis to suggest improvements to the internal audit plans and then used to update the financial risks. Without this ongoing interaction, the initial assessment will quickly become out of date and no further reliance can be placed on it.

30. Every year during the financial assurance planning the Country Team should define whether an assessment of the implementer's assurance needs to be updated based on the changes that have taken place, including staff changes for personnel responsible for the implementer's assurance.

External Assurance

31. External assurance providers are used more generally by the Country Team or the Fund Portfolio Manager to obtain assurance on the risks faced during program implementation. External assurance providers are either specified in the grant agreement or further decided by the Global Fund Country Team. Examples of external assurance providers include external auditors, any assurance provided through the partners and the Local Fund Agent; in general, these are all entities external to, and independent from, the Principal Recipient from which we obtain assurance.

32. External assurance assignments should be performed by a suitably qualified, independent and resourced external assurance provider. The Finance Specialist and Local Fund Agent provide recommendations to the Fund Portfolio Manager as to the acceptance of an external assurance provider prior to them being appointed. In the case of the Local Fund Agent this is relevant only for external assurance providers other than the Local Fund Agent.

33. Where there are potential synergies in the provision of external assurance through either partner or Principal Recipient arrangements these should be explored by the Finance Specialist and/or Local Fund Agent in collaboration with the Country Team.

04 Frequency of Assurance planning

34. The financial assurance planning should be performed on an annual basis. For high-impact and core countries, if significant changes take place during the year, financial assurance plans may need to be updated more frequently to reflect those changes.

35. If a grant ends in less than 18 months from the time when financial assurance planning is done, the Country Team should consider whether it is appropriate to prepare the financial assurance plan covering the period up to the end of the grant.

36. The financial assurance plan should serve as a basis for the preparation of the Local Fund Agent budgeting process. It is therefore expected that the financial assurance plan be complete prior to the start of the Local Fund Agent budgeting process.
37. The following three scenarios may justify why a country would be exempt for a given year from performing financial assurance planning:
- a. Funds are immaterial
 - b. Financial risk rating is low
 - c. Historical assurance has been very good
38. The indicative criteria for each of these options are detailed in Annex 2.
39. The decision on the exemption from financial assurance planning is proposed by the Country Team, validated by the Regional Manager, Regional Finance Manager/Portfolio Service Team and approved by the Financial Risk and Assurance Manager.

05 Roles and responsibilities during the process in focused countries

40. The Fund Portfolio Manager, the Financial Risk and Assurance team, the Finance Specialist in the Portfolio Service Team and the Local Fund Agent have key responsibilities in the financial assurance planning process of focused countries. The main role of each of them in the financial assurance planning process is provided below.

41. **Fund Portfolio Manager:** the Fund Portfolio Manager coordinates the work of the Local Fund Agent. The Fund Portfolio Manager will plan and facilitate access of the Local Fund Agent to partners and top management of the Principal Recipient where necessary. The Fund Portfolio Manager will also review the financial assurance plan and discuss the content with the Local Fund Agent and the Finance Specialist in the Portfolio Service Team.

42. **The Local Fund Agent:** upon discussion with the Fund Portfolio Manager and the Portfolio Service Team, the Local Fund Agent prepares an initial draft of the financial assurance plan. The Local Fund Agent coordinates the work with the Fund Portfolio Manager and communicates progress based on the agreed work plan. The Local Fund Agent flags all limitations to the performance of their work to the Fund Portfolio Manager. Upon agreement with the Fund Portfolio Manager, the Local Fund Agent could also assist the Country Team with tracking the delivery of assurance work performed by other assurance providers based on the approved financial assurance plan and ensure that all reports are produced on a timely basis from the assurance provider. The Local Fund Agent liaises through the Portfolio Service Team with the Financial Risk and Assurance Team for further clarifications on the expected outcome of their work.

43. **Finance Specialist of the Portfolio Service Team:** the Finance Specialist will provide clarification on the financial assurance planning process to the Fund Portfolio Manager and the Local Fund Agent; will identify along with the Fund Portfolio Manager the financial risks for the first financial assurance plan, liaise with the Financial Risk and Assurance Team where further clarifications are required, review the draft financial assurance plan and sign off on the plan once all their comments are cleared. Therefore, the Finance Specialist ensures the assurance plan is of good quality, cost effective and realistic. The Finance Specialist should track the delivery of assurance work and ensure that all reports are produced on a timely basis from the assurance provider, via the Fund Portfolio Manager and the Local Fund Agent.

44. **Financial Risk and Assurance Team:** this team will provide guidance and clarification on questions that the Fund Portfolio Manager, the Portfolio Service Team or the Local Fund agent might have on the process.

06 Roles and responsibilities during the process in high-impact and core countries

45. The Regional Finance Manager, the Fund Portfolio Manager, the Financial Risk and Assurance Team and the Finance Specialists have key responsibilities in the financial assurance planning process of high-impact and core countries. The main role of each of them in the financial assurance planning process is provided below.

46. Fund Portfolio Manager: The Fund Portfolio Manager works in cooperation with the Finance Specialist on the financial assurance process and facilitates access of the Finance Specialist to partners. He/she will agree with the Finance Specialist on the workplan for the completion of the financial assurance plan. The Fund Portfolio Manager will also review the financial assurance plan and discuss the content with the Finance Specialist, as needed.

47. Finance Specialist: the Finance Specialist manages the process from start to finish in coordination with the Fund Portfolio Manager. The Finance Specialist should discuss and agree the completion road map of the assurance plan with the Fund Portfolio Manager. The Finance Specialist ensures the financial assurance plan is of good quality, cost-effective and realistic and will liaise with the Financial Risk and Assurance Team for further clarification on the expected outcome of their work. The Finance Specialist also contributes to the overall assurance plan of the country (including programmatic and procurement aspects) based on the approved financial assurance plan. The Finance Specialist should track the delivery of assurance work and ensure that all reports from the assurance providers are produced on a timely basis.

48. The Regional Finance Manager: the Regional Finance Manager validates and approves the financial assurance plan for each country/grant. The Regional Finance Manager monitors the progress of completion with the Finance Specialists. The Regional Finance Manager is the focal person to inform the regional/department team on the financial assurance process and liaises with the Financial Risk and Assurance Team when she/he needs further guidance and technical support on the subject.

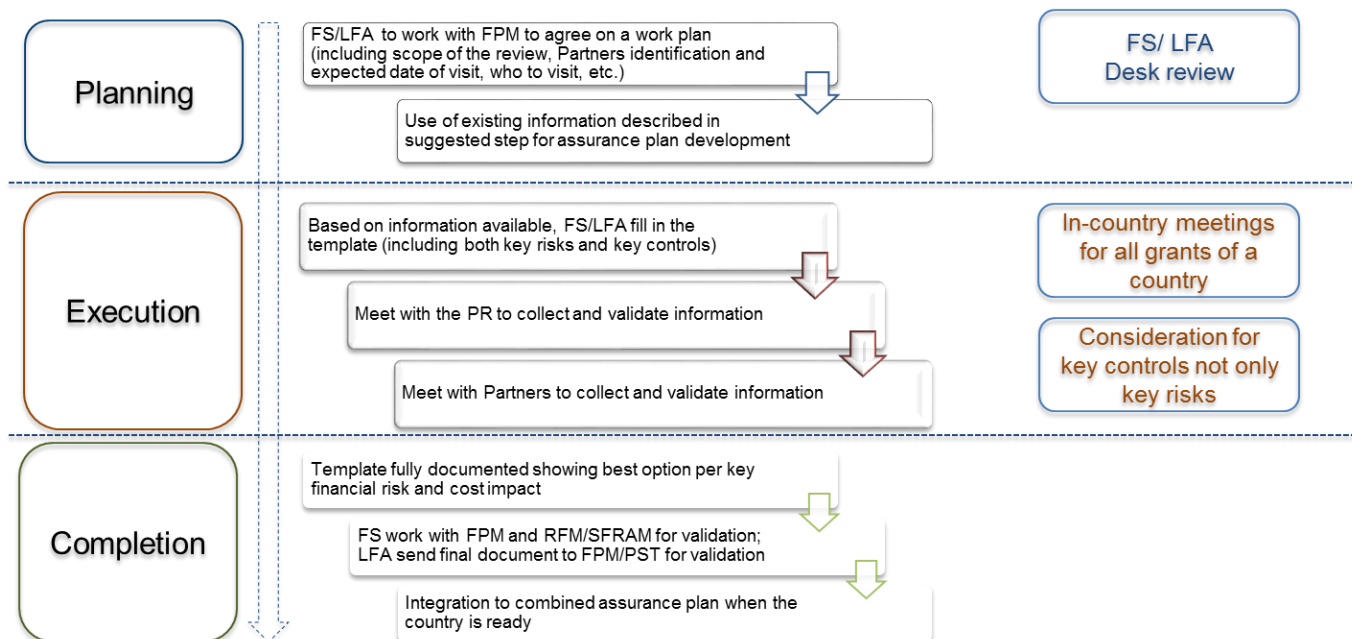
49. Financial Risk and Assurance Team: this team will provide guidance and clarification on questions that the Regional Finance Manager, the Finance Specialist or the Fund Portfolio Manager might have on the process.

07 Completion steps of the Financial Assurance Plan

50. It is important to note that financial assurance planning is not a risk assessment exercise. As such, it is not expected that the Country Team, Finance Specialist and/or Local Fund Agent will perform a risk assessment at this stage. Rather, assurance planning is a process that will allow the Fund Portfolio Manager and the Finance Specialist to conclude on whether they are getting appropriate assurance on the main financial risks that the grant faces. It should also be a reflection on whether current financial assurance mechanisms are optimal and provide proposals for potential improvements.

51. A diagram of the practical steps of completion of the assurance plan below shows the different phases of the exercise and the interaction with different stakeholders of the grants.

Diagram 1: Steps of the Financial Assurance Plan



Planning phase

52. In focused countries, prior to initiating any Local Fund Agent work, the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team need to discuss what information they have available for a given country which could serve as a basis for the financial assurance planning and whether additional Local Fund Agent work is required.

53. At the planning phase, the Fund Portfolio Manager and the Finance Specialist or the Local Fund Agent will agree the steps of the completion of the financial assurance plan. This includes identifying the implementers as well as the partners to meet in-country, the dates of the meetings and the expected completion date for each major step of the work; the template of the workplan is provided in Annex 3. The implementers should be the Principal Recipients.

54. Major sub-recipients could also be visited by the Financial Specialist for high-impact and core countries and by the Local Fund Agent in focused countries if sub-recipients have key financial risks where reliance is placed on strong financial controls and hence it is essential that the assurance mechanism confirms the effectiveness of these controls.

55. The Finance Specialist or the Local Fund Agent then collects the information based on current available risk assessments and assurance reports. The Fund Portfolio Manager will share with the Local Fund Agent any relevant report/information required to complete this work (i.e. country team risk assessment, external or internal audit report, the flow of funds, etc.).

56. The workplan will serve as a tracking tool for the Regional Finance and/or the Fund Portfolio Manager who will agree with the Finance Specialist or the Local Fund Agent on the frequency of the progress report (planned versus actual).

57. The Fund Portfolio Manager, the Finance Specialists and/or the Local Fund Agent might consult the Financial Risk and Assurance Team (FinancialRisk_Assurance@theglobalfund.org) where they would need clarification on the financial assurance plan outcome.

Execution phase

58. The Finance Specialist or the Local Fund Agent will start the work based on the information collected as described in the paragraph above. The financial risks should preferably be classified per the Global Fund current operational risk assessment tool grouping (please refer to Annex 1).

59. After the Finance Specialist or the Local Fund Agent document key financial risks in the financial assurance plan, they need to be discussed and agreed with the Fund Portfolio Manager (and Portfolio Service Team for focused countries) prior to proceeding to the completion of the rest of the financial assurance plan.

60. It is also possible that in focused countries the Finance Specialist in the Portfolio Service Team, in coordination with the Fund Portfolio Manager, prepopulates the key risks in the financial assurance plan prior to engaging the Local Fund Agent.

61. Before meeting with the Principal Recipient, the Finance Specialist or the Local Fund Agent should have completed the key financial risk assessment, the current mitigating actions and the timelines of these actions. Some risks may not have any actions; however, it should still be clear what assurance mechanism is implemented against that risk and whether an action plan is required.

62. The meeting with the Principal Recipients should focus on

- Presenting to the Principal Recipients the purpose of the assurance plan.
- Ensuring that the main financial risks are shared by the Principal Recipient and if the Principal Recipient identifies other key financial risks, they are added into the assurance plan.
- Understanding Principal Recipient internal control mechanisms and identification of the key controls they have as part of the mitigating measures.
- Identification of the Principal Recipient actions on each of the identified risks, where they exist.
- Understanding internal assurance mechanisms of the Principal Recipient and assessing whether the Global Fund can rely on these mechanisms (including obtaining the internal assurance report).

63. The meeting with the identified partners aims at:

- Presenting the financial assurance planning to the partner and how it adds value to the management of the program.
- Understanding the partner's assurance mechanisms in areas where both the partner and the Global Fund operate. Where we can rely on partner's assurance, the Finance Specialists or the Local Fund Agent should ask if the related reports could be made available to the Global Fund.
- Exploring opportunities to work together to avoid duplication and enhance risk management.

Completion phase

64. The completion phase takes place once the Finance Specialist or the Local Fund Agent has collected all information necessary to finalize the grant financial assurance plan.

65. The Finance Specialist or the Local Fund Agent fills the template with the information collected. The main template should include a maximum of 15 key risks. The summary template should only encompass the three main financial risks. Prioritization of these risks should be done based on the materiality and impact on the reputation of the Global Fund.

66. In focused countries, the Local Fund Agent will send the completed template to the Fund Portfolio Manager for agreement. The consolidated comments of both the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team are shared with the Local Fund Agent, if any.

67. In high-impact and core countries, the Finance Specialist will agree the content of the plan with the Fund Portfolio Manager and send the completed financial assurance plan to the Regional Finance Manager. For the top 20 countries, the financial assurance plan is also reviewed by the Financial Risk and Assurance Manager and by the Head of Program Finance and Controlling.

IV. Monitoring of Financial Assurance Planning

68. The financial assurance planning is an annual exercise. Once completed and approved, it gives the Finance Specialists and Fund Portfolio Managers the necessary information on how the financial risks are mitigated and assured upon.

Core and high-impact countries

69. The Finance Specialist will monitor the expected dates of the receipt of the reports on which they will obtain assurance. These reports should be reviewed and eventually used to update the financial assurance plan where significant issues have been noted throughout the year. It is the Finance Specialist's responsibility to ensure that all reports stated in the financial assurance plan are tracked and that the related adjustments or modifications are done in it. Any changes proposed to the financial assurance plan should be reviewed by the Fund Portfolio Manager and approved by the Regional Finance Manager.

Focused countries

70. In focused countries, the Finance Specialist in the Portfolio Service Team will maintain a schedule of the expected assurance reports. Non-receipt of the report on the due date would serve as a trigger for the Finance Specialist in the Portfolio Service Team to notify the Fund Portfolio Manager, who will request the reports from the assurance provider. Upon request from the Fund Portfolio Manager, the Local Fund Agent will review the reports and recommend adequate measures and assurance mechanism where needed to the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team.

71. No update of the financial assurance plan is required in the focused countries by the Local Fund Agent outside of the annual validation process. However, the Finance Specialist in the Portfolio Service Team should ensure that each key risk identified during the year has an appropriate action plan.

V. Responsibility of the Local Fund Agent in Grant Assurance in Focused countries

72. For all countries where the Local Fund Agent will be assisting Fund Portfolio Manager in the preparation of the Financial Assurance plan, it will:

- Discuss and agree the financial assurance planning process with the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team prior to starting the assignment.
- Use all information already available on the grant to draft the financial assurance plan and agree on the key financial risks and the Principal Recipient key controls with the Fund Portfolio Manager and the Finance Specialist in the Portfolio Service Team.
- Review the implementer's assurance approach and provide an analysis to the Fund Portfolio Manager where critical gaps exist and where assurance arrangements require further improvements.
- Provide recommendations to the Fund Portfolio Manager on areas where the implementer's internal audit focus should be, on a risk-basis, for the Global Fund grants. The Local Fund Agent may also be requested to provide comments to the Fund Portfolio Manager on the adequacy of the annual internal audit plan.

- Provide recommendations to the Fund Portfolio Manager on the selection of the external auditor.
- Draft the financial assurance plan for the grant, ensuring that key gaps in assurance arrangements are highlighted and assist the Fund Portfolio Manager in monitoring the implementation of the compensating actions that are put in place.

73. In circumstances where these assurance gaps cannot be mitigated by either implementer's assurance or external audit assurance, then the Local Fund Agent may also be requested to perform additional assurance tasks. The level of required additional procedures from the Local Fund Agent should be agreed with the Fund Portfolio Manager and Finance Specialist in Portfolio Service Team at the final sign-off of the annual assurance plan.

74. Provide clarifications to the Fund Portfolio Manager and to the Finance Specialist of the Portfolio Service Team where requested and after finalization of the Financial Assurance Plan.

VI. Performance Metrics of Assurance Planning

75. The key performance indicators of a good financial assurance plan include:
- a. Timeliness - ensure that the plan can be implemented within the required timeframes;
 - b. Effective monitoring of the assurance plan – ensure that all assurance is provided and that key issues are followed up;
 - c. Cost effectiveness of the proposed assurance plan;
 - d. Integration of the financial assurance plan in the overall grant view of assurance.

Annex1: Global Fund Financial Risk and Related Contributing Factors

Financial risk	Risk definition	Contributing factors
Low Absorption or Over-Commitment	Risk of low absorption or over-commitment is defined as the possibility that funds budgeted by the Global Fund are not used by the Principal Recipient or sub-recipients within the timelines agreed in the grant budget due to (i) limited absorptive capacity or (ii) commitments and/or disbursements in excess of actual requirements	<ol style="list-style-type: none"> 1. Inadequately defined implementation arrangements between Principal Recipient and sub-recipients, including: unknown or unspecified sub-recipients, undetermined sub-recipient budgets and workplans, provision of lump-sum budgets, and unresolved capacity gaps/capacity-building issues; 2. Inadequate budget monitoring, including budget-variance analysis (comparing expenditures with agreed budgets and validating the variance), forecasting of expenditures (identifying mismatches with budget early on), or corrective actions when mismatches are identified; 3. Inadequate sub-recipient monitoring systems and reporting triggers at Principal Recipient level to ensure timely use of funds; 4. Recurrent delays in sub-recipient implementation activities and/or reporting; 5. Inappropriate risk-mitigating measures leading to heavy processes and programmatic inefficiencies.
Poor Financial Efficiency	The risk of poor financial efficiency is defined as the possibility that Global Fund funds are wasted due to poor management by Principal Recipients or sub-recipients, including for pharmaceutical and health products	<ol style="list-style-type: none"> 1. Funds are wasted or used inefficiently due to poor management by implementers; 2. Inadequate budgetary controls; 3. Poor procurement practices and purchasing controls over health and non-health product expenditure; 4. Inadequate financial reporting and analysis of expenditure vs. budget. Lack of appropriately qualified financial staff with little experience in financial monitoring and supervision.
Fraud, Corruption or Theft of Funds	The risk of fraud, corruption or theft of Global Fund funds is defined as the possibility that Global Fund funds (cash) are lost due to fraud, corruption, or theft within Principal Recipients, sub-recipients, other in-country partners or third parties	<ol style="list-style-type: none"> 1. Financial funds lost due to fraud, corruption or theft at Principal Recipient, sub-recipient, sub-sub-recipient or other partner/third-party level; 2. Inadequate culture of financial discipline and controls throughout the organization, particularly culture within senior management; 3. Weak accounting processes and systems, including lack of an effective Enterprise Resource Plan; 4. Lack of adequate quality standard operating procedures for procure-to-pay process with clear alignment of segregation of duties, principles; 5. Lack of banking controls and supervision, in particular a high level of cash transactions.

Financial risk	Risk definition	Contributing factors
Theft or Diversion of Non-financial Assets	The risk of theft or diversion of non-financial assets is defined as the possibility that Global Fund-funded assets (non-cash) are lost due to theft or diversion by Principal Recipients or sub-recipients, other in-country partners or third parties	<ol style="list-style-type: none"> 1. Funded non-financial assets are lost due to fraud, corruption or theft at Principal Recipient, sub-recipient, sub-sub-recipient or other partner/third-party level; 2. Inadequate culture of financial discipline and controls throughout the organization, particularly culture within senior management; 3. Weak accounting processes and systems, including lack of an effective Enterprise Resource Plan; 4. Lack of adequate quality standard operating procedures for procure-to-pay process with clear alignment of segregation of duties, principles; 5. Inadequate management of fixed assets and stock through regular inspections and monitoring
Market and Macroeconomic Losses	The risk of market and macroeconomic losses is defined as the possibility of unanticipated financial losses due to foreign exchange, price, or other market changes, including for pharmaceutical and health products	<ol style="list-style-type: none"> 1. Unanticipated losses due to foreign exchange, price or other market changes (including pharmaceuticals); 2. Significant exposure to currency fluctuations within the program without any effective foreign exchange management; 3. Weak economic outlook with significant reliance on commodity markets.
Poor Financial Reporting	The risk of poor financial reporting is defined as the possibility that the records maintained and the reports provided by the Principal Recipient and sub-recipients in relation to Global Fund funds are incorrect, delayed, and incomplete or have inadequate supporting documentation	<ol style="list-style-type: none"> 1. Inadequate accounting systems resulting in underlying records being inaccurate or incomplete; 2. Incapable finance staff with poor qualifications and inadequate experience of accounting and reporting; 3. Poor accounting processes, including the lack of regular reconciliation work between general ledger, underlying sub-ledgers and bank statements; 4. Poor reporting systems with manual translation of numbers within the ledgers into a financial reporting template; 5. Poor supervision and monitoring of key accounting reconciliations by senior finance management; 6. Lack of review and understanding of core financial reports by non-finance senior management.

Annex 2: Assurance Planning Exemption

Objective

Clarify the circumstances under which a grant may not undergo the financial assurance planning exercise.

Process

Each Regional Finance Manager ⁶ to provide to the Financial Risk and Assurance Manager the list of grants that will undergo financial assurance planning. All grants excluded from that list should have a strong justification as to why these grants should be exempt from financial assurance planning.

The table below provides the situations that could lead to a grant being exempt from financial assurance planning.

Possible conclusion of Regional Fund Manager assessment	Assessment criteria	Impact on financial assurance plan
Funds are immaterial	All grants with an annual budget <= US\$1,000,000 regardless of the risk level	No financial assurance plan needed. It will still be the responsibility of the Finance Specialist to ensure adequate risk mitigating measures and assurance mechanisms are put in place. <ul style="list-style-type: none"> • If focused “opt in” countries, Portfolio Service Team will review triggers and Local Fund Agent/auditor performance will be assessed annually, at least. • For focused “opt out”, core and high-impact countries, the Finance Specialist will review assurance providers deliverables and assess them.
Financial risk rating is low	<ul style="list-style-type: none"> • QUART Financial Assessment shows financial risk rating as “Low” and/or • Capacity Assessment Test with no “major” financial risks identified; and/or • No major risks identified through Country Team management letters over the past 12 months 	<p>These criteria are cumulative. If one is not met, an assurance planning should be done.</p> <p>If not, the Portfolio Service Team/Regional Fund Manager has to justify why and this should be cleared by the Financial Risk and Assurance Manager.</p> <p>Examples of such justification could include:</p> <ul style="list-style-type: none"> - Low residual risk⁸

⁶ For AME and AELAC it is done by the Portfolio Service Team

⁸ No major findings identified by the assurance provider after the risk mitigating measures have been implemented

Possible conclusion of Regional Fund Manager assessment	Assessment criteria	Impact on financial assurance plan
	<ul style="list-style-type: none"> • Audit report is unqualified and/or no major financial internal control weaknesses identified; or • No major findings from the Office of the Inspector General in finance on last Inspector General report⁷ • Any other source of risk identification 	<ul style="list-style-type: none"> - Demonstration of effectiveness of controls and assurance mechanism⁹ - Inspector General review performed within the last two years has no major financial findings and assurance mechanism stays the same - Etc.
The quality of external assurance has historically been good	<ul style="list-style-type: none"> • Local Fund Agent financial work is of good quality based on the PET • Documented review of audit report has not demonstrated any weaknesses in the work of the external auditor • OIG review performed within the last two years has no major financial findings and assurance mechanism stays the same 	<ul style="list-style-type: none"> - These criteria are cumulative. If one is not met, an assurance planning should be done. - If not, the Portfolio Service Team/Regional Fund Manager has to justify why and the Financial Risk and Assurance Manager should clear this.

⁷ Report issued after 2013. The findings should be linked to a Principal Recipient. Not the whole Inspector General report which relates to several Principal Recipients.

⁹ Analysis performed by the Country Team or/and the Regional Fund Manager demonstrating the qualitative work of the assurance provider and that it is cost-effective.

Annex 3: Practical Completion Steps

Department	Region	Country	Grant	Principal Recipient	List of partners	Documents review deadline	Expected mission dates (validate info and meet with partners)	Template documented and agreed with Fund Portfolio Manager/Regional Fund Manager
AME	SEA	Country Z	ZZZ-T-OTYN	UNDP		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-H-SCNLSP	SCNLSP		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-H-PSY	PSY		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-M-MOH	UGP/MOH		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-M-PST	PST		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country B	BBB-C-CHAXP	CHAXP		01/05/2015	01/05/2015	01/06/2015
AME	SEA	Country B	BBB-C-BMoH	MOH		01/05/2015	01/05/2015	01/06/2015
AME	SEA	Country B	BBB-M-BMoH	MOH		01/05/2015	01/05/2015	01/06/2015
AME	SEA	Country Z	ZZZ-T-OTYN	UNDP		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-H-SCNLSP	SCNLSP		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-H-PSY	PSY		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-M-MOH	UGP/MOH		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country Z	ZZZ-M-PST	PST		01/05/2015	01/06/2015	01/06/2015
AME	SEA	Country B	BBB-C-CHAXP	CHAXP		01/05/2015	01/05/2015	01/06/2015
AME	SEA	Country B	BBB-C-BMoH	MOH		01/05/2015	01/05/2015	01/06/2015
AME	SEA	Country B	BBB-M-BMoH	MOH		01/05/2015	01/05/2015	01/06/2015

Annex 4: Financial Assurance Plan Template

Financial Risk (QUART classification)	Key Risks	Mitigation actions	Timeline for Action	Implementer Assurance Actors, Steps, Frequency of Reporting			External Assurance Actors, Steps, Frequency of Reporting				Key Assurance Changes Compared to Current Practice	Estimated Change in Cost (US\$)	
				Management	Internal audit	Other	Country Team	Local Fund Agent	Independent assurance provider	Other		Grant	OPEX
Low Absorption and Over Commitment	1												
	2												
	3												
Poor Financial Efficiency	1												
	2												
	3												
Fraud, Corruption or Theft of Funds	1												
	2												
	3												
Theft or Diversion of Non-Financial Assets	1												
	2												
	3												
Market and Macroeconomic Losses	1												
	2												
	3												
Poor Financial Reporting	1												
	2												
	3												

This expanded template should serve as a basis for the summary template used in the frame of the combined assurance key risk template. It is annexed to the combined assurance key risk template.